

JOHN J. HAINKEL, JR.  
HOME AND REHABILITATION CENTER  
DEPARTMENT OF HEALTH AND HOSPITALS  
STATE OF LOUISIANA



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PROCEDURAL REPORT  
ISSUED JULY 18, 2007

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

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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

June 20, 2007

**JOHN J. HAINKEL, JR. HOME  
AND REHABILITATION CENTER  
DEPARTMENT OF HEALTH AND HOSPITALS  
STATE OF LOUISIANA  
New Orleans, Louisiana**

As required by Louisiana Revised Statute (R.S.) 24:513, we conducted certain procedures at the John J. Hainkel, Jr. Home and Rehabilitation Center, Department of Health and Hospitals, formally known as the New Orleans Home and Rehabilitation Center for the period from July 1, 2005, through June 20, 2007. Our procedures included (1) a review of the rehabilitation center's internal controls; (2) tests of financial transactions; and (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities. Our procedures were more limited than would be necessary to give an opinion on internal control and on compliance with laws, regulations, policies, and procedures governing financial activities.

Specifically, we interviewed management personnel and selected rehabilitation center personnel and evaluated selected documents, files, reports, systems, procedures, and policies, as we considered necessary. After analyzing the data, we developed recommendations for improvement. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

The Annual Fiscal Report of the John J. Hainkel, Jr. Home and Rehabilitation Center was not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The rehabilitation center'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 report for management's consideration.

**Weaknesses in Controls Over Non-Payroll Expenditures**

The John J. Hainkel, Jr. Home and Rehabilitation Center (JJHRC) failed to maintain adequate control over non-payroll expenditures and did not comply with internal policies and state purchasing rules and regulations.

R.S. 39:1594(A) provides that contracts exceeding small purchase requirements be awarded by competitive bidding; JJHRC Purchasing Order Requisition Approval policy #3 states that all purchase order requisitions are approved by the Assistant Administrator and/or Administrator; JJHRC Procurement Card policy #4 states that a purchase

requisition or the LaCarte Purchasing Card Log Sheet should be turned in at the end of the month for reconciliation along with the original receipts and must be approved by the card holder's supervisor.

During the review of non-payroll expenditures, we observed the following conditions:

- Late payments to vendors, ranging from 38 to 217 days, averaging 109 days
- Evidence of management's override of controls that would prevent payment on an unapproved professional services contract
- No approved purchase requisition or purchase log for some purchases
- Receipt missing for a LaCarte Purchasing Card transaction totaling \$700
- Payment from facsimile copies of invoices or packing slips
- No bids for some purchases greater than \$500
- Not checking state contract availability for some purchased items or services

As a result of the control weaknesses, payments were made to vendors for unauthorized purchases and the best prices may not have been obtained for goods and services because of the lack of competitive bidding. Failure to maintain adequate internal control over non-payroll expenditures reduces management's assurance of accurate financial accountability and increases the risk of fraud and noncompliance with state purchasing rules and regulations.

Management of the rehabilitation center should enforce compliance with its policies and state travel and purchasing rules and regulations to ensure accurate accountability for financial resources and financial reporting. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 1-3).

### **Untimely Deposits of Revenue Collections**

The JJHRC does not have adequate control procedures in place to ensure that all cash receipts collected are deposited timely into the state treasury. Article 7, Section 9 of the Louisiana Constitution of 1974 states, in part, that "All money received by the state or by any state board, agency, or commission shall be deposited immediately upon receipt in the state treasury." The Division of Administration and State Treasurer Policies and Procedures Manual defines immediately as "within 24 hours of receipt." In addition, good internal control requires that all money received by the rehabilitation center be deposited timely to properly safeguard assets and ensure accurate financial reporting of revenues collected.

In a review of 13 deposit transactions, totaling \$1,700,040, five deposits totaling \$16,204 were deposited into the state treasury 4 to 16 days after receipt, averaging approximately 10 days until deposit. The untimely deposit of funds increases the risk of loss or abuse, deprives the state of interest earnings, and subjects the rehabilitation center to noncompliance with state law.

Management should ensure that all monies received by the rehabilitation center are deposited timely to properly safeguard assets, ensure accurate financial reporting of revenues collected, and comply with state law. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 4-5).

### **Weakness in Control Over Warehouse Inventory**

The JJHHRC has not maintained adequate control over its warehouse inventory. A proper system of internal control over inventory should include procedures to ensure that inventories are accurately safeguarded, valued, recorded, and maintained in the perpetual inventory system. Any inventory discrepancies should be investigated to determine if they are due to theft or fraud.

During a test count of 30 warehouse items, we determined that the actual quantity for 18 items (60%) did not agree with the quantity on hand as provided by the Storekare perpetual system. The rehabilitation center's inventory, including the warehouse totals \$54,097 at June 30, 2006. Failure to provide adequate control over inventory increases the risk of inaccurate accounting and reporting of inventory and increases the risk that loss of inventory due to theft or fraud will occur and remain undetected.

Management should ensure that established inventory procedures are followed by all rehabilitation center personnel. It should also implement those procedures that are necessary to ensure that the perpetual inventory system is functioning properly and that inventory is accurately safeguarded, valued, recorded, and maintained. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 6-7).

The recommendations in this report represent, in our judgment, those mostly likely to bring about beneficial improvements to the operations of the rehabilitation center. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the rehabilitation center should be considered in reaching decisions on courses of actions. Findings relating to the rehabilitation center's compliance with laws and regulations should be addressed immediately by management.

JOHN J. HAINKEL, JR. HOME AND REHABILITATION CENTER \_\_\_\_\_

This report is intended solely for the information and use of the rehabilitation center 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 report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steve J. Theriot", written over a horizontal line.

Steve J. Theriot, CPA  
Legislative Auditor

KML:JR:PEP:dl

JHHRC07

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

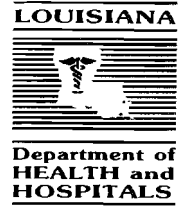
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Kathleen Babineaux Blanco  
GOVERNOR

STATE OF LOUISIANA  
DEPARTMENT OF HEALTH AND HOSPITALS



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

Wednesday, June 13, 2007

Steve J. Theriot  
Legislative Auditor  
State of Louisiana  
1600 North Third Street  
Baton Rouge, LA 70804

Dear Mr. Theriot:

This is an official response to the reportable audit findings for the John J. Hainkel Jr. Home & Rehabilitation Center, for the audit finding of Weaknesses in Controls over Non-Payroll Expenditures.

We concur with the finding, noting that several parts of the finding were isolated occurrences, and corrective action has been taken.

Thank you for your cooperation and assistance.

Sincerely,

Robert E. Bales, Sr., MPA, NFA  
LTC Hospital Administrator

Attachment  
Cc: Stan Mead, DHH Finance

1. Late payments to vendors ranging from 38 to 217 days averaging 109 days.

Late payments occurred during the audit period. Corrective action taken is that Business Office staffing has been re-established from one employee post Katrina to four employees, and accounts payable are generally current.

2. Evidence of management override of controls that would prevent payment on an unapproved professional services contract.

This refers to PVQ payments to Anna Ellis in final quarter of FY 06. Contractor was one of two known local speech pathologists able to provide specialized dysphagia/swallowing therapy for a patient requiring that care, and payment was needed to ensure contractor services while the contract was in approval process. Corrective action taken is that future small contracts will be approved by DHH contract approval process before payment made.

3. No approved purchase requisition or purchase log for some purchases.

Facility policy requires approval of all purchases by the administrator; finding is that several purchases were approved instead by Business Office Manager. Second aspect of finding is that several Lacarte monthly statements were approved by signature on the statement, however the attached purchase log and/or requisition were not also signed at the time.

Corrective action has been completed including review of facility purchasing policy with the business office manager. Other corrective action completed includes clarification that signatures are required on all supporting documentation including 1) requisition, 2) purchasing log, and 3) Lacarte statement.

4. Receipt missing for a Lacarte purchasing card transaction totaling \$700.

Receipt missing for maintenance purchase by recovery crew during post Katrina return to facility in December of 2005. No corrective action required as occurred during Katrina recovery, and receipts are being properly managed for all Lacarte purchases.

5. Payment from facsimile copy of invoice or packing slip

Business office practice includes occasional payment from facsimile copy of invoice, properly marked as a copy. We concur that such payments occurred more frequently than should have occurred. Corrective action taken is that policy and procedure has been updated, and staff trained, to closely limit payments based on facsimile copies. All such payments must be approved in writing by the Business Office Manager.

6. No bids for some purchases over \$500.

Isolated occurrence. The state fire marshal requires pressure washing the interior of the kitchen cooking hood every six months. Over the two year period the facility purchased hood cleaning services every six months at a cost of about \$500 per service. Combined as an annual expense, cost of this service exceeded \$500. Corrective action is to bid out the combined annual need of two services.

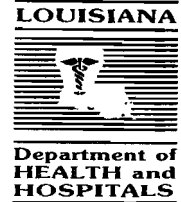
7. Not checking state contract for availability of some services

Isolated occurrence. Refers to purchase of maintenance services for portable fire extinguishers, including required annual check. Corrective action is that Maintenance Director has been made aware of the state contract for fire extinguisher maintenance.



Kathleen Babineaux Blanco  
GOVERNOR

STATE OF LOUISIANA  
DEPARTMENT OF HEALTH AND HOSPITALS



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

Wednesday, June 13, 2007

Steve J. Theriot  
Legislative Auditor  
State of Louisiana  
1600 North Third Street  
Baton Rouge, LA 70804

Dear Mr. Theriot:

This is an official response to the reportable audit findings for the John J. Hainkel Jr. Home & Rehabilitation Center, for the audit finding for untimely deposit of revenue collections.

We concur with the finding. A statement of corrective action taken is attached.

Thank you for your cooperation and assistance.

Sincerely,

Robert E. Bales, Sr., MPA, NFA  
LTC Hospital Administrator

Attachment

Cc: Stan Mead, DHH Finance

Attachment  
Untimely Deposit of Revenue Collections  
Page 1 of 1

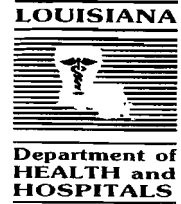
We concur that deposits were not always made by Business Office staff within 24 hours of receipt of checks or cash. A corrective action plan was completed on April 14<sup>th</sup>, 2007 that included the following.

1. Business Office Policy and Procedure was updated to clarify that all checks and cash received by the facility must be deposited within 24 hours of receipt.
2. An additional employee was designated to assist as courier with bank runs.
3. All Business Office staff have been trained on the new policy and procedure.



Kathleen Babineaux Blanco  
GOVERNOR

STATE OF LOUISIANA  
DEPARTMENT OF HEALTH AND HOSPITALS



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

Wednesday, June 13, 2007

Steve J. Theriot  
Legislative Auditor  
State of Louisiana  
1600 North Third Street  
Baton Rouge, LA 70804

Dear Mr. Theriot:

This is an official response to the reportable audit findings for the John J. Hainkel Jr. Home & Rehabilitation Center, for the audit finding for Weaknesses in Controls over Warehouse Inventory.

We concur with the finding. A summary of corrective action taken is attached.

Thank you for your cooperation and assistance.

Sincerely,

Robert E. Bales, Sr., MPA, NFA  
LTC Hospital Administrator

Attachment  
C c: Stan Mead , DHH Finance

Attachment  
Weaknesses in Controls over Warehouse Inventory  
Page 1 of 1

We concur that the audit identified inventory discrepancies. The warehouse is adequately staffed and adequately trained. There were some delays on posting of inventory records due to equipment problems. Over the past quarter there were several after hours emergency withdrawal of supplies from the warehouse by the nursing house manager that were not fully researched afterward.

A corrective action plan has been completed to include the following.

1. The entire warehouse inventory of medical and office supplies was recounted on 4/11/07, and updates posted to the inventory software on 4/13/07.
2. Business Office policies and procedures were reviewed for adequacy of internal controls including timely posting to inventory records. Policy and procedure was updated for 1) Receipt of Items into Inventory, 2) Recording and Issuance of Supplies, and 3) Annual Physical Inventory.
3. Entrance locks to the warehouse were changed.
4. A backup workstation for the warehouse clerk to enter inventory transactions was set up in the business office.