LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER -
HEALTH CARE SERVICES DIVISION
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

MANAGEMENT LETTER
ISSUED APRIL 29, 2009

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

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

March 25, 2009

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER -
HEALTH CARE SERVICES DIVISION
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2008, we considered the Louisiana State University Health Sciences Center - Health Care Services Division's (HCSD) internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested HCSD's compliance with laws and regulations that could have a direct and material effect on the System's financial statements as required by *Government Auditing Standards*. In addition, we considered HCSD's internal control over compliance with requirements that could have a direct and material effect on a major federal program, as defined in the Single Audit of the State of Louisiana, and we tested HCSD's compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by U. S. Office of Management and Budget Circular A-133.

The annual financial information of the Louisiana State University Health Sciences Center, which includes the activity of HSCD, is not audited or reviewed by us, and, accordingly, we do not express an opinion on that financial information. HCSD's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on HCSD, for the year ended June 30, 2007, we reported findings relating to unlocated movable property; inadequate controls over patient charges; inadequate control over financial class determinations; and inadequate controls over consumable inventory, contract payments, and bank reconciliations. The finding related to inadequate controls over consumable inventory, contract payments, and bank reconciliations has been partially resolved by management. The remaining findings are addressed again in this letter.

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* have also been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2008.

Inadequate Control Over Financial Reporting

HCSD did not have adequate control over its financial reporting. Good internal control requires adequate preparation and review procedures to prevent and detect errors in the financial data submitted for inclusion in the Louisiana State University System (System) Annual Fiscal Report (AFR).

After HCSD provided the auditors with its original financial data on August 28, 2008, seven revisions to the financial data were made by HCSD because of errors identified by HCSD or System personnel. The last revision was provided on September 23, 2008. The revisions affected amounts on the System's Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows, as well as numerous note disclosures.

In addition to the revisions submitted by HCSD, the auditors identified the following errors:

- Current liabilities were understated and noncurrent liabilities were overstated by $186,225 because of a calculation error, which also required corresponding adjustments to the related footnotes for long-term liabilities and compensated absences.

- The capital assets footnote overstated the equipment additions and understated the buildings additions by $48,944 and did not properly classify $4,977,075 as a prior period adjustment.

- The long-term liabilities footnote understated the notes payable balance at June 30, 2007, and misstated the notes payable reduction by $2,461,424.

- The cash flows from capital financing activities - principal paid on capital debt and leases were understated, and purchases of capital assets were overstated by $27,585,405. The same adjustment was required in the prior audit.

Management did not ensure that its original financial data was properly prepared and reviewed before submitting the financial data to the System. Failure to ensure accurate preparation of the financial data could result in misreported financial data and undetected errors or fraud. In addition, failure to submit accurate financial data delays the audits of HCSD and the System, which could delay the compilation and issuance of the state's Comprehensive Annual Financial Report.

HCSD management should strengthen its review procedures over financial reporting to ensure that an accurate preparation of financial data is submitted for inclusion in the System's AFR. Management concurred in part with the finding and provided measures to strengthen quality control. Although management agreed that the errors citied did occur, management does not agree that HCSD has inadequate control over its annual financial reporting process in general (see Appendix A, pages 1-3).

Additional Comments: Errors identified in HCSD's financial information that resulted in seven revisions and multiple audit adjustments indicate a significant deficiency in controls over the financial reporting process. Any planned future delay in providing financial information to the HCSD audit team will also delay the LSU Health Sciences Center - New Orleans and the LSU System audits.

Energy Efficiency Contract Contrary to Law

University Medical Center (UMC) and Lallie Kemp Regional Medical Center (LKRMC) entered into performance-based energy efficiency contracts with Johnson Controls, Inc. (JCI) in October 1999 and November 2002, respectively, that included stipulated savings and, therefore, do not comply with state law. Louisiana Revised Statute (R.S.) 39:1496.1(A) provides that a state agency may enter into a performance-based energy efficiency contract for services and equipment. R.S. 39:1484(A)(14) requires the payment obligation to be either a percentage of the annual energy cost savings attributable to the services or equipment under the contract or guaranteed under contract to be less than the annual energy cost savings attributable to the services or equipment under the contract. R.S. 39:1496.1(D) requires the contract to contain a guarantee of energy savings to the entity. The statute further provides that the annual calculation of the energy savings must include maintenance savings that result from operation expenses eliminated and future capital replacement expenditures avoided as a result of equipment installed or services performed by the contractor.

Attorney General Opinion 07-0002 provides, ". . . for the stipulated operational savings to be included in the total guaranteed savings, those savings must actually be guaranteed. In order for the operational savings to be guaranteed, the Contract would have to provide for some type of measurement and/or verification of the operational savings. . . ." Although the Attorney General Opinion was directed to local government, the same guarantee is required in state law; therefore, the conclusion is the same.

A review of the energy efficiency contract, as amended, which is for 20 years and $4.7 million between UMC and JCI, disclosed the following deficiencies:

- JCI guaranteed a total of $4,762,185 in savings during the term of the contract, consisting of measurable savings of $1,943,165 and operational savings of $2,819,020. According to the contract, "Operational Savings are mutually agreed by the Customer and JCI . . . and shall not be measured or monitored during the Term." The contract also stipulates that operational savings are repair and maintenance costs avoided by the customer through the implementation of the Performance Contracting Agreement. The operational savings are not guaranteed because the contract does not provide for measurement and/or verification of the operational savings. Therefore, excluding the operational savings, the guaranteed savings over the life of the contract are only the measurable savings of $1,943,165. The total payments due to JCI over the life of the contract are approximately $4.7 million. Therefore, the payment obligation exceeds the adjusted guaranteed annual energy cost savings.

- The contract states that JCI may credit any excess savings, in whole or in part, toward the annual guaranteed savings in any future year of the term. R.S. 39:1496.1 requires the payment obligation for each year of the contract to be less than the annual energy cost savings. It is not appropriate to carry forward excess savings to future years.

The energy efficiency contract between LKRMC and JCI, which is for 17 years and approximately $3.5 million, stipulates the value of the operational savings in the contract. Under Schedule E of the contract, JCI guaranteed a total of $3,489,692 in savings during the term of the contract. The savings consists of measurable savings of $1,550,162 and operational savings of $1,939,530. According to the contract, "Operational Savings" are agreed by the parties to be achieved and "will not be additionally measured or monitored during the term of the Agreement." Exhibit 5 of Schedule E defines operational savings to include avoided repair, maintenance, and other costs, and also states that the operational costs will not be additionally measured or monitored during the contract term. The operational savings are not guaranteed because the contract does not provide for measurement and/or verification of the operational savings. Therefore, excluding the operational savings, the guaranteed savings over the life of the contract are only the measurable savings of $1,550,162. The total rental and service payments due to JCI over the life of the contract are approximately $3.5 million. Therefore, the payment obligation exceeds the adjusted guaranteed annual energy cost savings.

At the signing date, management felt that the contracts complied with state law. However, because the operational savings are stipulated and are not measurable and verifiable, the contracts are not in compliance with the law. In addition, there is a risk of making payments specified in the contract that are greater than the energy cost savings attributable to the services or equipment under the contract.

Management should revise its energy efficiency contracts to comply with state law to ensure that each savings component is verifiable and that the guaranteed savings have been realized. In addition, management should ensure that the payments required by the contract are not greater than the energy cost savings attributable to the services or equipment under the contract. The System's management concurred with the finding and is in the process of extensively reviewing each contract to discover all facts relevant to the status of the contracts and further action required (see Appendix A, page 4).

Unlocated Movable Property

For the second consecutive audit, UMC and Earl K. Long Medical Center (EKLMC) and for the third consecutive audit, Medical Center of Louisiana at New Orleans (MCLNO) are not properly accounting for and safeguarding their movable property. Louisiana Administrative Code Title 34 Part VII Section 313 (A) states, in part, that efforts must be made to locate all movable property items for which there are no explanations available for their disappearance. After three years, unlocated property is permanently removed from the movable property records. R.S. 39:325 requires entities to conduct an annual inventory of movable property and identify amounts of unlocated property in an annual certification submitted to the Louisiana Property Assistance Agency (LPAA). Good internal control requires that adequate procedures be in place to ensure that the locations of all movable property items are monitored and updated frequently and that thorough periodic physical counts of property inventory be conducted. In addition, good internal control should ensure that movable property is properly safeguarded against loss or theft arising from unauthorized use and misappropriation.

During our tests of movable property, we noted that UMC's certification of annual property inventory dated June 15, 2007, identified unlocated movable property items totaling $1,308,683. Of that amount, items totaling $23,230 were removed from the property records because they were not located after three consecutive years. Of the unlocated property reported on UMC's physical inventory certification, the amount of unlocated computers and computer-related equipment totaled $554,114. The certification disclosed $22,045,472 in total movable property administered by UMC. Because of the high number of discrepancies, LPAA did not approve the 2007 certification of annual property inventory.

HCSD requires hospitals to submit an Asset Management Monthly Checklist. The monthly checklist requires a reconciliation of the American Appraisal Associates worksheet to the PeopleSoft accounting software and to Protégé, the statewide inventory system. UMC did not perform the monthly reconciliation from July 2007 to January 2008. The reconciliations are a key control to ensure that property is recorded timely and accurately in the statewide inventory system and assets are properly included in the financial statements.

EKLMC identified unlocated movable property items totaling $682,925 as a result of physical inventory procedures. Of that amount, items totaling $28,632 were removed from the property records because they had not been located for three consecutive years. Of the unlocated property reported on EKLMC's physical inventory certification, the amount of unlocated computers and computer-related equipment totaled $184,585. The certification of property inventory disclosed $20,353,670 in total movable property administered by EKLMC. EKLMC submitted its annual certification of property inventory to LPAA on May 30, 2008.

On May 30, 2008, MCLNO reported unlocated movable property items with an original cost of $4,876,324 as a result of its physical inventory procedures. Of that amount, items totaling $1,277,262 were removed from the property records because they had not been located for three consecutive years. Of the unlocated property reported on MCLNO's physical inventory certification, the amount of unlocated computers and computer-related equipment totaled $681,217. The certification of property inventory disclosed $76,070,432 in total movable property administered by MCLNO.

Although MCLNO is making improvements in locating previously unlocated assets, the amount of unlocated assets still represents a significant amount mainly because of the impact of Hurricane Katrina. The extensive flood damage particularly to the main campus created hazardous environmental conditions and the lack of electrical power hampered efforts to locate movable property items. The efforts to reestablish healthcare services after the hurricane resulted in many items being transferred to other hospitals and clinics where these items could be used to provide healthcare. This movement posed additional problems in accurately locating and reporting movable property as cost center managers were not available to prepare the necessary transfer or delete forms. In addition, MCLNO continues to have high turnover in its Property Manager position.

Failure to establish adequate controls over movable property increases the risk of loss arising from unauthorized use of property and subjects the hospitals to noncompliance with state laws and regulations. Because of the nature of the services provided by the hospitals, 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 compliance with internal policies and state laws and regulations; adequately secure and monitor movable property; and conduct timely, accurate physical inventories. Management should devote additional efforts to locating movable property items reported as unlocated in previous years. In addition, management should ensure that monthly reconciliations between property systems are performed timely and accurately. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 5-7).

Inadequate Control Over Financial Class Determinations

For the fourth consecutive year, EKLMC failed to require and maintain adequate documentation to support “free-care” financial class determinations in accordance with HCSD policy. In addition, EKLMC failed to maintain adequate supporting documentation for financial class changes.

HCSD Policy 1503-00 requires the hospital to gather supporting documentation as part of the screening process to make a financial class determination. If the patient/guarantor has no income, he/she is to provide a notarized statement indicating financial status witnessed by an individual not related to the patient/guarantor. In addition, HCSD policy requires that all admission forms, including screening documentation, be kept and maintained. HCSD Policy 2525-07 requires patients to provide supporting documentation to the hospital to support a “free-care” determination. If the patient does not have the information available at registration, he/she is allowed to pay a nonrefundable deposit and is allowed 10 days to provide the information to be evaluated for “free-care” eligibility.

In determining "free-care" eligibility, HCSD Policy 2525-07 defines a "family unit" as any group of individuals related by blood, marriage, adoption, or resident, whose income can be legally applied to the patient's medical expenses. The policy requires any family unit whose gross income is greater than 200% of the Federal Poverty Income Guidelines to be responsible for the full amount of the charges for medical services. In addition, EKLMC's policy on financial class changes requires persons authorized to assign a financial class or change a financial class to verify all current and historical documentation to ensure the proper financial class assignment.

In a review of 24 "free-care" patient accounts, the following were noted:

- One (4%), who was an EKLMC employee, reported gross income greater than 200% of the Federal Poverty Income Guidelines.

- One (4%), who was an EKLMC employee, did not have income documentation to support the financial class determination. Income documentation was obtained from the Human Resources department, and the income documentation indicated that the employee's gross income was greater than 200% of the Federal Poverty Income Guidelines and the employee had health insurance.

This lack of adequate supporting documentation to support the "free-care" determination indicates these patients should have been classed as "self-pay" and received a bill rather than being classed as "free-care" where no bill is generated.

In a review of 15 financial class changes, the following were noted:

- Two (13%) did not provide all of the required information to be evaluated as "free-care."

- One (7%) did not provide all of the required information to be evaluated as "free-care" within the allowable 10-day period.

These errors occurred because the hospital has not implemented adequate procedures to ensure compliance with system policies regarding the review and maintenance of supporting documentation for financial class determinations and financial class changes. Failure to require and maintain adequate documentation to support financial class determinations and changes subjects the hospital to noncompliance with HCSD policies and could cause improper billing of patient accounts and excess administrative time to detect and correct errors.

Management should implement procedures to ensure compliance with HCSD policies that require adequate supporting documentation be reviewed and maintained to support "free-care" financial class determinations. In addition, management should implement procedures to ensure compliance with its policy on financial class changes. Management concurred in part with the finding and outlined a plan of corrective action. Management noted that EKLMC was not given ample opportunity to implement and monitor corrective actions before the fiscal year 2008 procedures were performed (see Appendix A, pages 8-10).

Additional Comments: For four consecutive years, a finding regarding financial class determinations at EKLMC has been reported. The initial finding was identified in fiscal year 2005 and reported in a management letter issued on April 19, 2006.

Inadequate Controls Over Patient Charges

For the second consecutive year, EKLMC incorrectly posted and billed medical charges on patient accounts and did not timely input charges in the billing system. Good accounting controls would require adequate supervision and review over input of patient charges to ensure accurate posting of charges and to prevent duplicate postings. In addition, good accounting controls would require that patient charges be input in the billing system within a standard billing cycle, usually 30 days, after the discharge of the patient.

The following were noted:

- One (8%) of 13 patient bills tested had duplicate patient charges totaling $169.

- One (3%) of 35 patient bills tested was incorrectly billed as "free-care" totaling $456.

- Three (6%) of 50 patient bills tested were overcharged totaling $88.

- Thirty-seven (14%) of 258 patient charges were not posted timely in the billing system until 44 to 284 days after the date of discharge, for an average of 99 days.

These errors occurred because the hospital failed to implement adequate procedures to ensure all patient charges are accurately posted in the billing system in a timely manner. Failure to accurately input charges in the billing system in a timely manner could cause improper billing of patient accounts and excess administrative time to detect and correct errors.

Management of EKLMC should implement procedures to ensure all charges are accurately posted to the patients' accounts within 30 days of the discharge date of the patients. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 11-15).

Inadequate Controls Over Consumable Inventory

For the third consecutive audit, MCLNO has failed to maintain adequate control over its consumable inventories valued at $8,875,982 at June 30, 2008. Also, for the third consecutive audit, UMC has weaknesses in its controls over consumable inventory. A proper system of internal control over inventory should include procedures to ensure that inventories are safeguarded and that inventory losses, should they occur, are detected in a short period of time by normal business procedures. A perpetual inventory system is generally regarded as an acceptable method of controlling inventory and safeguarding assets. Use of a perpetual inventory system allows an entity to record the receipt of goods at the time of purchase and the issuance of goods as they are withdrawn for use. A count of goods on hand should agree to the balance in the inventory system and discrepancies should be investigated to determine if losses are due to theft or fraud.

MCLNO's Warehouse Department, with a total inventory of $5,280,907 at June 30, 2008, is the only department that is on a perpetual inventory system (PeopleSoft). MCLNO has a high volume of inventory transactions, yet management did not perform periodic physical counts throughout the fiscal year to ensure the perpetual inventory system was working properly. Of the 62 warehouse inventory items tested totaling $160,398, 49 items (79%) totaling $41,831 did not match the inventory amounts recorded in the PeopleSoft system.

Procedures performed on UMC's inventory system disclosed the following deficiencies:

- Although the Supplies Processing Distribution (SPD) Department converted to a perpetual inventory system in September 2007, a physical count of 25 items disclosed that seven items (28%) did not agree to the amounts shown in the perpetual inventory system.

- A physical count of 20 items disclosed that six items (30%) did not agree to the amounts shown in the perpetual inventory system for the Warehouse Department.

Failure to implement adequate procedures over consumable inventories increases the risk of inaccurate accounting and reporting of consumable inventory, as well as the risk of fraud and the losses remaining undetected.

Management should perform periodic physical test counts and reconcile them to the perpetual inventory system to ensure that the system is functioning properly. Management should establish control procedures to ensure that inventory is adequately safeguarded, valued, and recorded. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 16-19).

Misappropriation of Funds

LKRMC identified a misappropriation of processing fees of the Medicine Procurement Program (MPP). R.S. 14:67 defines theft as 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. The medical center immediately requested an internal audit by HCSD Internal Audit.

HCSD Internal Audit determined that between March 1, 2006, and January 16, 2007, MPP processing fees totaling $35,436 were allegedly stolen by an employee. LKRMC notified the Louisiana Legislative Auditor of the misappropriation on February 8, 2007, turned over its investigation of the stolen funds to the Tangipahoa Parish District Attorney's Office, and is seeking restitution. The employee was terminated, arrested by the Tangipahoa Parish Sheriff's Department, and arraigned in the District Court for Tangipahoa Parish on November 17, 2007. LKRMC staff dedicated significant time and effort to the extraction of data from the pharmacy logs and their actions kept critical original documents from being destroyed. LKRMC management, in coordination with HCSD Internal Audit, has developed comprehensive policies and procedures to strengthen controls to prevent future thefts.

LKRMC should continue to seek improvements in its controls over MPP processing fees and should seek full restitution from the former employee. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 20).

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

This letter is intended for the information and use of the division and its management, others within the division, the LSU System, the LSU Board of Supervisors, 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 letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

CP:BH:EFS:PEP:dl

HCSD08

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

February 3, 2009

Mr. Steve J. Theriot, CPA
Legislative Auditor
Office of the Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Legislative Audit Finding
Inadequate Control Over Financial Reporting
LSU Health Care Services Division
Fiscal Year Ended June 30, 2008

Dear Mr. Theriot:

The LSU Health Care Services Division (HCSD) concurs in part with the referenced audit finding. We concur that there were some errors and adjustments necessary in the HCSD FY2008 Financial Statements. We do not agree that we have inadequate control over our annual financial reporting process in general. As evidence of the due diligence and the processing in place, HCSD utilizes an annual close schedule and an Annual Financial Report (AFR) checklist which provide evidence that there is a logical, managed process for the preparation and submission of the AFR.

The HCSD consists of eight separate entities. Separate financial statements are prepared for each entity and then consolidated at the HCSD level. The HCSD consolidated AFR is then combined with those of the LSU Health Sciences Center-New Orleans (HSC-NO) and its affiliated organizations, which is subsequently submitted to the LSU System's Office and combined with all LSU campuses. Due to these multi-level consolidations, the HCSD generally submits its consolidated AFR to HSC-NO approximately three weeks prior to the Office of Statewide Reporting and Accounting Policy (OSRAP) due date for Colleges and Universities, and HSC-NO submits its AFR approximately one week later, as do the other LSU campuses. The total LSU System report is not final until submitted to OSRAP.

As a courtesy, the HCSD has traditionally provided an advance copy of the AFR to the Office of the Legislative Auditor (OLA) at the same time the report is submitted to HSC New Orleans. Because some entries/balances may not be finalized until elimination/consolidation entries take effect at the HSC-NO or LSU Systems Office level, the copies provided to the OLA are essentially in draft form. Additionally, early submission of the AFR to HSC a full week prior to other campus deadlines limits the available time for more in-depth review. It will be prudent in the future for HCSD to delay distribution of our financial statements to the OLA staff until the

OSRAP due date in order to affect additional quality review and validation. This will allow additional time to correct any errors that may have occurred prior to the date when the draft copies are submitted to HSC and the official submission date.

Inherent in the preparation process for the FYE June 30, 2008 AFR, there were numerous extenuating circumstances that affected the process.

- The required blending of two foundation financial statements for the first time in FY2008 was a contributing factor to the audit exceptions cited. The Health Care Services Foundation was not timely with their audited financial statements for the HCS Foundation or the BCMC Foundation. The MCL Foundation was not required to be reported in HCSD's AFR, but was also not timely with their audited financial statements to allow the auditors the opportunity to test in accordance with GASB's 14 and 39. As of this response, all three of these foundation financial statements remain outstanding issues.

- The transfer of Huey P. Long Medical Center from HCSD to LSU HSC-Shreveport and removal from HCSD's AFR required additional year-end transactions that were not typical to other year ends.

- Continuity of audit staff was also a contributing factor to the difficulty encountered during this audit period and financial statement cycle. During the course of the FY 2008 audit, no less than four (4) senior auditors cycled through our agency which caused excessive time to familiarize them with our operations and repeated coverage of the same activity and background.

While HCSD concurs that the referenced errors were made, we believe that none of the errors cited in the audit finding were significant in relation to the total agency activity. None of the errors constituted significant misreported financial data and undetected errors or fraud. Specific comments about each exception cited are outlined below:

- The current/noncurrent liabilities for compensated absences error was caused by an idiosyncrasy in Excel's average formula function. Furthermore, since the current portion of compensated absences is an *estimate* and cannot be precisely calculated, since the difference of $186,225 was not material or significant, and since the error had no effect on the total liabilities reported on the AFR, HCSD did not agree to make the audit adjustment. This error occurred at MCLNO due to the fact that for the past three fiscal years, the termination pay that was used in their formula to determine the current portion varied significantly each year due to the downsizing and restoration of services over this time. The calculation was reviewed, but because the amount fluctuated significantly over the past three years, it did not appear to be an unreasonable variance.

- The referenced $48,944 on the capital assets note was a misclassification between the equipment and building lines. Revised financial statements issued by one of the foundations and the new blending requirement contributed to this error. The change was not detected because of its insignificance and the fact that it did not affect the total capital assets reported in the statements or in the note disclosure.

- The referenced $4,977,075 on the capital assets note is the result of not reporting the transfer of the Huey P. Long Medical Center (HPLMC) to LSU-Shreveport as of July 1, 2007 in the beginning balance column and eliminating them in the prior period adjustment column. The restated FY2007 column and the ending Note E balance as reported in the AFR was correctly stated and balanced to the financial statements.

- The $2,461,424 long-term liabilities note error was part of the new foundation blending process. One of the foundations had a capital lease and a note payable at June 30, 2007 that was paid out during FY2008. These liabilities were not included in the beginning balance column and removed in the reduction column. However, the ending balance in the long-term liabilities note was correctly stated and balanced to the statements.

- The cash flow error involves reporting the net of the purchases of capital assets and principal paid on capital debt amount on one line instead of on separate lines within the same section of the cash flow statement. While the $27,585,405 amount seems significant, it did not impact the total amount of net cash used by capital financing activities.

In order to further strengthen quality control measures, the following actions are planned by HCSD Finance Management:

- Contract with a CPA firm to modify the cash flow template for HCSD and build the template in the financial accounting system to map activity by account code to each line in the cash flow template.

- Strengthen the annual check list for specific procedures and review activity.

- Re-evaluate the date wherein HCSD Finance Staff releases the AFR to the Legislative Auditor taking into consideration the official submission date established by OSRAP. This action will provide additional quality review procedures at the HCSD level, the HSC-NO level, and the LSU System level.

In conclusion, as mentioned above, we agree that the errors cited did occur. However, none of the items mentioned affected the bottom line of any of the financial statements. We do not feel that the impact as described above in our specific comments about each cited exception is significant.

The staff members responsible for the corrective actions cited above and available for discussion on these issues include, Clay Dunaway, HCSD Chief Financial Officer, Art Landry Director of Finance and Judy Albin, HCSD Comptroller.

Please contact me should you have additional questions or need further clarifications.

Sincerely,

Michael K. Butler, MD, MHA, CPE, FACPE
Acting Chief Executive Officer

Louisiana State University System
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Office of the Executive Vice President

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February 19, 2009

Mr. Steve J. Theriot, CPA
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Re: Audit Finding - Energy Efficiency Contract Contrary to State Law

Dear Mr. Theriot:

On Tuesday, February 17, 2009 the LSU System received final audit findings from your office relative to performance-based energy efficiency contracts that several LSU System Institutions have entered into with Johnson Controls, Inc. (JCI). Specifically, the University of New Orleans, Louisiana State University, Louisiana State University Health Sciences Center Shreveport, University Medical Center and Lallie Kemp Medical Center received audit findings related to contracts with JCI.

The findings state that the agreements "include stipulated savings and therefore do not comply with state laws" because the operational savings are not verified or measured, and, as such, the savings truly guaranteed under the contract are less than the cost of the contract.

In the findings for these facilities, it is stated that "management should revise its energy efficiency contracts to ensure that savings components are verifiable and that the guaranteed savings have been realized."

Your office has requested an official response to the audit findings. Based upon a review of available contract documents, the LSU System concurs with these findings in that it appears that the savings under these contracts are not truly guaranteed as required by Louisiana law. In response to these findings, the LSU System is fully investigating this matter. The LSU System institutions are unable to unilaterally revise or amend the contracts to comply with state law. As such, the LSU System is in the process of extensively reviewing each contract, discovering all facts relevant to the status of the contracts and preparing for litigation to remedy the situation by nullifying the agreements, forcing amendments to the agreements or recovering for breach of the agreements should this be determined to be the appropriate course of action.

We are unable to provide an anticipated completion date for the estimated resolution of these findings at this time as we are currently performing extensive reviews of the contracts and focusing ongoing efforts on determining the appropriate course of action.

Sincerely,

John Antolik
Assistant Vice President

cc: General Counsel P. Raymond Lamonica

LSU HEALTH SYSTEM
HEALTH CARE SERVICES DIVISION

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January 14, 2009

Mr. Steve J. Theriot, CPA
Legislative Auditor
Office of the Legislative Auditors
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Legislative Audit Finding
Un-located Movable Property
LSU Health Care Services Division
Medical Center of Louisiana at New Orleans (MCLNO),
Earl K. Long Medical Center, Baton Rouge LA (EKLMC)
University Medical Center, Lafayette LA (UMCLA)
Fiscal Year Ended June 30, 2008

Dear Mr. Theriot:

The Louisiana State University Health Care Services Division (HCSD) concurs with the referenced legislative audit finding.

All three hospitals have shown dramatic reductions in un-located inventory. In comparing the un-located assets in FY 2008 with those un-located in FY 2007, MCLNO had a 77% reduction, EKLMC a 50% reduction, and UMCLA a 90% reduction from the prior year amounts. While we fully agree that any loss is unacceptable, the systems put in place by the three hospitals as well as the greatly increased emphasis on asset control have obviously resulted in significant improvement in this area.

As the finding is based upon the total of the past three years worth of un-located property, not just the un-located property of fiscal year 2008 as mentioned above, the impact of Hurricane Katrina will continue to impact MCLNO. However, the progress made by this institution cannot be over emphasized. In 2008, the un-located asset for that year was only .9% of the total asset inventory. An asset tracking system has been installed with radio frequency infrared devices placed on beds and other frequently moved assets. This system continuously monitors and records the physical location of these assets. Monthly in-services and emails emphasize to everyone the importance of inventory control. Property management issues are also discussed in the monthly hospital directors' meeting. While HCSD acknowledges prior years turn over in the MCLNO property manager's position, currently the MCLNO property management department is fully staffed.

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LEGISLATIVE AUDIT FINDING
UN-LOCATED MOVABLE PROPERTY
JUNE 30, 2008

EKLMC has implemented an inventory bar code and scanning system. The inventory scanning system has allowed EKL to produce accurate inventory data and the process has helped in reducing un-located assets. New procedures have also been introduced by the IT Department to track computer repairs and transfers. EKLMC administration continues to emphasize to its staff the importance of safeguarding its property.

UMCLA, as well, continues to improve by emphasizing the importance of asset management. Evidence of this is the hiring of a full time asset manager. The other audit comment concerned the failure of UMCLA to file the Asset Management Monthly Checklist with LSUHSC-HCSD. This has been completely resolved as a Checklist has been filed timely for each of the first 5 months of fiscal year 2009.

The HCSD-Asset Management Staff will continue to review and validate the monthly reconciliations and reports submitted by each business unit and provide the necessary management support to each business unit as required.

In summary, while we acknowledge that our task is not complete, great progress has been made. Emphasis will continue to be made on asset management through better tracking methods and enforcement of our policies and procedures. HCSD-Asset Management Staff will monitor the progress of each business unit in completing their corrective action plan, as outlined on the attached monitoring plan.

The specific hospital's Property Manager, Chief Financial Officer, Administrator and the HCSD Financials Asset Manager, are responsible for follow up and adherence to the corrective actions already in place.

Please contact me should you have additional questions or need further clarifications.

Sincerely,

Michael K. Butler, MD, MHA, CPE, FACPE
Acting Chief Executive Officer

Attachment

Louisiana State University Health System – Health Care Services Division
Summary of Monitoring Roles and Responsibilities
For June 30, 2008 Legislative Audit Un-located Movable Property Finding

January 14, 2009

MCLNO Property Manager

- Send monthly emails to MCLNO staff updating the staff on property management issues.
- Participates in-service training for hospital personnel as part of the hospital's leadership training program.
- Attend the monthly hospital director's meeting to discuss property management issues.
- Report problem areas and issues to CFO and hospital management immediately.

EKLMC Property Manager

- In-service hospital staff on property control policies and procedures.
- Perform random movable property inventories on selected test assets.
- Work with department managers to resolve property issues.
- Report problem areas and issues to CFO and hospital management immediately.

UMCLA Property Manager

- Submit timely monthly reconciliation reports to HCSD-Asset Management.
- Report problem areas and issues to CFO and hospital management immediately.

HCSD Asset Management

- Review and validate monthly reconciliations and reports prepared by each business unit and provide a status report to the HCSD Director of Financial Services.
- Provide support to each business unit as required.
- Report failure to comply with the corrective action plans to HCDS Senior and Executive Management including but not limited to the specific hospital administrators and HCSD CFO.

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February 16, 2009

Steve J. Theriot, CPA
Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

RE: Single Audit Finding at Earl K. Long Medial Center
Inadequate Control Over Financial Class Determinations

Dear Mr. Theriot:

The Louisiana State University Health Care Services Division (HCSD) concurs in part with the referenced single audit finding for Earl K. Long Medical Center (EKLMC). HCSD Management would like to bring attention to the fact that the FY 2008 audit sampling was selected from a period prior to the issuance of the previous FY 2007 audit with a similar finding and feels that the hospital was not given ample opportunity to implement and monitor corrective actions before another audit was performed and the hospital cited for the same control deficiency.

Acknowledging the financial class errors identified, HCSD Management expects without delay for all patient accounts found to be classified as Free Care inappropriately or not to have supporting documentation be reclassified as Self-pay by the hospital and the patients will be billed accordingly, including the employees of EKLMC. In addition, HCSD Management requires that the EKLMC management notify the HCSD CEO upon completion of the required re-classifications. In a recent Internal Audit for EKLMC on inappropriate Free Care assignment HCSD Management's response and the corrective action plan are appropriate to submit as the response for this EKLMC single audit finding as follows:

- *Inaccuracies in Appropriate Free Care Financial Class Determination*

  Patient Financial Services revised the HCSD Admit/Registration and Financial Screening policy (#1503) on December 31, 2007 which included changes removing a previously required notarized statement and eliminated the burden of notary fees for patients with no income. The new requirement is an HCSD Standardized Statement of Support (*See Attachment A*) indicating the patient's residence and attesting to their financial status. The hospital staff taking the application must sign the form witnessing the patient's statement. The Admit Screening policy was revised again effective date December 31, 2008 and provides the hospitals with a standard Medically Indigent Care Request Information form (*See Attachment B*) which determines through one or

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more forms of income that a patient can qualify for Free Care ensuring the accuracy and appropriateness of financial class assignment during the registration process.

A new standardized Income and Insurance Attestation form (*See Attachment C*) will be introduced January 2009, and will be required to accompany all medically indigent applications. The form requires the applicant to attest to the fact that all reported income and insurance coverage information is complete and accurate.

HCSD Patient Financial Services also coordinates monthly video conference meetings with the hospital Admit Managers and provides ongoing guidance and understanding on the importance of accuracy in the financial class assignment by the Hospital Admit Technicians. The hospital Admit Managers are responsible for the weekly review and reporting of patients qualifying or re-qualifying for Medically Indigent eligibility. A standardized ad-hoc report has been created that will be used by the Admit Managers for their review (*See Attachment D*). The Admit Managers are also required to address any errors done by Hospital Admit Technicians.

The hospital Admit Managers' are responsible for reporting (*See Attachment E*) all weekly findings to the hospital CFO.

The hospital CFO will ensure corrective action is taken timely on all incomplete and/or inaccurate records including communicating any determined inaccuracies with other HCSD hospitals' CFO if the reviewing facility was not the screening facility.

In addition, the hospital Admit Managers are responsible for separately reporting (*See Attachment F*) to the hospital CFO on a monthly basis the total number of employee-patients with encounters classified as free care and the total with complete documentation. The required acceptable standard for complete documentation scanned into document imaging is 100% with a accuracy rate of the data collected not being lower than 90%. The hospital CFO is responsible for reviewing this process on a monthly basis and also is required to provide (*See Attachment G*) the Patient Financial Services Director the number of Medically Indigent employee-patients classified as medically indigent and the number that are determined to be screened and classified incorrectly and the corrective action taken by the hospital. The hospital Administrator and the HCSD CEO will be notified of instances when the hospital CFO fails to provide acceptable and timely results of their hospital's monthly data and actions.

- *Inaccurate Classification of Employee-patients with Health Insurance Coverage*

The HCSD Admit Screening policy (#1503) specifically addresses that any third party health insurance benefits (Medicare, Medicaid, Commercial Health Insurance Benefit Plans, Workers' Compensation, and Liability cases), provided by patients should be validated by the Hospital Admit Technician through the admit screening process. The hospital Patient Accounting process consists of the submission of claims and follow-up collection contacts to the health insurance plans captured at registration. When any inaccurate financial class and/or classification are recorded through the registration process and identified, they are communicated to the Admit Managers to take corrective actions in an effort to prevent future errors.

In addition, in November 2008, HCSD Patient Financial Services began collecting data to produce a monthly ad-hoc report (*See Attachment H*) which was made available via VPS on December 1. The hospitals were made aware that this ad-hoc was to be used as a monitoring resource to ensure that employee-patients are screened and classified appropriately, according to the HCSD Admit Screening Policy (#1503), as Medically Indigent. In addition, in mid-

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November the registration screen flows were enhanced with a 3 digit employer code to begin capturing standard employer codes for either LSU or LSU-HCSD hospitals.

The hospital Admit Managers and hospital CFOs were notified on November 12, 2008, via email of this report's availability and required hospital usage. The hospital CFOs are required, on a monthly basis, to provide the Patient Financial Services Director the number of Medically Indigent employee-patients classified as medically indigent and the number that are determined to be screened and classified incorrectly and the corrective action taken by the hospital. The hospital Administrator and the HCSD CEO will be notified of instances when the hospital CFO fails to provide the tabulation of their hospital's monthly data and actions.

The Admit Screening managers were reminded of these changes in their December video conference manager's meeting (ad-hoc generation and new employer codes) and the benefit of hospital's monitoring the reports and taking the necessary corrective action was emphasized. This Internal Audit finding and the HCSD corrective action plan will continue to be discussed at the monthly meetings during the fiscal year.

A summary of roles and responsibilities regarding the above processes and reporting requirements has been developed (*See Attachment I*).

Should you have any questions or need additional information, please contact Sue Tolbert, EKLMC Chief Financial Officer at (225)358-1004, Dr. Kathy Viator, EKLMC Hospital Administrator at (225)358-1002, Guy LaBauve, HCSD Patient Financial Services Director at (225)763-8537, or Art Landry, HCSD Director of Financial Services, at (225)922-1157.

Sincerely,

Michael K. Butler, MD, MHA, CPE, FACPE
Chief Executive Officer

Attachments:

A – HCSD Standardized Statement of Support
B – Medically Indigent Care Request Information Form
C – Medically Indigent Income and Insurance Attestation Form
D – Medically Indigent Patients' Qualifying or Re-qualifying Ad-hoc
E – Admitting Weekly Report of Patients Qualifying or Re-qualifying
F – Admitting Monthly Report of Employee-patients Screened
G – Hospital Monthly Report of Employee-patients Screened
H – Medically Indigent Employee-patients Screened Ad-hoc
I – Specific Roles and Responsibilities

cc: Clay Dunaway, HCSDA; Art Landry, HCSDA; Kathy Viator, EKLMC; Judy Albin, HCSDA; Sue Tolbert, EKLMC; Guy LaBauve, HCSDA

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February 16, 2009

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

RE: Single Audit Finance at Earl K. Long Medical Center
Inadequate Control Over Patient Charges

Dear Mr. Theriot:

The Louisiana State University Health Care Services Division (HCSD) concurs with the referenced single audit finding for Earl K. Long Medical Center (EKLMC). The single audit finding sample indicates minimal financial impact to EKLMC. However, HCSD Management expects EKLMC to ensure that all charges identified in this finding are corrected on the patient accounts. Any patient accounts affected by those charges found to be inappropriately posted will be corrected and appropriate adjustment bills or refunds will be processed. In addition, HCSD Management requires that the EKLMC management notify the HCSD CFO upon completion of the required corrections.

HCSD Management expects that all patient charges be posted to accounts accurately and prior to bill generation. Late charges or improperly posted charges expend unnecessarily additional billing resources and processing time. HCSD Patient Financial Services Management continues to provide all HCSD facilities with a monthly departmental "late charge" report (*See Attachment A*) for the hospitals to utilize in monitoring their individual department deficiencies as it relates to charge entry. EKLMC management must begin providing monthly action plans and progress status reports for reducing late charges to the HCSD CFO on a monthly basis. In addition, EKLMC is expected to begin devoting hospital charge audit staff to completing daily reviews of a representative sample accounts for charge accuracy and reporting a summary of results and corrective action plans to HCSD CFO on a monthly basis. Both processes should be performed in conjunction with internal department managers and directors involvement for ensuring that requirements for accuracy and timeliness of patient charges are met.

A summary of roles and responsibilities regarding the above processes and reporting requirements have been developed (*See Attachment B*).

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Should you have any questions or need additional information, please contact Sue Tolbert, EKLMC Chief Financial Officer at (225)358-1004, Dr. Kathy Viator, EKLMC Hospital Administrator at (225)358-1002, Guy LaBauve, HCSD Patient Financial Services Director at (225)763-8537, or Art Landry, HCSD Director of Financial Services, at (225)922-1157.

Sincerely,

Michael K. Butler, MD, MHA, CPE, FACPE
Chief Executive Officer

cc: Clay Dunaway, HCSDA
Kathy Viator, EKLMC
Sue Tolbert, EKLMC
Art Landry, HCSDA
Judy Albin, HCSDA
Guy LaBauve, HCSDA

Attachment A

LATE CHARGE SUMMARY
December, 2008
Earl K Long

Grouped Department	TOTAL QTY	TOTAL CHG AMT	LATE CHGS	LATE CHG AMT	% LATE QTY TO TOT QTY	% LATE AMT TO TOTAL AMT
Anesthesia	382	98985.66	28	3963.18	7.33%	4.00%
Angiography	14	22883.00	1	-1810.48	7.14%	7.91%
Audiology	120	18469.44	56	8836.16	46.67%	47.84%
Blood	556	121759.15	46	18749.85	8.27%	15.40%
Cardiology	1810	264662.13	24	1300.92	1.33%	0.49%
Cat Scan	1220	581104.22	20	5889.29	1.64%	1.01%
Cath Lab	45	70572.00	5	1036.52	11.11%	1.47%
Central Supply	39440	1187542.06	4618	61740.57	11.71%	5.20%
Clinic	12014	1162892.39	1964	205178.96	16.35%	17.64%
EEG/EMG	68	15290.16	17	3706.17	25.00%	24.24%
Emergency Department	6944	1419203.41	1457	243304.37	20.98%	17.14%
Endoscopy	94	129430.80	13	21938.20	13.83%	16.95%
Lab	48524	1787839.64	3596	214514.21	7.41%	12.00%
Labor & Delivery	665	327515.39	116	6725.01	17.44%	2.05%
MRI	272	262573.32	6	0.00	2.21%	0.00%
Nuclear Med	227	70921.66	8	0.00	3.52%	0.00%
Observation	8	1658.70	8	1658.70	100.00%	100.00%
Occupational Therapy	12	3170.46	12	3170.46	100.00%	100.00%
Oncology	3	1416.04	3	1416.04	100.00%	100.00%
One Day Stay	46	9441.60				
Pharmacy	56404	2655235.98	1410	-295376.14	2.50%	11.12%
Physical Therapy	338	19820.14	79	4510.41	23.37%	22.76%
Radiology	4323	529958.63	39	3928.91	0.90%	0.74%
Recovery	346	41555.80	10	162.80	2.89%	0.39%
Respiratory	1543	135527.86	18	-113.17	1.17%	0.08%
Speech Therapy	39	6845.48	30	5566.06	76.92%	81.31%
Surgery	311	785810.80	5	2925.60	1.61%	0.37%
Ultrasound	519	117741.93	16	3841.42	3.08%	3.26%
Summary	176287	11849827.85	13605	526764.02	7.72%	4.45%

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LATE CHARGE SUMMARY
December, 2008
EARL K LONG MEMORIAL HOSP

DEPT	DEPT DESCRIPTION	Outpatient Late Charge # Chgs	Outpatient Late Charge Chg Amt	Outpatient Late Charge Avg Days	Inpatient Late Charges # Chgs	Inpatient Late Charges Chg Amt	Inpatient Late Charges Avg Days	OP / IP TOTAL # Chgs	OP / IP TOTAL Chg Amt
153	Speech Therapy	29	5,457.94	10.93	1	108.12	1.00	30	5,566.06
154	Occupational Therapy	12	3,170.46	9.50	0	0.00	0.00	12	3,170.46
155	Physical Therapy	37	2,739.72	6.49	42	1,770.69	2.83	79	4,510.41
300	Pharmacy - Chemo Drugs	28	-312,153.26	63.04	0	0.00	0.00	28	-312,153.26
301	Pharmacy - Injections	309	2,944.08	25.22	84	8,153.57	31.00	393	11,097.65
302	Pharmacy - Misc	139	3,472.00	7.73	8	1,909.40	160.25	147	5,381.40
303	Pharmacy - IV Solution	13	-216.05	22.38	83	-7,581.25	7.77	96	-7,797.30
304	Pharmacy - Other	323	8,306.25	9.52	27	-596.50	25.33	350	7,709.75
306	Pharmacy - Self Admin Drugs	217	-1,838.54	35.93	170	2,503.48	31.97	387	664.94
309	Pharmacy - Self Admin Drugs	6	-590.32	127.00	3	311.00	27.67	9	-279.32
461	Emergency Room 1	1042	151,341.07	8.87	415	91,963.30	11.04	1457	243,304.37
468	Surgery (1)	2	6,853.60	33.50	3	-3,928.00	93.33	5	2,925.60
475	Labor & Delivery	75	9,174.22	8.63	41	-2,449.21	10.02	116	6,725.01
478	Audiology	23	3,781.02	11.87	33	5,055.14	6.79	56	8,836.16
480	Endoscopy 1	13	21,938.20	6.46	0	0.00	0.00	13	21,938.20
482	EEG/EMG	17	3,706.17	6.35	0	0.00	0.00	17	3,706.17
484	Cardiology	16	825.40	40.06	8	475.52	24.00	24	1,300.92
486	Anesthesia	23	3,529.66	11.35	5	433.52	55.20	28	3,963.18
541	Cath Lab	5	1,036.52	26.80	0	0.00	0.00	5	1,036.52
564	Lab (Pathology)	234	-2,121.84	31.62	88	5,435.92	62.50	322	3,314.08
565	Lab (Pathology)	1182	41,517.23	65.87	142	4,616.11	71.21	1324	46,133.34
566	Lab (Pathology)	268	12,409.62	7.60	7	296.35	14.14	275	12,705.97
567	Lab (Pathology)	69	944.23	28.17	27	573.13	115.85	96	1,517.36
568	Lab (Pathology)	576	84,666.35	17.30	445	19,341.23	29.87	1021	104,007.58
569	Lab (Pathology)	379	25,108.49	7.84	3	728.10	32.00	382	25,836.59
570	Lab (Pathology)	156	19,565.86	8.61	20	1,433.43	21.00	176	20,999.29
575	Blood	16	1,043.98	24.94	30	17,705.87	68.87	46	18,749.85
583	Clinic	115	52,629.85	7.86	0	0.00	0.00	115	52,629.85
627	Angiography (2) Charity	1	-1,810.48	26.00	0	0.00	0.00	1	-1,810.48
629	Ultrasound	13	2,881.63	38.62	3	959.79	54.33	16	3,841.42
630	Respiratory	11	-979.47	44.00	7	866.30	26.29	18	-113.17
631	MRI	3	-1,198.15	38.67	3	1,198.15	27.67	6	0.00
632	Nuclear Med	5	-674.56	22.60	3	674.56	24.00	8	0.00
633	Cat Scan	20	5,889.29	61.30	0	0.00	0.00	20	5,889.29
634	Radiology	35	3,522.79	18.43	4	406.12	10.00	39	3,928.91
637	Oncology	3	1,416.04	827.00	0	0.00	0.00	3	1,416.04
669	Central Supply - Med Surg	3804	41,068.30	7.64	440	5,602.63	24.45	4244	46,670.93
671	Central Supply - Ortho	49	2,178.54	6.20	2	36.98	4.00	51	2,215.52
672	Central Supply - Solutions	153	1,017.89	8.82	28	166.67	67.36	181	1,184.56
673	Central Supply - Surgery	53	3,669.99	12.47	18	6,731.57	61.39	71	10,401.56
674	Central Supply - Sutures	59	625.49	9.07	10	-49.17	22.50	69	576.32
675	Central Supply - Med Dev	1	61.68	5.00	1	630.00	1.00	2	691.68
716	Recovery	7	254.80	14.43	3	-92.00	91.67	10	162.80
730	Clinic Eye	37	9,679.86	7.95	0	0.00	0.00	37	9,679.86
733	Clinic Dermatology	10	1,675.00	27.30	0	0.00	0.00	10	1,675.00
737	Clinic OB/GYN	173	17,585.72	5.65	4	55.12	2.00	177	17,640.84
742	Clinic Podiatry	1	63.60	6.00	0	0.00	0.00	1	63.60
744	Clinic Infusion	120	21,634.60	6.93	7	1,742.58	70.14	127	23,377.18
746	Clinic Infectious Disease	160	4,760.46	13.92	1	121.90	31.00	161	4,882.36
747	Clinic Internal Medicine	293	14,400.06	12.09	1	74.20	15.00	294	14,474.26
749	Clinic Orthopedics	19	4,806.79	6.74	2	443.08	9.00	21	5,249.87
751	Clinic Pediatrics	410	28,427.35	6.93	0	0.00	0.00	410	28,427.35
757	Clinic Surgery	10	3,587.46	13.00	0	0.00	0.00	10	3,587.46
760	Clinic Wound Care	1	345.56	10.00	0	0.00	0.00	1	345.56
761	Clinic Family Practice (Hospital Based)	600	43,145.77	7.68	0	0.00	0.00	600	43,145.77
813	Observation/Ancil.	7	1,331.30	45.14	0	0.00	0.00	7	1,331.30
815	Observation/Ancil.	1	327.40	26.00	0	0.00	0.00	1	327.40
	--------T O T A L--------	11383	358,936.62	35.21	2222	167,827.40	25.36	13605	526,764.02

Attachment B

Summary of Monitoring Roles and Responsibilities For Patient Charge Controls

HCSD Patient Financial Services

- Provide monthly "late charge" reports summarized by individual department and department groupings for the hospital CFO to monitor department charge entry.

Hospital Charge Audit Staff

- Performs on-going daily quality reviews of a representative sample of patient encounters for charge accuracy taking corrective actions to resolve any inaccuracies.
- Weekly reports to CFO summarizing patient charging inaccuracies by department.
- Monthly reporting to CFO on status of patient charging corrective action plan.

Hospital Department

- Assist with on-going daily quality reviews of departments charging from previous day taking positive corrective actions to resolve.
- Monthly meets with CFO to review charging inaccuracies reported and review department corrective action plan progress.

Hospital CFO

- Review monthly "late charge" reports provided by HCSD Patient Financial Services for departments with high volume, high dollar, or trends of late charge processing.
- Review Hospital Charge Audit staff weekly/monthly reports to ensure that required performance standards are met by hospital and when necessary timely corrections occur.
- Meet monthly with hospital department management to review late charge and charge accuracy issues and progress on corrective action plans.
- Monthly reporting (by the 15th of the month) to hospital Administrator on the volume of inaccurate or late charges, ensuring an acceptable percentage of charge posting accuracy is met, and provides details of any corrective action taken by the hospital.

HCSD CFO

- Monitor monthly account corrections.
- Monitor monthly reduction action plans and late charges.
- Notify HCSD CEO of any deficiencies related to account corrections and Late Charge Reports.

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January 14, 2009

Mr. Steve J. Theriot, CPA
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P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Response to Legislative Auditor Findings
Inadequate Controls Over Consumable Inventory
LSU Health Care Services Division
Medical Center of Louisiana at New Orleans (MCLNO)
University Medical Center, Lafayette LA (UMCLA)

Dear Mr. Theriot:

The Louisiana State University Health Care Service Division (HCSD) concurs with the referenced audit findings.

In an effort to address this known deficiency and inaccuracies with its ongoing corrective action plan, HCSD conducted an inventory management seminar on October 14, 2008 in Baton Rouge in which 45 people from all HCSD business units, including six staff members from MCLNO and ten staff members from UMCLA. Also, HCSD Finance staff held a follow up meeting with the seminar participants on December 9, 2008 to get feedback about the seminar, and discuss how to more efficiently and effectively utilize the PeopleSoft Inventory Module tools to implement the concepts they learned at the seminar.

MCLNO has implemented the use of PeopleSoft materials stock requests (MSR) at the department level in one of their three PeopleSoft perpetual inventory business units (IBU) and is in the process of implementing the same functionality in the two central supply IBU's . HCSD Finance staff is working with UMCLA to transition from the use of web based stock requisitions at the departments, to the use of PeopleSoft MSR's at the department level.

Both MCLNO and UMCLA have also implemented the use of PeopleSoft Reorder Report and Outage Reports to monitor their need to re-stock inventory items thereby establishing stronger internal controls. The entering of MSR's in PeopleSoft at the department level as well as the use of PeopleSoft Reorder and Outage Reports will improve the timeliness of inventory transactions processing in the system and reduce count variances.

Both MCLNO and UMCLA will be required to count approximately 10% of their total active inventory items every month using either the location or family cycle count method. Any single counting event with a variance of 5% or greater on either dollar value or items will be required to

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JUNE 30, 2008

be recounted within seven days. These re-counts will not count towards the 10% of items to be counted monthly. This will ensure that all items will be cycle counted within a one year time frame.

Each item variance in a cycle count will be investigated to determine the cause of the variance. If a specific cause is immediately found the Materials Management Staff will detail the corrective action taken to ensure that the variance does not occur again. If no specific cause is immediately found the item will be flagged for monitoring which could include future cycle counts. The IBU manager will report the result of the counts and the corrective actions for the variances to HCSD Finance staff.

The Director of Materials Management and the Chief Financial Office at MCLNO, the Administrative Program Manager, the Chief Financial Office and the Hospital Administrator at UMCLA, and HCSD PeopleSoft Supply Chain Manager at HCSD, are responsible for follow up and adherence to the corrective actions already in place. See attached monitoring plan for roles and responsibilities.

Please contact me should you have additional questions or need further clarifications.

Sincerely,

Michael K. Butler, MD, MHA, CPE, FACPE
Acting Chief Executive Officer

Attachment

LSU HEALTH CARE SERVICES DIVISION • P. O. BOX 91308 • BATON ROUGE, LOUISIANA 70821-1308
PHONE: 225.922.0488 • FAX: 225.922.2259

LEGISLATIVE AUDIT FINDING
CONSUMABLE INVENTORY
CORRECTIVE ACTION PLAN
JUNE 30, 2008

Louisiana State University Health System – Health Care Services Division
Summary of Monitoring Roles and Responsibilities
For FY08 Legislative Audit Consumable Inventory Finding

January 14, 2009

MCLNO Materials/Inventory Manager

- Perform cycle count on approximately 10% of the total active items in each inventory business unit every month using either the location or family cycle count method. This will ensure that all items will be cycle counted within a one year time frame.
- Analyze and document the reasons for each item variance on a counting event, and the corrective action taken to prevent the variance in the future
- If the variance in a counting event is 5% or great, re-count the same items in the counting event within seven days. These re-counts will not count towards the 10% of items to be counted monthly.
- Report to CFO and HCSD Finance staff monthly on variances and the corrective actions taken on each counting event for the previous month.
- Participate in HCSD inventory managers/staff meetings and training
- Utilize the PS system Reorder Report and Outage Reports to monitor need to re-stock inventory items based on On-hand quantities.
- Implement entering of material stock request at the department level
- Report problem areas and issues to CFO and hospital management immediately.

MCLNO Chief Financial Officer

- Review the materials/inventory managers' reports monthly
- If necessary, issue new policies, or revise the existing policies to address the problems identified through the monthly cycle counts

UMCLA Administrative Program Manager

- Perform cycle count on approximately 10% of the total active items in each inventory business unit every month using either the location or family cycle count method. This will ensure that all items will be cycle counted within a one year time frame.
- Analyze and document the reasons for each item variance on a counting event, and the corrective action taken to prevent the variance in the future
- If the variance in a counting event is 5% or great, re-count the same items in the counting event within seven days. These re-counts will not count towards the 10% of items to be counted monthly.

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JUNE 30, 2008

- Report to CFO and HCSD Finance staff monthly on variances and the corrective actions taken on each counting event for the previous month.
- Participate in HCSD inventory managers/staff meetings and training
- Utilize the PS system Reorder Report and Outage Reports to monitor need to re-stock inventory items based on On-hand quantities.
- Implement entering of material stock request at the department level.
- Report problem areas and issues to CFO and hospital management immediately.

UMCLA Chief Financial Officer

- Review the materials/inventory managers' reports monthly
- If necessary, issue new policies, or revise the existing policies to address the problems identified through the monthly cycle counts

HCSD Finance Staff

- Review the materials/inventory managers' reports monthly
- Provide support and training to each business unit as required.
- Develop PeopleSoft reports, modifications and other tools to assist the facilities.
- Report failure to comply with the corrective action plan to HCSD Senior and Executive Management, including but not limited to the respective Hospital Administrator and HCSD Chief Financial Officer.

LSU HEALTH SYSTEM
HEALTH CARE SERVICES DIVISION

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• LEONARD J. CHABERT MEDICAL CENTER - HOUMA
• INTERIM LSU PUBLIC HOSPITAL - NEW ORLEANS
• UNIVERSITY MEDICAL CENTER - LAFAYETTE
• W.O. MOSS REGIONAL MEDICAL CENTER - LAKE CHARLES

January 14, 2009

Mr. Steve J. Theriot, CPA
Legislative Auditor
Office of the Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Legislative Audit Finding
Misappropriation of Funds
LSU Health Care Services Division
Lallie Kemp Regional Medical Center, Independence LA
Fiscal Year Ended June 30, 2008

Dear Mr. Theriot:

We concur with the referenced audit finding. Lallie Kemp Regional Medical Center identified the misappropriation of funds in February 2007 and took appropriate action to notify the Louisiana Legislative Auditor and turned over its investigation of the stolen funds to the Tangipahoa Parish District Attorney's Office, and is seeking restitution. LKRMC, in coordination with the LSU System Internal Audit, has developed comprehensive policies and procedures to strengthen controls to prevent future thefts.

The LKRMC Director of Ancillary Services was responsible for the corrective action plan and processes that were put in place to continuously monitor the actions within the pharmacy processing area.

Please contact me should you have additional questions or need further clarifications.

Sincerely,

Michael K. Butler, MD, MHA, CPE, FACPE
Acting Chief Executive Officer

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