

OFFICE OF PUBLIC HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED APRIL 19, 2006

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDIT ADVISORY COUNCIL

SENATOR J. "TOM" SCHEDLER, CHAIRMAN
REPRESENTATIVE CEDRIC RICHMOND, VICE CHAIRMAN

SENATOR ROBERT J. BARHAM
SENATOR WILLIE L. MOUNT
SENATOR EDWIN R. MURRAY
SENATOR BEN W. NEVERS, SR.
REPRESENTATIVE RICK FARRAR
REPRESENTATIVE HENRY W. "TANK" POWELL
REPRESENTATIVE T. TAYLOR TOWNSEND
REPRESENTATIVE WARREN J. TRICHE, JR.

LEGISLATIVE AUDITOR

STEVE J. THERIOT, CPA

DIRECTOR OF FINANCIAL AUDIT

PAUL E. PENDAS, CPA

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Seven copies of this public document were produced at an approximate cost of \$18.06. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.state.la.us. When contacting the office, you may refer to Agency ID No. 3402 or Report ID No. 05702058 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

April 7, 2006

OFFICE OF PUBLIC HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
New Orleans, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2005, we considered the Office of Public Health's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the office's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Report of the Office of Public Health is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The office's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2005.

Unlocated Movable Property

The Office of Public Health (OPH) did not have adequate internal controls over movable property. OPH identified unlocated movable property items totaling \$413,451 as a result of physical inventory procedures. Of that amount, items totaling \$57,455 were removed from the property records because they had not been located for three consecutive years. Of the unlocated property reported on OPH's physical inventory certification, the amount of unlocated computers and computer-related equipment totaled \$313,531. The certification of property inventory disclosed \$30,116,275 in total movable property administered by OPH. OPH submitted its annual certification of property inventory to the Louisiana Property Assistance Agency (LPAA) on September 30, 2005.

Louisiana Revised Statute 39:325 requires entities to conduct an annual property inventory of movable property and report any unlocated movable property to LPAA. Louisiana Administrative Code 34.VII.313 states, in part, that efforts must be made to

locate all movable property items for which there are no explanations available for their disappearance. In addition, good internal control dictates that assets are properly monitored to safeguard against loss or theft and that thorough periodic physical counts of property inventory be conducted.

Failure to establish adequate controls over movable property increases the risk of loss arising from unauthorized use of property and subjects OPH to noncompliance with state laws and regulations. Because of the nature of the services provided by OPH, the risk exists that sensitive information could be improperly recovered from the missing computers and/or computer-related equipment.

Management of OPH should strengthen its procedures for conducting the physical inventory of movable property and devote additional efforts to locating movable property reported as unlocated in previous years. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 1-3).

Lack of Adequate Security Over Public Funds

OPH did not have adequate security over deposits of public funds transported by couriers. An unbonded courier, Express-24, Inc., which had contracts for 2005 and 2006 with OPH, lost state deposits for August 23 to August 26, 2005, totaling \$34,500.50. After stopping payment on some of the checks, the net loss to the state was \$27,914.50. OPH obtained courier services without requiring a fidelity bond to transport public funds. In addition, after the funds were lost, OPH accepted an interest-free promissory note without collateral by Express-24, Inc., for repayment of the lost deposits totaling \$27,914.50. Good internal controls and good business practices for safeguarding public funds should ensure that individuals or companies responsible for handling public funds are covered by a fidelity bond. Article VII, Section 14 of the Louisiana Constitution of 1974 prohibits the funds of the state or any political subdivision to be loaned, pledged, or donated to or for any person, association, or corporation, public or private.

Because of inadequate internal controls to safeguard public funds, the State of Louisiana does not have use of the lost deposits totaling \$27,914.50, which are at risk for recovery. The first of 32 minimum monthly installments of \$850 on the promissory note was to begin no later than January 29, 2006; however, as of March 7, 2006, only one payment of \$850 had been received by OPH. Also, because the promissory note is interest free with no collateral, it appears to violate Article VII, Section 14 of the Louisiana Constitution.

OPH should implement internal control procedures to ensure that fidelity bonds are in place for individuals or companies (couriers) responsible for transporting public funds and should be diligent in recovering the remaining lost deposits. Management did not concur with the finding and discussed the following issues in its response: Title 39 does not mandate fidelity bonds for procurements and the vendor possessed the required commercial/auto liability insurance; state funds were not loaned, pledged, or donated and there was no legal justification for requiring interest on the promissory note; more than one payment has been received by DHH; OPH has been diligent in recovering the funds

that were lost around the time of Hurricane Katrina; and, finally, OPH did not contract with Express-24, Inc., but relied on the state's purchase order procurement process (see Appendix A, pages 4-6).

Additional Comments: OPH acts as a fiduciary of public funds, and although fidelity bonds are not required by law, OPH has a responsibility to protect public funds. The commercial/auto liability insurance did not cover lost or stolen funds or OPH would have been made whole by the insurance. An interest-free loan is a donation. The lack of collateral makes the note have less value for recovery purposes. At the time that our finding was developed, we observed support for one note payment. The framework of the purchase order procurement process creates a contract with the vendor. Finally, it should also be noted that the courier held four days of deposits before Hurricane Katrina, which indicates inadequate controls at the agency.

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the office. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the office should be considered in reaching decisions on courses of action.

This letter is intended for the information and use of the office and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

FM:JR:PEP:ss

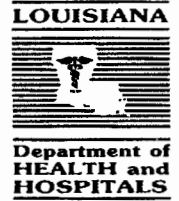
[OPH05]

This page is intentionally blank.

Management's Corrective Action
Plans and Responses to the
Findings and Recommendations



STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



Kathleen Babineaux Blanco
GOVERNOR

Frederick P. Cerise, M.D., M.P.H.
SECRETARY

December 2, 2005

Mr. Steve J. Theriot, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, La. 70804-9397

Re: Legislative Audit Response
Office of Public Health

Dear Mr. Theriot:

Please accept this letter as our response to the audit performed regarding unlocated property within the Office of Public Health (OPH).

The Operations and Support Unit monitors and tracks all moveable property tagged within this agency. OPH does adhere to the DHH Property Policy 2424-81, which states all property with a value of 1,000 dollars must be tagged. However, in June 2003, the Office of Public Health created Property Policy 801, stating that all computer equipment is tagged regardless of purchase cost, and printers in excess of \$500.00, be issued a state property tag. In addition to the policy revision, OPH has purchased the Protégé Hand Scanner equipment and license to monitor the moveable property within the Office of Public Health. We feel that this will provide further accountability for our computer equipment.

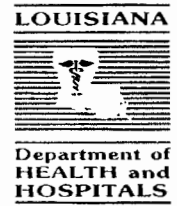
Please review the attached corrective action plan and advise if any further information is needed.

Sincerely,

Sharon Howard
Assistant Secretary
Office of Public Health



STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



Kathleen Babineaux Blanco
GOVERNOR

Frederick P. Cerise, M.D., M.P.H.
SECRETARY

November 30, 2005

Ms. Sharon Howard, Assistant Secretary
Office of Public Health
1201 Capitol Access Road – 5th floor
Baton Rouge, La. 70802

Re: Legislative Audit Response
Agency 326

Dear Ms. Howard:

This letter is in response to the Legislative Auditor inquiry dated November 14, 2005 regarding agency 326 property inventory listing.

Operations and Support Services completed and submitted the annual property inventory to the Division of Administration, Louisiana Property Assistance Agency, (LPAA) on September 23, 2005. In a letter from LPAA dated September 28, 2005 the Office of Public Health was certified for this year. To receive certification from LPAA, the unlocated property must be less than 1% of the total inventory value. The agency total that is monitored by this unit is \$30,116,275.21. In response to the Legislative Auditor citation, please be advised of the following:

Protégé Hand Scanner Equipment was purchased for headquarter staff and implemented during this inventory year. This forced staff responsible for inventory accountability to actually scan the equipment in their assigned property code. Previously, staff could account for equipment on their inventory by manually checking this item off. The hand scanners have changed the way inventory is actually performed each year. The HIV/AIDS Section, Property Location 0638, located at 234 Loyola, NOLA, could not account for computers and related equipment this year using the hand scanners. Therefore, with the new procedure and the accountability of the hand scanner equipment, this property had to be listed as unlocated. Thereby, this raised the agency unlocated total. Although this total seems high; it meets DOA LPAA Certification and is less than 1% of the total inventory value.

Our corrective plan of action is included for your review and approval.

Corrective Plan of Action – Legislative Audit - November 2005

Operations and Support Services (OSS) will begin facility audits in January 2006, Providing travel is approved for staff to travel to nine (9) OPH Regions and facilities.

Continue with annual Property Coordinator trainings throughout OPH

Continue with updates, suggestions and findings with our quarterly newsletter, and post this on the OPH Intranet.

Pending budget approval, continue purchasing the Protégé Hand Scanner License and Equipment for the nine (9) OPH Regions and their facilities and implementing through OPH.

Continue with monthly email blitz to the property coordinator responsible for property and inventory control in each facility.

Continue the OSS site on the OPH Intranet and post updated procedures that will assist in property monitoring.

Advise the Regional Administrator and chief administrative staff responsible for property coordinators in each facility regarding the status of inventory listings regarding their regions.

If any further information is needed regarding this response, please contact me at (225) 765-0935.

Sincerely,



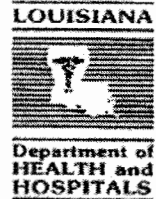
Barbara Woodard, Executive Staff Officer
Operations and Support Services

Cc: Craig Peters, Audit Manager 2, Revenue Monitoring
Stephanie Maiden, Administrative Coordinator 4, OSS Property Control



Kathleen Babineaux Blanco
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



Frederick P. Criss, M.D., M.P.H.
SECRETARY

March 17, 2006

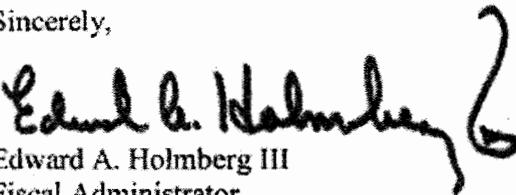
Steve J. Theriot, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

This response to your audit finding "**Lack of Adequate Security over Public Funds**" is made on behalf of the DHH Office of Public Health with permission from the Assistant Secretary, Sharon Howard.

The Office of Public Health does not concur with this finding for reasons provided by the DHH Bureau of Legal Services in the attached letter.

Sincerely,



Edward A. Holmberg III
Fiscal Administrator

Attachment

cc: Charles S. Mead
Sharon Howard
Frank Perez

Audit_Response_OPH_SF2005

Office of Management and Finance - Division of Fiscal Management
1010 Common Street, Suite 600 • P. O. BOX 61979 • New Orleans, Louisiana 70161-1979
PHONE: 504-568-5088 • FAX: 504-568-5090

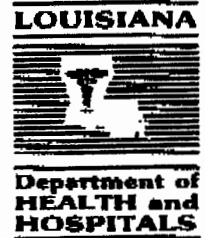
AN EQUAL OPPORTUNITY EMPLOYER



Kathleen Babineaux Blanco
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS

March 9, 2006



Frederick P. Corise, M.D., M.P.H.
SECRETARY

Mr. Edward Holmberg, Administrator
DHH, OMF Fiscal Services
Post Office Box 61979
Baton Rouge, LA 70161-1979

Re: Express 24, Inc.

Dear Mr. Holmberg:

In response to the audit finding regarding Express 24, Inc. (Express 24) please make note of the following.

The Department of Health and Hospitals, Office of Public Health does not concur, and in fact, strongly disagrees with the legislative auditor's inclusion of this as an audit finding for the following reasons:

Title 39 does not mandate bonds for procurements.

The State Procurement Code is governed by Title 39, which does not require bonds. Express 24 operated under Purchase Order No. 3893001, for which **liability insurance coverage** in the amount of \$500,000.00 per occurrence was required. A Certificate of Liability Insurance was provided evidencing coverage from 6/28/05 through 6/28/06 prior to the selection and use of Express 24's services.

State funds were not loaned, pledged or donated.

The Department of Health and Hospitals, Office of Public Health accepted an interest free promissory note because there was no legal justification for requiring that interest be added to the note. The Department's main objective was to recoup the funds lost as quickly and efficiently as possible. The Department insisted that Express 24 sign a promissory note and begin making payments, prior to settling their [Express 24] insurance claim. Had the Department added interest to the note, it would have appeared as if we were loaning state funds to Express 24. If the Department is forced to file suit to recover the funds lost, please be assured that we will seek judicial interest at that time. Had we asked for collateral, it would have again appeared as if we were loaning state funds to Express 24; however, we have strongly impressed upon the agents of Express 24 that failure to comply with the promissory note could result in criminal prosecution. Having the agents sign a promissory note shows that state funds were not donated. It is our legal opinion that the Department of Health and Hospitals, Office of Public Health did not violate Article VII, Section 14 of the Louisiana Constitution.

More than one payment has been received by DHH.

According to the promissory note, payments are due by the 29th day of each month, beginning in January 2006. Thus far, we have received two (2) payments. We have also credited the account with the \$750.00 payment forfeited by Express 24. Payments are being sent to the Bureau of Legal Services for close monitoring of Express 24's compliance with the terms of the promissory note. Payments must be mailed to Legal's mailing address, forwarded to the Collection section for review and then mailed to OPH for proper posting. As you can imagine, this process takes time; however, we are confident that such measures are needed for adequate internal controls to ensure compliance and safeguard public funds.

Diligence of OPH

These funds were lost at the time of Hurricane Katrina on August 29, 2005. It must be noted that the City of New Orleans and surrounding areas began evacuating on Saturday, August 27, 2005, and that many residents are still unable to return to this area. OPH and many other state offices were displaced as a result thereof. Additionally, OPH discovered that the funds were lost rather quickly, particularly in light of the mass confusion of the City of New Orleans shortly after this storm. Finally, OPH did not contract with Express 24, Inc., but relied on the State's long standing purchase order procurement process.

For the reasons stated herein, it is our opinion that corrective action is not required.

With kind regards, I am

Sincerely,



L. C. Lee, Attorney III
DHH, Bureau of Legal Services
(225) 342-0207

LCL/bm