

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



PROCEDURAL REPORT
ISSUED JULY 1, 2009

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

LEGISLATIVE AUDIT ADVISORY COUNCIL
REPRESENTATIVE NOBLE E. ELLINGTON, CHAIRMAN

SENATOR NICHOLAS “NICK” GAUTREAUX
SENATOR WILLIE L. MOUNT
SENATOR EDWIN R. MURRAY
SENATOR BEN W. NEVERS, SR.
SENATOR JOHN R. SMITH
REPRESENTATIVE NEIL C. ABRAMSON
REPRESENTATIVE CHARLES E. “CHUCK” KLECKLEY
REPRESENTATIVE ANTHONY V. LIGI, JR.
REPRESENTATIVE CEDRIC RICHMOND

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. Five copies of this public document were produced at an approximate cost of \$14.35. 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.la.gov. When contacting the office, you may refer to Agency ID No. 3486 or Report ID No. 80090024 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.



LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

June 5, 2009

**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, for the period from July 1, 2007, through June 5, 2009. Our procedures included (1) a review of the rehabilitation center's internal controls; (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 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.

In our prior procedural report on John J. Hainkel, Jr. Home and Rehabilitation Center, dated June 20, 2007, we reported findings relating to weaknesses in controls over nonpayroll expenditures, untimely deposits of revenue collections, and weakness in control over warehouse inventory. The findings relating to weaknesses in controls over nonpayroll expenditures and weakness in control over warehouse inventory have been resolved by management. The finding relating to untimely deposits of revenue collections 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.

Untimely Deposits of Revenue Collections

For the second consecutive engagement, the John J. Hainkel, Jr. Home and Rehabilitation Center (JJHRC) does not have adequate control procedures in place to ensure that all cash receipts collected are timely deposited 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 45 deposit transactions, totaling \$179,119, 17 deposits totaling \$23,264 were deposited into the state treasury 11 to 23 days after receipt, averaging approximately 16 days until deposit. The untimely deposit of funds increases the risk of misappropriation and inaccurate reporting. Untimely deposits also deprive the state of interest earnings and subject 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 in part with the finding stating that current controls ensure substantial compliance with requirements for timely deposits. Management stated that the untimely deposits occurred during a transition in business managers (see Appendix A, page 1).

Unlocated Movable Property

JJHRC did not maintain good internal control procedures over movable property to ensure that the location of all movable items is monitored and updated frequently. Good internal control requires that adequate procedures be in place to ensure that the location of all movable property items is monitored and updated frequently to record the movement of items from one location to another. Furthermore, Louisiana Administrative Code Title 34 Part VII Section 313 (A) states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance.

R.S. 39:324 and 39:325 require entities to conduct an inventory of movable property and identify amounts of unlocated property in an annual certification submitted to the Louisiana Property Assistance Agency (LPAA). During our procedures on movable property, we noted that JJHRC's 2008 certification of annual property inventory identified unlocated movable property items totaling \$53,449, including the current year unlocated amount of \$32,377. The total unlocated movable property amount represented

7% of the total movable property amount of \$765,405. Of the unlocated property reported on JJHRC's physical inventory certification, the amount of unlocated computers and computer-related equipment totaled \$30,109. Because of the high number of discrepancies, LPAA did not approve the 2008 certification of annual property inventory.

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

Management should strengthen its controls over movable property to ensure that the location of all movable items is monitored and updated frequently. In addition, management should devote additional efforts to locating movable property items reported as unlocated in previous years. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 2).

Noncompliance With Notification of Misappropriation Law

JJHRC did not report a misappropriation of public funds as required by R.S. 24:523(A). R.S. 24:523 states, in part, "An agency head of an auditee who has actual knowledge of any misappropriation of the public funds or assets of his agency shall immediately notify, in writing, the legislative auditor and the district attorney of the parish in which the agency is domiciled of such misappropriation."

JJHRC experienced a misappropriation of public funds when unauthorized use of the Fuelman credit card occurred during November 2007 through January 2008. JJHRC identified the discrepancy in January 2008 during the review of the December Fuelman invoice. A police report was filed on the incident. Although management implemented corrective action, JJHRC failed to notify the legislative auditor and the district attorney. Fuelman credit card charges totaled \$6,824 for the period November 2007 through January 2008. However, management could not determine the total amount of unauthorized charges.

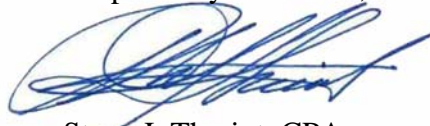
Management said that it was not aware of the requirement for reporting misappropriated funds or assets to the legislative auditor and the parish district attorney. Failure to immediately notify the legislative auditor and the appropriate district attorney results in noncompliance with state law.

Management should immediately report any misappropriation of public funds or assets of JJHRC, in writing, to the legislative auditor and the appropriate district attorney in accordance with state law. Management should seek to recover the lost funds. Management concurred in part with the finding and outlined a plan of corrective action (see Appendix A, page 3).

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.

This report is intended solely for the information and use of the rehabilitation center and its management, others within the entity, and the Louisiana Legislature 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

FM:JR:EFS:PEP:dl

JHHRC09

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



State of Louisiana
Department of Health and Hospitals
Office of Adult & Aging Services

Wednesday, May 27, 2009

Legislative Auditor

Re: Late Deposits

We concur in part.

Late deposits cited occurred in the last two months of 2007 and the first month of 2008. These deposits involved cash from meal ticket sales and transfer of funds from resident trust fund to the state as self generated revenue (meal ticket revenues were not deposited daily, self generated checks were prepared with check date then not deposited timely). The period corresponded with the last two months of the then retiring Business Office Manager and the first month of the new Business Office Manager.

We concur in part because the cited deficiency does not reflect current fiscal year compliance. Our review of current fiscal year records indicates substantial compliance with requirement for deposit of revenues within 24 hours of receipt of cash.

The Business Office Manager is responsible for ensuring timely deposit of all revenues. No corrective action is necessary as the facility is in compliance with requirements for timely deposit.

A handwritten signature in black ink, appearing to read "RBales".

Robert E. Bales, Sr., MPA, NFA

LTC Hospital Administrator



State of Louisiana
Department of Health and Hospitals
Office of Adult & Aging Services

Wednesday, May 27, 2009

Legislative Auditor

Re: Property Control Finding

We concur that the annual property control inventory as submitted did not locate various movable property.

We note that the facility subsequently located or accounted for much of the unlocated property, reducing missing items for the period 2005 through 2008 to \$40,416, equaling 5.3% of movable property value.

About 75% of the \$40,416 was old computer equipment including \$22,087 in pre-Y2K property, and \$8,022 in computers acquired in 2001. Property control records were not updated last year during an approved storage area cleanup project.

Corrective action included update of property control policy and procedure in January. Much of the re-inventory of movable property done in January was directly by the Business Office Manager. Key staff were retrained and/or given job counseling on the need for compliance with property control requirements. The Business Office Manager is responsible for ensuring ongoing compliance

A handwritten signature in black ink, appearing to read "R. Bales".

Robert E. Bales, Sr., MPA, NFA

LTC Hospital Administrator



State of Louisiana
Department of Health and Hospitals
Office of Adult & Aging Services

Wednesday, May 27, 2009

Legislative Auditor

Re: Notification in Event of Misappropriation

We concur in part.

Theft by misuse of Fuelman gas card was reported to authorities promptly after the theft was identified. Unauthorized charges were identified except one questionable charge in November. The facility took corrective action promptly. The theft was reported to Legislative Auditor staff during the audit by facility personnel.

We concur in part because the theft was reported to authorities on a timely basis.

1. The theft was reported at the time to New Orleans Police Department.
2. The theft was reported at the time to the DHH Office of Aging and Adult Services.

However, we acknowledge that the facility did not report the theft directly at the time to the Legislative Auditor or to the Orleans Parish District Attorney.

Corrective action is that the requirement for reporting directly to the Legislative Auditor and the District Attorney has been added to the facility internal control plan, and reviewed with appropriate staff. The Administrator is responsible for ensuring compliance.

A handwritten signature in black ink, appearing to read "R. Bales".

Robert E. Bales, Sr., MPA, NFA

LTC Hospital Administrator