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

MANAGEMENT LETTER
ISSUED MARCH 31, 2010

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

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA

March 5, 2010

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

As part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2009, we considered the Louisiana State University Health Sciences Center - Health Care Services Division's (HCSD) internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested the HCSD's compliance with laws and regulations that could have a direct and material effect on the System's financial statements as required by *Government Auditing Standards*. In addition, we considered the HCSD's internal control over compliance with requirements that could have a direct and material effect on a major federal program, as defined in the Single Audit of the State of Louisiana, and we tested the HCSD's compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by U.S. Office of Management and Budget Circular A-133.

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

In our prior management letter on HCSD for the year ended June 30, 2008, we reported findings relating to inadequate control over financial reporting, energy efficiency contract contrary to law, unlocated movable property, inadequate control over financial class determinations, inadequate controls over patient charges, inadequate controls over consumable inventory, and misappropriation of funds. The findings relating to inadequate control over financial class determinations, inadequate controls over patient charges, and misappropriation of funds have been resolved by management. The findings relating to inadequate control over financial reporting, energy efficiency contract contrary to law, unlocated movable property, and inadequate controls over consumable inventory are addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration**.** All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2009.

Inadequate Control Over Financial Reporting

For the second consecutive year, the Louisiana State University Health Sciences Center - Health Care Services Division (HCSD) did not have adequate control over its financial reporting. Good internal control requires adequate preparation and review procedures to prevent and detect errors in the financial data submitted for inclusion in the Louisiana State University (LSU) System Annual Fiscal Report (AFR).

Audit procedures disclosed the following significant deficiencies:

- HCSD failed to develop an estimate methodology for professional services provided during the fiscal year that had not been entered or billed by June 30. Unrecorded professional services resulted in audit adjustments increasing accounts receivable and hospital income by a gross amount of $14,100,809 and net of contractual allowances of $1,949,870.

- Uncompensated Care Costs (UCC) and Medicare payments and recoupments were recorded inconsistently. HCSD's policy is to net UCC, Medicare, and Medicaid receivables and payables on the Statement of Net Assets.

  - HCSD received a $9,773,326 UCC payment for fiscal year 2009 after June 30 but did not set up a UCC receivable, causing accounts payable and accounts receivable to be overstated by $9,773,326.

  - The 2008 UCC receivable and payable was settled during fiscal year 2009. HCSD eliminated the 2008 receivable and payable but also applied the recoupment against fiscal year 2009 UCC payments, causing accounts payable to be understated by $20,082,513.

  - Supporting documentation prepared by the Cost Reports section indicated a 2006 Medicare receivable had been settled; however, a receivable balance of $384,452 was recorded in the financial statements, causing accounts payable to be understated by $384,452.

- The prior period adjustment column on the Schedule of Capital Assets note disclosure was understated by $293,576. The additions column was overstated by $8,968,104 and the transfers column was understated by $8,674,528.

- HCSD hired a contractor to create a Statement of Cash Flow (SCF) template to assist in the rollup of the eight individual campus' financial information. Because of problems encountered during the implementation of the template and time constraints, HCSD relied on the contractor to prepare the SCF. However, HCSD could not provide sufficient supporting documentation and explanations when requested by auditors. In addition, HCSD did not adequately review the contractor prepared SCF to ensure account balances used were the final per campus amounts and properly classified.

As a result of significant deficiencies reported in the prior audit, HCSD implemented a corrective action plan that included, in part, extending the submission date of financial information to the auditors to allow additional quality review and validation procedures. Management expressed that the additional time would also allow the LSU Health Sciences Center - New Orleans (LSUHSC-NO) and LSU System offices to perform roll-up reviews of the HCSD financial statements. The significant deficiencies detailed previously were not discovered during roll-up reviews but could have been discovered through additional reviews by HCSD management. Failure to establish an adequate review process could result in undetected material misstatements in the financial statements.

HCSD management should ensure its financial statements are adequately supported and should review the financial statements to identify and correct errors before submitting them to LSUHSC-NO. In addition, the review process should involve higher levels of financial management and should also ensure financial statements are prepared in accordance with the state's Office of Statewide Reporting and Accounting Policy and LSU System instructions. Management concurred in part with the finding and provided a plan of corrective action. Management did not agree that there was inadequate review over the contractor who prepared the SCF. In addition, management emphasized that the financial statements were provided to the auditors earlier than the agreed-upon date (see Appendix A, pages 1-3).

Failure to Bill and Record Professional Services

Medical Center of Louisiana at New Orleans (MCLNO), University Medical Center at Lafayette (UMCLA), and Lallie Kemp Regional Medical Center (LAKMC) failed to adequately bill and record certain hospital professional services. Hospital professional services include, but are not limited to, Certified Registered Nurse Anesthetists (CRNAs) services, physician services, and advanced practice nurse services. A proper system of internal control over revenues should include procedures to ensure that all services provided are properly documented, coded, billed, recorded, and collected in a timely manner.

Medical Center of Louisiana at New Orleans

MCLNO failed to bill and record certain professional services provided to patients. In addition, MCLNO did not have controls in place to collect and accurately record revenues for professional services. MCLNO began outsourcing professional billings and collections in March 2007 through Healthcare Financial Services, LLC (HFS), but changed vendors to Acadiana Computer Systems, Inc. (ACS) in April 2009. However, MCLNO did not implement procedures to ensure that amounts being billed and collected were accurate and complete. A proper system of internal control over revenues should include procedures to ensure that all services provided are properly documented, coded, billed, recorded, and collected in a timely manner.

During the period March 2007 through April 2009, HFS was responsible for the billing and collection of services including CRNAs, physician-clinic visits, physician-inpatient stay visits, anesthesiology, pathology, radiology, cardiovascular surgery, and orthopedics. In early 2008, MCLNO discovered that HFS had improperly billed commissions from patient receipts as well as professional services fees causing an overpayment to HFS of $346,715. For example, HFS duplicated an invoice, and HFS billed for acute patient revenue when that service should not include a commission to HFS.

In April 2009, MCLNO terminated the contract with HFS and has since recouped $135,021 in overpayments. As of December 2009, $211,694 remains outstanding. Management expressed that it plans to file a default judgment to pursue payment, but that has not yet occurred as of January 26, 2010. The Louisiana Secretary of State's Commercial Database identifies HFS as an active company in good standing. MCLNO management acknowledged that it could not produce the procurement file/contract for HFS or provide an explanation of the professional fee billing process that occurred before 2007, which was requested by the auditor on December 9, 2009. MCLNO located the contract on February 4, 2010, approximately two months after the initial request by the auditor.

ACS was able to import certain billing information back to 2007 that was obtained from HFS for payments not collected. Based upon the available information, ACS estimated that charges totaling $219,430, with a net collectible amount of $37,319, were not billed. A lack of documentation and limited availability of older data prohibits a more accurate estimate.

Additional audit procedures disclosed the following:

- For fiscal year 2009, MCLNO estimates that approximately $8.2 million of services were not billed. MCLNO offered services through the Interim Hospital of Louisiana, the Interim Public Hospital Outpatient Clinic, and five other community or school-based health clinics. Within these facilities, five services (Psychiatry, Pathology, HIV Outpatient Clinic, Radiology, and Cardio Vascular Thoracic) that should have been billed were not billed. After considering contractual allowances (difference between covered charges and the plan benefit) and uncollectibles, MCLNO estimates that approximately $1,032,000 ($853,000 from Medicaid/Medicare and $179,000 from insurance/self-pay) of the $8.2 million is still collectible. These amounts were recorded in the financial information through an audit adjustment.

- MCLNO failed to properly ensure that all professionals providing billable services were properly credentialed and linked in the Medicare and/or Medicaid systems. MCLNO had 77 non-credentialed doctors providing professional services. If Medicaid or Medicare does not receive charges for a doctor in a year, Medicaid/Medicare will terminate or deactivate the doctor. Once re-credentialed, Medicare will only allow back-billing up to 30 days from the re-credentialed date. Medicaid will allow one year of back-billing. As of November 2009, actual denials of charges by Medicare/Medicaid because of late back-billing totaled approximately $420,000 with approximately $115,000 representing amounts considered collectible.

- Auditors performed a test on data contained in an ACS vendor file used to record amounts as professional fee revenues and the associated accounts receivable. In a test of 15 sample items, eight (53%) items were not properly recorded as fiscal year 2009 financial transactions. Further audit procedures resulted in an audit adjustment to record hospital income of $3,347,243; contractual allowances of $2,620,464; and a net receivable of $726,779.

MCLNO did not properly monitor medical billings performed by its contractor. MCLNO also failed to establish adequate control procedures to ensure all services provided were properly documented, coded, billed, recorded, and collected.

<u>University Medical Center at Lafayette</u>

UMCLA has failed to bill certain professional contract services and certain professional services provided by its own employees since fiscal year 1997. UMCLA personnel provided estimates of the charges for the services provided that were not billed timely for fiscal years 2008 and 2009. However, no estimate for services performed before fiscal year 2008 was calculated because of a lack of documentation and limited availability of older data. In addition, since the professional services billing function was outsourced in April 2009, UMCLA has not implemented procedures to ensure amounts being billed and collected are complete. Audit procedures disclosed the following deficiencies:

- For fiscal year 2009, UMCLA estimated that approximately $397,000 of services was not billed or was not billed timely. After considering contractual allowances, UMCLA estimated that approximately $60,000 ($49,000 from Medicaid/Medicare and $11,000 from insurance/self-pay patients) of the $397,000 is collectible. During fiscal year 2009, UMCLA did not have procedures in place to timely capture, bill, collect, or record revenues for six contract physicians or one staff Psychiatric Nurse Specialist. As of October 2, 2009, the vendor contracted to perform the billing function had not billed for $203,000 of the $397,000 fiscal year 2009 services.

- For fiscal year 2008, UMCLA estimated that approximately $45,000 of services was not billed. After considering contractual allowances, UMCLA estimated that approximately $10,000 ($9,000 from Medicaid/Medicare and $1,000 from insurance/self-pay patients) of the $45,000 is collectible. As noted previously, a lack of documentation and limited availability of older data prohibits a more accurate 2008 estimate. As of October 2, 2009, the vendor contracted to perform billing has not billed for any of the unbilled fiscal year 2008 services.

UMCLA entered into a contract with a vendor in April 2009 to perform billing for these services. The vendor began billing in June 2009. The vendor retrieves physician slips/notes and logs from UMCLA on a daily basis and performs coding, billing, and collection for professional services from patients or third party payers. The vendor is paid an administrative fee based on collections. UMCLA does not have procedures in place to monitor what is submitted to the vendor and cannot ensure that what is being billed and collected is complete.

UMCLA hired employees and carried out contracts for professional services from fiscal year 1997 to fiscal year 2009. During this time, UMCLA did not develop charge sheets to capture the services provided by some of the professionals and/or did not use charge sheets that were developed for others to perform billing.

Lallie Kemp Regional Medical Center

LAKMC failed to timely bill an estimated $700,000, billed other charges more than 300 days late, and has no controls to ensure that all charges are billed and collected for professional services. Audit procedures disclosed the following deficiencies:

- For the seven-month period between September 2008 and March 2009, no professional services were billed or coded. LAKMC management estimates unrecorded revenue of approximately $700,000, net of indigent care charges and disallowances, for professional services during this time.

- In a test of 10 professional service charges, which were billed by LAKMC before September 2008, the number of days between the service date and the date that service was coded ranged between 306 to 320 days for four (40%) self-pay patients.

- Since April 2009, LAKMC has sent professional slips/notes to a vendor and the vendor performs the coding and billings. Since LAKMC has no procedures in place to monitor what is submitted to the vendor for the services performed by the professionals, LAKMC cannot ensure that what is being billed and collected is complete.

LAKMC failed to establish adequate control procedures to ensure all services provided are properly documented, coded, billed, recorded, and collected.

Failure to implement controls to timely bill professional services results in loss of revenue to the hospital and the state and increases the risk that errors and/or fraud could occur and remain undetected.

Management should implement controls to ensure all services provided are properly documented, billed, recorded, and collected timely. In addition, management should develop a monitoring process to routinely test the accuracy and completeness of current billings. Finally, management should seek to collect on prior billings that are still collectible, as well as amounts owed from the prior contractor HFS. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 4-5).

Energy Efficiency Contracts Contrary to Law

University Medical Center in Lafayette (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 second 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 is in the process of conducting extensive investigations and evaluations of the agreements in preparation for litigation to remedy the situation by nullifying the agreements, forcing amendments, or recovering for breach of the agreements. In doing so, the LSU System has retained outside counsel to assist in the resolution of these issues. Counsel has requested and obtained information from JCI and has engaged, on behalf of the LSU System, an industry expert to assist in the detailed and comprehensive review of the technical materials and calculations related to the 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's management noted that progress has been made in the evaluation of the contracts and the process of extensively reviewing each contract to discover all facts relevant to the status of the contracts and further action required is ongoing (see Appendix A, pages 6-10).

Untimely Remittance of Public Assistance Funds

HCSD did not make timely remittances to the Office of Facility Planning and Control (OFPC) for expenditures incurred and paid on behalf of MCLNO. Good internal controls provide that the time between receipt of funds and disbursement should be minimized.

Procedures performed on the Disaster Grants - Public Assistance (CFDA 97.036) program at MCLNO disclosed the following:

- OFPC paid vendor invoices relating to project worksheets for MCLNO as the applicant. HCSD submitted the invoices paid by OFPC to the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) for reimbursement.

- HCSD received reimbursements for OFPC expenses from GOHSEP during the period August 15, 2008, through January 13, 2009, totaling $11,040,519 but did not remit the funds to OFPC until February 3, 2009.

- HCSD received reimbursements for OFPC expenses from GOHSEP during the period March 9, 2009, through May 31, 2009, totaling $2,200,206 but did not remit the funds to OFPC until June 4, 2009.

HSCD did not establish adequate procedures to ensure that GOHSEP reimbursements were promptly disbursed to OFPC. Failure to establish adequate controls increases the risk that errors could occur and prevents the timely disbursement of funds to the proper agency.

HCSD management should establish procedures to ensure timely remittances are made to OFPC for expenditures incurred and paid on behalf of MCLNO. Management concurred, in part, with the finding and provided a plan of corrective action (see Appendix A, page 11).

Unlocated Movable Property

For the fourth 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. Louisiana Administrative Code Title 34 Part VII Section 313 (A) states, in part, that efforts must be made to locate all movable property items for which there are no explanations available for their disappearance. 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 Louisiana Property Assistance Agency.

On May 29, 2009, the certification of property inventory disclosed $95,863,510 in total movable property administered by MCLNO. MCLNO reported unlocated movable property items with an original cost of $3,798,816 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 $910,649. MCLNO was severely damaged by Hurricane Katrina in September of 2005, resulting in property being lost, stolen, or transferred to other hospitals without documentation.

Although MCLNO is making improvements in locating previously unlocated assets, the specific property control duties are assigned to 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.

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 with the finding and provided a corrective action plan (see Appendix A, pages 12-15).

Inadequate Controls Over Payroll and Performance Appraisals

HCSD failed to document payroll charges and establish an adequate performance appraisal system. A HCSD procedural memo dated, April 16, 2004, states, "Unclassified employees shall maintain a monthly timesheet. The individual timesheet of the unclassified employee shall be signed and dated by the employee and signed and dated by the Supervisor and/or Division Director certifying correctness of the employee's time and attendance and leave usage." HCSD's Performance Planning and Review (PPR) policy 4533-08, Section XIV.A requires a performance documentation file to be maintained by the Rating Supervisor for each employee supervised. Documentation should be kept indefinitely for active employees and three years for inactive employees. Civil Service Rule 10.5 requires performance planning sessions to be conducted no later than 30 calendar days after the anniversary date of a current employee. Good internal control suggests merit increases and promotions should be based on employee performance and adequate documentation should be maintained to support the assessment of employee performance.

Audit procedures disclosed the following deficiencies:

- No PPR forms were available for the Chief Financial Officer (CFO) since fiscal year 2001. The CFO received merit increases of 4% or salary adjustments of 10% annually since 2001. The CFO also received two promotions in 2004 and one temporary appointment in 2007, which was made permanent in 2009.

- No PPR forms were available for fiscal year 2009 for the two employees who report directly to the CFO. In 2009, both of these employees received 4% merit increases.

- Two of 12 (17%) fiscal year 2009 time sheets for the CFO were not available.

- Two of the 10 (20%) time sheets for the CFO that were available were not approved by a supervisor.

- Of the two employees reporting directly to the CFO:

    - three (25%) of 12 time sheets were not approved for the unclassified employee and

    - 19 (73%) of 26 time sheets were not approved for the classified employee.

HCSD's PPR policy 4533-08 states, "An employee who is not rated in accordance with the provisions of the Civil Service Rules and this policy shall have an official rating of "Un-rated" on the day after the employee's anniversary date. Employees receiving an Un-rated are considered satisfactory and are eligible for merit increases, permanent status, and promotions, etc." However, employees who receive "Needs Improvement" or "Poor" are not eligible for promotions, merit increases, details to higher position, or permanent status. HCSD's Un-rated PPR policy does not ensure uniform procedures for awarding merit increases and promotions. In addition, the PPR policy is not structured to ensure that negative consequences result if a supervisor fails to conduct a performance appraisal that should have been completed.

Failure to adequately document and approve time, attendance, and performance could result in inappropriate payments to employees and unearned raises.

Management should ensure that existing controls are enforced so that payroll records are properly documented and maintained. In addition, management should develop a performance appraisal policy that adequately links merit increases and promotions to performance in all cases. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 16-17).

Inadequate Controls Over a Service Organization

HCSD did not have adequate controls in place to monitor services provided by its service provider Acadiana Computer Systems (ACS). Good internal controls require an entity to monitor, review, test, and evaluate the transactions controlled or affected by its service provider to ensure data integrity, completeness, and accuracy. One means of gaining assurance on the controls within a service organization is through a Type II, SAS 70 report.

Statement on Auditing Standards No. 70: Service Organizations (SAS 70) is an auditing statement issued by the American Institute of Certified Public Accountants (AICPA). Service organizations are typically entities that provide outsourcing services that impact the control environment of the entity using the service and include such services as physicians' billings and collections. A Type II service auditor's report, as per SAS 70, includes the service auditor's opinion on the fairness of the presentation of the service organization's description of controls that are in operation and the suitability of the design of those controls to achieve the specified control objectives and whether the specific controls were operating effectively during the period under review.

In April 2009, HCSD contracted with ACS to provide professional billings and collections services for UMCLA, LAKMC, and MCLNO. HCSD did not include a contract requirement for a Type II, SAS 70 audit to be obtained by the service provider. Failure to obtain a Type II, SAS 70 report on a service provider results in the inability to ensure that procedures and controls are being applied in accordance with HCSD's intentions and regulations and increases the risk that contract terms are not being followed, which could result in errors or fraud. The hospitals also did not perform sufficient monitoring of the service provider to provide assurance that the controls and/or the activities of the service provider were performed in accordance with contract requirements, and transactions were accurate and complete.

Management should institute controls to monitor, review, and evaluate the performance of its service providers. Management should consider obtaining a Type II, SAS 70 report on its service providers. Management concurred in part with the finding and provided a plan of corrective action (see Appendix A, pages 18-20).

On February 22, 2010, HCSD provided a SAS 70 report for the period January 1, 2009, through June 30, 2009 on its service provider.

Weaknesses in Controls Over Consumable Inventory

For the fourth consecutive audit, UMCLA has weaknesses in controls over consumable inventory in the Supplies Processing Distribution (SPD) department. In addition, W.O. Moss Regional Medical Center (WOM) has weaknesses in controls over consumable inventory. A proper system of internal control over inventory should include procedures to ensure that assets are safeguarded and that inventory losses, should they occur, are detected in a short period of time by normal business procedures. A perpetual inventory system is generally regarded as an acceptable method of controlling inventory and safeguarding assets. Use of a perpetual inventory system allows an entity to record the receipt of items at the time of purchase and the issuance of items as they are withdrawn for use. A count of items on hand should agree to the balance in the inventory system and discrepancies should be investigated to determine if losses are due to theft or fraud.

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

- A physical count of 25 items in the SPD department disclosed that eight items (32%) did not agree to the quantities shown in the perpetual inventory system.

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

- A physical count of 10 items disclosed that three items (30%) did not agree to the amounts shown in the perpetual inventory system for the storeroom.

- A physical count of 12 items disclosed that four items (33%) did not agree to the amounts shown in the perpetual inventory system for the dietary department.

These inaccurate quantities could be the result of a miscount in the prior inventory, incorrect items being pulled for delivery to the hospital, lack of receipt verification, and/or not returning incorrect items received. Failure to provide adequate controls over consumable inventories increases the risk of inaccurate accounting and reporting of consumable inventory, as well as the risk of fraud and the losses remaining undetected.

Management should perform periodic physical test counts and reconcile them to the perpetual inventory system to ensure that the inventory system is functioning properly. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 21-23).

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

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

Respectfully submitted,

Daryl G. Purpera

Daryl G. Purpera, CPA
Temporary Legislative Auditor

LC:BR:EFS:PEP:dl

LSUHSC-HCSD09

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

January 20, 2010

Mr. Daryl G Purpera, CPA
Temporary Legislative Auditor
Office of Legislative Auditors
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Legislative Audit Finding
Inadequate Controls Over Financial Reporting
LSU Health Care Services Division
Fiscal Year Ended June 30, 2009

Mr. Purpera:

The LSU Health Care Services Division (HCSD) concurs in part with the above referenced finding.

1. HCSD concurs that HCSD did not have a pre-determined estimation methodology for professional fee billing services provided during the fiscal year. The unrecorded professional services referenced in the finding represent professional fee service revenues at HCSD hospitals that were not provided to HCSD Administration Financial Reporting staff for inclusion in the financial statements. HCSD entered into a contract with a new vendor beginning in April 2009 for University Medical Center (UMC) and Lallie Kemp Medical Center (LAK) and in May 2009 for Medical Center of Louisiana at New Orleans (MCLNO). The short timeframe available between contract implementation and fiscal year end did not provide sufficient time to establish best practices.
   Corrective action will include the following:
   a. Routine meetings with the new vendor to discuss and develop best practices and processes.
   b. Attestation statements by Hospital Chief Financial Officers (CFO) to HCSD Administration Financial Reporting Staff identifying amounts to include in the financial statements.
   c. Monthly reconciliations to be reported to HCSD Administration Financial Reporting Staff by hospital CFO's.

2. HCSD concurs in part that Uncompensated Care Costs (UCC) and Medicare payments and recoupments were recorded inconsistently:
   a. HCSD recorded an accounts receivable transaction for the $9,773,328 cash UCC payment received after June 30 as general Accounts Receivable, Net on the Statement of Net Assets (SNA) rather than as a UCC Receivable transaction, which would have netted with other cost report/UCC transactions in the payables

section of the SNA. The reporting approach of this receivable is consistent with the approach during prior years' reporting for actual cash receipts received after June 30 for the fiscal year just ended. However, HCSD agrees that reporting this actual cash receipt as a general Accounts Receivable rather that a UCC Accounts Receivable caused it to be shown as Accounts Receivable rather than a reduction to Accounts Payable on the SNA. This audit adjustment has a net zero effect on the total SNA. The audit adjustment reduced receivables and reduced payables by a like amount.

b. HCSD agrees that accounts payable was understated by $20,082,513. During the UCC estimation process, established protocols were not followed in determining the amount of UCC Interim Payments received in the current fiscal year to compare to total UCC Allowable Costs, resulting in a UCC receivable or payable. Instead of using the Department of Health & Hospitals (DHH) remittance letters as has been the historical practice, a supplemental cash basis financial report was used. Normally, these two reports are the same; however, in FY2009, DHH recouped the $20,082,513 payable from the FY2008 UCC settlement against FY2009 receipts. The cash basis report showed the net of FY2008 and FY2009 amounts, when only the FY2009 amount should have been used to determine the FY2009 Interim Payments.

c. HCSD agrees that accounts payable was understated by $384,452. The documentation provided to HCSD Administration Financial Reporting staff included this FY2006 Medicare Receivable (which nets against other cost report/UCC settlements in accounts payable), and was recorded correspondingly. However, different supporting documentation was provided to the auditor. A corrective measure will be implemented to ensure that the reports used are the correct version.

HCSD Administration Financial Reporting staff has a review process in place to check certain transactions in the cost reporting/UCC calculation process. HCSD will expand the process to check additional transactions.

3. HCSD agrees that the prior period adjustment column on the Schedule of Capital Assets not disclosure was understated by $293,576. The referenced $8,968,104 overstatement in the Additions column and understatement in the Transfers column is for completed Construction in Progress projects. HCSD reported the transfer out of CIP in the Transfers column, and the newly completed assets in the Additions column. HCSD Administration Financial Reporting staff prepared the Schedule of Capital Assets notes disclosure using a consistent methodology with previous years reporting. There are no specific instructions published in the Annual Financial Report package regarding the appropriate recording in the transfer column of the Schedule of Capital Assets note disclosure. HCSD reported the transfer column information consistent with prior years. This adjustment has a zero net affect on the balances reported in the financial statements and the total balance reported on capital assets notes disclosure.

Due to lack of specific instructions, HCSD Administration Financial Reporting staff will discuss appropriate reporting with the Office of Statewide Reporting & Accounting Policy (OSRAP) and the LSU System Office.

4. HCSD does not agree that there was inadequate review over the contractor prepared Statement of Cash Flows (SCF). HCSD engaged a professional CPA firm to develop a template to assist in accurate reporting of the Statement of Cash Flows (SCF). HCSD and the contractor met on frequent occasions discussing the template and testing the template prior to year-end. However, during the year-end preparations of the SCF, HCSD determined that the template was out of balance due to unusual transactions by the blending of the Foundations. The contracted vendor offered to complete the SCF for FY2009 to ensure that the reporting deadline was met as further research was required for correct placement of the unusual foundation transactions on the SCF template. HCSD verified the amounts reported on the SCF, but HCSD made last minute changes for blending of the foundations which created a difference in the final totals to the contracto vendor prepared SCF.

   In recognition of time constraints of completing the HCSD Audit, HCSD Administration Financial Reporting staff offered the Legislative Audit staff direct contact with the contracted vendor with any questions regarding the calculation of the SCF rather than HCSD becoming the middle man slowing down the progress of the audit. This offer was not intended to be a reflection that HCSD did not have adequate control of the information reported by the contracted vendor nor could not have provided the requested answers to the legislative audit team. The reference of such in the finding is misguided.

Regarding the reference in the finding to extending the submission date of financial information to the auditors, the deadline for submission to the Division of Administration was September 21, 2009. The auditors received HCSD financial statements on September 14, 2009, seven (7) days earlier than the agreed upon decision with the Legislative Auditors and the LSU Systems Office. The auditors have historically received HCSD's financial statements earlier than the deadline but due to increased complications including blending Foundations and changes in audit standards, the extra time is needed by HCSD Administrative Financial Reporting staff.

HCSD agrees that controls could be strengthened as new and unusual business transactions transpire and additional accounting and audit standards become effective. HCSD will involve the hospital financial staffs to a greater degree to review additional transactions; however, due to the massive structure of the HCSD hospital system, not all transactions can be verified for 100% accuracy. HCSD agrees that additional review is warranted and that the additional time needed to do that will be taken up to the official submission deadline if that's determined to be necessary.

The corrective action plans identified above will the shared responsibilities of the HCSD Hospital CFO's, HCSD Administration Finance Director, HCSD Comptroller, HCSD Director of Patient Financial Services, and HCSD Accounting Services Manager.

Sincerely,

Roxane A. Townsend, MD
Interim Chief Executive Officer

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HEALTH CARE SERVICES DIVISION

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February 19, 2010

Mr. Daryl G Purpera, CPA
Temporary Legislative Auditor
Office of Legislative Auditors
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Legislative Audit Finding
Failure to Bill and Record Professional Services
LSU Health Care Services Division
Fiscal Year Ended June 30, 2009

Dear Mr. Purpera:

LSU Health Care Services Division (HCSD) concurs with the referenced finding for Interim LSU Hospital (ILH), formerly known as Medical Center of Louisiana at New Orleans; University Medical Center Lafayette (UMCLA) and Lallie Kemp Regional Medical Center (LAKMC).

As outlined in the preliminary responses previously provided for each hospital, HCSD has taken the following steps to further strengthen internal controls and initiate quality performance measures, the following actions have or will be implemented by the hospitals in conjunction with the contracted billing vendor:

- An internal hospital control procedure has been implemented to ensure that all professional services are captured and forwarded to the professional billing vendor for processing. This procedure includes the reconciliation of daily clinic visit/log sheets that are forwarded to the vendor for processing.
- An internal hospital control procedure has been implemented to validate that the vendor is paid timely and accurately (according to contracted terms). The agreed method of payment is a contracted percentage of collections. This procedure includes reconciliation of the vendor collections daily, weekly, monthly to the cash deposited into HCSD Operating Bank account and recorded in PeopleSoft.
- An internal hospital control procedure will be implemented to perform sample audits on a monthly basis to ensure that the billing vendor claims submission are representative of the professional revenue generated by the clinics and that appropriate collection efforts have resulted in accurate and timely reimbursement. This procedure includes an assessment of the professional services outstanding accounts receivable and trend analysis.

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- An internal control procedure will be implemented for FY2010 of obtaining certification/attestation from each hospital Chief Financial Officer regarding outstanding accounts receivables to be included in the financial statements.
- An internal control procedure will be implemented to ensure that doctors performing services are appropriately credentialed.
- Procedures will be implemented to estimate revenue accruals in the financial statement at year end for any charges that were not captured in the professional billing system.

The corrective action steps identified above will be the shared responsibilities of the Hospital Chief Financial Officers with oversight from HCSD Administration Finance Director, HCSD Administration Comptroller, HCSD Administration Director of Patient Financial Services, and the HCSD Administration Accounting Services Manager.

Management accepts responsibility for past failures and internal control deficiencies at multiple levels within this activity. Steps have been taken to insure that these deficiencies are corrected and that monitoring will take place to make certain that current and future adherence to proper controls and process is maintained.

Sincerely,

Roxane A. Townsend, MD
Interim Chief Executive Officer

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

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

Office of the Senior Executive Vice President
and Chief Operating Officer

225 / 578-6935
225 / 578-5524 fax

September 24, 2009

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

Re: Audit Finding - Energy Efficiency Contract Contrary to Law

Dear Mr. Theriot:

On September 1, 2009, an audit finding was received by the University Medical Center addressing the facility's performance-based energy efficiency contract with Johnson Controls, Inc. (JCI) for the fiscal year ending June 30, 2009. This finding is similar to a finding issued to University Medical Center in early 2009 for the fiscal year ending June 30, 2008. The finding states that the performance-based energy efficiency agreement with JCI includes stipulated savings and therefore does not comply with state law because the stipulated operational savings are not verified or measured. As such, the finding states that the savings truly guaranteed under the contract are less than the cost of the contract. The findings conclude that the facility "should revise its energy efficiency contract to comply with state law to ensure each savings component is verifiable and that the guaranteed savings have been realized" and that "management should ensure that the payments required by the contract are not greater than the energy cost savings attributable to the services or equipment under the contract."

University Medical Center is one of five LSU System institutions that are party to performance-based energy efficiency contracts with JCI. Specifically, the University of New Orleans, Louisiana State University Health Sciences Center Shreveport, Louisiana State University and Lallie Kemp Medical Center are also parties to such contracts. It is anticipated that each of these five facilities will receive findings similar to the finding recently issued to University Medical Center as each of these facilities also received virtually identical findings for the previous fiscal year. Therefore this response is meant to serve as the LSU System's official response to any similar findings issued to each of these facilities for the fiscal year ending June 30, 2009.

The LSU System provided a response related to the previous fiscal year findings to your office on February 19, 2009 explaining the status of the investigation into each of these contracts. See attached. In response to a letter from your office dated June 16, 2009 requesting an update as to the status of each of these contracts, the LSU System, on July 13, 2009, provided a detailed follow-up summary of the status of these contracts and its efforts to determine the most appropriate course of action to address the issues noted in your audit findings. See attached.

As explained in the July 13, 2009 letter, the LSU System has retained Taylor, Porter, Brooks & Phillips as contract counsel to assist in the resolution of the issues involved with these contracts. Counsel has been in contact with JCI's attorney to obtain information pertinent to the savings issues associated with these contracts. Counsel has also retained an industry expert, on behalf of the LSU System, to assist in the detailed and comprehensive review of the volumes of technical materials and calculations related to each of the five contracts. This expert has made significant process in the evaluation of several of the facility contracts. His evaluation has focused significantly on the evaluation of measured and stipulated savings under these contracts to determine the accuracy of previous calculations and the reasonableness of any assumptions underlying the stipulated savings under these contracts. Because many of these contracts were entered into years ago, our expert is working with facility staff to obtain historical as well as current documentation and equipment/operational information relevant to the savings calculations set forth in these contracts. Due to the highly technical and complex nature of the subject matter of these contracts and the necessity of obtaining detailed historical documentation, the process of reviewing this information has been a time consuming endeavor. However, progress has been made.

As previously indicated, once the expert has completed his review, the LSU System will work with counsel to determine the most appropriate path forward in the best interest of the University and the taxpayers to resolve the issues noted in your audit findings. Again, it is imperative that the LSU System proceed with caution to preserve any and all rights that it may have related to these contracts and the LSU System is currently taking all necessary steps to prepare for litigation to remedy the situation by nullifying the agreements, forcing amendments to the agreements or recovering for breach of the agreements. However, the appropriate path forward depends on the outcome of the ongoing extensive investigations and evaluations of the agreements. As such, the LSU System is unable to provide an anticipated completion date for these corrective actions. But, it should be recognized that these significant and precise steps are part of substantial corrective actions presently being taken.

Sincerely,

John Antolik
Chief Financial Officer

cc: General Counsel P. Raymond Lamonica

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

Office of the Executive Vice President

225 / 578-6935
225 / 578-5524 fax

February 19, 2009

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

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

Dear Mr. Theriot:

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

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

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

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

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

Sincerely,

John Antolik

John Antolik
Assistant Vice President

cc: General Counsel P. Raymond Lamonica

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

Office of the Senior Executive Vice President
and Chief Operating Officer

225 / 578-6935
225 / 578-5524 fax

July 13, 2009

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

Re: Request from Legislative Auditor's Office regarding energy efficiency contracts

Dear Mr. Theriot:

I am writing in response to your letter of June 16, 2009 in follow-up to audit findings from your office relative to performance-based energy efficiency contracts that several LSU System Institutions have entered into with Johnson Controls, Inc. (JCI). Specifically, the University of New Orleans, Louisiana State University, Louisiana State University Health Sciences Center Shreveport, University Medical Center and Lallie Kemp Medical Center received audit findings related to contracts with JCI.

You have requested that I provide you with information related to the status of each of these contracts. You have specifically requested the following information:

- That status of the performance-based energy efficiency contract (current, amended and/or terminated).
- If the contract is current, the type of savings provided for in the contract (stipulated or guaranteed).
- If the savings are stipulated, whether the contract has been amended or other corrective action taken to provide for guaranteed savings.
- If no corrective action has been taken, the corrective action planned; the name of the person responsible for corrective action, and the date by which the corrective action is expected to be completed.

At this point in time, each of the five performance-based energy efficiency contracts is current and has not been amended or terminated since your 2008 audit. As noted in your audit findings for each contract, there are both stipulated and guaranteed (calculated) savings provided for in each of these contracts.

The LSU System has too placed a high priority on the resolution of the issues involved with these performance-based energy efficiency contracts. With regard to corrective actions, the LSU System has retained Taylor, Porter, Brooks & Phillips to assist in the resolution of the issues related to these contracts. In February, Taylor Porter, on behalf of the LSU System sent requests to JCI regarding each of these contracts, requesting a response within 15 days. JCI was asked to provide specific detailed data/information pertaining to both the stipulated and guaranteed savings and the calculation of each under these contracts. Taylor Porter was contacted by JCI's attorney, Tracy Walker, who indicated that JCI realized the importance of the issues noted by the Legislative Auditor but requested an extension of time to respond to these inquiries due to the extensive nature of the data review involved. An extension was granted until April 6, 2009 to provide a response to the inquiries for each of the five contracts. Ms. Walker submitted a letter on

April 6, 2009 responding to the request related to the University Medical Center contract only. In this letter, Ms. Walker indicated that JCI was unable to gather information related to all five contracts, but that the information would be supplemented by the end of that week (presumably April 10, 2009). The information related to the University Medical Center savings was reviewed and found to be incomplete. On April 13, 2009, Taylor Porter sent a letter to Ms. Walker requesting additional information related to the stipulated savings and requesting responses related to the other four contracts. On April 16, 2009 Ms. Walker provided a response related to the Lallie Kemp contract and indicated that a response to the other three contracts would be forthcoming. Taylor Porter sent another request for the information related to the remaining three contracts and supplemental information related to the Lallie Kemp and University Medical Center contracts to Ms. Walker on May 13, 2009. Finally, on June 26, 2009 Taylor Porter received the requested documentation from JCI and is now in the process of reviewing the information to determine its relevance to the energy savings issues under these contracts.

In addition undertaking efforts to obtain information from JCI related to each of these contracts in an effort to perform a more comprehensive evaluation, Taylor Porter has also, on behalf of the LSU System, undertaken to gather and review the volumes of materials related to each of these contracts and the savings thereunder. An expert has also been retained due to the highly technical nature of these agreements and the calculations contained therein, to assist in the evaluation of each of these contracts. This expert is currently assisting in the evaluation of the measured and stipulated savings under these contracts to determine the accuracy of previous calculations and the reasonableness of any assumptions underlying the stipulated savings under these contracts.

Once our expert has completed his review, the LSU System will determine the appropriate course of action to resolve the issues noted by your office under each of these contracts. The LSU System must carefully evaluate all potential options available to determine the path forward that is in the best interest of the University and the taxpayers. The LSU System must proceed with caution to preserve all rights that it may have related to these contracts. The LSU System is taking all necessary steps to prepare for litigation to remedy the situation by nullifying the agreements, forcing amendments to the agreements or recovering for breach of the agreements should this be determined to be the appropriate course of action. Due to the nature of the ongoing preparations, the LSU System is unable at this time to provide an anticipated completion date for these corrective actions.

Sincerely,

John Antolik
Assistant Vice President

cc: General Counsel P. Raymond Lamonica

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December 30, 2009

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Legislative Audit Findings
Untimely Remittance of Public Assistance Funds
LSU Health Care Services Division
Fiscal Year Ended June 30, 2009

Dear Mr. Purpera:

LSU Health Care Services Division (HCSD) concurs in part with the referenced legislative audit finding. Following the aftermath of Hurricane Katrina, instructions from the State of Louisiana regarding FEMA reimbursements changed multiple times. There were very limited written instructions or history to guide this type of activity. Thus, many situations were handled and continue to be handled on a one-to-one basis which is how the submission of FEMA reimbursement received by HCSD, but payable to Facility Planning & Control (FP&C) was handled. HCSD and Facility Planning & Control's Financial Officer had a verbal agreement to submit the FEMA reimbursements received by HCSD, but due to FP&C, every quarter or every three months depending on the timing of reimbursements. Thus, HCSD concurs that the first quarter submission was delayed. However, the second submission is considered to be timely based on the verbal agreement.

The corrective action plan includes a written agreement between HCSD and FP&C that quarterly submissions are satisfactory due to the lengthy process of gathering supporting documentation from Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) to support each reimbursement, communicating between both parties to obtain concurrence of the amount due to the convoluted transactions that occur, and the transmission of the funds. The HCSD Accounting Services Manager is responsible for follow-up and adherence of the corrective action plan.

Please let me know if you have any questions.

Sincerely,

Roxane A. Townsend, MD
Interim Chief Executive Office

cc: Mr. Art Landry, HCSD
Ms. Judy Albin, HCSD

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December 7, 2009

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Legislative Audit Findings
Un-located Movable Property
Medical Center of Louisiana at New Orleans
LSU Health Care Services Division
Fiscal Year Ended June 30, 2008

Dear Mr. Purpera:

The Louisiana State University Health Care Services Division (LSUHCSD) concurs with the referenced legislative audit findings. Comments and corrective actions are outlined in the preliminary response submitted by Phillip H. Baldwin, Jr., Director of Property Accounting at Medical Center of Louisiana at New Orleans (MCLNO). The Phillip H. Baldwin, Jr. and Reginald Ratcliff, Sr., HCSD Financials Asset Manager, are responsible for follow up and adherence to the corrective actions already in place.

As the finding is based upon the total of the past three years worth of un-located property, not just the un-located of fiscal year 2009, the impact of Hurricane Katrina will continue to affect MCLNO. However, the progress made by this institution cannot be over emphasized. In 2008, the un-located for that year was only .9% of the total asset inventory; in 2009 the un-located for that year had decreased to .6%

Progress is being made in the recovery of un-located movable property such as 65 items with a value of $198,113 were located in the FY 2008-2009 inventory. We expect continuing success in lowering discrepancies in fiscal year 2010 due to the following: An asset tracking system has been installed with radio frequency infrared devices placed on beds and other frequently moved assets. This system continuously monitors and records the physical location of these assets at all times. Monthly emails are sent to remind personnel about the importance of inventory control. Internal policies and procedures are on our shared drive for reference at any time. Additionally, in-services are conducted every other month throughout the year. Lines of communication have been established directly with departmental directors, managers, and equipment custodians so questions may be answered and problems solved immediately.

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In summary, great progress has been made but we acknowledge that our task is not complete. Emphasis will continue to be made on asset management through better tracking methods and enforcement of our policies and procedures.

Sincerely,

Roxane A. Townsend, MD
Interim Chief Executive Office

cc: Gerald Bellocq, Interim CFO

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DATE: November 3, 2009

Steve J. Theriot, CPA
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. Theriot:

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 2008-2009 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 $95,863,510 in total movable property, which included 808 items of movable property as unlocated with a total value of $3,468,561 or 3.61% of total inventory. Just in fiscal year 2009 we reported unlocated movable property to LPAA with a value of $528,368 or 0.05% of total inventory. 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 65 items with a value of $198,113 located in FY2008-FY2009. The discrepancy amount listed on the Annual Certification of Annual Property Inventory was submitted and approved by LPAA on June 11, 2009. The Property Accounting staff expects continuous success in lowering discrepancies in fiscal year 2010 for the Interim LSU Public Hospital. ILH next inventory certification for FY2010 is due April 30, 2010.

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 emails 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.

LSU INTERIM HOSPITAL • 2021 PERDIDO STREET • NEW ORLEANS, LOUISIANA 70112
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These actions will be the responsibility of Philip H. Baldwin, Jr., Director of Property Accounting and supervised by Gerard M. Bellocq, Interim Chief Financial Officer.

Respectfully,

Philip H. Baldwin, Jr.
Director of Property Accounting
Medical Center of Louisiana

cc: Dr. Roxane A. Townsend, Interim CEO
Sandra A. Crayton, Interim CMO
Gerard M. Bellocq, Interim CFO
Faye Martin, Legislative Auditor
John Gilbeaux, LPAA
Reginald Ratcliff, HCSD

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December 4, 2009

Daryl G. Purpera, CPA, CFE
Temporary Legislative Auditor
P. 0. Box 94397
Baton Rouge, LA 70821

Dear Mr. Purpera:

Your letter dated December 2, 2009, has been reviewed by this office. We concur with the audit finding Inadequate Controls Over Payroll and Performance Appraisals and provide the following information regarding the finding.

Current procedure for PPR notification:

Human Resources Administration sends PPR tickler reminders to supervisors 60 days prior to the employee's anniversary date. The tickler includes the date the PPR rating for current rating year is due in HR and the date the PPR signature page for the planning document for next rating year is due in HR. The employee is also copied on the tickler for reference and information. Supervisors are given adequate time to complete PPR's in a timely manner.

The HCSD CEO approved all salary adjustments, temporary appointments and promotions of the CFO.

The employee referred to as CFO in this finding is no longer serving in that role for HCSD, and his current role has no supervisory responsibility. There has also been a change in the CEO position for HCSD. We are certain the persons now holding those positions will comply with agency policy.

The following steps have been taken to correct the issues reported in this finding:

1. First reminder to supervisors of PPR due dates will continue to be sent 60 days in advance with one (1) follow up reminder.
2. All timesheets are being closely monitored for completeness. In the event a supervisor is unavailable to complete the timesheet, the Deputy CEO will review and sign the timesheets.
3. The PPR policy is being reviewed by Senior Management for revision to insure that merit increases and promotions are tied to performance.

LSU HEALTH CARE SERVICES DIVISION • P.O. BOX 91308 • BATON ROUGE, LOUISIANA 70821-1308
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If additional information is needed, please advise.

Sincerely,

Roxane A. Townsend
Interim CEO

RAT/LB/js

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January 18, 2010

Mr. Daryl G Purpera, CPA
Temporary Legislative Auditor
Office of Legislative Auditors
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Legislative Audit Findings
Inadequate Controls Over a Service Organization
LSU Health Care Services Division
Fiscal Year Ended June 30, 2009

Dear Mr. Purpera:

LSU Health Care Services Division (HCSD) concurs in part with the above referenced finding. HCSD does not completely concur with the finding related to lack of controls being in place to monitor services provided by its service provider Acadiana Computer Systems (ACS). The professional fee billing contract is designed to be managed by the hospital financial management staff with oversight by HCSD Administration Financial Reporting staff.

The ACS contract was implemented on a staggered basis for the HCSD facilities as follows; effective April 9, 2009 for Lallie Kemp Medical Center (LAKMC) and University Medical Center (UMCLA) and May 9, 2009 for Medical Center of Louisiana at New Orleans (MCLNO). Immediately after the initiation of the contract, ACS management and staff proactively began to meet with the hospitals to discuss the appropriate charging, coding, and billing process. The implementation and modification of such a service and transition from a previous vendor was very lengthy and involved orientation and organizational meetings with hospital staff, doctors, residents, etc at the multiple hospital and clinic locations. During the implementation and evaluation period, ACS learned of deficiencies at the hospitals. The deficiencies were documented and reported to hospital financial management beginning in July 2009.

The timing of the start date of the ACS contract to initiate professional fee billing services to the hospitals, 2-3 months prior to fiscal year-end, forced efforts to focus on charge capture of professional fees that were considerably delayed by both the time it took to award the contract and the deficient efforts on the part of the previous professional fee billing vendors. The number one priority set for the vendor by the hospitals was to immediately start the billing process to capture as many charges for FY 2009 as possible. That success is indicated below:

LSU HEALTH CARE SERVICES DIVISION • P. O. BOX 91308 • BATON ROUGE, LOUISIANA 70821-1308
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Charge Capture for fiscal year ending June 30, 2009:

Hospital	Month	Charge Amounts
UMCLA	May 09	$335,682
UMCLA	June 09	$922,941
UMCLA Total:		$1,258,623
LAKMC	May 09	$3,621,562
LAKMC	June 09	$1,178,210
LAKMC Total:		$4,799,772
MCLNO	June 09	$2,453,592
	Total:	**$8,511,987**

The short timeframe available between contract initiation and fiscal year end did not provide sufficient time to establish best practices and monitoring was done as expediently as possible within those time constraints.

ACS provided reports from their billing system as of June 30, 2009 for hospitals to review. HCSD Financial Reporting staff performed reasonableness tests of the reports provided by ACS. HCSD Financial Reporting staff and hospital finance staff continued to work with ACS to gather additional data that was not included in the June 30, 2009 reports to be reported in the financial statements. HCSD Financial Reporting staff continues to monitor and strengthen the practices where warranted over the transfer of information between HCSD and ACS.

HCSD concurs with the auditors finding related to not including a SAS 70 audit requirement as a vendor deliverable in the Invitation to Bid (ITB) for professional clinical charge processing, billing and collections of accounts receivable services. HCSD HQ Purchasing department issued an emergency ITB in March, 2009 for a vendor to provide professional clinical billing services and ensuring reimbursement of the professional revenue generated provided at LAKMC, UMCLA, and MCLNO which did not include this as a vendor requirement. Because of the significant cost to any organization to engage in a SAS 70 audit, this requirement would have had a significant effect on the number of vendors responding to the ITB as well as increasing the cost of these services for this ITB.

The successful bidder to the ITB in question was Acadiana Computer Systems, Inc. (ACS). ACS was already in the process, since February 2008, of obtaining a SAS70 audit for other contracts, prior to the HCSD ITB. In November 2008, ACS terminated the contract agreement with the CPA firm that was engaged in the SAS 70 audit for cause and had to begin the selection process over again. As of January 2010, ACS is currently under engagement for a SAS 70 audit, which will cover the timeframe of our vendor agreement with them. ACS is being a very responsible vendor/partner in this situation. The SAS 70 audit should be available for the Legislative Auditors in mid-February 2010.

HCSD Administration agrees that more central oversight should and will be established. Efforts are under way to establish standardized monitoring and reporting requirements by HCSD Administration on both the vendor and the hospital financial management staff. Written year end assurances and attestations will be required of all hospital CFO's and in place for FY 2010 close.

Establishment of these controls and monitoring will be the shared responsibility of the HCSD Hospital CFO's, HCSD Administration Finance Director, HCSD Administration Comptroller, HCSD Administration Director of Patient Financial Services, and HCSD Administration Accounting Services Manager.

If you have any questions, please contact me.

Sincerely,

Roxane A. Townsend, MD
Interim Chief Executive Officer

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LSU HEALTH SYSTEM
HEALTH CARE SERVICES DIVISION

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December 7, 2009

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Legislative Audit Findings
Inadequate Control Over Consumable Inventory
(University Medical Center and WO Moss Regional Medical Center)
LSU Health Care Services Division
Fiscal Year Ended June 30, 2009

Dear Mr. Purpera:

The Louisiana State University Health Care Services Division (LSUHCSD) concurs with the referenced legislative audit findings

In an effort to address these documented deficiencies and inaccuracies UMCLA and WOMMC have made a complete review of their current controls over consumable inventory and related operations and implemented the attached corrective action plans.

The Inventory Managers and the Chief Financial Officers at UMCLA and WOMMC, and HCSD PeopleSoft Supply Chain Manager at HCSD, are responsible for follow up and adherence to the corrective actions.

Sincerely,

Roxane A. Townsend, MD
Interim Chief Executive Officer

Attachment: Corrective Action Plans

cc: Larry Dorsey, UMC CEO
Karen Gardiner, UMC CFO
Dr. Pat Robinson, WOM CEO
Ranelda Benoit, WOM CFO

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Louisiana State University Health System – Health Care Services Division
Summary of Monitoring Roles and Responsibilities
For FY09 Legislative Audit Consumable Inventory Findings (UMC)

UMC Materials/Inventory Manager

- Perform cycle count on approximately 10% of the total active items in SPD (UMSTR inventory business unit) inventory business unit every month using either the location or item family cycle count method. (An item family refers to a category of inventory items such gloves, catheters, etc.) This will ensure that all items will be cycle counted within a one- year time frame.
- Analyze and document the reasons for each item variance on a counting event, and the corrective action taken to prevent the variance in the future.
- If the variance in a counting event is 5% or greater, re-count the same items in the counting event within seven days. These re-counts will not count towards the 10% of items to be counted monthly.
- Report to CFO and HCSD Finance staff monthly by the 10th of the subsequent month on variances and the corrective actions taken on each counting event for the previous month by the 10th of the subsequent month.
- Participate in HCSD Inventory managers/staff meeting and training.
- Utilize the PS system Reorder Report, Outage Report and UMSTR Inter Unit Transfer (IUT) Report to monitor need to re-stock inventory items based on On-hand quantities.
- Implement entering of material stock request at the department level by mid October 2009.

UMC Chief Financial Officer

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

HCSD Finance Staff

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

Louisiana State University Health System – Health Care Services Division
Summary of Monitoring Roles and Responsibilities
For FY09 Legislative Audit Consumable Inventory Findings (WOM)

<u>WOM Materials/Inventory Manager</u>

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

<u>WOM Dietary Manager</u>

- Perform physical inventory on 100% of the active items in WMDTR inventory business unit every month.
- Analyze and document the reasons for each item variance on a counting event, and the corrective action taken to prevent the variance in the future
- Report to CFO and HCSD Finance staff monthly on variances and the corrective actions taken on each counting event for the previous month.
- Participate in HCSD inventory managers/staff meetings and training
- Utilize the PS system Reorder Report and Outage Reports to monitor need to re-stock inventory items based on On-hand quantities.

<u>WOM Chief Financial Officer</u>

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