

JACKSON PARISH HOSPITAL SERVICE DISTRICT No. 1



INVESTIGATIVE AUDIT
APRIL 8, 2015

**LOUISIANA LEGISLATIVE AUDITOR
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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

April 8, 2015

**RICHARD LLOYD MONGER, ADMINISTRATOR,
AND BOARD OF DIRECTORS
JACKSON PARISH HOSPITAL
SERVICE DISTRICT NO. 1**
Jonesboro, Louisiana

We have audited certain transactions of the Jackson Parish Hospital Service District No. 1. Our audit was conducted in accordance with Title 24 of the Louisiana Revised Statutes to determine the validity of allegations we received.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*.

The accompanying report presents our findings and recommendations as well as management's response. This is a public report. Copies of this report have been delivered to the Attorney General for the State of Louisiana and others as required by law.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

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JPHSD 1

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EXECUTIVE SUMMARY

Unearned and Unauthorized Payments of Accrued Time Off

The Jackson Parish Hospital's (Hospital) former Human Resource employee, Elizabeth Cheatwood, and its former accounts payable clerk, Vickie Booker, received a combined \$89,960 in excessive payments for accrued time off from January 2009 to November 2014. Based upon our review of Hospital documents, these payments were both unearned and unauthorized. Since Ms. Cheatwood and Ms. Booker were not entitled to these payments, they may have violated state and federal law.

Improper Payroll Deductions for Supplemental Insurance and Uniforms

Ms. Cheatwood and Ms. Booker improperly received a combined \$25,723 of supplemental health insurance policies and \$7,474 of uniforms offered through the Hospital from December 2008 to December 2014. Based on our review of Hospital records, Ms. Cheatwood and Ms. Booker did not pay for these benefits and, as such, may have violated state and federal law.

Mismanagement of Payroll Deductions

The Hospital did not reconcile its health and supplemental insurance invoices or other employee benefits to payroll deductions to ensure the Hospital received the proper amount from its employees. This resulted in undetected errors to employee payroll deductions and caused the Hospital to pay \$200,997 for employee benefits that were not reimbursed by its employees from 2009 to 2014. Since the Hospital did not collect all amounts due from employees, the payments on behalf of employees without reimbursement may violate state law and the state constitution.

Improper Insurance Stipend Payment

Ms. Cheatwood received a stipend for health insurance in the amount of \$26,072 from January 1, 2009 to December 31, 2014. Based on our review of Hospital records, Ms. Cheatwood was not entitled to receive these funds and, therefore, may have violated state and federal law.

Former Employee Took Hospital Collections for Personal Use

Hospital records indicate that from January 2012 to December 2014, the Hospital collected \$121,968 in cash that was never deposited into its operating bank account. Ms. Booker stated that she took cash from Hospital collections and deposited it to her personal bank account or spent it. By taking cash from Hospital collections for her personal use, Ms. Booker may have violated state law.

BACKGROUND AND METHODOLOGY

The Jackson Parish Hospital Service District No. 1 (District) is a component unit of the Jackson Parish Police Jury (Police Jury). The District was created by the Police Jury under the provisions of Louisiana Revised Statute (R.S.) 46:1051 and is governed by a seven-member board of commissioners (Board) appointed by the Police Jury. The District is responsible for the management and operations of the Jackson Parish Hospital (Hospital) and appoints a Hospital administrator to oversee the daily operations of the Hospital. The Hospital is located in Jonesboro, Louisiana, and is considered a critical access rural hospital.

This audit was initiated after receiving information from the Louisiana State Police (LSP) regarding an ongoing investigation into improper payroll transactions. On March 13, 2015, LSP arrested four people as a result of its investigation: three former employees and the spouse of one of the former employees. During our audit, other matters and transactions came to our attention, and we expanded our scope to address them.

The procedures performed during this audit included:

- (1) interviewing employees of the Hospital;
- (2) interviewing other persons as appropriate;
- (3) examining select Hospital documents and records;
- (4) gathering documents from external parties; and
- (5) reviewing applicable state and federal laws and regulations.

FINDINGS AND RECOMMENDATIONS

Unearned and Unauthorized Payments of Accrued Time Off

The Jackson Parish Hospital's (Hospital) former Human Resource employee, Elizabeth Cheatwood, and its former accounts payable clerk, Vickie Booker, received a combined \$89,960 in excessive payments for accrued time off from January 2009 to November 2014. Based upon our review of Hospital documents, these payments were both unearned and unauthorized. Since Ms. Cheatwood and Ms. Booker were not entitled to these payments, they may have violated state and federal law.^{1,2,3,4,5}

The Hospital's policy manual encourages employees to use their accrued time off (vacation), but the policy also allows an exception for employees to receive cash for up to 10 days of accrued time off (ATO) when business requirements make the scheduling of a vacation impossible. This exception may be granted by the Hospital administrator when the administrator and the employee's department manager both agree the employee cannot use their accrued ATO.

According to David Sanders, the Hospital's chief financial officer, to obtain an ATO payout, a Hospital employee had to complete a manual request form, obtain the employee's supervisor's approval, and obtain Mr. Sanders' approval (after he verified that the employee had a sufficient ATO balance.) Once approved by Mr. Sanders, the form went to Ms. Booker for processing. Mr. Sanders stated that all Hospital checks are required to have two signatures to be valid and that Ms. Cheatwood had control over three signature stamps^A used to process the payroll checks. In interviews with Mr. Sanders and Mr. Lloyd Monger, the chief executive officer, both said they trusted Ms. Cheatwood with their signature stamps.

In December 2008, the Hospital changed its day-to-day business operations' software system, which included the accounting and payroll systems. According to Ms. Booker, she and Ms. Cheatwood attended a software training session and learned that only the first payroll run made automatic deductions to employees' ATO balances. Supplemental payroll runs are typically used for ATO payouts and to correct errors and do not automatically adjust employee ATO balances; therefore, a manual adjustment to an employee's ATO balance is required.

Ms. Booker said that a couple of days after this training, Ms. Cheatwood said, "Did you hear that? We can sell ATO time and not deduct it." Ms. Booker stated that shortly after the training, Ms. Cheatwood called her and wanted to sell ATO and not deduct the hours from her ATO balance. Ms. Booker stated that she told Ms. Cheatwood she was going to do the same thing and thought it was okay because they were friends. Ms. Booker added that both she and Ms. Cheatwood knew what they were doing and that the ATO payouts would not reduce their ATO balances.

^A Lloyd Monger - Chief Executive Officer, David Sanders - Chief Financial Officer, and one for the Board president.

The first three occasions of ATO payouts after the software training for Ms. Cheatwood and Ms. Booker were on the same days for the same number of hours as listed in the following table.

First Three ATO Payouts to Ms. Cheatwood and Ms. Booker		
Date of ATO Payout	Number of Hours for Elizabeth Cheatwood	Number of Hours for Vickie Booker
January 9, 2009	50	50
January 23, 2009	40	40
March 20, 2009	50	50

Hospital payroll records show Ms. Booker received ATO payouts 53 times totaling \$52,763 and Ms. Cheatwood received ATO payouts 38 times totaling \$52,584. The ATO payouts received by Ms. Cheatwood and Ms. Booker did not result in a reduction of either employee's ATO balances. During our audit, we applied all ATO payouts to the ATO balances of Ms. Cheatwood and Ms. Booker and discovered that their actual ATO balances were negative as of July 2009 (Ms. Cheatwood) and March 2010 (Ms. Booker) through their last date of employment with the Hospital in 2014.

ATO Balances in Hours for Ms. Cheatwood and Ms. Booker							
Employee	January 2009	December 2009	December 2010	December 2011	December 2012	December 2013	At termination
E. Cheatwood	154.91	(89.17)	(432.09)	(728.51)	(1,098.43)	(1,599.35)	(1,848.35)
V. Booker	245.15	47.65	(381.19)	(1,046.03)	(1,574.87)	(2,055.71)	(2,484.21)

Once they had negative ATO balances, neither Ms. Cheatwood nor Ms. Booker were entitled to receive the ATO payouts they initiated and authorized for themselves. As a result, Ms. Cheatwood received \$46,947 in excess ATO payouts and Ms. Booker received \$43,013 in excess ATO payouts.

Ms. Booker stated that neither she nor Ms. Cheatwood would complete the proper forms or obtain proper approval to sell their ATO. Ms. Cheatwood's and Ms. Booker's personnel files contained approved ATO forms for payouts they received prior to 2009, but there were no forms for ATO payouts received in or after 2009. Since Ms. Cheatwood's job duties included the Human Resources function, Ms. Cheatwood was responsible for maintaining employee files. We telephoned Ms. Cheatwood's attorney multiple times to request an interview with Ms. Cheatwood, but he would not return our calls.

Ms. Booker stated that when Ms. Cheatwood wanted an ATO payout, Ms. Cheatwood called Ms. Booker and told Ms. Booker how many hours to use. Ms. Booker had possession of the blank payroll account checks in her office and had the authority to print the checks at her desk; Ms. Cheatwood had possession of three Hospital officials' signature stamps to authorize the ATO payout checks.

Mr. Sanders stated that he reviewed and approved the payroll reports before the checks were distributed but was not aware that Ms. Cheatwood and Ms. Booker were receiving

unearned and unauthorized ATO payouts. Mr. Sanders also said that both Ms. Cheatwood and Ms. Booker agreed to make restitution. The Hospital terminated Ms. Cheatwood on December 5, 2014, and Ms. Booker on December 8, 2014. Since Ms. Cheatwood and Ms. Booker did not obtain the proper authorization as required by Hospital policy and did not have available ATO hours to cash out, they may have violated state and federal law.^{1,2,3,4,5}

Ms. Booker also indicated in her interview that three additional employees were aware that they received an additional ATO payout without having their ATO balance reduced. Hospital records show that each of the three employees received numerous ATO payouts without a corresponding deduction to their ATO balances. After adjusting the ATO balance of these three employees for the ATO payouts they received, all three had negative balances between 359 and 653 hours as of December 5, 2014.

One of the three employees stated she knew that on at least one occasion she received an ATO payout without having it deducted from her balance. She said she paid Ms. Booker \$100 for receiving the ATO payout without a deduction to her ATO balance. This employee reviewed the endorsements on the back of all 19 checks payable to her for ATO payouts and claimed that she did not recognize her signature on eight checks.

The second employee stated that she received an ATO payout and noticed that her ATO balance was not reduced. She asked Ms. Booker about why her ATO balance was not reduced and Ms. Booker told her that it was a favor and refused to correct it. This employee reviewed the endorsements on the back of all 13 checks payable to her for ATO payouts and identified one check where she did not recognize her signature.

The third employee said that he did not know his ATO payouts were not being deducted from his ATO balance and that Ms. Booker had never approached him about an ATO payout without deducting it from his balance. He reviewed the endorsements on the back of all 41 checks payable to him for ATO payouts and identified five checks that he claimed were not endorsed by him.

Ms. Booker did not recall printing checks with other employees' names as the payee and cashing them for her use. She said she took checks to the bank for employees on a regular basis if a coworker asked. Ms. Booker also said on occasion she forgot to manually deduct employees' ATO leave balances for ATO payouts.

Improper Payroll Deductions for Supplemental Insurance and Uniforms

Ms. Cheatwood and Ms. Booker improperly received a combined \$25,723 of supplemental health insurance policies and \$7,474 of uniforms offered through the Hospital from December 2008 to December 2014. Based on our review of Hospital records, Ms. Cheatwood and Ms. Booker did not pay for these benefits and, as such, may have violated state and federal law.^{1,2,3,4,5}

The Hospital allowed its employees to purchase supplemental health insurance, uniforms, medication, and Sam's Club memberships from outside vendors. The Hospital paid the vendors on the employee's behalf and should have deducted the funds from the employee's payroll checks to recoup 100% of the amount the Hospital paid.

Ms. Cheatwood was responsible for the Hospital's Human Resources function, which included entering payroll deductions for employee supplemental insurance. Ms. Booker stated that Ms. Cheatwood entered most payroll deductions to the payroll system. According to Hospital records, Ms. Cheatwood also entered her own payroll deductions. Ms. Cheatwood had numerous insurance policies that were offered through the Hospital. We compared the insurance invoices the Hospital paid for Ms. Cheatwood's insurance to her payroll deductions from 2009 to 2014. Those records show that Ms. Cheatwood received \$19,414 of insurance that was not repaid through her payroll deductions. We telephoned Ms. Cheatwood's attorney multiple times to request an interview with Ms. Cheatwood, but he would not return our calls.

Hospital records also show that Ms. Booker made numerous adjustments to her payroll deductions for supplemental insurance policies she obtained through the Hospital. We compared the insurance invoices the Hospital paid for Ms. Booker's insurance to her payroll deductions from 2009 to 2014. Those records show Ms. Booker received \$6,309 of insurance that was not repaid through her payroll deductions. Ms. Booker claimed that she did not know her payroll deductions for supplemental insurance were less than the amount due to the Hospital. Since Ms. Cheatwood and Ms. Booker did not pay for the benefits they received, they may have violated state and federal law.^{1,2,3,4,5}

Uniforms

The Hospital allowed its employees to purchase uniforms from a uniform company. The Hospital paid the uniform company in a lump sum and recovered those funds from employees through payroll deductions. Ms. Booker stated that she and Ms. Cheatwood purchased uniforms through the Hospital but never deducted the amounts they owed to the Hospital. According to Hospital records, Ms. Cheatwood received \$2,779 of uniforms that she did not pay for, and Ms. Booker received \$4,695 of uniforms for which she did not pay from December 2008 through December 2014. Since Ms. Cheatwood and Ms. Booker did not reimburse the Hospital for the uniforms they received, they may have violated state and federal law.^{1,2,3,4,5}

Mismanagement of Payroll Deductions

The Hospital did not reconcile its health and supplemental insurance invoices or other employee benefits to payroll deductions to ensure the Hospital received the proper amount from its employees. This resulted in undetected errors to employee payroll deductions and caused the Hospital to pay \$200,997 for employee benefits that were not reimbursed by its employees from 2009 to 2014. Since the Hospital did not collect all amounts due from employees, the payments on behalf of employees without reimbursement may violate state law and the state constitution.^{4,6}

We reconciled the Hospital's health and supplemental insurance payments to employee payroll deductions from January 2009 to December 2014. The reconciliation showed that the Hospital had paid \$200,997 more than it had collected from employees through payroll deductions. The table below shows the results of the reconciliation and the amount the Hospital did not collect from its employees by year.

Reconciliation of Payroll Deductions to Health Insurance and Supplemental Insurance Invoices			
Year	Amount Paid to Employee Health Insurance Providers By Hospital	Amount Deducted from Employees' Pay	Amount Under-Deducted
2009	\$238,347	\$210,136	(\$28,212)
2010	264,773	235,930	(28,843)
2011	311,624	285,403	(26,221)
2012	429,880	388,521	(41,359)
2013	544,281	498,794	(45,487)
2014	649,018	618,143	(30,875)
Totals	\$2,437,923	\$2,236,927	(\$200,997)

Mr. Sanders said that he reconciled the payroll deductions monthly in the payroll system with what the Hospital was invoiced and assumed the monthly shortfall was due to the doctor's portion of the Hospital's health insurance invoice and he "plugged" the difference. This means Mr. Sanders posted the shortfall, or under collection, to the accounting system and did not investigate the differences to determine why the payroll deductions were less than the insurance invoices.

According to Mr. Sanders and Mr. Monger, the Hospital has employee contracts with its doctors that require the Hospital to pay 100% of the doctors' health insurance premiums. The health insurance invoice typically included coverage for two doctors per month, but there were five different doctors on the invoice during the six-year period due to doctors leaving and the Hospital hiring new doctors. The Hospital could only provide three signed employment contracts with doctors named on the health insurance invoices. One of those contracts with a doctor called for the Hospital to pay 100% of family coverage, and the other two contracts with doctors required the doctors be treated as regular employees for health insurance (receive a stipend instead of health insurance). This means the Hospital misinterpreted two of the contracts and improperly paid 100% of the doctors' health insurance.

Mr. Sanders stated that he trusted Ms. Cheatwood and assumed that she was doing her job and keeping the employees' payroll deductions up to date in the system. Since Ms. Cheatwood was responsible for maintaining the employee payroll deductions and there were significant shortages to her deductions, we reconciled employee payroll deductions and health insurance and supplemental insurance invoices for one month for all employees. For the month of December 2014, the Hospital paid \$4,724 more than required for employee benefits. The results of that reconciliation are in the following table.

Reconciliation of Payroll Deductions for Health and Supplemental Insurance By Employee for December 2014		
	Number of Employees	Amount Totals
Employees Under-Deducted more than \$5	61	(\$5,103) ^B
Employees Correctly-Deducted within \$5	92	(5)
Employees Over-Deducted more than \$5	9	384
Totals	162	(\$4,724)

Additional factors that contributed to the shortfall in employee payroll deductions included several employees who were listed on vendor invoices but no longer worked for the Hospital, one as far back as February 2014. Also, several employees did not have payroll checks for the time period reconciled due to extended leave of absence, but the Hospital continued to pay their insurance and did not collect funds from these employees to continue their insurance coverage. The Hospital's policy manual addresses employee insurance when the employee is on an extended leave of absence; however, the policy was not followed, and it appears the Hospital continued to pay employee premiums for the employees on extended leave.

Additional Services and Products

The Hospital allowed its employees to receive medication from the Hospital pharmacy and receive Sam's Club memberships. The Hospital's practice was to provide the employees with medication from the pharmacy and pay Sam's Club memberships and recover its funds through after-the-fact payroll deductions from the employee. However, the Hospital could not produce detailed records for prescription drugs received by employees, and the Sam's Club invoice paid by the Hospital did not contain enough detail to identify all employees who received a membership. Given that the Hospital did not have detailed records, it is unlikely the Hospital recovered all the public funds used for its employee pharmacy and Sam's Club membership costs.

^B This amount includes \$828 for the doctor's portion of the Blue Cross Blue Shield medical insurance.

Improper Insurance Stipend Payment

Ms. Cheatwood received a stipend for health insurance in the amount of \$26,072 from January 1, 2009 to December 31, 2014. Based on our review of Hospital records, Ms. Cheatwood was not entitled to receive these funds and, therefore, may have violated state and federal law.^{1,2,3,4,5}

From January 2009 to December 2014, the Hospital did not provide a group health insurance policy for its employees due to the increasing cost of insurance. To replace this benefit, the Hospital allowed its employees to either use the Hospital services at no charge or receive a stipend to offset the cost to employees of personally purchased health insurance policies. The Hospital's policy required each employee to provide proof of insurance twice a year to receive the stipend. In 2009, the maximum stipend was \$253.50 per month. The stipend escalated to \$500 per month in 2014. According to Hospital employees, Ms. Cheatwood was responsible for verifying employees' proof of insurance and establishing the payment within the Hospital's accounts payable system. There was no evidence of proof of insurance in Ms. Cheatwood's human resources' file for the period 2009 to 2014.

Hospital records show Ms. Cheatwood received the maximum (or within \$35 of the maximum) stipend for health insurance from 2009 to 2014, which totaled \$26,072. In fact, according to records from her spouse's former employer, Ms. Cheatwood received no-cost health insurance from 2009 to 2014 through her husband's employer and, therefore, was not eligible to receive a stipend from the Hospital.

Because Ms. Cheatwood received a health insurance stipend from the Hospital without incurring any personal cost for her health insurance, she may have violated state and federal law.^{1,2,3,4,5}

Former Employee Took Hospital Collections for Personal Use

Hospital records indicate that from January 2012 to December 2014, the Hospital collected \$121,968 in cash that was never deposited into its operating bank account. Former Hospital employee, Ms. Vickie Booker, stated that she took cash from Hospital collections and deposited it to her personal bank account or spent it. By taking cash from Hospital collections for her personal use, Ms. Booker may have violated state law.^{1,2,3,4,5}

Hospital records show that from January 2012 to December 2014, the Hospital collected \$392,341 in cash; however, only \$270,373 of these cash collections were deposited to the Hospital's operating bank account. Ms. Booker stated that she took cash from Hospital collections for her personal use or deposited the cash to her personal bank account. Ms. Booker acknowledged taking \$200 to \$300 per week, but denied taking the entire \$121,968 of missing cash. Since Ms. Booker converted the Hospital's cash collections for her personal use, she may have violated state law.^{1,2,3,4,5}

Mr. Sanders stated he has not been able to reconcile the Hospital's accounting records to the bank account for many years. In fact, Mr. Sanders stated that he "plugged" unreconciled cash differences to the contractual allowance for commercial insurance account. This means when the bank records show a different amount than the Hospital's records, Mr. Sanders adjusted the Hospital's records to match the bank's records. Hospital records also show that collections were rarely deposited within a day and were often misclassified. State law requires daily deposits when practicable.⁷

In addition, the Hospital's records were incomplete. We found that some copies of payments made by Hospital employees were missing. Those records would indicate if the payment was made by cash or check. However, since some records were missing, we could not determine the exact amount of cash missing from the Hospital as a result of Ms. Booker's actions.

Recommendations

We recommend the Hospital:

- (1) recover any signature stamps in the custody of employees;
- (2) remove the custody of blank checks from any employee with authority to approve payments or payroll transactions within the accounting system;
- (3) limit or eliminate the ATO payout practice;
- (4) seek legal counsel regarding recovery of Hospital funds;
- (5) ensure ATO balances are properly maintained;
- (6) review all payroll runs to ensure all payroll checks are proper;
- (7) manually adjust employee ATO balances for all unrecorded ATO payouts;
- (8) adjust current employee payroll deductions to current insurance rates;
- (9) reconcile past payroll deduction by employee and recover any funds due to Hospital or reimburse employees for overpayments;
- (10) reconcile employee payroll deductions for insurance prior to payment;
- (11) limit or eliminate payroll deductions for items such as pharmacy prescriptions and uniforms;
- (12) create a check-out policy and procedure to ensure exiting employee insurance is canceled;
- (13) improve cashier record keeping practices to ensure complete and accurate records are kept of all Hospital collections;
- (14) reconcile collections to deposits and investigate any discrepancies;
- (15) establish a chain of custody of collections; and
- (16) make daily deposits when practicable.

LEGAL PROVISIONS

¹ **Louisiana Revised Statute (La. R.S.) 14:67 (A)** provides that, “Theft is the misappropriation or taking of anything of value which belongs to another, either without the consent of the other to the misappropriation or taking, or by means of fraudulent conduct, practices, or representations. An intent to deprive the other permanently of whatever may be the subject of the misappropriation or taking is essential.”

² **La. R.S. 14:134 (A)** provides, in part, “Malfeasance in office is committed when any public officer or public employee shall: (1) Intentionally refuse or fail to perform any duty lawfully required of him, as such officer or employee; or (2) Intentionally perform any such duty in an unlawful manner....”

³ **La. R.S. 14:230 (B)** provides that, “It is unlawful for any person knowingly to do any of the following: (1) Conduct, supervise, or facilitate a financial transaction involving proceeds known to be derived from criminal activity, when the transaction is designed in whole or in part to conceal or disguise the nature, location, source, ownership, or the control of proceeds known to be derived from such violation or to avoid a transaction reporting requirement under state or federal law. (2) Give, sell, transfer, trade, invest, conceal, transport, maintain an interest in, or otherwise make available anything of value known to be for the purpose of committing or furthering the commission of any criminal activity. (3) Direct, plan, organize, initiate, finance, manage, supervise, or facilitate the transportation or transfer of proceeds known to be derived from any violation of criminal activity. (4) Receive or acquire proceeds derived from any violation of criminal activity, or knowingly or intentionally engage in any transaction that the person knows involves proceeds from any such violations. (5) Acquire or maintain an interest in, receive, conceal, possess, transfer, or transport the proceeds of criminal activity. (6) Invest, expend, or receive, or offer to invest, expend, or receive, the proceeds of criminal activity.”

⁴ **La. R.S. 42:1461 (A)** provides that, “Officials, whether elected or appointed and whether compensated or not, and employees of any ‘public entity,’ which, for purposes of this Section shall mean and include any department, division, office, board, agency, commission, or other organizational unit of any of the three branches of state government or of any parish, municipality, school board or district, court of limited jurisdiction, or other political subdivision or district, or the office of any sheriff, district attorney, coroner, or clerk of court, by the act of accepting such office or employment assume a personal obligation not to misappropriate, misapply, convert, misuse, or otherwise wrongfully take any funds, property, or other thing of value belonging to or under the custody or control of the public entity in which they hold office or are employed.”

⁵ **18 U.S.C.A. § 1956** states, in part, “(a)(1) Whoever, knowing that the property involved in a financial transaction represents the proceeds of some form of unlawful activity, conducts or attempts to conduct such a financial transaction represents the proceeds of some form of unlawful activity, conducts or attempts to conduct such a financial transaction which in fact involves the proceeds of specified unlawful activity– (A)(i) with the intent to promote the carrying on of specified unlawful activity; or ... (B) knowing that the transaction is designed in whole or in part– (i) to conceal or disguise the nature, the location, the source, the ownership, or the control of the proceeds of specified unlawful activity....”

⁶ **Louisiana Constitution Article VII, Section 14(A)** provides, in part, that, “Prohibited Uses. Except as otherwise provided by this constitution, the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.”

⁷ **La. R.S. 39:1211** states, “The term, ‘local depositing authorities,’ includes all parishes, municipalities, boards, commissions, sheriffs and tax collectors, judges, clerks of court, and any other public bodies or officers of any parish, municipality or township, but it does not include the state and its elected officials, and state commissions, boards, and other state agencies.

La. R.S. 39:1212 states, “After the expiration of existing contracts, all funds of local depositing authorities shall be deposited daily whenever practicable, in the fiscal agency provided for, upon the terms and conditions, and in the manner set forth in this Chapter. Deposits shall be made in the name of the depositing authority authorized by law to have custody and control over the disbursements.”

APPENDIX A

Management's Response



Jackson Parish Hospital

"Partners for Life"

165 Beech Springs Road . Jonesboro, Louisiana 71251. Telephone 318-259-4435
An Affiliate of St. Francis Medical Center www.jacksonparishhospital.com

April 8, 2015

Via Fax No. (225) 339-3987
Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Re: Responses to Draft Investigative Audit Report

Dear Mr. Purpera:

In accordance with the invitation within Mr. Harris' correspondence of March 25, 2015 to us, we hereby attach our responses to the draft of your office's investigative audit report. As you will see, we have specifically addressed each of the sixteen, individual recommendations. Of course, please let us know if you have any further questions, comments or suggestions relative to our responses.

Please know that Mr. Kevin Kelly, and the audit team, impressed us with their fairness, thoroughness and professionalism throughout the entire process. We believe the audit findings and associated recommendations will serve us well as we work to improve our processes and to be good stewards of the public's funds. Undoubtedly, Jackson Parish Hospital Service District will be much improved as a result.

Sincerely,

R. Lloyd Monger
CEO

Fannie D. Williams
Chairman, Board of Commissioners

JPHSD's Responses to LLA's Recommendations

- 1) Recover any signature stamps in the custody of employees: All signature stamps have been recovered, removed from service, destroyed and discarded.
- 2) Remove the custody of blank checks from any employee with the authority to approve payments or payroll transactions: The Hospital Accountant maintains payroll checks. The A/P Clerk maintains A/P checks. Neither individual has the authority to approve or sign them. A formal written payroll policy, to include these specific provisions, will be developed within the next sixty (60) days. Additionally, the Hospital is in the process of transitioning payroll to full direct deposit. Approximately 70% of employees are now paid by this method. The Hospital will be 100% direct deposit by the end of May, 2015.
- 3) Limit or eliminate the ATO payout process: On 1/27/15 the Hospital Board approved a policy limiting ATO payout to the month of January each year.
- 4) Seek legal counsel regarding recovery of hospital funds: Legal counsel has been consulted and will work in coordination with the Attorney General's Office regarding restitution for those criminally charged. Civil filings are being considered relative to the recovery of other funds. Additionally, a complete corporate compliance assessment is underway relative to both state and federal law implications. This process is in the preliminary stages at this time.
- 5) Ensure ATO balances are properly maintained: ATO balances will be monitored by the Hospital's Accountant after each pay period. The Payroll Clerk will enter the payment. These duties are, and will remain, segregated. There will be no need for manual ATO deductions as all ATO payouts will be in run in Payroll One in which deductions are automatic, as specified in the policy referenced in the response to #3 above.
- 6) Review all payroll runs to ensure all payroll checks are proper: All payroll runs are reviewed by the CFO to ensure that payroll checks are proper. Any extra payroll runs will be for voids and reissues only and will require approval by CFO, CEO, or designee. These provisions will be included in the payroll policy to be developed within the next sixty (60) days.
- 7) Manually adjust employee ATO balances for all unrecorded ATO payouts: The manual adjustment process has been initiated and is in progress. However, this process will be

very time intensive. Thus, the Hospital will hire a temporary accounting employee to perform an ATO reconciliation project under the direct supervision of the Hospital Accountant. Arrangements for the hiring of this temporary employee will be made within the next thirty (30) days.

- 8) Adjust current employee payroll deductions to current insurance rates: This has been done effective the 1st pay period in February, 2015. We adjusted rates to make them current and employees signed acknowledgement statements agreeing to current rates. Group health rates were put in place as of January 1st, 2015. The current policy will be updated and approved within the next thirty (30) days.
- 9) Reconcile past payroll deduction by employee and recover any funds due to Hospital or reimburse employees for overpayments: Reconciliation of past payroll deductions will be conducted, but it will also be time intensive. A temporary accounting employee will be hired to perform a deduction reconciliation project under the direct supervision of the Hospital Accountant. Arrangements for this temporary employee will be made within the next thirty (30) days. We will engage legal counsel relative to restitution.
- 10) Reconcile employee payroll deductions for insurance prior to payment: This has been done since the 1st pay period of February, 2015. Human Resources will establish and adjust any deductions and Accounting will verify and reconcile. This reconciliation will be done each pay period to ensure that Recommendation #8 is being followed.
- 11) Limit or eliminate payroll deductions for items such as pharmacy prescriptions and uniforms: As of January 1, 2015, nothing, aside from insurance, is available for purchase through payroll deduction. Further limitation or elimination of some types of supplemental insurance payments, currently available through payroll deduction, is being considered.
- 12) Create a check out policy and procedure to ensure exiting employee insurance is canceled: Our "Termination of Employment" policy, HR 2-003, has been amended to include a checklist of termination procedures which includes employee insurance cancellation. This amended policy will be approved with the next thirty (30) days.
- 13) Improve cashier record keeping practices to ensure complete and accurate records are kept of all Hospital collections: Except for the cafeteria, each area that receives cash now posts the payment to the system, which automatically generates a receipt. In the cafeteria, a sign will be posted to remind customers to receive a receipt from the

dedicated cash register there. A policy will be developed within the next sixty (60) days covering accurate pricing and accounting of food items, proper usage of the cash register and all related processes, along with the requirement for generation of receipts, both for distribution to the purchaser and for proper accounting purposes.

- 14) Reconcile collections to deposits and investigate any discrepancies: We developed and implemented a new collections reconciliation form as of December, 2014 for daily use. The clinics record what cash is taken in each day. We reconcile this amount with the amount posted. Arrangements for our software company to review all mapping of any accounts affecting cash will be made within the next thirty (30) days. An independent, outside CPA firm will be engaged within the next thirty (30) days for a one year term to verify that we are properly reconciling accounts each month.
- 15) Establish a chain of custody of collections: We are working to establish a policy in this regard within the next (30) days. We anticipate that one person will open the mail and tally the payments. Another person will verify the total and make the deposit. A third person will post.
- 16) Make daily deposits when practicable: As of 11/15/2014, we initiated the consistent practice of making daily deposits. Cash receipts are taken in and deposited on the following day.