

LOUISIANA STATE UNIVERSITY  
HEALTH SCIENCES CENTER IN SHREVEPORT  
LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA



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MANAGEMENT LETTER  
ISSUED FEBRUARY 28, 2007

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**LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
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STEVE J. THERIOT, CPA  
LEGISLATIVE AUDITOR

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January 26, 2007

**LOUISIANA STATE UNIVERSITY HEALTH  
SCIENCES CENTER IN SHREVEPORT  
LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA**  
Shreveport, Louisiana

As part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2006, we considered the Louisiana State University Health Sciences Center in Shreveport'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 university'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 the Louisiana State University Health Sciences Center in Shreveport'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 university's compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by U.S. Office of Management and Budget Circular A-133.

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

In our prior audit report on Louisiana State University Health Sciences Center in Shreveport for the year ended June 30, 2005, we reported a finding related to unlocated movable property. That finding is addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2006.

**Unlocated Movable Property**

For the second consecutive audit, Louisiana State University Health Sciences Center in Shreveport (LSUHSC-S) has identified a significant amount of unlocated movable property as a result of its annual property inventory certification procedures. Current

year inventory procedures identified unlocated property items totaling \$3,134,148. Of that amount, items totaling \$230,392 were removed from the property records because these items had not been located for three consecutive years. Of the unlocated property reported on LSUHSC-S's property inventory certification, the amount of unlocated computers and computer-related equipment totaled \$1,378,195; the amount of medical and related equipment totaled \$1,624,757; and the amount of office and related equipment totaled \$107,507. In addition, a test of movable property for fiscal year 2006 revealed that of the 40 items selected to test the records for selected attributes, one of the Department of Physiology's items valued at \$357,495 could not be located and two of the Obstetrics/Gynecology items reported as being at Willis-Knighton Medical Center and valued at \$87,090 each were not found in their proper location. In addition, 30 items were selected from various departments for testing back to the property records, resulting in five items not being tagged or recorded on inventory. Three of these items, valued at approximately \$1.5 million, belonged to the Radiology Department and the other two, valued at approximately \$2,400, belonged to the Biometry/Academic Computing Department.

Louisiana Revised Statute (R.S.) 39:325 requires entities to conduct an annual inventory of movable property and report any unlocated property to the Louisiana Property Assistance Agency (LPAA). Louisiana Administrative Code (LAC) 34.VII.313 states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance. LSUHSC-S Administrative Directive 3.8, Section B identifies the functions and responsibilities of the department head or his/her designated representative to include (1) maintaining a complete and accurate inventory of the movable property assigned or acquired by the department; (2) providing the asset manager with accurate and up-to-date information on changes to the department's inventory; and (3) assisting in the conduct of the annual inventory of the department, as directed by the asset manager. In addition, good internal control dictates that assets should be properly monitored to safeguard against loss or theft and that thorough periodic physical counts of property inventory should be conducted. LSUHSC-S's certification of annual property inventory, submitted to LPAA on December 5, 2005, disclosed \$118,705,780 in total movable property.

Management of LSUHSC-S has not enforced and consistently applied its existing laws, regulations, and administrative directives for tracking the movement of property items or conducting the annual inventory.

Failure to enforce existing policies and procedures and put forth additional effort to locate unlocated items subjects LSUHSC-S's movable property to increased risk of loss and/or unauthorized use and subjects LSUHSC-S to noncompliance with movable property laws and regulations. Furthermore, LSUHSC-S could potentially lose revenue generated through the cost report process by not recording all depreciable equipment. Finally, because of the nature of the services provided by LSUHSC-S, the risk exists that sensitive information could be improperly recovered from the missing computers and/or computer-related equipment.

Management of LSUHSC-S should enforce and consistently apply its existing policies and procedures for tracking the movement of property items and conducting the annual property inventory. In addition, management should strengthen its procedures to require more extensive searches for unlocated items and require LSUHSC-S personnel to immediately respond to the property control officer's requests concerning unlocated property. Finally, management needs to devote additional efforts to locating movable property reported as unlocated in previous years and comply with all applicable requirements of LPAA. Management partially concurred with the finding and recommendations, stating that it is aware of and has complied with the requirements of R.S. 39:325 and LAC 34:VII.313. Furthermore, it recognizes the importance of maintaining good internal controls (see Appendix A, pages 1-2).

**Additional Comments:** While we do not dispute the fact that management of LSUHSC-S has complied with statutory and regulatory requirements for taking periodic inventories, reporting unlocated movable property to LPAA, and attempting to locate missing property, we question the effectiveness of management's efforts to safeguard its assets given the large amount of movable property still being reported as unlocated.

Management has the responsibility of developing, implementing, and enforcing the controls necessary to safeguard assets and to comply with applicable laws and regulations. However, it is apparent from management's response that it is willing to accept some degree of non-compliance with its movable property control procedures. If LSUHSC-S's staff does not comply with management's policies and procedures, then appropriate penalties and sanctions should be imposed and enforced. This is particularly important not only for safeguarding LSUHSC-S's assets but also for maintaining the security of sensitive data stored on its computers. The security of that data, which could include patients' financial and medical information, should be a top priority of management.

**Failure to Make Immediate Notification  
of Misappropriated Assets**

LSUHSC-S failed to immediately notify the legislative auditor and the Caddo Parish District Attorney of 16 thefts of state property costing \$12,447 during the fiscal year ending June 30, 2006. In addition, one piece of equipment being rented from a private vendor and valued at \$22,000 by the vendor has been unlocated since May 2005 and has also not been reported. The vendor is demanding payment for the item and according to LSUHSC-S's management, the matter has been submitted to the Office of Risk Management for resolution. R.S. 24:523 states that an agency head of an auditee who has actual knowledge of any misappropriation of the public funds or assets of his agency shall immediately notify, in writing, the legislative auditor and the district attorney of the parish in which the agency is domiciled of such misappropriation. LSUHSC-S does not have a formal policy in place requiring immediate notification to the chancellor of misappropriated assets or requiring notification to the property control manager so that the property control records could be updated. Our representatives informed management in July 2006 that the thefts had not been reported to the legislative auditor or

the district attorney. The earliest theft occurred on August 9, 2005, and as of August 30, 2006, LSUHSC-S had not made the required notifications for any of the thefts.

LSUHSC-S has informal procedures for reporting misappropriations of public funds or assets which are vague and do not clearly define lines of responsibility for reporting misappropriations to the chancellor in a timely manner. As a result, LSUHSC-S is in violation of state law. Furthermore, the delay in notifying the chancellor of the number and type of funds or assets misappropriated could subject other assets or critical information to increased risk of loss.

LSUHSC-S should develop and implement formal written policies and procedures for immediately notifying the chancellor of any misappropriation of funds or assets. The policies and procedures must include clear lines of responsibility for the timely reporting of all misappropriated funds or assets to the chancellor. The timely reporting will allow the chancellor to make the required notifications and allow him the opportunity to take any other corrective action he deems appropriate to safeguard other funds, assets, or critical information. Management partially concurs with the finding and recommendation, stating that the agency head had no knowledge of any misappropriation of public funds or assets until July 2006. Once the agency head was made aware of the thefts, he issued a directive for a policy to be developed and put into effect to clearly define the lines of responsibility for reporting of such matters (see Appendix A, pages 3-4).

**Additional Comments:** We commend LSUHSC-S for its current year efforts in implementing policies and procedures to ensure that the agency head is made aware of all thefts and can, thereby, comply with the reporting requirements of R.S. 24:523. As of December 4, 2006, most, but not all the thefts cited above, have been reported to the legislative auditor. However, R.S. 24:523 requires immediate notification of all thefts. Furthermore, this statute has been in effect since fiscal year 2002 and each year, LSUHSC-S has provided written representations to us that it has complied with the reporting requirements of this specific statute. Management of LSUHSC-S has the responsibility to timely implement internal controls to provide reasonable assurance that LSUHSC-S (including the agency head) complies with all laws and regulations and that representations regarding its compliance with those laws and regulations can be supported.

#### **Failure to Enforce Time and Attendance Requirements**

LSUHSC-S did not enforce existing time and attendance policies to ensure that payroll transactions are valid, authorized, and correctly input into the payroll system. Time and attendance is regulated by a variety of different policies and procedures depending on the classification of the employee. Examples are as follows:

- Civil Service Rule 15.2 requires classified employees to certify the number of hours of attendance or absence from duty in the time and attendance records. This is also required by the Time and Attendance

(TACS) Employee Users' Manual and the Kronos Workforce Timekeeper (TACS Timekeeper/Supervisor Manual).

- Human Resources Director memorandum dated February 25, 2000, relating to Faculty Attendance Certification, requires the department chairmen to certify that all faculty in the department have met the certification requirement.
- Human Resources Director memorandum dated July 10, 1996, relating to Nonacademic Unclassified Leave Certification, requires the department head to certify that all nonacademic unclassified employees in the department have met the certification requirements.

Our tests of payroll transactions for fiscal year 2006 revealed the following exceptions:

- Three of 45 classified time sheets, or 6.7 percent, were not signed by the employee.
- Eight of 19 unclassified certifications, or 42.1 percent, were not properly approved by the supervisor.

Management has not placed sufficient emphasis on requiring employees and supervisors to comply with established policies and regulations relating to departmental time and attendance policies and procedures. Failure to enforce time and attendance requirements increases the risk that errors and/or fraud may occur and not be detected in a timely manner and also increases the risk that payroll-related expenditures funded by federal programs could be disallowed.

Management of LSUHSC-S should emphasize to all employees, especially supervisory personnel, that all employees must comply with established payroll policies and regulations. Furthermore, failure to comply with established policies and regulations could result in disciplinary action against the employee and supervisor. Finally, management should require its payroll and internal audit sections to periodically monitor payroll records and report any findings to upper management. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 5).

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

This letter is intended for the information and use of LSUHSC-S 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,

A handwritten signature in black ink, appearing to read "Steve J. Theriot", written over a horizontal line.

Steve J. Theriot, CPA  
Legislative Auditor

RLA:WJR:THC:ss

[LSUHSC06]



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

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October 3, 2006

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

Dear Mr. Theriot:

LSUHSC-S was issued a finding regarding Un-located Movable Property. In regard to this finding, LSUHSC-S does concur in part with the finding or the recommendations.

- 1) LSUHSC-S is aware of the requirements of Louisiana Revised Statute (R.S.) 39:325 and has complied with the requirement by conducting an annual inventory of movable property and reporting any un-located property to LPAA.
- 2) LSUHSC-S is aware of the requirements of Louisiana Administrative Code (LAC) 34:VII.313 and has complied with the requirement by making efforts to locate all movable property for which there are no explanations available for their disappearance. There is no requirement that the items be located but that efforts must be made to locate all movable property. This effort to locate all movable property is successful based on the number of items that are located a reported in subsequent years.
- 3) It is true that good internal controls dictate assets should be properly monitored to safeguard against loss or theft. It is also true that good internal control does not guarantee that thefts or losses will not occur but serves to deter them. It is also true that periodic physical counts should be conducted. The records, that have been reviewed during the audit, will reflect that periodic physical counts are conducted.
- 4) The fact that everyone will not choose to obey the laws, regulations or administrative directives does not indicate LSUHSC-S is not making all efforts to enforce the requirements any more than saying the state troopers are not consistently enforcing the law because there are so many people speeding on the interstate. Meetings have been held with the business managers from

the various departments to continue their education regarding what is required to track the movement of assets. The result of the meetings is the reduction of un-located assets. It is not where management wants to be but it shows improvement.

- 5) Management concurs that the three items in Radiology were not tagged due to the following:
- a) Facility Planning and Control was in possession of all of the paper work for these assets;
  - b) Assets cannot be placed on the inventory until the value of said assets are known (amounts paid per the invoices). Once all of the paperwork has been obtained, the assets will be properly recorded according to the policy. The point regarding potentially lost revenue through the Cost Reporting process because the assets were not tagged is not correct. There would only be a timing difference. The revenue would not be lost. The point regarding the risk of sensitive information on the missing computers and/or related equipment falling into the wrong hands is quite a stretch. Most of the computers in question were technologically and functionally obsolete and were not the type that would have what management considers sensitive information on them.

Management does not concur that it has not enforced and consistently applied existing laws and regulations for conducting the annual inventory. As stated above, the Revised Statute (R.S.) 39:325 and Louisiana Administrative Code have been complied with and a copy of the report sent to the Louisiana Property Assistance Agency has been provided to the Auditors.

Management concurs that it does not have 100% compliance with the Administrative Directive for tracking the movement of property items and has taken the following steps to rectify the deficiency:

1. Review the policy and make updates as needed;
2. Schedule meetings with the department business manager (at least two per year);
3. Discussed the inventory requirements with the Chairmen of the various departments and Hospital Administration;
4. Obtained a listing of the missing assets by department and sent a memo from the Vice Chancellor's office to follow up; and
5. If this is not successful, send a memo from the Chancellor's office.

Sincerely,



Harold White  
Vice Chancellor  
for Business and Reimbursements

October 3, 2006

Mr. Steve Theriot, CPA  
Legislative Auditor  
Office of Legislative Auditor  
State of Louisiana  
P.O. Box 94397  
Baton Rouge, Louisiana 70804-9397

Dear Mr. Theriot,

LSUHSC-S was issued a finding regarding the Failure to Make Immediate Notification of Misappropriated Assets. In regard to this finding, LSUHSC-S partially concurs with the finding or the recommendations. According to Revised Statute 24:523, "an agency head of an auditee who has actual knowledge of any misappropriation of the public funds or assets of his agency shall immediately notify, in writing, the Legislative Auditor and the District Attorney of the parish in which the agency is domiciled of such misappropriation".

The agency head had no knowledge of any misappropriation of public funds or assets during the 6-30-06 fiscal year until July 2006. Therefore, it was not practical for him to have complied with the reporting requirements in Revised Statute 24:523. In reference to the finding pertaining to the lack of a written policy, management concurs. Immediately upon his being made aware of the thefts in July 2006, the Agency Head issued a directive for a policy to be developed and put into effect to clearly define the lines of responsibility for reporting of such matters. Corrective action has been taken and the policy has since been implemented. (See attached.)

Sincerely,



Harold White  
Vice Chancellor  
for Business and Reimbursements

## **ADMINISTRATIVE DIRECTIVE**

Policy Number: 6.12  
Effective Date: 9/1/06

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### **6.12 REPORTING MISAPPROPRIATION OF PUBLIC FUNDS OR ASSETS OF THE AGENCY**

#### **1. PURPOSE**

The purpose of this Administrative Directive is to formalize the reporting process to comply with Revised Statute 24:523 which states, "An agency head of an auditee who has actual knowledge of any misappropriation of the public funds or assets of his agency shall immediately notify, in writing, the legislative auditor and the district attorney of the parish in which the agency is domiciled of such misappropriation. The district attorney, or other prosecutorial agency, notified of such misappropriation may request audit assistance from the legislative auditor with respect to the misappropriation.

#### **2. PROCEDURES**

- a) When cash or other assets are deemed to have been stolen, the University Police will investigate and prepare their report. Upon the completion of their investigation and report preparation, the University Police will prepare a letter for the Chancellor's signature notifying the Legislative Auditor and District Attorney immediately of the theft.
- b) The letters will be taken to the Chancellor's office for signature and mailing to the Legislative Auditor's Office and the District Attorney. A copy will be sent to the Vice Chancellor for Business and Reimbursements, Hospital Administrator, and to the LSUHSC-S Internal Auditor.
- c) The University Police Department will notify the Property Manager of any thefts of moveable property so the records can be updated.
- d) The Department Head reporting the property theft will notify University Police Department if the item is recovered.

December 4, 2006

Mr. Steve Theriot, CPA  
Legislative Auditor  
Office of State Legislative Auditor  
State of Louisiana  
Baton Rouge, Louisiana 70804-9397

Dear Mr. Theriot,

LSUHSC-S was issued a finding regarding "Failure to Enforce Time and Attendance Requirements". In regard to this finding, LSUHSC-S concurs with the finding and recommendations.

The corrective actions taken are as follows:

- Management has re-emphasized to the employees that they must comply with established policies and regulations.
- The Vice Chancellor has talked with all parties involved in the finding and each department has made the appropriate correction.
- The Chancellor will be meeting with his administrative counsel and will re-emphasize to them that they must comply with established policies and regulations. This meeting takes place once each month and there is one scheduled for December 12, 2006.

Sincerely,



Harold White  
Vice Chancellor  
for Business and Reimbursements

xc: Dr. McDonald  
Janie Binderim  
John Antolik  
Cindy Vaughn