

HAMMOND DEVELOPMENTAL CENTER
OFFICE FOR CITIZENS WITH
DEVELOPMENTAL DISABILITIES
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA



PROCEDURAL REPORT
ISSUED OCTOBER 4, 2006

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September 19, 2006

**HAMMOND DEVELOPMENTAL CENTER
OFFICE FOR CITIZENS WITH
DEVELOPMENTAL DISABILITIES
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Hammond, Louisiana**

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at the Hammond Developmental Center for the years ending June 30, 2005, and June 30, 2006. Our procedures included (1) a review of the center's internal control; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with prior year report recommendations. 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 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 Reports of the Hammond Developmental Center were not audited or reviewed by us, and, accordingly, we do not express an opinion on these reports. The Center's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior report on the Hammond Developmental Center, dated May 12, 2004, we reported findings relating to the failure to update and reconcile pharmacy inventory records and the inadequate controls over the ISIS/HR system. The finding relating to the failure to update and reconcile pharmacy inventory records has been resolved by management. The finding relating to inadequate controls over the ISIS/HR system is addressed again in this report.

Based on the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

Inadequate Warehouse Inventory Records

The Hammond Developmental Center (Center) did not perform periodic physical counts of warehouse inventories during the fiscal year ended June 30, 2005, and the Center did not maintain adequate perpetual inventory records for its warehouse inventories. Adequate internal control would include an annual physical count of inventory and accurate perpetual inventory records that reconcile to the inventory amounts on hand. In our physical count test of 31 items, 11 items (35%) did not agree to the amounts recorded in the perpetual inventory system. The Center was unable to reconcile these item counts to the perpetual inventory records. Management has not assigned sufficient resources to perform physical inventories and has not placed sufficient emphasis on investigating differences in physical and perpetual inventories. The total inventory value at June 30, 2005, is \$257,358.

Failure to maintain and reconcile a proper perpetual inventory system increases the risk that losses will occur and remain undetected. The Center should ensure that the warehouse inventory procedures are followed, including annual physical counts and accurate perpetual inventory records that reconcile to the number of items on hand. Management concurred with the finding and recommendation and outlined a corrective action plan (see Appendix A, page 1).

Inadequate Controls Over Information Technology

The Center has not established adequate internal control over access to the Integrated Statewide Information Systems (ISIS), the state's on-line information processing systems. In addition, for the third consecutive engagement, the Center has not maintained adequate internal control over the payroll system (ISIS/HR). An adequate system of internal control requires that individuals be permitted access only to data files and functions necessary to perform their normal duties. Also, a periodic review of user access should be done to eliminate unnecessary access. Furthermore, access should be limited when system roles do not provide for proper segregation of duties, and strong monitoring controls should exist to compensate for the additional risk. During our procedures, we noted the following:

- A review of 22 individuals having access to the ISIS - Advantage Financial System (AFS) revealed that seven active AFS user IDs were assigned to terminated employees. In addition, two employees were given more AFS access than necessary to perform their job functions.
- A review of 31 individuals having access to the ISIS - Advanced Government Purchasing System (AGPS) revealed that 11 active AGPS user IDs were assigned to terminated employees. In addition, two employees were given more AGPS access than necessary to perform their job functions.

- A review of individuals with access to ISIS/HR revealed that nine human resources employees had access that allowed them to perform the incompatible activities of (1) creating a new position and maintaining existing positions; (2) entering new hires including base pay, merit increases, and terminations; (3) changing or entering time sheet data on any employee; and (4) entering retroactive calculations that could affect an employee's paycheck. Furthermore, a review of the agency's procedures revealed the agency does not monitor payroll actions (the Action Reason/Pay Reason Report, ZP13) to ensure that all actions and merit increases entered into the system were approved and that all the actions that were supposed to be entered into the system were entered.

The Center has not established adequate procedures that require the security administrators to regularly review user access to the systems. In addition, the agency does not monitor the reports produced by ISIS-HR to ensure that all actions and merit increases entered into the system were approved and that all the actions that were supposed to be entered into the system were entered. Failure to remove system access for terminated employees and monitor system needs for current employees could result in unauthorized system access and/or untimely detection of fraud or errors that may have occurred during the processing of transactions. In addition, failure to establish adequate segregation of duties and the lack of adequate monitoring could allow a human resources employee to enter fictitious employee bank account and payroll information and fraudulently receive paychecks without being detected.

Management should establish procedures that require the security administrators to regularly review user access to the on-line systems and eliminate unnecessary access. Also, user departments should periodically review user access and inform the security administrator of any needed changes. In addition, since some access roles in ISIS/HR do not allow for segregation of duties, the agency should limit the number of employees with this access and review the reports available from ISIS/HR to ensure that all actions and merit increases entered into the system were approved and that all the actions that were supposed to be entered into the system were entered. This review should be performed at least weekly by someone who is not responsible for entering actions in ISIS/HR. Management concurred with the finding and recommendation and outlined a corrective action plan (see Appendix A, pages 2-3).

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

This report is intended solely for the information and use of the 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,



Steve J. Theriot, CPA
Legislative Auditor

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(HDC06)

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



Kathleen Babineaux Blanco
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



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

August 18, 2006

Mr. Steve J. Theriot
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

RE: Finding: Inadequate Warehouse Inventory Records

Hammond Developmental Center agrees with the above referenced Finding as it relates to two out of eight Warehouse Inventories. During Fiscal Year 05, six out of eight separate inventories were reconciled. In Fiscal Year 06, all inventories were reconciled. The following changes and procedures will be implemented or have already been implemented:

Hammond Developmental Center has purchased a new inventory system, Sage MAS500. This system utilizes bar scans. In implementing this new inventory system, there will be substantial decrease in the error rates due to paperwork transferring from one department to another for record keeping. The target date for implementation is September 30, 2006.

We have implemented a new process of maintaining sequential list of daily issues per inventory. This process ensures that accounting has received all issue documentation. The Administrative Supervisor 2, Tina Kovach, in the warehouse will reconcile monthly the daily issue list. Any discrepancies will be reported to the Accountant 2, Minda Raybourn, in accounting. The Accountant 2 and Administrative Supervisor 2 will reconcile differences.

On a biweekly basis, the warehouse will conduct an on hand count of 10 random items per detail from the warehouse inventory. Discrepancies will be noted and reconciled at that time. Accounting will conduct at least annual physical inventory counts of all items.

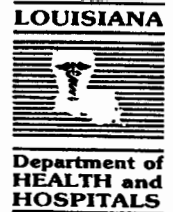
Sincerely,

Cindy Pritchard, CPA
Fiscal Director
Hammond Developmental Center



Kathleen Babineaux Blanco
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



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

August 18, 2006

Mr. Steve J. Theriot
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

RE: Finding: Inadequate Controls over Information Technology

Hammond Developmental Center agrees with the above referenced Finding as it refers to the ISIS – Advantage Financial System (AFS), the ISIS-Advanced Government Purchasing System (AGPS) and ISIS/HR system . The following process has been implemented:

The IT Tech Support Supervisor, Mike Saucier, will print an access security report from the AFS and AGPS the first working day of the month. This report will include list of employees who have access and their access level. This report will be reviewed by the Fiscal Director, Cindy Pritchard, and the Facility Maintenance Manager 3, Jerry Hart for accuracy and revision if necessary.

The IT Tech Support Supervisor will maintain a list of all employees having access to the AFS and AGPS system. Human Resources forwards an employee termination notice to the IT Tech Support Supervisor, Mike Saucier and the Fiscal Director, Cindy Pritchard at the time of termination. At this time, the notice is reviewed to determine if the employee has access to the systems. If the employee has access, the IT Tech Support Supervisor will remove access within 24 hours of the termination date. When a change is made in the system, the IT Tech Support Supervisor will print a proof report indicating the current status and a confirmation report that the change was accepted and accurate in the system.

Assigned duties of the employees in the Human Resources Office were redistributed to permit performance with limited security access into the ISIS/HR system.

Chenoa Hoyt, HR Manager, was assigned as the Security Administrator for the ISIS/HR functions. Changes to Security were submitted to limit access to only those employees whose duties required the access. Additionally, access was removed from the former employees. Ms. Hoyt will run a security report monthly to check and verify that the access is limited to only those employees who need access into the system to perform their duties.

Rebecca Soley, Administrative Coordinator, generates the ZP13 report weekly and checks and verifies to the HR Director that all actions and merit increase that were

entered into the system were approved and that all the actions that were supposed to be entered have been. Ms. Soley does not have access to enter actions into the ISIS/HR system.

Sincerely,



Cindy Pritchard, CPA
Fiscal Director
Hammond Developmental Center