

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



MANAGEMENT LETTER
ISSUED APRIL 18, 2007

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

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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February 28, 2007

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

As part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2006, we considered the Louisiana State University Health Sciences Center (LSUHSC) - Health Care Services Division's (HCS D) internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested HCS D'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 HCS D'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 HCS D's compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by United States Office of Management and Budget Circular A-133.

The annual financial information of the LSUHSC, which includes the activity of HCS D, is not audited or reviewed by us, and, accordingly, we do not express an opinion on that financial information. HCS D'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 HCS D, for the year ended June 30, 2005, we reported findings relating to unlocated movable property, inadequate controls over financial class determinations, noncompliance with LaCarte purchasing card policy and approval procedures, and failure to report misappropriations. The findings related to noncompliance with LaCarte purchasing card policy and approval procedures and failure to report misappropriations have been resolved by management. The remaining findings have been 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

HCSO contractors reported significant amounts of movable property that could not be located at the Medical Center of Louisiana at New Orleans (MCLNO). In addition, MCLNO scrapped and transferred movable property without completing the Property Disposal Authorization Forms or Condition Reports. Transfer of property to another state agency is considered disposal. MCL Policy No. 3206, "Policy and Accountability Procedures Governing MCL Property," stipulates that the cost center manager/hand receipt holder responsible for the custody, care, and use of the property shall originate a request to dispose of the property with a Property Disposal Authorization Form. Documentation regarding the condition of the property, called a Condition Report, and all necessary information pertinent to the consequences of continued use and repair versus replacement should be attached to the completed Property Disposal Authorization Form. Also, Louisiana Administrative Code Title 34 Part VII Chapter 5 states, "No property of any agency shall be sold to any person or legal entity or otherwise alienated, or be transferred, assigned or entrusted to any other agency or to any officer or employee of any other agency without the written permission of the commissioner."

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. Furthermore, Louisiana Administrative Code Title 34 Part VII Section 313 (A) states, in part, that efforts must be made to locate all movable property for which there are no explanations available for its disappearance. Property unlocated after three years is permanently removed from movable property records. Louisiana Revised Statute 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 (LPAA).

MCLNO was granted an exemption by LPAA from taking its annual inventory in 2006 because of various conditions caused by Hurricane Katrina. However, HCSO and its contractors performed special inventory procedures to account for movable property items in various locations throughout MCLNO campuses. As a result of these special inventory procedures, MCLNO reported 2,250 unlocated items at June 30, 2006, with an original cost of \$12,285,549. This represents an increase of 278% compared to the prior year's annual certification unlocated amount of \$3,251,897. In its annual movable property certification to the LPAA on May 13, 2005, MCLNO reported total tagged movable property of \$71,718,342.

MCLNO was unable to account for much of its movable property because of the impact of Hurricane Katrina. The extensive flood damage particularly to the main campus created hazardous environmental conditions and the lack of electrical power hampered efforts to locate movable property items. The efforts to re-establish healthcare services after the hurricane resulted in many items being transferred to other hospitals and clinics where these items could be used to provide healthcare, thus posing additional problems in

accurately locating and reporting movable property. Cost center managers were not available to prepare the necessary transfer or delete forms. Failure to adequately monitor, secure, and account for all movable property and locate those items for which there is no explanation available for their disappearance subjects the movable property of MCLNO to increased risk of loss and/or unauthorized use.

Management of MCLNO should comply with internal policies and state laws and regulations for movable property; adequately secure and monitor its movable property; conduct timely, accurate physical inventories; and devote additional efforts toward locating movable property reported as unlocated. Management concurred with the finding and outlined corrective action (see Appendix A, pages 1-3).

Weaknesses in Movable Property Controls

For the fourth consecutive audit, University Medical Center (UMC) did not enforce adequate internal controls or comply with state regulations. Louisiana Administrative Code Title 34 Part VII Chapter 5 states, "No property of any agency shall be sold to any person or legal entity or otherwise alienated, or be transferred, assigned or entrusted to any other agency or to any officer or employee of any other agency without the written permission of the commissioner." In addition, good internal control requires that adequate procedures be in place to ensure that movable property transactions are recorded timely and accurately and that assets are properly safeguarded.

Audit procedures performed on movable property transactions disclosed the following:

- In September 2005 without the prior approval of the Louisiana Property Assistance Agency (LPAA), UMC traded in a gamma ray machine for a zero dollar amount. The machine, which was purchased in 1986, had an original cost of \$244,986.
- On May 9, 2005, LPAA rescinded its initial approval for the disposition of 290 items (231 computers, 47 printers, and 12 pieces of equipment) with original costs totaling \$659,748 after learning that the items were dismantled before the initial approval.
- Five of 46 items (11%) tested were either not tagged or not located. Expanded testing disclosed six items that were not processed within six months.

UMC has no written policies to address issuing and deactivating user access in LPAA's Protégé Asset Management System.

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

Management should strengthen its policies and procedures to ensure that movable property is safeguarded and accounted for in accordance with state regulations. Management concurred with the finding and outlined corrective action (see Appendix A, pages 4-7).

Inadequate Control Over Financial Class Determinations and Patient Billing

For the second consecutive year, Earl K. Long Medical Center (EKLMC) failed to require and maintain adequate documentation to support “free-care” financial class determinations in accordance with the LSUHSC-HCSD policy. In addition, EKLMC incorrectly posted and billed medical charges on patient accounts.

LSUHSC-HCSD Policy 1503-00 requires the hospital to gather supporting documentation as part of the screening process to make a financial class determination. If the patients/guarantors have no income, they are to provide a notarized statement indicating financial status witnessed by an individual not related to the guarantor. In addition, this policy requires that all admit forms, including screening documentation, be kept and maintained. LSUHSC-HCSD Policy 2525-05 requires patients to provide supporting documentation to the hospital to support a “free-care” determination. In addition, good internal control would require adequate supervision and review over the input of patient charges to ensure the correct posting of charges and to prevent duplicate postings.

In a review of 33 “free-care” patient accounts, we noted that 30 (91%) did not have supporting documentation maintained to support the “free-care” determination. Of those, two had provided a statement of no income; however, it was not notarized and/or witnessed in accordance with LSUHSC-HCSD policy and therefore should not have been accepted to support the “free-care” determination.

In a review of 46 patient bills, the following were noted:

- Four patient bills (8.7%) had duplicate charges totaling \$999.
- One patient bill (2.2%) had pharmacy charges totaling \$471 not posted to the bill.

These errors occurred because the hospital has failed to implement adequate procedures to ensure compliance with system policies regarding the review and maintenance of supporting documentation for financial class determinations and has failed to implement adequate procedures to ensure that patient charges are correctly posted in the patient billing system. Failure to require and maintain adequate documentation to support financial class determinations and failure to accurately input patient changes in the billing system subjects the hospital to noncompliance with LSUHSC-HCSD policies and could cause improper billing of patient accounts and excess administrative time to detect and correct errors.

Management should implement procedures to ensure compliance with LSUHSC-HCSD policies that require adequate supporting documentation be reviewed and maintained to support “free-care” financial class determinations. In addition, management should implement procedures to ensure all patient charges are posted correctly to the patients’ accounts. Management concurred with the finding and outlined corrective action (see Appendix A, pages 8-10).

Control Weaknesses in Time and Attendance Data

UMC did not consistently follow state and agency control procedures and policies relating to time and attendance data. Civil Service Rule 15.2 states that the appointing authority or his agent designated for this purpose shall certify on each payroll or subsidiary document the fact of the actual rendering of service in the position, the actual number of hours of attendance on duty, and the number of hours of absence from duty. Each employee shall also certify the fact of the actual rendering of service, the number of hours of attendance on duty, and the number of hours of absence from duty. In addition, UMC *Personnel and Procedure Manual No. 8* states that it is the employees’ responsibility to complete and submit missed punch slips to their manager whenever they do not enter a required clocking.

Audit procedures performed on UMC’s time and attendance data disclosed the following:

- Payroll reports and supporting documentation could not be located for two of 24 (8.3%) employees. Additional audit procedures were performed on the two hospital departments in question. Of 12 payroll periods tested, payroll records and other supporting documentation could not be located for five payroll periods for the housekeeping department (with approximately 38 employees) and five payroll periods for the nursing services department (with approximately 19 employees).
- Ten of the 21 (47.6%) payroll reports tested were not approved by a supervisor.
- Four of the 21 (19%) payroll reports tested were not certified for accuracy by the employees.
- In two of six (33.3%) instances tested where edits were made to the employee’s time by the timekeeper, the supervisor failed to approve the missed punch slip for manual edits performed by the timekeeper.
- One of the seven (14.3%) employees tested was not paid the proper differential/premium pay rate. The employee was paid at straight time, but the employee’s authorization indicates the employee should have been paid at time and a half.

In a report issued on January 10, 2006, by the LSU-HCSD Office of Internal Audit, the report noted that 42 out of 148 timekeepers and/or managers edited their own time card records 270 times during one pay period. Thirty percent of these edits had supporting documentation, which was not approved by appropriate levels of management or approval of the exception was after the pay period closed.

Although time and attendance control procedures exist, certain agency personnel are either unaware of the policies or choose not to follow them. Failure to comply with state and agency control procedures and policies relating to time and attendance data could result in the failure to prevent or detect errors or fraud in payroll transactions.

Management should ensure that employees comply with state and agency procedures and policies relating to the certification of time and attendance data. Management concurred with the finding and outlined corrective action (see Appendix A, pages 11-13).

Weaknesses in Internal Controls Over Non-payroll Expenses

MCLNO failed to maintain adequate control over non-payroll expenses and did not comply with MCL policies and state purchasing rules and regulations. Purchasing activities are subject to rules and regulations established by Title 34 of the Louisiana Administrative Code; the Office of State Purchasing and Travel; MCL Policy No. 2006, "Materials Management, Purchasing and Procurement"; and MCL Policy No. 2005, "Receiving Goods, Materials and Equipment." Contracts for professional services are governed by Title 34 of the Louisiana Administrative Code, rules and regulations of the Office of Contractual Review (OCR), and MCLNO policies and procedures. MCL Policy No. 1301, "Professional, Personal and Consulting Contract Procurement," stipulates that contracts over \$20,000 must be approved by OCR. The *Louisiana State Employees' Travel Guide* and MCL Policy No. 1306, "State Travel Regulations," specify the policies and rates for travel expenses including airfares, meal allowances, and mileage reimbursements.

We noted the following deficiencies as a result of our test of non-payroll expenses:

Purchasing

- Purchase requisitions should have been created for five of the 15 items tested. In three of those five instances (60%), a requisition was either not created or an approved copy of the requisition was not available.
- Signed or stamped purchase orders indicating that the purchasing department processed the purchase orders were not available in 67% of the items sampled.
- One purchase was recorded in the wrong period. The service date was June 25, 2005. The budget period indicated on the purchase order and PeopleSoft payment voucher was FY06.

- Purchase orders were not received in PeopleSoft for 21% of the items tested.
- In nine of 15 items (60%), the invoices were not paid within 30 days of the invoice date.
- One invoice was paid without either receipt in the PeopleSoft system or signatory approval by the appropriate cost center manager.

Professional Services Contracts

- One contract for professional services out of seven contracts (14%) tested was not approved by OCR within 60 days of the contract's effective date.

Insurance Expenses

- One insurance payment tested was not coded to the account listed in the HCSD risk premium workbook. The entire amount of the voucher (\$4,141,135) was coded to Insurance - Automotive. Only \$4,398 should have been coded to this account.

Imprest Fund Expenses

- Travel Authorization forms were not being filled out completely. None of the forms were certified by the comptroller/fiscal officer.
- Two items selected for testing involved out-of-state travel and airfare. The 2005-06 *State Travel Guide* states that all airfare tickets must be purchased from the state's contracted travel agency, Navigant, unless approval is granted from the State Travel Office. Navigant was not used in the items we tested.
- Four of the reimbursements tested were not in compliance with the *State Travel Guide*:
 - An employee was reimbursed for a meeting that MCLNO hosted at a public venue in March 2006. A solicitation of bids or quotes from other venues was not documented, and a Travel Expense Account Form was not completed.
 - The wrong mileage rate was reimbursed for two items tested. In one of those cases, the calculation of mileage was also incorrect, and a Travel Authorization Form was not completed.
 - Incorrect rates were used for reimbursements for lunch and dinner, and a mathematical error was made in reimbursement for taxi fare.

Hurricane Katrina, which resulted in the loss of staff and resources, affected management's ability to maintain adequate internal control over non-payroll expenses. Failure to maintain adequate internal control over non-payroll expenses reduces management's assurance of accurate financial accountability and increases the risk of fraud and noncompliance with state purchasing rules and regulations.

Management should enforce compliance with the medical center's policies and state travel and purchasing rules and regulations to ensure accurate accountability of financial resources and financial reporting. Management concurred with the finding and outlined corrective action (see Appendix A, pages 14-17).

Weaknesses in Controls Over Consumable Inventory

UMC and MCLNO failed to maintain adequate control over their consumable inventories, which were valued at \$2,165,267 and \$3,180,901, respectively, at June 30, 2006.

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 goods at the time of purchase and the issuance of goods as they are withdrawn for use. At any point in time, a count of goods 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.

The following deficiencies were noted for the inventories:

- The MCLNO warehouse department had a total inventory value of \$1,635,334 at June 30, 2006. Discrepancies between physical counts and the inventory system should be investigated to determine if losses are due to theft or fraud. The warehouse uses the PeopleSoft system to track inventory. The medical center has a high volume of transactions, yet it does not perform periodic physical counts throughout the fiscal year to ensure the perpetual system is working properly.
- At MCLNO, of the 44 items test counted, 28 items (64%) did not match the inventory amounts listed on the compilation report.
- The MCLNO engineering (maintenance) department has a total inventory value of \$336,279 at June 30, 2006. Of the 37 items test counted, 11 items (30%) did not match the inventory amounts recorded in the PeopleSoft system.

- At UMC, the supplies processing distribution (SPD) department, which accounted for \$950,405 (53%) of the total inventory for fiscal year 2005 of \$1,788,471, is not maintaining a perpetual inventory system.
- Although the UMC warehouse department converted to a perpetual inventory system in January 2006, a test count of 20 items disclosed that 16 items (80%) did not agree to the amounts shown in the perpetual inventory system.

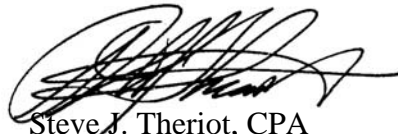
Failure to provide adequate controls over inventory increases the risk of inaccurate accounting and reporting of inventory as well as the risk that losses of inventory may occur and remain undetected.

UMC management should establish a functioning perpetual inventory system to track the SPD department's inventory and should closely monitor controls over the warehouse's perpetual inventory system to ensure that inventory is accurately safeguarded, valued, recorded, and maintained in its consumable inventory systems. In addition, MCLNO management should ensure that periodic physical test counts are performed to ensure that the perpetual inventory system is functioning properly. Management concurred with the finding and outlined corrective action (see Appendix A, pages 18-21).

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

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

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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HCS006]

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



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

February 16, 2007

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

RE: Legislative Audit Finding
Un-located Movable Property
Medical Center of LA at New Orleans
Fiscal Year Ended June 30, 2006

Dear Mr. Theriot:

The Louisiana State University Health Care Services Division (LSUHSCSD) concurs with the referenced legislative audit finding. Comments and corrective action taken are outlined in the preliminary response submitted by Bob Plaisance, Interim Chief Financial Officer of MCLNO, on January 23, 2007.

It should be noted that these infractions occurred immediately following the worst disaster in our nation's history – Hurricane Katrina. We recognize that it is our responsibility to have disaster and business continuity plans in place to ensure internal controls during a disaster, which we had and have since strengthened as a result of lessons learned during and after the storm.

Edmond Toscano, MCLNO Director of Property, and Reginald Ratcliff, Sr., HCSD Financials Asset Manager, are responsible for follow up and adherence to the corrective actions already put in place.

Sincerely,

A handwritten signature in black ink, appearing to read "Donald R. Smithburg". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Donald R. Smithburg
Executive Vice-President, LSU System
CEO, LSU Health Care Services Division

 **LSU**
HEALTH CARE SERVICES DIVISION
LOUISIANA'S HEALTH SYSTEM

BOGALUSA MEDICAL CENTER- BOGALUSA
EARL K. LONG MEDICAL CENTER-BATON ROUGE
HUEY P. LONG MEDICAL CENTER-ALEXANDRIA
LALLIE KEMP REGIONAL MEDICAL-INDEPENDENCE
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UNIVERSITY MEDICAL CENTER-LAFAYETTE
W. O. MOSS REGIONAL MEDICAL-LAKE CHARLES

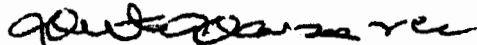
January 23, 2007

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

Dear Mr. Theriot:

Attached please find MCLNO's response to the Legislative Auditor's Finding Number 1 presented in your letter to me of January 16, 2007. I appreciate your and the Legislative Auditor's review and findings involving the operation of the Medical center of Louisiana at New Orleans. Please advise if additional information or documentation is required relative to this matter.

Respectfully,



Robert M. Plaisance
Interim Chief Financial Officer
Medical Center of Louisiana at New Orleans

RMP/js

cc: Dr. Dwayne Thomas
Mitch Perlin
Donald R. Smithburg
Bill Boston
Art Landry

Response to Legislative Audit Finding
Dated January 16, 2007

Finding Number 1-Unlocated Movable Property

Management Concur

Explanation-As a result of the Storms in 2005, real property in Charity and University Hospitals was damaged beyond recognition by flood waters. Much of the equipment was removed by contracted vendors and discarded. Serial numbers and inventory tags were not readable. Therefore, necessary data for completion of the Property Disposal Authorization form could not be obtained.

Evacuation of the city caused our managers and other inventory essential employees to be spread throughout the State and the United States. In addition to the impact caused by the physical evacuation of our employees, our manpower capacities were further diminished by the furlough and eventual lay-off of personnel which occurred post the storm. Employment of essential personnel was maintained by the Hospital when available but many employees were and continue to be physically located in other cities and therefore are not available to complete the paperwork proscribed by internal policy. In many cases we were not aware of how to contact these people.

When the military left New Orleans, we did not have enough MCLNO Police staff available to adequately lock down all of our buildings and secure our assets and a direct result of that inability to staff resulted in the loss of assets to both undocumented transfers to other facilities and the actual loss of assets through theft although it should be clearly understood that we at MCLNO believe that portions of the Unlocated Movable Property have yet to be located and remain within one or more of our facilities.

Corrective Action- Management has reinstated appropriate controls and reinforces the mandated use of the Property Disposal Authorization form. Additional Officers have been brought back to secure our buildings. A contract has been let to provide for additional personnel to secure the buildings. Management has contacted other HCSD facilities to obtain the necessary paperwork for equipment shipped to those facilities. The Property Accounting Department has begun to perform an internal inventory and has found some of the missing equipment and we expect to find more in the coming weeks. Property Accounting has increased staff. Management is exploring better methods to secure assets in the future. The Medical Center of Louisiana New Orleans and the Healthcare Services Division is currently assessing all existing policies to assure that the lessons learned from our experiences are memorialized and better practices used in the future. The Director of Property Accounting is the responsible party within MCLNO for the control of capital assets. Completion date for the review and adoption of new policies is slated for the spring of 2007.



LSU
HEALTH CARE SERVICES DIVISION
LOUISIANA'S HOSPITAL SYSTEM

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

February 5, 2007

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

RE: Legislative Audit Finding – Weakness in Movable Property Controls
University Medical Center, Lafayette, Fiscal Year Ended June 30, 2006

Dear Mr. Theriot:

This letter is in response to the January 17, 2007 Legislative Auditor letter on reported audit findings for the Louisiana State University - Health Care Services Division (HCSD) - University Medical Center at Lafayette (UMC) facility.

Based on the movable property audit finding provided in your letter and the original May 17, 2006 preliminary response letter from Lawrence T. Dorsey, Chief Executive Officer, UMC, HCSD executive management concurs with the finding and with the UMC corrective actions as originally stated for 3 of the 4 property control weakness citations referenced.

HCSD executive management also concurs, in contrast to UMC's previous response, with the audit citation referenced as – Dismantling Equipment without LPAA's approval. UMC had requested and received prior approval for dismantling computer equipment. However, due to a controversy and conflicting impressions and documentation over the requested approval date and the timing of the equipment dismantling, LPAA exercised its authority to rescind their previous approval for dismantling the referenced computer equipment. Therefore, we see no basis for disputing the facts and documentation as presented. The corrective action plan for this audit finding will include a reinforcement of UMC's continuance to adhere to LPAA regulations in conjunction with HCSD and hospital specific internal policies and procedures as outlined in UMC's Property Control Manual.

LSU HCSD
Legislative Audit Finding
Weaknesses in Controls Over Inventory
Page 2 of 2

HCSD executive management will reinforce appropriate internal policy and adherence to LPAA operating procedures as cited by the legislative audit finding. Those staff members responsible for follow up and adherence to the corrective action plan include Karen Gardiner, CFO University Medical Center Lafayette, and Reginald Ratcliff, Asset Management Section, Health Care Services Division. Additionally, HCSD Asset Management Section will issue a "reminder" to all HCSD facilities that reinforces appropriate pre- approval from LPAA relative to this type audit finding.

Sincerely,



Donald R. Smithburg
Executive Vice-President, LSU System
CEO, LSU Health Care Services Division



Health Sciences Center
HEALTH CARE SERVICES DIVISION

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

May 17, 2006

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

RE: Legislative Audit Finding – Weaknesses in Movable Property Controls

Dear Mr. Theriot,

University Medical Center concurs in part with your audit finding and recommended controls regarding the aforementioned finding. Please see specifics below:

Audit Finding: No LPAA approval on the trade-in of the gamma ray machine.

Management's Position: Even though this item had a book value of zero, was rendered obsolete by the manufacturer and was actually being disposed of by the vendor, we concur with the finding as noted.

Corrective Action Plan: This discrepancy was the result of the lack of knowledge of the proper protocol for equipment disposition by the manager of the department in question. The manager was instructed that all equipment dispositions need the approval of LPAA before action can be taken and the first step of this process is to notify the hospital's Property Control Manager. Also to further ensure compliance to this policy, this issue will be discussed thoroughly at the Department Manager's Meeting to be held on May 30, 2006.

Audit Finding: Dismantled equipment without LPAA's approval.

Management's Position: We do not concur with this finding as we have hardcopy evidence that LPAA's approval was given prior to equipment referenced was dismantled.

Audit Finding: Five items not tagged and six items not processed within six months.

Management's Response: We concur with the finding as noted.

May 17, 2006

Corrective Plan of Action: The underlying cause of these discrepancies is a general lack of awareness and accountability of the Department Managers. To improve performance in this area, occurrences of reporting deficiencies by Department Managers will be forwarded to the respective Service Director to be considered during annual Performance and Planning Reviews. Also the Property Control Manual and forms will be placed on the hospital intranet for easier reference.

Effective April 2006, University Medical Center has adopted a scanning process to account for equipment. All future annual physical equipment inventories will be performed with the Symbol Palm Powered Scanner and the InCircuit Scan and Validate Software. This system will greatly assist with identifying tagging and location discrepancies and the resolution of such.

Audit Finding: No written policies for access LPAA's Protégé Asset Management

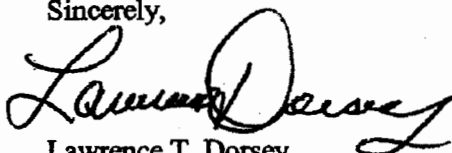
System:

Management's Response: We concur with the finding as noted.

Corrective Plan of Action: By June 1, 2006 a policy will be written and adopted assigning the LPAA Protégé security function to the Property Control Manager. This position will be responsible for assuring that all Protégé access issuances and deactivations are done in a timely manner.

If you have any questions or need any additional information, please feel free to contact Karen B. Gardiner, Chief Financial Officer at (337) 261-6007.

Sincerely,



Lawrence T. Dorsey
Chief Executive Officer

LTD/kgb



LSU

HEALTH CARE SERVICES DIVISION
LOUISIANA'S HOSPITAL SYSTEM

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

February 5, 2007

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

RE: Legislative Audit Finding
Inadequate Control Over Financial Class Determinations and Patient
Billing - Fiscal Year Ending June 30, 2006

Dear Mr. Theriot:

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

It was stated by Sue Tolbert, EKLMC Chief Financial Officer, in February 13, 2006 response to the initial audit finding for FYE June 30, 2005, that EKLMC corrected this deficiency in December 2005 and that all financial supporting documentation was being scanned into a data base purchased solely by EKLMC. This fiscal years legislative audit finding indicates that the EKLMC 2005 corrective action plan was not successful and fell below our expectations. Again, in the November 10, 2006 response from Sue Tolbert it was stated that EKLMC initiated another more recent corrective action that began in May 2006 requiring patients with no proof of income to provide a notarized statement to support their financial status witnessed by an individual not related to the guarantor; which on the surface adheres to HCSD policy.

HCSD Central Office Executive Management will not accept a repeat finding on this deficiency for a 3rd consecutive year. Therefore, this office has officially requested that the EKLMC Administrator and CFO provide me with a written detailed corrective action plan and the establish benchmarks of how the hospital will ensure compliance with the LSUHCS D policies for Free Care Determination (2525-06) and the retention of the supporting documentation as stated in the Admit/Screening policy (1503-00). The EKLMC plan must, at a minimum, include established routine intervals of random monitoring of financial documentation validating proof of income and/or notarized statements provided by patients determined to be eligible for free care, as well as, the CFOs commitment to provide quarterly updates on their plan.

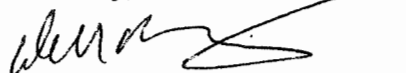
LSU HCSD
Legislative Audit Finding
Weaknesses in Controls Over Inventory
Page 2 of 2

In addition, from August 30 through December 15, 2006 HCSD Central Office Application Support staff successfully trained all LSUHCSD hospitals' "core trainers" and deployed an enterprise-wide Patient Accounting Document Imagine software application to facilitate and enhance the collection and retention of documents that support the patient's eligibility for Free Care. This new imaging software product allows HCSD hospitals the ability to audit documentation gathered and scanned to support Free Care determination on a daily basis. Therefore, the EKLMC Director of Patient Registration will be expected to routinely monitor and ensure the accuracy and validity of the documents being imaged during the free care screening process for EKLMC to minimize the risk of this type audit finding in the future.

It is also essential that EKLMC make a commitment to proactively assign and utilize their nurse auditor to perform routine monthly random audits of patient accounts during the fiscal year to identify any errors by departments either failing to charge or inappropriately charging for services received by patients. EKLMC must require that department directors ensure that departmental documentation exists to support patient services and that all services are charged and posted to the patient's account on a daily basis. The hospital's scheduled charge audits are to be targeted at patient accounts of certain dollar thresholds and/or specific service types that would potentially reveal charging aberrances. This action will also minimize future audit risk and have a positive effect on cash flow. The CFO will be expected to submit a written detailed corrective action plan to this office defining the benchmarks and intervals of how the hospital will implement procedures to ensure all patient charges are posted correctly to the patient's accounts with a commitment to provide quarterly updates of their plan.

Should you have any questions or need additional information, please contact Sue Tolbert, EKLMC Chief Financial Officer at (225)358-1000, Guy LaBauve, LSUHCSD Patient Financial Services Director at (225)922-2223, or Art Landry, LSUHCSD Director of Financial Services, at (225)922-1157.

Sincerely,



Donald R. Smithburg
Executive Vice-President, LSU System
CEO, LSU Health Care Services Division



Health Sciences Center
HEALTH CARE SERVICES DIVISION

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

November 10, 2006

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

Dear Mr. Theriot,

Earl K. Long Medical Center concurs with the finding of Inadequate Control over Financial Class Determination and offers the following response for correcting the financial class determination. Although the hospital believes the financial class was given correctly in most cases, the supporting documentation could not be found; therefore the department was not in compliance with the policy. LSU Health Care Services Division purchased a document imaging system and this system was implemented by Calvin Payne, the Director of the Screening Department, on September 18, 2006. Also, the hospital is now requiring all documentation from the patient be brought in at the same time which will further ensure that adequate documentation was received from the patient.

The hospital also began adhering to the policy of having statements notarized. In the past the hospital required a relative or another person to witness the statement of support. In May 2006, the hospital began requiring patients to bring notarized statement to support their free care status.

The hospital strives to charge and bill correctly through education and self audits. The hospital has hired nurses to perform billing and compliance audits to increase the accuracy of patient bills.

If any further information is needed, please contact me at 225-358-1004. I appreciate the efforts of your staff in working with us toward achieving full financial and operational compliance.

Sincerely,

Sue Tolbert, CFO

CC: Bill Boston, Internal Audit



LSU
HEALTH CARE SERVICES DIVISION
LOUISIANA'S HOSPITAL SYSTEM

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February 5, 2007

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

RE: Legislative Audit Finding
Control Weaknesses in Time and Attendance Data
University Medical Center, Lafayette, LA
Fiscal Year Ended June 30, 2006

Dear Mr. Theriot:

I have reviewed your audit finding referenced above as well as the response dated May 9, 2006 from Mr. Lawrence T. Dorsey, Chief Executive Officer, University Medical Center and concur with your findings and recommended controls regarding the aforementioned finding.

This office will continue to monitor the increased controls the hospital has put in place to insure appropriate, timely documentation of time and attendance data. Per Mr. Dorsey, all missing data identified in the audit has been located and is on file at this time. Processes as well as additional staff have been put in place to insure timely documentation and receipt of time and attendance data.

Sincerely,

Donald R. Smithburg
Executive Vice-President, LSU System
CEO, LSU Health Care Services Division



LSU

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LOUISIANA'S HOSPITAL SYSTEM

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January 24, 2007

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

RE: Legislative Audit Finding – Control Weaknesses in Time and Attendance Data
University Medical Center, Lafayette, LA

Dear Mr. Theriot:

I have reviewed your audit finding referenced above as well as the response dated May 9, 2006 from Mr. Lawrence T. Dorsey, Chief Executive Officer, University Medical Center and concur with your findings and recommended controls regarding the aforementioned finding.

This office will continue to monitor the increased controls the hospital has put in place to insure appropriate, timely documentation of time and attendance data. Per Mr. Dorsey, all missing data identified in the audit has been located and is on file at this time. Processes as well as additional staff have been put in place to insure timely documentation and receipt of time and attendance data.

Sincerely,

Lanette Buie
Human Resources Administrator



Health Sciences Center
HEALTH CARE SERVICES DIVISION

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

May 9, 2006

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

RE: Legislative Audit Finding – Control Weaknesses in Time and Attendance Data

Dear Mr. Theriot,

University Medical Center concurs with your audit finding and recommended controls regarding the aforementioned finding.

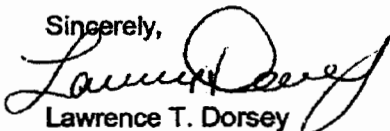
Since your review, we have increased the controls in time and attendance data and yield the following:

- Payroll reports and supporting documentation which could not be located at the time of your review have been located and are on file.
- Missing supervisors approval on payroll reports identified have been obtained with further instructions issued at the April 2006 Department Managers meeting that such requirement is needed prior to submission for processing of payroll documents.
- Employee certifications have been obtained and verification of accuracy has been documented.
- Error noted in payment of overtime for the employee in your test sample has been corrected.

Although the need for timely submission is warranted, we do have supporting documentation on file for disbursements made. In addition, we have created a new analyst position which will include the duties of auditing payroll records for timely submission and accuracy. We anticipate that this position will be filled within a few months. Also, management continues to encourage compliance with directives and policies regarding the controls over time and attendance.

If you have any questions or need any additional information, please feel free to contact Jennifer Simms, Human Resources Director at (337) 262-1839.

Sincerely,


Lawrence T. Dorsey
Chief Executive Officer

LTD/kgb

February 5, 2007

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

RE: Legislative Audit Finding
Weaknesses in Internal Controls over Non-payroll Expenses
Medical Center of LA at New Orleans
Fiscal Year Ended June 30, 2006

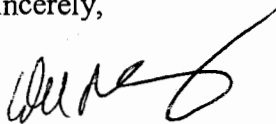
Dear Mr. Theriot:

The Louisiana State University Health Care Services Division (LSUHSCSD) concurs with the referenced legislative audit finding. Comments and corrective action taken are outlined in the preliminary response submitted by Bob Plaisance, Interim Chief Financial Officer of MCLNO, on December 15, 2006.

It should be noted that these infractions occurred immediately following the worst disaster in our nation's history – Hurricane Katrina. We recognize that it is our responsibility to have disaster and business continuity plans in place to ensure internal controls during a disaster, which we had and have since strengthened as a result of lessons learned during and after the storm.

Mike Brooks, MCLNO Director of Materials Management; Peggy Vicknair, Director of Contracts; and Bruce Dyer, MCLNO Controller are responsible for follow up and adherence to the corrective actions already put in place in their respective areas.

Sincerely,



Donald R. Smithburg
Executive Vice-President, LSU System
CEO, LSU Health Care Services Division

Finding Number 3-Weak Internal Controls over Non-payroll Expenditures

1. Purchasing

a.Explanation-Due to a lack of clerical staff to input requisitions, Purchasing accepted requests through e mail, phone, or other communications

Corrective Action-As clerical staff returns, Purchasing is training them and Departments are entering requisitions into Peoplesoft. The Director of Materials Management is overseeing this process to assure compliance.

b.Explanation-All Pos from July and August were lost to flood waters in the basement at UH. When purchasing operations resumed locally on October 1, Files were kept and until December 13, all activities were in the Hurricane Katrina files. As of December 13, normal operations in purchasing resumed.

Corrective Action-When normal operations resumed all MCLNO policies and State regulations are followed. Director of Materials Management oversees compliance in this area.

c.Explanation-July 22 is the last date that Accounts Payable can enter and pay an invoice for the proceeding year. Since the service date is so close to the fiscal year end, we believe that the invoice did not come in until after July 1, therefore payment within the same fiscal year would not have been possible. We believe that no corrective action is necessary and that the payment was handled correctly.

d. Explanation-After the Storms, staffing and computer access were limited and many times an item could not be electronically received. Payment was made on a PO to invoice match. Paper records of the receipt were kept.

Corrective Action-Systems were restored and are now functioning. Items are being electronically received.

e. Explanation-Lack of staff post storm and the lack of a operating postal system led to us receiving invoices late.

Corrective Action-Our accounts payable staff is being increased to insure that all invoices are processed in a timely fashion. This issue is under the supervision of the Comptroller.

2. Professional Services Contracts

Explanation-Due to the disruption of services within the Schools and MCLNO, negotiations on specific contracts went past the start date of the contract. The contracted services directly affected patient care and the contractor agreed to continue providing services during the negotiations. Payment was never made until the OCR approved the contract.

Corrective Actions-As operations normalize and needs are better identified, professional services contracts will be negotiated in a more timely fashion. The Director of Contracts oversees this to assure a timely response to need.

3. Insurance Expenditures

Explanation-This entry was manually coded by Accounts Payable incorrectly.

Corrective Action-A PO will be issued and the invoice paid from the PO so that no manual coding is necessary thus eliminating the need for manual intervention. The Comptroller is responsible for Accounts Payable activity.

4. Imprest Fund Expenditures

a.Explanation-The forms were not being reviewed for completeness.

Corrective Action-The policy for travel authorization will be amended to include review by the Comptroller. The Comptroller will review all travel authorizations for completeness and correctness.

b.Explanation-Facts correct as stated.

Corrective Action-Reimbursement will only be made if Navigant is used. MCLNO Policy #1306 will be amended to include Navigant as the only travel service to use unless special conditions exist and prior approval to not use Navigant is obtained.

A. Explanation- The meeting was a retreat planned by the Chief Executive Officer including the Deans from the two Medical Schools to plan for the recovery of MCLNO with special emphasis on the staffing of our facilities. Many of the Hotels and other meeting venues were closed or booked by FEMA so as soon as a venue was found to be available it was booked. The employee had to use there credit card to pay for the room charges.

Corrective Action-The policy will be updated by the Comptroller to reflect that bids must be obtained prior to booking any venue and a PO will be issued for payment. The Comptroller will be responsible for updating and overseeing the Policy compliance.

B. Explanation-The facts as stated are correct.

Corrective Action-As stated above, the Comptroller will review each travel reimbursement prior to payment being made for accuracy and completeness.

C. Explanation-The facts as stated are correct.

Corrective Action-As previously stated, The Comptroller will review all Travel Reimbursements and assure there accuracy and completeness.

The Management of MCLNO appreciates the time and attention to this audit exercised by the State of Louisiana Legislative Auditors. We feel that we have brought the organization back from a monumental disruption and have restored order as it existed prior to the Hurricanes.



LSU

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LOUISIANA'S HOSPITAL SYSTEM

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February 5, 2007

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

RE: Legislative Audit Finding – Weaknesses in Controls over Inventory
Medical Center of LA at New Orleans
University Medical Center, Lafayette
Fiscal Year Ended June 30, 2006

Dear Mr. Theriot:

This letter is in response to the January 22, 2007 Legislative Auditor letter on reported audit findings for the Louisiana State University - Health Care Services Division (HCSD) - University Medical Center at Lafayette (UMC) and Medical Center of Louisiana at New Orleans, (MCLNO).

Based on the consumable property audit finding provided in your letter and the original May 8, 2006 preliminary response letter from Lawrence T. Dorsey, Chief Executive Officer, UMC, HCSD executive management concurs with the finding and with the UMC corrective action as originally stated except that they did not meet their original anticipated completion date of June 30, 2006 for the re-implementation of the PeopleSoft Inventory System in SPD.

The reason for the delay in implementing the PeopleSoft Inventory System in SPD involved a chronic shortage and turnover of inventory system literate staff and the necessity to first re-engineer the UMC warehouse physical space and the PeopleSoft Inventory Business Unit associated with the warehouse. This initiative has been very successful. UMC warehouse staff was expanded and have been trained to utilize and maintain the warehouse inventory business unit. While there were substantial learning curves associated with the re-deployment of the warehouse inventory, as indicated with the auditor test count of 20 items with 16 having variances, it should be noted that there are approximately 500 separate inventory items perpetuated in the warehouse system. We acknowledge that there were operational and procedural issues for FY 2006, however there have been strong improvements in FY 2007. As an example, there was less than a one percent variance between the book value and the actual on-hand value in the physical inventory count that was performed on January 11, 2007. HCSD Finance staff has continued to work with UMC staff to re-install the PeopleSoft Inventory Module for use in maintaining a perpetual inventory system in the SPD central supply. At this time, UMC is presently considering inventory rack and storage systems toward a complete re-engineering and design change that will require a competitive bid to initiate the re-installation of a perpetuated PeopleSoft Inventory Business unit for SPD. The timeframe for this effort is undetermined at this time.

18.

LSU HCSD
Legislative Audit Finding
Weaknesses in Controls Over Inventory
Page 2 of 2

Those staff members responsible for follow up and adherence to the corrective action plan, include Karen Gardiner, CFO University Medical Center Lafayette, and offering technical and re-engineering support will be Peter Omorotionmwan, PeopleSoft Supply Chain Management Section, Health Care Services Division.

Based on the consumable property audit finding provided in your letter and the original December 18, 2006 preliminary response letter from Mr. Bob Plaisance, Acting CFO, Medical Center of Louisiana at New Orleans (MCLNO), HCSD executive management concurs with the finding and the corresponding corrective action plan and with the MCLNO corrective action as originally stated except that we're also recommending that MCLNO perform cycle inventory counts throughout the year as an additional internal control.

Those staff members responsible for follow up and adherence to the corrective action plan, include Mike Brooks, Director of Materials Management, MCLNO and offering technical and re-engineering support will be Peter Omorotionmwan, PeopleSoft Supply Chain Management Section, Health Care Services Division.

Sincerely,



Donald R. Smithburg
Executive Vice-President, LSU System
CEO, LSU Health Care Services Division



Health Sciences Center
HEALTH CARE SERVICES DIVISION

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

May 8, 2006

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

RE: Legislative Audit Finding – Weaknesses in Controls Over Inventory

Dear Mr. Theriot,

University Medical Center concurs with your audit finding and recommended controls regarding the aforementioned finding.

Since your review, we have increased the controls over the Warehouse inventory to include but not limited to daily spot checks and reconciliation between the physical counts and that which is recorded in the perpetual system. In addition, we are currently implementing the PeopleSoft Inventory System in SPD with a June 30, 2006 anticipated completion date.

If you have any questions or need any additional information, please feel free to contact Karen B. Gardiner, Chief Financial Officer at (337) 261-6007.

Sincerely,

Lawrence T. Dorsey
Chief Executive Officer

LTD/kgb

Finding Number 2-Weaknesses in Internal Controls over Consumable Inventory

Management Concur

Explanation-Due to the residual effect of the storms, the infrastructure, data, phone, elevators and power were damaged and inoperable in the warehouse for several months. Also, staffing was at low levels. What this meant was that we were at a very manual level for inventory control.

Corrective Action-The warehouse is now restoring the Peoplesoft system to its pre Katrina level. As soon as staffing levels are back to a workable number, at least Quarterly physical Inventory counts will take place. The Director of Materials Management is responsible for this area. MCLNO and HCSD will undertake a comprehensive review of our existing policies and develop a hierarchy of responsibilities for these activities. These policies will assure continuity post a catastrophic event. The "Lessons Learned" from the storms provides a very good basis of information and practical experience that will be reduced to writing in the form of policies to direct pre and post event activities.