

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



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MANAGEMENT LETTER  
ISSUED APRIL 19, 2006

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

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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. Eight copies of this public document were produced at an approximate cost of \$20.64. 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.lla.state.la.us](http://www.lla.state.la.us). When contacting the office, you may refer to Agency ID No. 5257 or Report ID No. 05303342 for additional information.

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



STEVE J. THERIOT, CPA  
LEGISLATIVE AUDITOR

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

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

March 30, 2006

**LOUISIANA STATE UNIVERSITY**  
**HEALTH SCIENCES CENTER -**  
**HEALTH CARE SERVICES DIVISION**  
**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, 2005, we considered the Louisiana State University Health Sciences Center (LSUHSC) - Health Care Services Division's (HCSO) internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested HCSO'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 HCSO'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 the HCSO's compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by United States Office of Management and Budget Circular A-133.

The annual financial information of the LSUHSC, which includes the activity of HCSO, is not audited or reviewed by us, and, accordingly, we do not express an opinion on that financial information. HCSO'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 HCSO, for the year ended June 30, 2004, we reported findings relating to noncompliance with the HIV Care Formula Grants program, internal control weaknesses over capital assets, internal control weaknesses over inventory, and inadequacies in controls over movable property. The findings related to noncompliance with the HIV Care Formula Grants program, internal control weaknesses over capital assets, and internal control weaknesses over inventory have been resolved by management. The finding related to inadequacies in controls over movable property has been partially resolved by management and is addressed in the finding on unlocated movable property 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* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2005.

### **Unlocated Movable Property**

The Medical Center of Louisiana at New Orleans (MCLNO) did not have adequate internal controls over movable property. MCLNO identified unlocated movable property items totaling \$3,251,897 as a result of physical inventory procedures. Of that amount, items totaling \$445,370 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 \$915,787. The certification of property inventory disclosed \$71,718,342 in total movable property administered by MCLNO. MCLNO submitted its annual certification of property inventory to the Louisiana Property Assistance Agency (LPAA) on May 13, 2005.

Louisiana Revised Statute 39:325 requires entities to conduct an annual property inventory of movable property and report any unlocated movable property to LPAA. Louisiana Administrative Code 34.VII.313 states, in part, that efforts must be made to locate all movable property items for which there are no explanations available for their disappearance. In addition, good internal control dictates that assets are properly monitored to safeguard against loss or theft and that thorough periodic physical counts of property inventory be conducted.

Failure to establish adequate controls over movable property increases the risk of loss arising from unauthorized use of property and subjects the division 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 procedures for conducting the physical inventory of movable property and devote additional efforts to locating movable property reported as unlocated in previous years for all hospitals and administration. Management concurred in part with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 1-2).

### **Inadequate Control Over Financial Class Determinations**

Earl K. Long Medical Center (EKLMC) failed to require and maintain adequate documentation to support "free-care" financial class determinations in accordance with LSUHSC-HCSD policy and has failed to make timely financial class code changes when adequate supporting documentation is provided.

LSUHSC-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 guarantor. In addition, this policy requires that all admit forms, including screening documentation, be kept and maintained. LSUHSC-HCSD Policy 2525-05 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 addition, good internal control would require adequate documentation be maintained to support financial class determinations and that those determinations be input in the billing system in a timely fashion, within a standard billing cycle, usually 30 days, after the patient provides the documentation.

In a review of 47 “free-care” patient accounts (16 from the test of billings and 31 from the test of financial class code changes), we noted that although the Patient Identification Records (PIR) have comments input by Admit/Screening staff indicating the review of support for “free-care” eligibility, 31 (66%) did not have that supporting documentation maintained to support the “free-care” determination. In addition, the comments on the PIR indicated that 14 of those patients had not provided supporting documentation within the allowable 10-day period; therefore, those 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 43 patient accounts (test of billings):

- One account (2%) was incorrectly coded as “free-care” when the patient should have been coded to “self-pay.”
- Six patients (14%) had provided a statement of no income; however, it was not notarized and/or witnessed in accordance with the LSUHSC-HCSD policy and therefore should not have been accepted to support the “free-care” determination.

In a review of 31 financial class code changes, 17 (55%) were not input into the billing system until over 30 days after the supporting documentation was provided by the patient.

These errors occurred because the hospital has failed to implement adequate procedures to ensure compliance with system policies regarding the review and maintenance of supporting documentation for financial class determinations and has failed to implement adequate procedures to ensure that adequately supported financial class code changes are made timely in the billing system.

Failure to require and maintain adequate documentation to support financial class determinations and failure to timely input financial class changes in the billing system subjects the hospital to noncompliance with LSUHSC-HCSD policies and could cause improper billing of patient accounts and excess administrative time to detect and correct errors.

Management should immediately implement procedures to ensure compliance with LSUHSC-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 that financial class code changes are made within 30 days of the patient supplying the required information. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 3-4).

**Noncompliance With the LaCarte Purchasing Card Policy and Approval Procedures**

The LSUHSC-HCSD did not comply with all policies and procedures established for the use of LaCarte procurement (credit) cards. The procurement cards were sometimes used by personnel other than the cardholder, and some items purchased were not properly approved. The LSUHSC's LaCarte Purchasing Card Policy and Procedures, section 3, and the Louisiana Statewide Purchasing Card Policy, section III(B)(1), state that the only person who is authorized to use the card is the cardholder. HCSD's procedures require that all purchases must be pre-approved by the Director of Human Resource Management. In addition, good internal controls require that all approvals be obtained before purchases are made. HCSD did not place significant emphasis on controls over LaCarte card purchases to ensure that purchases were properly approved or being made by the named cardholders.

In a test of 54 LaCarte Purchasing Card transactions, we noted the following:

- Twelve transactions (or 22%) were purchased by HCSD personnel other than the cardholder.
- Six transactions (or 11%) did not contain Director of Human Resource approval.
- Four transactions (or 7.5%) were approved after the purchase had taken place.

Failure to ensure that purchases are in compliance with the division's policies and procedures increases the risk of unauthorized and/or inappropriate purchases being made. Management should ensure that LaCarte Card purchases are only being made by cardholders and all purchases are properly approved before purchase. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 5).

**Failure to Report Misappropriations**

EKLMC failed to report the misappropriation of assets to the legislative auditor and the district attorney in accordance with state law and with LSUHSC-HCSD policy. Louisiana Revised Statute 24:523 requires an agency head to immediately notify the legislative auditor and district attorney, in writing, of the known misappropriation of public funds or assets. In addition, LSUHSC-HCSD Policy 2523-04 requires that known misappropriations also be reported to the Chief Executive Officer of LSUHSC-HCSD and to the Director of Internal Audit.

As a result of our inquiries of management, we found two incidents involving the misappropriation of assets at EKLMC that had not been reported as required by state law and LSUHSC-HCSD policy. These incidents involved a theft of \$1,725 in cash and a separate theft of \$1,720 in cash and movable property that occurred in June 2004 and December 2004, respectively.

Failure to report these misappropriations occurred because management has not implemented policies or procedures to ensure that all such incidents have been appropriately reported to the legislative auditor, the district attorney, and others as required. Failure to report such incidents subjects EKLMC to noncompliance with state law and LSUHSC-HCSD policy.

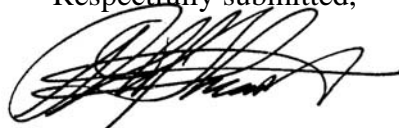
Management should design and implement policies and procedures to ensure that all misappropriations of assets are reported to the legislative auditor, the district attorney, and others as required by state law and LSUHSC-HCSD policy. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 6).

**Additional Comment:** An employee of EKLMC confessed to the theft of \$1,725 in cash, made full restitution, and was terminated by the hospital. Formal charges were not filed against the employee because of the confession and full restitution.

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 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

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[HCSD06]

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

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March 29, 2006

Steve J. Theriot, CPA  
Legislative Auditor  
Office of the Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

RE: Audit Finding: Unlocated Movable Property  
Fiscal Year Ended June 30, 2005

Dear Mr. Theriot:

The Louisiana State University Health Care Services Division (LSUHCS D) concurs in part with the referenced legislative audit finding for Medical Center of Louisiana at New Orleans (MCLNO). LSUHCS D offers the following comments regarding the finding:

1. While MCLNO has had problems with movable property in the past, the outcome of the FY2005 Certification of Annual Property Inventory is the result of the most comprehensive inventory performed at MCLNO. These results are the product of the implementation of strengthened procedures for conducting the physical inventory and heightened responsibility placed on the staff.
2. On May 13, 2005, MCLNO reported a cumulative discrepancy list to Louisiana Property Assistance Agency (LPAA) of \$3.2 million. The Certification of Annual Property Inventory was approved by LPAA as required by RS 39:325 and LAC 34.VII.313 on June 13, 2005. During inventory, MCLNO recovered previously reported discrepancies of 343 movable items at a cost of \$1.1 million. Since the approval of the Certification of Annual Property by LPAA, MCLNO has recovered an additional 53 movable items at a cost of \$216,638. MCLNO expects continued success in recovering and reporting of future discrepancies for the medical center.
3. It should be noted that during the recent disaster event (Hurricane Katrina), there were 1,452 movable property items destroyed with a cost of \$8,827,178. These items have subsequently been removed from LPAA records. Of these, 243 items at a cost of \$8,827,178 met the LSUHCS D capitalization threshold and were included in the Annual Financial Report at June 30, 2005; these items will be removed from Capital Assets in the AFR for the reporting period ended June 30, 2006.
4. After reviewing the \$915,787 of unlocated computers and computer related equipment, it has been determined that only \$322,725 of that amount represents actual computers that are capable of retaining sensitive information.
5. As demonstrated above, many unlocated assets were and will continue to be located. MCLNO Hospital Police staff all entrances of the facilities to ensure, among other things, that MCLNO property is not

improperly removed. Because of these facts, in our opinion, the actual exposure is less extensive than as presented in the referenced legislative audit finding.

In order to ensure that MCLNO is properly accounting for and safeguarding its movable property, the following steps will be taken.

1. MCLNO will continue with the strengthened procedures implemented for conducting the physical inventory. This is ongoing and working well to date.
2. MCLNO will continue communications with Hospital Police to secure facilities and equipment. This is ongoing and working well to date.
3. MCLNO will continue communications with Information Security and Property Management to ensure IT security procedures are strictly adhered to. This is ongoing and working well to date.

MCLNO actions to date have resulted in a movable property listing that is reflective of the true state of the inventory at the time it was taken. The current year discrepancy list is high, not because of a current lack of adequate safeguard, but because of prior year accumulated deficiencies.

Should you have any questions or need additional information, please contact Edward C. Burke, MCLNO Chief Financial Officer, Bruce Dyer, Comptroller, or Edmund J. Toscano, III, Property Accounting Director, all at MCLNO, at (504) 903-0813.

Sincerely,



Robert M. Plaisance  
Deputy Chief Executive Officer

March 29, 2006

Steve J. Theriot, CPA  
Legislative Auditor  
Office of the Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

RE: Audit Finding: Inadequate Control Over Financial Class Determination  
Fiscal Year Ended June 30, 2005

Dear Mr. Theriot:

The Louisiana State University Health Care Services Division (LSUHCS D) concurs with the referenced legislative audit finding for Earl K. Long Medical Center (EKLMC).

EKLMC will comply with LSUHCS D policies for Free Care Determination (2525-05) and the retention of the supporting documentation as stated in the Admit/Screening policy (1503-00). Corrective action began in December 2005 and the hospital is retaining all backup information for financial support of determining appropriate financial class.

LSUHCS D Central Office is currently reviewing the policy requirement that a patient/guarantor with no income provide a notarized statement indicating financial status witnessed by an individual not related to the guarantor. Until such time that the policy requirement can be re-evaluated and possibly revised, EKLMC will continue to request, collect and maintain documentation to support Free Care determinations.

In addition, if documentation existed on the Patient Identification Record of the 14 patients referenced in the audit finding as an exception to the 10 days stated in the policy, these cases should not be considered as non-compliant. EKLMC reasonably experiences patient situations where exceptions are necessary and allowed with account documentation of the reason for the extension.

Further, in an effort to strengthen the training and knowledge with their registration areas, EKLMC has recently hired an experienced Director of Registration. This individual will be expected to ensure that adequate procedures and processes are in place to appropriately determine Free Care classification and that financial class changes are completed timely.

It is essential that EKLMC complete daily audits of the Free Care determination accounts to assure that appropriate documentation exists and to scan the information into their data base on a daily basis.

Steve J. Theriot  
Response to Finding:  
Inadequate Control Over Financial Class Determination  
FYE 6/30/05  
Page 2

Should you have any questions or need additional information, please contact Sue Tolbert, EKLMC Chief Financial Officer at (225)358-1000; or Guy LaBauve, LSUHCSD Patient Financial Services Director or Art Landry, LSUHCSD Director of Financial Services, both at the LSUHCSD Central Office, at (225) 922-0488.

Sincerely,



Robert M. Plaisance  
Deputy Chief Executive Officer



BOGALUSA MEDICAL CENTER  
EARL K. LONG MEDICAL CENTER - BATON ROUGE  
HUEY P. LONG MEDICAL CENTER - ALEXANDRIA  
LALLIE KEMP REGIONAL MEDICAL CENTER - INDEPENDENCE  
L. J. CHABERT MEDICAL CENTER - HOUMA  
MEDICAL CENTER OF LA AT NEW ORLEANS  
UNIVERSITY MEDICAL CENTER - LAFAYETTE  
W. O. MOSS REGIONAL MEDICAL CENTER - LAKE CHARLES

March 29, 2006

Steve J. Theriot, CPA  
Legislative Auditor  
Office of the Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

RE: Audit Finding: Noncompliance with the LaCarte Purchasing Card Policy and Approval Procedures  
Fiscal Year Ended June 30, 2005

Dear Mr. Theriot:

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

LSUHCS D will reinforce compliance with its established LaCarte Purchasing Card policy and approval procedures. LSUHCS D recognizes that controls in this area need to be strengthened, and even though the infractions cited in this audit finding total less than \$2,500 the HCS D will take affirmative steps to insure that applicable employees are educated and counseled as to their respective responsibility in adhering to the use of the LaCarte Purchasing Card.

Should you have any questions or need additional information, please contact Michele McKee, Procurement Manager, or Joy Barnett, Director of Administrative & Support Service, at 225-922-0488, at the LSUHCS D Central Office.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert M. Plaisance". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Robert M. Plaisance  
Deputy Chief Executive Officer



BOGALUSA MEDICAL CENTER  
EARL K. LONG MEDICAL CENTER - BATON ROUGE  
HUEY P. LONG MEDICAL CENTER - ALEXANDRIA  
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W. O. MOSS REGIONAL MEDICAL CENTER - LAKE CHARLES

March 29, 2006

Steve J. Theriot, CPA  
Legislative Auditor  
Office of the Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

RE: Audit Finding: Failure to Report Misappropriations  
Fiscal Year Ended June 30, 2005

Dear Mr. Theriot:

The Louisiana State University Health Care Services Division (LSUHCSO) concurs with the referenced legislative audit finding for Earl K. Long Medical Center (EKLMC).

EKLMC will comply with established LSUHCSO policy for Reporting Misappropriation of Funds (2523-04), which reinforces R.S. 24:523 requiring notification of the legislative auditor and district attorney of any known misappropriations of funds, and also requires the reporting of such misappropriations to LSUHCSO Central Office staff. EKLMC has implemented its own internal policies and procedures to ensure the EKLMC Chief Financial Officer is advised of any such incidents and the EKLMC CFO is charged with the responsibility of further notifying the Legislative Auditor, District Attorney, and LSUHCSO Central Office staff.

Should you have any questions or need additional information, please contact Sue Tolbert, EKLMC Chief Financial Officer at (225)358-1000; or Judy Albin, LSUHCSO Comptroller or Art Landry, LSUHCSO Director of Financial Services, both at the LSUHCSO Central Office, at (225) 922-0488.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert M. Plaisance".

Robert M. Plaisance  
Deputy Chief Executive Officer