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

MANAGEMENT LETTER
ISSUED DECEMBER 15, 2010

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

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Five copies of this public document were produced at an approximate cost of $17.20. 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.la.gov. When contacting the office, you may refer to Agency ID No. 5257 or Report ID No. 80100045 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, Administration Manager, at 225-339-3800.

Our procedures at the Louisiana State University Health Sciences Center - Health Care Services Division (HCSD) for the period July 1, 2009, through June 30, 2010, disclosed:

- For the third consecutive year, HCSD campuses University Medical Center in Lafayette (UMCLA) and Lallie Kemp Regional Medical Center (LAKMC) have performance-based energy efficiency contracts with Johnson Controls, Inc., that include stipulated savings and are therefore not in compliance with state law. Since the operational savings are stipulated and are not measurable and verifiable, there is a risk of making payments specified in the contracts that are greater than the energy cost savings attributable to the services or equipment under contract.

- Earl K. Long Medical Center (EKLMC) identified unlocated movable property items totaling $801,406 during inventory procedures. EKLMC failed to add 53 items to Protégé within 60 days of acquisition and a test of 16 items revealed an additional two items that were not identified in the total above because of an incorrect acquisition date used in Protégé. The HCSD-Administration (HCSDA) failed to add seven items to Protégé within 60 days of acquisition. A test of 10 items revealed that the acquisition date recorded in Protégé was incorrect for eight items.

- For the fifth consecutive audit, HCSD campus Medical Center of Louisiana at New Orleans (MCLNO) reported unlocated movable property totaling $3.8 million in fiscal year 2010, which is 3.6% of the total MCLNO movable property of $106.4 million. Although MCLNO is making improvements in locating previously unlocated assets as evidenced by the location of approximately $483,000 of previously unlocated property, the specific property control duties are still assigned to a limited number of personnel.

- For the second consecutive year, LAKMC did not maintain copies of the documentation sent to Acadiana Computer Services for professional service billings and therefore did not have a means to ensure services billed were accurate and complete.

- The findings identified in the prior year report on HCSD, dated March 5, 2010, relating to inadequate control over financial reporting, untimely remittance of Public Assistance funds, inadequate controls over payroll and performance appraisals, and inadequate controls over a service organization have been resolved by management. The findings identified in the prior year report relating to failure to bill and record professional services for UMCLA and weaknesses in controls over consumable inventory for UMCLA and W.O. Moss Regional Medical Center will be addressed when those individual entities are audited.

- Other than the findings noted previously in the first four bullets, no significant control deficiencies, noncompliance, or errors relating to our procedures on HCSD's cash, accounts receivable, amounts due to/from other campuses, amounts due to/from state treasury, capital assets, other postemployment benefits payable, compensated absences payable, hospital income, state appropriations, hospital expenses, payroll expenditures, cooperative endeavor agreements, related party transactions, federal questioned or disallowed costs, cost report receivables and contingencies, and critical information systems and related user access controls were identified.

- No significant control deficiencies or noncompliance that would require reporting under Office of Management and Budget (OMB) Circular A-133 were identified for the Disaster Grants - Public Assistance (CFDA 97.036) federal program for the fiscal year ended June 30, 2010.

We did not audit the financial statements of HCSD. However, we did perform certain procedures in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States as part of our audit of the Louisiana State University System's financial statements and certain procedures related to compliance with federal laws and regulations in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133. This report is a public report and has been distributed to state officials. We appreciate HCSD's assistance in the successful completion of our work.

Background

LSU Hospitals and Clinics

LSU operates eight hospitals, which are managed by the Health Care Services Division. Combined, the LSU facilities admit 50,000 patients annually, and they provide nearly 1.2 million outpatient visits, around 70 percent of which are clinic visits.

Mission-driven to care for the uninsured and provide training opportunities for future health professionals, LSU HCSD is a statewide safety net system in which everyone is eligible for care.

LSU hospitals, in providing the majority of care to the uninsured patients in the state, support other community facilities by protecting them from a greater share of uncompensated care.

Health Care Services Division Mission

On behalf of all citizens of the state of Louisiana, the LSU HCSD shall:

- Provide access to high quality medical care
- Develop medical and clinical manpower through accredited residency and other health education programs
- Operate efficiently and cost effectively
- While achieving its objectives, work cooperatively with other health care providers and agencies to improve health outcomes

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 8, 2010

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

As required by Louisiana Revised Statute 24:513 and as a part of our audit of the Louisiana State University System's (LSU System) financial statements for the fiscal year ended June 30, 2010, we conducted certain procedures at the Louisiana State University Health Sciences Center - Health Care Services Division (HCSD) for the period from July 1, 2009, through June 30, 2010.

- Our auditors obtained and documented an understanding of the HCSD operations and system of internal controls, including internal controls over a major federal award program administered by HCSD, through inquiry, observation, and review of HCSD's policies and procedures documentation including a review of the related laws and regulations applicable to HCSD.

- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using HCSD's annual financial statements and/or system-generated reports and obtained explanations from HCSD management of any significant variances.

- Our auditors reviewed the status of the findings identified in the prior year engagement. In our prior report on HCSD, dated March 5, 2010, we reported findings relating to inadequate control over financial reporting, untimely remittance of Public Assistance funds, inadequate controls over payroll and performance appraisals, and inadequate controls over a service organization which have all been resolved by management.

- The status of the prior year findings relating to failure to bill and record professional services for University Medical Center in Lafayette (UMCLA) and weaknesses in controls over consumable inventory for UMCLA and W.O. Moss Regional Medical Center will be reviewed during the next fiscal year when those entities are audited.

- The remaining prior year findings relating to energy efficiency contracts contrary to law, unlocated movable property at Medical Center of Louisiana New Orleans (MCLNO), and internal controls over professional service billings for Lallie Kemp Regional Medical Center (LAKMC) have not been resolved and are addressed again in this letter.

- Our auditors considered internal control over financial reporting, examined evidence supporting HCSD's cash, accounts receivable, amounts due to/from other campuses, amounts due to/from state treasury, capital assets, other postemployment benefits payable, compensated absences payable, hospital income, state appropriations, hospital expenses, payroll, cooperative endeavor agreements, related party transactions, federal questioned or disallowed costs, cost report receivables and contingencies, and critical information systems and related user access controls, and tested HCSD's compliance with laws and regulations that could have a direct and material effect on the LSU System's financial statements for the fiscal year ended June 30, 2010, in accordance with *Government Auditing Standards*.

- Our auditors performed internal control and compliance testing in accordance with Office of Management and Budget (OMB) Circular A-133 on the Disaster Grants - Public Assistance (CFDA 97.036) federal program for the fiscal year ended June 30, 2010, as part of the Single Audit for the State of Louisiana.

The annual financial statements of HCSD were not audited or reviewed by us, and, accordingly, we do not express an opinion on those statements. HCSD's accounts are an integral part of the LSU System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, we have reportable findings relating to energy efficiency contracts contrary to law, inadequate controls over movable property, unlocated movable property, and inadequate controls over professional service billings. Other than these findings, we found no significant control deficiencies, noncompliance, or errors relating to our analytical procedures or our other audit procedures. We found no significant deficiencies or noncompliance that would require reporting under OMB Circular A-133 for the Disaster Grants - Public Assistance (CFDA 97.036) federal program for the fiscal year ended June 30, 2010.

The following significant findings are included in this report for management's consideration.

Energy Efficiency Contract Contrary to Law

UMCLA and LAKMC entered into performance-based energy efficiency contracts with Johnson Controls, Inc. (JCI) in October 1999 and November 2002, respectively, that include stipulated savings and therefore do not comply with state law. This is the third consecutive year for this finding. 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 operating 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 UMCLA 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 carryforward excess savings to future years.

The energy efficiency contract between LAKMC 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 consist 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 contracts that are greater than the energy cost savings attributable to the services or equipment under contract.

The LSU System's counsel has represented to us that he has conducted detailed investigations and evaluations of each of the agreements, has retained an industry expert to assist in a comprehensive review of the technical materials and calculations associated with these contracts, and is currently actively engaged in extensive settlement discussions with JCI's legal counsel regarding resolution of the issues associated with each of these contracts.

Management should revise its energy efficiency contracts to comply with state law to ensure each savings component is verifiable and that the guaranteed savings have been realized. In addition, management should ensure that the payments required by the contracts are not greater than the energy cost savings attributable to the services or equipment under the contract. LSU System management concurred with the finding and is addressing the issue as described previously (see Appendix A, pages 1-3).

Inadequate Controls Over Movable Property

For the third consecutive audit, EKLMC did not have adequate controls over movable property. In addition, Health Care Services Division Administration (HCSDA) did not have adequate controls over movable property. R.S. 39:325 requires entities to conduct an annual property inventory of movable property and report any unlocated movable property in an annual certification submitted to the Louisiana Property Assistance Agency (LPAA). Louisiana Administrative Code (LAC) Title 34 Part VII Section 313 (F)(10) requires that items not located during inventory for which no explanation is available for their disappearance must be retained on inventory and placed in a suspense location for three years. During these three years, efforts must continue to locate the missing items. In addition, good internal controls dictate that assets are properly monitored to safeguard against loss or theft and that thorough periodic physical counts of property be conducted. LAC Title 34 Part VII Section 307 requires all acquisitions to be tagged and information reported to the LPAA within 60 days after receipt. In instances when equipment must be installed and/or tested before acceptance by the agency, the calendar days will begin upon official acceptance by the agency. Sufficient documentation should be retained to support the election of the acceptance date, rather than the receipt date, as the acquisition date.

Procedures performed on EKLMC's movable property disclosed the following deficiencies:

- In its April 30, 2009, annual certification, EKLMC identified unlocated movable property items totaling $801,406 as a result of inventory procedures. Of that total, $90,278 was 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 $107,380 (21%). The certification of property inventory disclosed $25,097,540 in total movable property administered by EKLMC.

- A Late Additions report, generated from the LPAA Protégé system, indicated 53 items with a total acquisition cost of $556,122 were added to Protégé from one to 264 days after the required 60-day reporting period. In addition, two of 16 (13%) movable property acquisitions tested were not added to the Protégé system within 60 days of acquisition; however, they did not appear on the Late Additions report because the acquisition date in Protégé was entered incorrectly.

Procedures performed on HCSDA's movable property disclosed the following deficiencies:

- Five of 10 (50%) items tested were not recorded in the LPAA Protégé system within 60 days of acquisition. Further analysis of the Late Additions report revealed that an additional two items were not recorded in the LPAA Protégé system within 60 days of acquisition.

- The acquisition date recorded in the LPAA Protégé system for eight of 10 (80%) items tested did not agree to the receipt date. The acquisition date recorded in the LPAA Protégé system was the official acceptance date by the agency; however, sufficient documentation was not retained to support the use of this acceptance date.

Failure to establish adequate controls over movable property increases the risk of misstatements of movable property balances, increases the risk of loss arising from unauthorized use of property, and subjects HCSDA to noncompliance with state laws and regulations.

Management should strengthen its procedures for conducting the physical inventory of movable property and devote additional efforts to locating movable property previously reported as unlocated. In addition, management should ensure movable property is reported to LPAA within 60 days of acquisition to remain in compliance with state requirements. Management should require that the received date be used as the "acquisition date" recorded in Protégé and ensure any items using the official acceptance date by the agency as the acquisition date have sufficient documentation to support the use of this date. Management concurred in part with the finding and outlined a plan of corrective action (see Appendix A, pages 4-5).

Unlocated Movable Property

For the fifth consecutive audit, MCLNO reported significant amounts of movable property that could not be located in its annual certification of property inventory. 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 to record the movement of items from one location to another. In addition, good internal control should ensure that movable property is properly safeguarded against loss arising from unauthorized use and misappropriation. LAC 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. Property unlocated after three years is permanently removed from 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 LPAA.

On June 25, 2010, the certification of property inventory disclosed $106,433,404 in total movable property administered by MCLNO. MCLNO reported unlocated movable property items with an original cost of $3,804,457 as a result of its physical inventory procedures. Of the unlocated property reported on MCLNO's physical inventory certification, the amount of unlocated computers and computer-related equipment totaled $907,961. MCLNO was severely damaged by Hurricane Katrina in September 2005, resulting in property being lost, stolen, or transferred to other hospitals without documentation.

Although MCLNO is making improvements in locating previously unlocated assets as evidenced by the location of approximately $483,000 of previously unlocated property, the specific property control duties are still assigned to only a limited number of personnel. Failure to establish adequate controls over movable property increases the risk of loss arising from unauthorized use of property and subjects MCLNO to noncompliance with state laws and regulations. In addition, the risk exists that sensitive information could be improperly recovered from missing computers and/or computer-related equipment.

MCLNO management should comply with its internal policies and state laws and regulations for movable property and continue to devote additional efforts to locating movable property previously reported as unlocated. Management concurred in part and provided a corrective action plan. Management noted that fiscal years 2005 through 2007 did not represent normal conditions for the control over movable property considering the extreme circumstances present in the aftermath of Hurricane Katrina (see Appendix A, pages 6-8).

Inadequate Controls Over Professional Service Billings

For the second consecutive year, LAKMC did not maintain documentation provided to Acadiana Computer Services (ACS) to ensure services billed are accurate and complete. Good internal controls require procedures to ensure that all charges for all services are properly documented, coded, billed, recorded, and collected and that billings prepared by a contracted vendor are accurate and complete. LAKMC billings for fiscal year ended June 30, 2010, totaled $7,261,266.

Audit procedures disclosed that HCSD entered into a contract in April 2009 with ACS to process clinical charges and collect accounts receivable for three of its hospitals, including LAKMC. LAKMC provides physician slips/notes to ACS and ACS codes the documents and bills the patients and/or third-party payors. LAKMC does not maintain a copy of the documentation submitted to ACS and does not, therefore, have a means to reconcile the documentation submitted to the vendor to the actual billings to ensure services billed are accurate and complete. Failure to establish adequate controls over professional service billings may result in lost revenues and increases the risk that errors and/or fraud could occur and remain undetected.

Management should maintain a record of the documentation submitted to ACS and reconcile the documentation submitted to the actual billings to ensure accuracy and completeness. Management concurred in part with the finding noting that all patient related information is kept in the patient's medical record. Management provided a plan of corrective action that implements a process to track the charge sheet sent to ACS (see Appendix A, page 9).

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

This letter is intended for the information and use of HCSD 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,

Daryl G. Purpera

Daryl G. Purpera, CPA, CFE
Legislative Auditor

CST:WDG:EFS:THC:dl

HCSD 2010

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

LSU HEALTH SYSTEM
HEALTH CARE SERVICES DIVISION

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

November 2, 2010

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
Office of Louisiana Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, La. 70804-9397

Re: Energy Efficiency Contract Repeat Audit Finding

Dear Mr. Purpera:

I am writing in regard to your request for a response dated October 22, 2010, from HCSD Executive Administration relative to the repeat audit finding on the University Medical Center in Lafayette (UMCLA) and Lallie Kemp Regional Medical Center (LAKMC) in relation to the performance-based energy efficiency contracts with Johnson Controls, Inc. (JCI). We wish to defer to and herein attach the response that has already been submitted by the LSU System Office dated October 19, 2010, that was signed by Ms. Wendy Simoneaux, LSU System Chief Financial Officer. The response from the System Office is comprehensive in nature and speaks to all issues and status relative to this subject.

If further information is needed, please let us know.

Sincerely,

Roxane A. Townsend MD
Interim Chief Executive Officer
Health Care Services Division

cc: Larry Dorsey
Sherre Pack-Hookfin
Art Landry

Attachment

Louisiana State University System
3810 West Lakeshore Drive
Baton Rouge, Louisiana 70808

Chief Financial Officer

225 / 578-6935
225 / 578-5524 fax

October 19, 2010

Mr. Daryl G. Purpera, CPA
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

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

Dear Mr. Purpera:

I am writing in response to your letter dated October 6, 2010 to Chancellor Martin regarding fiscal year 2010 Audit findings associated with a performance-based energy efficiency contract between Johnson Controls, Inc. (JCI) and LSU and also in response to your letter dated October 12, 2010 to President Lombardi with virtually identical audit findings for each of the other four LSU System institutions that are also currently party to a performance-based energy efficiency contract with JCI, specifically, the University of New Orleans, Louisiana State University Health Science Center in Shreveport, University Medical Center, and Lallie Kemp Hospital. This letter is meant to serve as the LSU System's response to any similar findings regarding each of these contracts for the 2010 fiscal year.

As noted in your findings, and in previous correspondence to your office from the LSU System (see attached), LSU System's counsel has conducted detailed investigations of each of these agreements and has retained an industry expert to assist in the review of the complex technical materials and calculations. After working with the expert and the five facilities to determine the status and history of these contracts and after attempts to obtain relevant information from JCI's out-of-state counsel, notice of default was sent to JCI on February 3, 2010. The LSU System's counsel indicated the LSU System's position with regard to each of these contracts and informed JCI that these issues must be resolved. On February 5, 2010, LSU's counsel was contacted by new, local counsel for JCI who indicated that JCI was willing to actively work to resolve the issues related to each of these contracts. Since this time, numerous meetings and correspondence have taken place between LSU System counsel, JCI local counsel and the five LSU System institutions regarding the status of each of the five contracts, the unique issues associated with performance under each contract, issues associated with savings under each contract, termination options for each contract and the most appropriate method of addressing any other issues under each contract. During the past month, JCI and the LSU System have exchanged terms associated with a proposed termination of the Louisiana State University Health Sciences Center, Shreveport contract. Currently LSU is awaiting a response from JCI on its proposed terms and hopes to move forward with similar negotiations related to each of the four other contracts in an effort to avoid costly litigation. Should negotiations be unsuccessful, LSU is prepared to institute litigation to resolve the issues associated with these contracts by nullifying the agreements, forcing amendments to the agreements or recovering for breach of the agreements.

Sincerely,

Wendy C. Simoneaux

Wendy C. Simoneaux
Chief Financial Officer

Enclosure

Cc: General Counsel P. Raymond Lamonica

November 17, 2010

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

RE: Response to the Legislative Auditor Find on Inadequate Controls Over Movable Property for EKLMC and HCSDA

We concur with the Legislative Audit finding for EKLMC. EKL policy 99-01-0005 Control of Property Assets has been reviewed and it was determined the IT department was not following through on the paper work. Property Control will begin auditing the process to ensure all paperwork is properly recorded.

The untimely posting at EKL has also been identified and a correction to the control procedure has been made. A copy of the purchase order will be sent to the property manager and also the purchase order language will instruct the vendor to call the property control manager before equipment is delivered. This will increase awareness and strengthen the policy on timely and accurate information.

The necessary corrective action plan and associated policies for EKL have been implemented as of October 2010. The monitoring and coordination of these activities will be primarily the responsibility of the EKL Property Manager under the overall supervision of the EKL Chief Financial Officer.

We concur in part with the HCSDA movable property finding that assets were not reported within 60 days of acquisitions. In our review, we found that our staffing issues may have caused some of the research and tagging delay. HQ staff went through a major layoff and property manager duties were transitional until a restricted basis accounting employee was hired to assist with the responsibility of HQ property control among other duties. The Title 34 policy to have assets tagged within a 60 day range is always our goal but sometimes we have items ordered that will not be recorded as received in the LPAA System until a vendor has assembled and tested the item to release custody and ownership to the agency. In hindsight, it is our opinion that we failed to obtain and document all of the correct paperwork to document this cited vendor release and record acceptance of the assets timely. A major contributing factor to this breakdown was the property control duties being temporarily vacant as a consequence of downsizing staff without any clear plan to cover this responsibility and then subsequently shifting this responsibility to Finance staff.

We currently have property control duties assigned, and as an additional control has safeguarded that the process will be completed whether or not the duties are assigned. The Financial Analyst in Asset Management will run weekly reports to ensure all assets are entered timely and the proper paper work is obtained to ensure the documentation process will be complete on all assets entered into the LPAA Protégé System. Upon conclusion of the evaluation of the incidents cited, we have strengthened our oversight and monitoring responsibility of the process.

The necessary corrective action and the monitoring and coordination of these activities will be primarily the responsibility of the HCSD H.Q. Property Manager under the supervision of the H.Q. Asset Management Section Manager.

Respectfully,

Roxane A. Townsend, M.D.
Acting Chief Executive Officer
Health Care Services Division

Cc: Art Landry
Judy Albin
Jaime Estave
Kathy Viator

LSU HEALTH SYSTEM
HEALTH CARE SERVICES DIVISION

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• W.O. MOSS REGIONAL MEDICAL CENTER - LAKE CHARLES

November 5, 2010

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
Office of Louisiana Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, La. 70804-9397

Re: HCSD Level Unlocated Movable Property (ILH) Repeat Audit Finding

Dear Mr. Purpera:

I am writing in regard to your request dated October 25, 2010, for a HCSD System level response relative to the repeat audit finding on Unlocated Movable Property at the Interim LSU Public Hospital (ILH), referred to in your audit finding as the Medical Center of Louisiana at New Orleans.

Relative to this audit finding, HCSD Executive Management concurs in part with this finding for the fiscal year 2009-2010 as previously articulated in the preliminary response under my signature from ILH dated October 13, 2010, and herein attached and made reference thereto.

The corrective action plan and steps outlined in that preliminary and now final response will be the responsibility of Philip H. Baldwin, Jr., Director of Property Accounting and supervised by Gerard M. Bellocq, Chief Financial Officer. (Phil has been deployed to IRAQ since 8105/10; Phillanna Meyers will be responsible in his absence and will be supervised by Gerard Bellocq.) At the HCSD System level, oversight will be the responsibility of Jaime Estave, HCSDA Fixed Asset Manager and Art Landry, Senior Director of Finance.

If further information is needed, please let us know.

Sincerely,

Roxane A. Townsend MD
Interim Chief Executive Officer
Health Care Services Division

cc: Gerald Bellocq
Art Landry
Jaime Estave

Attachment

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

LSU HEALTH SYSTEM

INTERIM LSU PUBLIC HOSPITAL

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October 13, 2010

RECEIVED
LEGISLATIVE AUDITOR
2010 OCT 15 PM 10: 30

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

RE: Response to the Legislative Auditor Findings
Medical Center of Louisiana at New Orleans
Unlocated Movable Property

Dear Mr. Purpera,

Please find below the Interim LSU Public Hospital (ILH), referred to in your audit as the Medical Center of Louisiana at New Orleans, management response to the fiscal year 2009-2010 audit finding relating to unlocated movable property.

Management concurs in part with this audit finding:

Fiscal years 2005 – 2007 did not represent normal conditions for the control of movable property considering the extreme circumstances presented in the aftermath of Hurricane Katrina for the Interim LSU Public Hospital (ILH). As the audit finding is based upon the total of the past four years worth of unlocated movable property, the impact of Hurricane Katrina will continue to haunt ILH discrepancy totals. Annual Certification of Property Inventory submitted to LPAA disclosed $106,433,404 in total movable property, which included 904 items of movable property as unlocated with a total value of $3,790,579 or 3.56% of total inventory. Just in fiscal year 2010 we reported unlocated movable property to LPAA with a value of $496,842 or 0.04% of total inventory. $187,914 of this amount is attributable to equipment that was in use by patients and could not be scanned. Although this amount is higher than preferred levels, we will continue to fine tune the inventory process.

Progress is being made in the recovery of unlocated movable property such as 120 items with a value of $482,965 located in FY2009-2010. The discrepancy amount listed on the Annual Certification of Annual Property Inventory was submitted and approved by LPAA on July 9, 2010. The Property Accounting staff expects continuous success in lowering discrepancies in fiscal year 2011 for the Interim LSU Public Hospital. ILH next inventory certification for FY2011 is due April 29, 2011.

Property Accounting is the voice of ILH regarding all property issues and must ensure that ILH decreases its risk of movable property loss. An asset tracking system has been installed with radio frequency infrared devices placed on beds, patient pumps and other frequently moved property. RFID system continuously monitors and records the physical location of these assets at all times. I am currently sending out e-mails monthly to remind the ILH community on general information about property. Internal policies and procedures are on our shared drive for everyone to review. We conduct in-services every other month throughout the year and communicate directly to Departmental Directors, Managers and Equipment Custodians as needed. With the backing of the Administrative Council's support, Property Accountings enforcement of ILH policies and procedures should resolve this fourth consecutive audit finding to the Legislative Auditor's satisfaction and will continue to do so until successfully eliminated.

These actions will be the responsibility of Philip H. Baldwin, Jr., Director of Property Accounting and supervised by Gerard M. Bellocq, Chief Financial Officer. (Phil has been deployed to IRAQ since 8/05/10; Phillanna Meyers will be responsible in his absence and will be supervised by Gerard Bellocq.)

Respectfully,

Roxane A. Townsend, M.D.
Chief Executive Officer
Medical Center of Louisiana at New Orleans

Cc: Gerard Bellocq, Chief Financial Officer
Faye Martin, Legislative Auditor
John Gilbeaux, LPAA
Jaime M. Estave, HCSD

LSU HEALTH SYSTEM

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• LALLIE KEMP REGIONAL MEDICAL CENTER - INDEPENDENCE
• LEONARD J. CHABERT MEDICAL CENTER - HOUMA
• LSU INTERIM HOSPITAL OF MCL - NEW ORLEANS
• UNIVERSITY MEDICAL CENTER - LAFAYETTE
• W.O. MOSS REGIONAL MEDICAL CENTER - LAKE CHARLES

November 9, 2010

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94297
Baton Rouge, Louisiana 70804

Re: Inadequate Controls Over Professional Service Billings
HCSD System Level Finding – Lallie Kemp Regional Medical Center

Mr. Purpera,

As previously referenced in our hospital level preliminary response dated August 23, 2010, the Inadequate Controls over Professional Service Billings finding identified in your audit occurred during a transition to a vendor providing our physician billing services. We concur in part with the findings of this audit. We concur in part because the finding indicates that Lallie Kemp Medical Center (LAK) does not maintain a copy of the documentation submitted to Acadiana Computer Systems (ACS). This statement is not accurate because all patient related information is kept in the patient's medical record. LAK does concur that adequate controls did not exist to ensure clinical charges for professional services were accurate and complete.

In June of 2010, LAK implemented a process to track the charge sheets sent to ACS. All accounts sent to ACS are logged. Samples of the accounts are verified to the actual billing performed by ACS to ensure the accounts were billed. The billing process on average takes forty-five days therefore the LAK reconciliation process is performed two months after the accounts are sent to ACS.

We have identified Chad Thompson, the Chief Financial Officer of LAK, as the monitor of these findings. He will ensure and monitor that processes and procedures are in place to reconcile accounts sent to ACS for billing. This protocol is already in place.

Please feel free to contact me should you have additional questions.

Sincerely,

Roxane A. Townsend, M.D.
Interim Chief Executive Officer, HCSD

cc: Sherre Hookfin-Pack
Art Landry
Judy Albin
Chad Thompson

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