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

MANAGEMENT LETTER
ISSUED MAY 26, 2010

**LEGISLATIVE AUDITOR**
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LOUISIANA LEGISLATIVE AUDITOR
**DARYL G. PURPERA, CPA, CFE**

April 5, 2010

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

As part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2009, we considered the Louisiana State University Health Sciences Center in Shreveport's (center) internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested the center's compliance with laws and regulations that could have a direct and material effect on the System's financial statements as required by *Government Auditing Standards*. In addition, we considered the Louisiana State University Health Sciences Center in Shreveport's internal control over compliance with requirements that could have a direct and material effect on a major federal program, as defined in the Single Audit of the State of Louisiana, and we tested the center'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 financial information provided to the Louisiana State University System by the Louisiana State University Health Sciences Center in Shreveport is not audited or reviewed by us, and, accordingly, we do not express an opinion on that financial information. The center's accounts are an integral part of the Louisiana State University System's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

In our prior audit report on the Louisiana State University Health Sciences Center for the year ended June 30, 2008, we reported findings relating to an energy efficiency contract which was contrary to law, excessive amounts of unlocated movable property, inadequate controls over financial class determinations, and the preparation of an inaccurate annual fiscal report. The findings relating to unlocated movable property, inadequate controls over financial class determinations, and the preparation of an inaccurate annual fiscal report have been resolved by management. The finding relating to the energy efficiency contract contrary to law is addressed again in this letter.

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

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**Energy Efficiency Contract Contrary to Law**

For the second consecutive year, Louisiana State University Health Sciences Center in Shreveport (LSUHSC-S) continues to have a performance-based energy efficiency contract with Johnson Controls, Inc. (JCI) in place, entered into in July 2002, that includes stipulated savings and therefore does not comply with state law. In addition, the other components of guaranteed savings in the contract (measurable operational and utility savings) are not being adequately measured or verified by management. 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(C)(1) requires the contract to contain a guarantee of energy savings to the entity. Furthermore, R.S. 39:1496.1(D) provides that the annual calculation of the energy savings must include maintenance savings that result from operation 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.

In addition, good internal control dictates that the terms and conditions of contracts entered into on behalf of an institution should be monitored to ensure that all parties involved in the contract are fulfilling their obligations. At a minimum, controls should include reconciling, measuring, and verifying all financial aspects of the contract to ensure compliance with applicable terms and conditions.

A review of the energy efficiency contract, which is for 17 years and approximately $15.7 million, between LSUHSC-S and JCI disclosed the following deficiencies:

- JCI guaranteed a total of $15,493,562 in savings during the term of the contract, consisting of measurable utility savings of $8,926,000; measurable operational savings of $3,480,869; and stipulated operational savings of $3,086,693. According to the contract, "Stipulated Operational Savings are mutually agreed by the Customer and JCI . . . and shall not be measured or monitored during the Term of the Agreement." The contract also provides that stipulated operational savings include repair and maintenance costs avoided by the customer through the implementation of the Performance Contracting Agreement. The stipulated operational savings are not guaranteed because the contract does not provide for measurement and/or verification of the stipulated operational savings. Therefore, excluding the stipulated operational savings, the guaranteed savings over the life of the contract are only the measurable savings of $12,406,869. The total payments due to JCI over the life of the contract are approximately $15.7 million.

Therefore, the payment obligation exceeds the adjusted guaranteed annual energy cost savings.

- Neither the measurable utility savings nor the measurable operational savings are being adequately measured or verified. The contract was not adequately monitored to ensure that all deliverables required to be provided to LSUHSC-S in the contract were provided, which includes a "copy of the software and associated documentation to calculate the project savings," which would allow for calculating the savings using the same methodology as the vendor so that the savings could be measured and verified.

At the signing date, management felt that the contract complied with state law. However, because the contract includes stipulated savings that are not measurable, the contract is not in compliance with state law. In addition, by failing to perform the necessary measurements and verifications of measurable savings, LSUHSC-S is unable to determine if actual savings are in excess of the cost of the contract. Also, there is a risk of making payments specified in the contract that are greater than the energy cost savings attributable to the services or equipment under the contract.

The Louisiana State University (LSU) System is in the process of conducting extensive investigations and evaluations of the agreement in preparation for litigation to remedy the situation by nullifying the agreement, forcing amendments, or recovering for breach of the agreement. 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 contract.

Once again, we recommend that management should consult its legal advisors to reconstruct its energy efficiency contract in accordance with state law. In addition, management should ensure that contract terms and conditions are adequately monitored to ensure that LSUHSC-S receives the actual savings specified in the contract. Also, 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. LSU System management concurred with the finding and responded that progress has been made in the evaluation of the contracts to determine all facts relevant to the status of the contracts and further action required (see Appendix A, pages 1-2).

**Failure to Capture and Bill for All Services Provided**

LSUHSC-S failed to establish the procedures necessary to capture and bill for all emergency room charges for inpatients admitted through the Emergency Room and for certain physician services provided to inpatients at Huey P. Long Medical Center (HPLMC). Good internal controls and sound business practices require that adequate procedures be in place to ensure that all charges for hospital and physician services are captured and billed timely. Tests of inpatient charges at HPLMC revealed the following:

- Emergency Room charges were not captured and billed for 22 of 50 inpatients tested that were admitted to the hospital through the Emergency Room.

- Physician service charges were not captured and billed for 26 of 44 inpatients tested.

Management of HPLMC identified $768,748 of emergency room charges for inpatients that were admitted through the Emergency Room that had not been captured or billed. After considering contractual allowances, HPLMC estimated that approximately $17,519 (which is from insurance/self-pay patients) of the $768,748 is collectible.

For fiscal year 2009, HPLMC estimated that approximately $1,756,693 of unrecorded revenue attributable to certain inpatient physician charges for services were not captured and billed. After considering contractual allowances, HPLMC estimated that approximately $315,053 ($280,179 from Medicaid/Medicare and $34,874 from insurance/self-pay patients) of the $1,756,693 is collectible. For fiscal year 2008, HPLMC identified $573,437 of actual inpatient physician charges for services that had not been captured and billed. After considering contractual allowances, management estimated that approximately $163,609 ($148,294 from Medicaid/Medicare and $15,315 from insurance/self-pay patients) of the $573,437 is collectible. As of October 4, 2009, only $27,600 of the $163,609 had been billed and none of the estimated $315,053 had been billed.

HPLMC became a part of LSUHSC-S on July 1, 2008. Before July 1, 2008, charges for physician services were captured and billed by another medical facility. During the transition, management of LSUHSC-S failed to develop and implement the procedures necessary to capture and bill for all physician service charges for inpatients and emergency room charges for patients admitted through the Emergency Room. Failure to capture and bill for the services provided results in lost revenues for LSUHSC-S and the state and increases the risk that errors and/or fraud could occur and remain undetected.

Management of LSUHSC-S should immediately identify and bill all allowable charges for physician services for fiscal years 2008 and 2009. It should also immediately develop and implement the procedures necessary to capture and bill all hospital and physician charges for inpatients. Furthermore, management should review the policies and procedures for HPLMC to ensure that there are no other areas where charges are not being captured and billed timely. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 3-4).

**Noncompliance With State Property Control Regulations**

LSUHSC-S is not in compliance with state movable property regulations requiring all state entities to use the statewide inventory system, Protégé, for its movable property records. Louisiana Administrative Code Title 34 Part VII Section 307(A) states, "All items of moveable property having an original acquisition cost, when first purchased by the state of Louisiana, of $1000 or more, all gifts and other property having a fair market value of $1000 or more, and all weapons, regardless of cost, . . . must be placed on the statewide inventory system." The state's Division of Administration (DOA) granted LSU a temporary exemption from the requirement, but this exemption expired on January 1, 2008.

Currently, LSUHSC-S uses the PeopleSoft financial system to maintain its movable property records and it has also engaged the services of American Appraisal and Associates to prepare capital asset reports which are used in the annual preparation of the LSUHSC-S cost reports.

Management feels that implementing an additional property system will place undue hardship on the resources of LSUHSC-S. Furthermore, management has expressed concerns that the state's current movable property system will not accommodate the LSUHSC-S unique accounting and reporting needs.

Management of LSUHSC-S assumed it was covered by the LSU exemption since it is a part of the LSU System, but LSUHSC-S did not know that this exemption had expired. As of November 9, 2009, LSUHSC-S has neither converted its property records to Protégé nor has it requested and received an exemption from the DOA. Since LSUHSC-S has not entered its property data in Protégé or obtained an exemption, it is in noncompliance with state property regulations.

Management should immediately comply with the state's movable property laws and regulations by entering its movable property records in Protégé or obtain an exemption from these laws and regulations from the state's DOA. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 5-6).

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

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

Respectfully submitted,

Daryl G. Purpera

Daryl G. Purpera, CPA, CFE
Legislative Auditor

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LSUHSCS09

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

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

Chief Financial 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



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Pennington Biomedical Research Center • LSU Health Sciences Center - New Orleans • LSU Health Sciences Center - Shreveport • LSU Health Care Services Division

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

LSU Health Sciences Center
SHREVEPORT
Administration and Finance

School of Medicine in Shreveport
School of Allied Health Professions
School of Graduate Studies

December 11, 2009

Mr. Daryl G. Purpera, CPA, CFE
Temporary Legislative Auditor
State of Louisiana
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera:

LSUHSC-Shreveport/Huey P. Long was issued a finding in regard to Failure to Capture And Bill for all Services Provided. LSUHSC-Shreveport/Huey P. Long concurs with this finding.

During the transition period of Huey P. Long becoming a part of LSUHSC-Shreveport, procedures and internal controls were not in place to ensure that all charges were captured and billed timely.

As of September 2009, all emergency room charges for patients subsequently admitted in FY2009 have been entered and billed. The control procedure now in place was used for capturing FY09 emergency room charges and is being used for current year charges as well. An Administrative Coordinator in the emergency room reviews daily the ER admission log and ensures that each admission is assigned an ER visit level. The Administrative Manager in Patient Accounts verifies weekly that all emergency room visits on the admit log have the appropriate visit level/charge entered before the billing process is complete.

Management of Huey P. Long has implemented the use of a physician billing sheet for physicians to complete for all inpatient visits. The billing sheet is the source document used by Patients Accounts to enter physician charges. The Director of Health Information Management reviews the discharge summary report of inpatients to ensure that the completed physician billing sheet is present in the patient record. The billing sheet is scanned as a permanent document. The Administrative Manager in Patient Accounts will perform a random second review of inpatients for the presence of physician charges. This procedure was not in place during FY2008 and FY2009, but is currently being used for FY2010.

Beldia Beebe, Acting CFO, will be responsible for monitoring the billing process for all patients and the review of internal controls related to the capture and timely billing of patient

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and physician charges. Inpatient physician charges have now been billed for FY09 with the exception of a small group with billing problems that are being addressed by management, and FY2010 is current.

Sincerely,

Harold White

Harold White
Vice Chancellor
for Business and Reimbursements

HW:

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

Chief Financial Officer

225 / 578-6935
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February 8, 2010

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

Dear Mr. Purpera:

In conjunction with the legislative audit of the LSU System for the fiscal year ending June 30, 2009, a finding was issued relating to LSU, the LSU Health Sciences Center New Orleans, the LSU Health Sciences Center Shreveport, and the University of New Orleans (UNO) for not being in compliance with state moveable property regulations. Specifically, it was determined that the above mentioned campuses do not utilize the Louisiana Property Assistance Agency's (LPAA) moveable property Protégé system. We concur with your finding as it relates to LSU, the LSU Health Sciences Center Shreveport, and UNO. The LSU Health Sciences Center New Orleans respectfully disagrees with the finding and will submit a separate response.

The mandate to use the LPAA Protégé system has created serious concerns for System campuses that compete for and are awarded significant federal research grants. Such campuses must be able to accurately determine reasonable indirect costs to be recovered from such grants. Each campus' indirect cost rate (also known as the "F&A" rate) is determined by means of very complex calculations included in a formal F&A proposal that is submitted to the Department of Health and Human Services. A major component of this most critical submission includes details on the capitalized moveable equipment owned by the campus.

An analysis by LSU determined that the Protégé system does not allow for multiple accounting records (account numbers and amounts) per inventory item and can't maintain the original accounting separate from the current accounting. This major weakness would cause LSU to have to maintain a second, separate inventory listing for its grant activity purposes. In fact, it's been determined that while several other institutions of higher education in the state are using the Protégé system, they are also having to maintain their own in-house systems due to the reporting issues and other limitations of the Protégé system.

For most state agencies the Protégé system works well as they are not required to calculate separate indirect cost rates, as this analysis is done on their behalf at the State level. Thus, limitations of the Protégé system do not directly impact their operations or their operating revenues. Moreover, smaller public higher education institutions in Louisiana are allowed to use the "short-form" method for calculating their F&A rates, a method not requiring the detailed equipment accounting data indicated above. Use of the Protégé system, therefore, does not negatively impact recovery of their indirect costs.

However, due to the significant research activities of the above mentioned LSU System campuses, a much more sophisticated process and access to a much higher detailed level of equipment accounting data is required to get the maximum return from the indirect cost recovery process. For example, total research expenditures for the LSU main campus for the year ended June 30, 2009 were $133.4 million and the total indirect costs recovered for fiscal year 2008-09 was $21.8 million. It's critical for LSU and the other research intensive campuses to maintain access to detailed equipment accounting records to continuing recovering all allowable indirect costs.

LSU has reported that its survey further indicated that the Protégé system's query capabilities are severely limited. Other institutions reported difficulty in obtaining necessary reports and identified this weakness as the primary reason for having to maintain a dual system. LSU alone currently produces over 100 daily, monthly, and annual; reports needed by its various users. Moreover, LSU's IT staff routinely generates ad hoc reports linking its equipment inventory to other financial systems.

It should be noted that UNO utilizes a fully integrated enterprise wide data processing system, PeopleSoft/Oracle. This includes general ledger, purchasing, accounts payable, and asset management modules which are tightly interconnected. The purchasing module feeds asset information to the accounts payable module which then forwards combined asset information to the asset management module. This information is then converted into moveable equipment assets by UNO's Property Control department through the asset management module. All of the physical and financial information pertaining to the assets are stored in PeopleSoft. The PeopleSoft system allows for the day to day tracking of asset locations, values and functions as well as the performance of complex calculations for depreciation and F&A rates

Because of the complexity and total integration of UNO's system, it would not be able to integrate Protégé in place of PeopleSoft's asset management module. Therefore, UNO would have to provide for the duplication of data entry and perform a regular reconciliation of the two systems if it participated in the Protégé system. While this may be feasible for institutions having a relatively limited number of inventory items, UNO has 13,100 inventory items, valued at $74,000,000 with an average of 164 transactions per week. Entering all transactions a second time into Protégé and keeping the two systems in balance would require a significant increase in labor time. It should be noted that the Health Sciences Center in Shreveport also uses the PeopleSoft/Oracle enterprise wide data processing system including the asset management module and would face a similar situation.

Finally, the State Property Control regulations do provide for exceptions to the Protégé system for certain agencies who utilize their own data processing capability to monitor and use their system for inventory control. LSU was granted this exception in May, 1996, and on March 25, 2008 made a request for a permanent exception to the mandate to use the Protégé system. It remains the position of the LSU System that it will continue to fully comply with all State Property regulations, including the stipulation that allows agencies to provide regular electronic updates to the State's system.

Sincerely,

John Antolik
Chief Financial Officer
Assistant Vice President and Comptroller