STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Huey P. Long Medical Center
Health Care Services Division
Louisiana State University
Health Sciences Center
State of Louisiana
Pineville, Louisiana

June 18, 2003

Financial and Compliance Audit Division

LEGISLATIVE AUDIT ADVISORY COUNCIL

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HUEY P. LONG MEDICAL CENTER
HEALTH CARE SERVICES DIVISION
LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER
STATE OF LOUISIANA
Pineville, Louisiana

Management Letter
Dated May 20, 2003

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 Shreveport offices of the Legislative Auditor and at the office of the parish clerk of court.

June 18, 2003

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LEGISLATIVE AUDITOR
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May 20, 2003

HUEY P. LONG MEDICAL CENTER
HEALTH CARE SERVICES DIVISION
LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER
STATE OF LOUISIANA
Pineville, Louisiana

As a part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2003, we considered the Huey P. Long Medical Center's internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested the medical center'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*.

The annual financial information provided to the Louisiana State University System by the Huey P. Long Medical Center is not audited or reviewed by us, and, accordingly, we do not express an opinion on that information. The medical center's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

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

Inadequate Controls Over Billings and Collections

The Huey P. Long Medical Center does not have adequate controls in place to ensure that all charges for services rendered are timely and accurately recorded to the patients' accounts and that all cash receipts are properly reported by the outpatient pharmacy. A proper system of internal control over revenue should include procedures to ensure that charges are billed timely and accurately; receipts are completed for all payments received; reconciliations are performed; duties are adequately segregated; and an inventory system is maintained for pharmacy items. In addition, Health Care Services Division (HCSD) Policy 1504-02, Billing/Accounts Receivable Policy, Section I of Data Processing states that patient charges should be input within an average of five working days for inpatients and ten working days for outpatients.

During the testing of timeliness of posting charges for 15 patients, the following were noted:

- Fifty-two of the 156 charges (or 33%) were posted to the patients' accounts untimely. The amount of the untimely postings was $4,885 (or 41% of the total charges of $11,873). The posting delays ranged from 17 working days to 29 working days and only occurred on inpatient accounts.

- One of the patients did not have adequate documentation in her records to support the financial classification, which is used in the billing process.

During the testing of accuracy of billing for five patients, the following were noted:

- Two of the patients were not billed for all services provided. These services are estimated at $262.
- Three of the patients were billed for services that were not ordered and/or not received. The amount of these charges was $317.

During the review of outpatient pharmacy procedures, the following were noted:

- Receipts are not provided to patients unless they are requested by the patient. As a result, receipt slips cannot be reconciled to deposits.
- The cash register receipt identifies only one medication being dispensed per patient, although there might be multiple items. As a result, the daily cash register receipt cannot be reconciled to the log-in sheet signed by the patient to acknowledge receipt of the medication.
- Because all of the pharmacy staff (four pharmacists, three pharmacy technicians, and one clerk) are authorized to collect payments for medications dispensed, it is difficult to determine who is responsible when an error occurs.
- The pharmacy manager, who is authorized to collect payments, prepares the deposit and performs the daily reconciliation of the log-in sheets to the deposit. These reconciliations are not reviewed by another individual.
- Inventories are not maintained for the medications dispensed through the outpatient clinic.

Management should implement procedures necessary to ensure that all valid charges for services rendered are recorded timely to the patients' accounts in accordance with HCSD policy. In addition, management should implement procedures that provide for adequate segregation of duties, completion of receipts for all payments, reconciliations of cash receipts to medications dispensed, and an inventory of outpatient medications. Management concurred in part with the finding and stated that the problem of untimely inpatient charges was identified and corrective action was approximately 75%-80% complete at the time of the audit. Management also stated that the process of accumulating patient charges should be completely automated by October 2003 thereby reducing most errors in the accuracy of billings. Management concurred that receipts are not provided by the outpatient pharmacy to patients unless requested, but expressed that the receipt log that is maintained in the pharmacy is a good secondary source to validate cash collections. Management further expressed that it is not prudent because of staffing restrictions to limit collection duties to one employee or to provide each employee with a separate cash drawer and that the controls in place are acceptable. Management also stated that it does maintain an inventory of pharmacy items in compliance with the LSUHSC/HCSD Pharmacy Inventory Policy Number 9001-00 (see Appendix A, pages 1-3).

Additional Comments: Even though management had taken steps to correct untimely postings of charges, our test results show that approximately 33% of the postings were untimely. The receipt log referred to by management could be used as a substitute for receipts. However, the log is not currently reconciled to cash deposits. Although one employee closes out the cash drawer at the end of the day and a separate employee prepares the deposit, both employees may have entered transactions during the day and have the opportunity to conceal their errors. LSUHSC/HCSD Pharmacy Inventory Policy Number 9001-00 requires perpetual inventory records for controlled substances only. Since the outpatient pharmacy does not stock controlled substances, no perpetual inventory records are kept for any of the drugs dispensed by the pharmacy. Therefore, the hospital would not be able to ascertain if losses because of theft are occurring. We continue to believe it is reasonable and prudent to maintain an inventory of all drugs, not just controlled substances.

Inadequate Controls Over Capital Assets

The Huey P. Long Medical Center did not maintain adequate internal accounting control over capital assets as prescribed by the commissioner of administration and Louisiana law. Good internal control requires that adequate control procedures be in place to ensure that (1) the responsibilities related to capital assets are properly segregated; (2) appropriate supervision occurs, (3) the acquisition and valuation of capital assets are accurately reflected in the accounting records; (4) the amounts recorded in the financial statements for capital assets are materially correct; and (5) capital assets are properly safeguarded against loss.

During the review of controls, the following matters were noted:

- The property manager is responsible for tagging property items; entering and updating the property information into the Louisiana Property Assistance Agency (LPAA) system; disposing of property; reviewing the monthly reports generated from the LPAA system detailing the additions, deletions, and changes; performing the annual inventory of property; and preparing the annual inventory certification. To provide for an adequate segregation of duties, the property manager's work should be properly reviewed by her supervisor. However, we found that reviews of additions, deletions, and changes reported to LPAA included selective checks of transactions and/or selective checks of certain attributes of transactions. In addition, transactions entered in the LPAA system were validated using documentation prepared by the property control manager rather than an outside source, such as a purchase order or invoice. Also, the annual inventory certification is not reviewed by an individual who has not been involved in the inventory process. As a result, the supervisor did not note that the acquisition date for all property reflected in the LPAA records was actually the date the property was tagged rather than the date of acquisition or that the costs related to placing property into service, such as shipping cost, are not consistently included in the acquisition cost of the item into LPAA. Therefore, errors could occur and not be detected timely, the information entered into LPAA could be erroneous, or the annual inventory could be misstated.

- Reconciliations are not performed to ensure that the property additions, deletions, and changes recorded in the LPAA system are in agreement with those recorded in the American Appraisal system, which is used for financial statement purposes, including the calculation of depreciation. As a result, the capital assets and depreciation in the financial statement could be misstated. The amount of the unreconciled difference is $612,605.

- The England Authority property used by the medical center at the outpatient clinics is not inventoried on an annual basis. The medical center is responsible for reimbursing the Authority for any missing items upon the termination of its lease with the Authority. Since the property manager has not routinely communicated to the medical center's management the discrepancies noted in the years the inventory has been audited, management is unaware of the extent of the medical center's liability to the England Authority for the missing items.

These errors occurred because the reviews performed by the individual supervising the property control manager were not sufficient to detect errors and management was not aware that reconciliations between the various information systems have not been performed. Failure to identify, record, and locate all capital assets could result in their

HUEY P. LONG MEDICAL CENTER
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Management Letter, Dated May 20, 2003

misstatement in the financial statements and exposes the medical center to possible loss, theft, and misuse of its assets.

The medical center should ensure that adequate internal accounting control over capital assets is maintained. Management concurred with that portion of the finding concerning the lack of reconciliation of capital assets recorded in LPAA to the American Appraisal system, but disagrees that segregation of duties is not adequate and that the inventory practices related to the England Authority property are not adequate. Management maintains that the property control function is adequately reviewed and that the value of unlocated property belonging to the England Authority is insignificant (see Appendix A, pages 4-6).

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

This letter is intended for the information and use of the medical center and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Grover C. Austin, CPA
First Assistant Legislative Auditor

ALE:MWB:PEP:ss

[HPLMC03]

Appendix A

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

LSU Health Sciences Center
HEALTH CARE SERVICES DIVISION
Huey P. Long Medical Center

School of Medicine in New Orleans
School of Medicine in Shreveport
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
Health Care Services Division

May 16, 2003

Margaret W. Bumm, CPA
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Ms. Bumm:

Pursuant to your request, please find attached HPLMC's responses related to the following audit findings as a result of your audit of Fiscal Years 2002 and 2003:

Inadequate Controls over Billings and Collections

If additional information is needed, please advise.

Sincerely,

James E. Morgan

James E. Morgan
Hospital Administrator

Nita Chambers

Nita Chambers
Chief Financial Officer

JEM/NSC/bd

Attachment

cc: Ken Laney
HCSD Office of Internal Audit

Please accept the following as HPLMC's official response to the audit finding as identified in your letter dated May 1, 2003.

Inadequate Controls over Billings and Collections:

While we concur improvements in this area can be made, systems of internal control are in place, receipts for payment are completed, reconciliations are performed, duties are adequately segregated and an annual inventory of pharmacy items is performed in compliance with established HCSD policy.

Timeliness of posting inpatient charges:

The accounts pulled and reviewed by the auditor fell during a period of time when the inpatient data entry employee had fallen behind in duties of keying charges. Due to staff shortages and the anticipation of implementing front-end charge entry in all areas of hospital service, the Data Processing Department was disbanded and the employees were disbursed to other understaffed areas. Each employee maintained data entry duties (ranging from 40% to 65% of employee's workload) and was to continue these duties until front-end charge entry was implemented in the respective area were the charges originated. The data entry employee responsible for inpatient charges was reassigned to Medical Records. When it was discovered that the inpatient charge entry was behind, the employee's Medical Records related duties were pulled, charge entry was caught up and the employee was reassigned for closer supervision. At the time of audit this problem had already been identified by Management, an action plan had been implemented and was approximately 75-80% complete. Currently we are current with the entry of these charges.

Accuracy of billing:

The process of accumulating numerous charges from various service areas to a patient bill both timely and with complete accuracy is one of the most challenging and evolving processes of hospital patient accounting. The two key points in the process to impact accuracy of billed charges are first at the point of "charge capture" and then again at the conclusion of the process through bill/chart audit review.

The more automated the process of charge capture at the point the service is rendered the less chance for error and the greater the ability to insure that all services/supplies rendered/used are billed and billed accurately. During the current fiscal year, HPL has installed and implemented automated medication dispensing units on all inpatient units. In order for the nursing staff to dispense ordered medications to a patient, the required patient information is entered in the machine and the charge is captured and transmitted electronically to the patient bill. The last phase to complete the automation of all inpatient charges for HPL is the implementation of the "Orders" module of the Seimens Patient Accounting System. Work has begun on this project and the estimated date for completion is October 2003.

The next most productive method of insuring accurate billing is to randomly audit the bills. This is done through a multidisciplinary group of hospital staff, reviewing a bill and patient chart for accuracy and completeness of all charges appearing on the patient bill. This has always been done at HPL; however, when a Compliance Department was initiated in early 2001, policies and procedures for "Chart Billing Audit" were introduced and the Compliance Department took on the responsibility for this function.

As in the past, we will continue to review, monitor and develop methods to improve and expedite this process with the goal of producing timely and accurate patient bills.

Outpatient Pharmacy procedures:

Receipts are not provided to patients unless requested, but a receipt log is maintained. Each patient receiving medication signs the log acknowledging they have received the indicated prescription(s) and have made the payment as noted on the log. This log provides a secondary source to validate the cash collections and deposit for that day's transactions. Pharmacy staff only validates the register tape and deposit to the log on a random basis. We will explore the feasibility of having the Fiscal Accounting staff perform a daily reconciliation of the log to the deposit.

The cash register receipt captures information that identifies the employee completing the transaction and the prescription number of one of the prescriptions dispensed in the transaction. The prescription number for that patient can be looked up in the Pharmacy computer system to identify and trace all prescriptions filled for that patient in the transaction. In order to strengthen existing controls we will develop a process and procedure for the Fiscal Accounting staff to do a monthly analytical review type of reconciliation of filled prescriptions as recorded in the Pharmacy computer system to the dispensed prescriptions as recorded on cash register tapes and monthly deposits.

A procedure is in place to capture the identity of the employee completing each cash transaction. Due to staff levels, staff configurations, transaction volume and physical space limitations it is not prudent to limit collection duties to one employee and or provide each employee with a register/cash drawer to work from. Based on other controls in place and the cost (either in manpower or capital) associated with limiting collection, management has determined the risk of loss associated with the existing process is at an acceptable level and no change is warranted.

The pharmacy manager and all staff pharmacist are authorized to collect payments and prepare the deposit. However, a technician or clerk counts down and closes out the register at the end of the day and runs all register reports. This is turned over to a pharmacist who verifies, reconciles and prepares the deposit. The cash, the register summary tape and a "cash over/short" report prepared by the pharmacist is sent to accounting for review and deposit. There is adequate segregation of duties for closing the register, preparing the deposit and making the deposit. As stated above we will implement monthly analytical review procedures performed by Fiscal Accounting staff to enhance existing controls.

The outpatient pharmacy does maintain an inventory of items in compliance with the LSUHSC/HCSD Pharmacy Inventory Policy Number 9001-00. This policy and related procedures provide adequate accounting for the pharmacy inventory in a way that will not be labor or cost intensive. The policy requires physical inventory counts annually at the end of the fiscal year. Perpetual inventories are required for all controlled substances. The outpatient pharmacy does not handle or stock controlled substances.

The outpatient pharmacy does have written policies and procedures that will be modified to reflect the additional control processes we develop.

LSU Health Sciences Center
HEALTH CARE SERVICES DIVISION
Huey P. Long Medical Center

School of Medicine in New Orleans
School of Medicine in Shreveport
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
Health Care Services Division

May 2, 2003

Margaret W. Bumm, CPA
1600 North Third Street
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Ms. Bumm:

Pursuant to your request, please find attached HPLMC's responses related to the following audit findings sited as a result of your audit of Fiscal Years 2002 and 2003:

Inadequate Controls over Capital Assets

If additional information is needed, please advise.

Sincerely,

James E. Morgan

James E. Morgan
Hospital Administrator

Nita Chambers

Nita Chambers
Chief Financial Officer

JEM/nsc
Attachment
cc: Ken Laney
HCSD Office of Internal Audit

Huey P. Long Medical Center • 352 Hospital Blvd • P. O. Box 5352 • Pineville, Louisiana 71361-5352
phone (318) 448-0811 www.lsuhsc.edu

Please accept the following as HPLMC's official response to the audit finding as identified in your letter dated April 7, 2003.

Inadequate Controls over Capital Assets:

We concur in part with this finding, but only as it relates to the need for reconciliation of the LPAA system with the American Appraisal system. Legislative auditors have already identified this issue during the audit of LSU-HSC-HCSD. The finding was addressed and corrective action was proposed and initiated by HCSD prior to any fieldwork being performed at HPLMC.

We *do not agree* that this finding is supported or justified by the auditor's assessment of inadequate supervision and/or lack of segregation of duties within the property management department. While the single incumbent position of property manager does perform all duties sited in the audit finding, various employees from different departments participate in the process of acquisition, receipt and disposal of property from inception to conclusion of the transaction. Thus we feel there is more than adequate segregation of duties in place to provide the necessary level of control over hospital property transactions. The supervisor performs random (not selective) checks on the property manager's documentation of duties associated with recording additions/deletions/changes in the LPAA property record system. A reconciliation of general ledger capital acquisition accounts to the LPAA property record is performed monthly and annually by property staff in conjunction with general ledger staff. It is our position, that the processes and procedures in place as documented through policy are appropriate and adequate for preventing errors and/or for the timely detection of any possible errors related to the recording of capital property transactions.

We do not agree with the auditor's assessment that capital assets are not properly safeguarded against loss based on our property control procedures related to England Authority property. This property is not an asset of LSU-HSC-HCSD-HPLMC and is not recorded in the financial statements. The moveable property/equipment is incidental to the lease of the real property. Therefore, it is our opinion that this property does not require the same level of control, documentation and evaluation routinely or on an annual basis as is required for state owned capital assets.

We do agree, regardless of ownership rights, we have an obligation and responsibility to use reasonable and prudent measures to secure and protect this property. We feel this is accomplished through the following practices:

- Security Officer's presence and patrol during regular operating hours
- Placement, recording and monitoring of cameras through out the facility
- Approval process required for issuing keys
- Incident reporting policies
- Bi-annual inventory

HPLMC's maximum potential liability as related to this moveable property is limited to "the depreciated book or salvage value" of property that is currently a *minimum* of thirteen (13) years old. Per the terms of the lease agreement:

> "…in the event any Equipment is damaged or destroyed due to the negligence of intentional misconduct of Lessee, its agents, employees, servants, customers, visitors, or licensees, Lessee shall be responsible to pay to Lessor the depreciated book or salvage value of the damaged or destroyed Equipment, as additional rent hereunder."

The inventory record supplied by the Lessor, confirmed by Lessee at the inception of the lease does not include age or value for any of the property listed. Through the term of the lease, sixty-four (64) items out of a total of approximately 10,000+ items from the original property list have been identified as "not found" during the inventory process. Of the items not located, the top three highest valued items are a tape recorder, a medical file cabinet and a typist chair. Forty-four (44) of the items not found are "waste receptacles", either "small, tall, metal, plastic" or some combination thereof. This level of discrepancies found in this volume of items over approximately ten (10) years of control/lease supports the fact that our efforts/processes/procedures to secure and protect this property is at a minimum adequate.

Had any significant property item been identified as missing either by property staff during the course of an inventory or by facility staff in required incident reporting, management would have been notified, a police report would have been filed and Risk Management would have been notified and a claim initiated. Therefore, we do not concur with the auditor's assessment:

> "Since the property manager has not routinely communicated to HPL management the discrepancies noted in the years the inventory has been audited, management is unaware of the extent of HPL's liability to the England Authority for the missing items."