

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



MANAGEMENT LETTER
ISSUED FEBRUARY 13, 2008

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

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PAUL E. PENDAS, CPA

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

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Seven copies of this public document were produced at an approximate cost of \$19.67. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.state.la.us. When contacting the office, you may refer to Agency ID No. 5257 or Report ID No. 07501946 for additional information.

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

January 29, 2008

**LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER -
HEALTH CARE SERVICES DIVISION
LOUISIANA STATE UNIVERSITY SYSTEM
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, 2007, we considered the Louisiana State University Health Sciences Center (LSUHSC) - 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 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 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 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 LSUHSC, 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, 2006, we reported findings relating to unlocated movable property, weaknesses in movable property controls, inadequate control over financial class determinations and patient billing, control weaknesses in time and attendance data, weaknesses in internal controls over non-payroll expenses, and weaknesses in controls over consumable inventories. The findings related to weaknesses in movable property controls, control weaknesses in time and attendance data, and weaknesses in internal controls over non-payroll expenses 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, 2007.

Unlocated Movable Property

Earl K. Long Medical Center (EKLMC) and, for the second consecutive audit, the Medical Center of Louisiana at New Orleans (MCLNO) are not properly accounting for and safeguarding movable property. 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 and that thorough periodic physical counts of property inventory be conducted. In addition, good internal control should ensure that movable property is properly safeguarded against loss or theft 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. 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).

EKLMC identified unlocated movable property items totaling \$836,807 as a result of physical inventory procedures. Of that amount, items totaling \$50,637 were removed from the property records because they had not been located for three consecutive years. Of the unlocated property reported on EKLMC's physical inventory certification, the amount of unlocated computers and computer-related equipment totaled \$201,384. The certification of property inventory disclosed \$17,712,455 in total movable property administered by EKLMC. EKLMC submitted its annual certification of property inventory to the LPAA on April 30, 2007.

MCLNO conducted its inventory and identified and reported on May 30, 2007, unlocated movable property items with an original cost of \$5,088,158. This compares to unlocated items reported at June 30, 2006, with an original cost of \$12,285,549. Of the amount reported on May 30, 2007, items totaling \$128,705 were removed from the property records because they had not been located for three consecutive years. The certification of property inventory disclosed \$75,010,386 in total movable property administered by the medical center. 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 reestablish 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 establish adequate controls over movable property increases the risk of loss arising from unauthorized use of property and subjects the hospitals to noncompliance with state laws and regulations. Because of the nature of the services provided by the hospitals, the risk exists that sensitive information could be improperly recovered from the missing computers and/or computer-related equipment.

Management should strengthen its procedures for conducting the physical inventory to ensure compliance with internal policies and state laws and regulations for movable property; adequately secure and monitor movable property; conduct timely, accurate physical inventories; and devote additional efforts to locating movable property items reported as unlocated in previous years. Management concurred with the finding and outlined corrective action (see Appendix A, pages 1-5).

Inadequate Controls Over Patient Charges

Earl K. Long Medical Center (EKLMC) incorrectly posted and billed medical charges on patient accounts and did not timely input charges in the billing system. Also, Huey P. Long Medical Center (HPLMC) does not have controls in place to ensure that charges for services and supplies are billed to patients at the correct rates. Good accounting controls would require adequate supervision and review over input of patient charges to ensure accurate posting of charges and to prevent duplicate postings. In addition, good accounting controls would require that patient charges be input in the billing system within a standard billing cycle, usually 30 days, after the discharge of the patient. Good internal controls also require that controls be in place to ensure that patients are charged the correct rate for all services and supplies provided and that revenues are accurately recorded and reported.

The following were noted during the audit of EKLMC:

- Three (5%) of 60 patient charges tested totaling \$128 were not input in the billing system and, therefore, were never billed.
- One (3%) of 32 patient bills tested had duplicate patient charges totaling \$20.
- Seventeen (14%) of 120 patient charges tested were not posted in the billing system until 170 to 208 days after the date of discharge, for an average of 102 days.
- A service code charge was incorrectly input as \$129 instead of \$50 in the Charge Description Masterfile (CDM). Errors in the CDM result in incorrect charges on accounts each time the service code is used.

These errors occurred because the hospital failed to implement adequate procedures to ensure all patient charges are accurately posted in the billing system in a timely manner. Failure to accurately input charges in the billing system in a timely manner could cause improper billing of patient accounts and excess administrative time to detect and correct errors.

The following were noted during the audit of HPLMC:

In a test of 15 patients, it was determined that two patients were overcharged \$2,387 for insulin injections and one patient was overcharged \$355 for catheter twin lumen needles. Additional procedures indicated the following:

- Patients were overcharged \$429,169 for catheter needles as a result of charging \$375 per needle instead of \$20 per needle.
- Patients were overcharged \$30,548 for insulin injections as a result of billing at incorrect unit rates and number of doses.

Errors are not detected timely because of a combination of factors. HPLMC has no formal written policies or procedures for entering and verifying the accuracy of codes and rates for services and supplies charged to patients. In addition, departmental managers responsible for ensuring that rates are accurate failed to communicate the necessary information to the employee responsible for entering this information into the system. Furthermore, compensating controls were not sufficient to detect the errors in a timely manner. As a result, charges and revenues were overstated and patients were overbilled.

Management should implement procedures to ensure that all charges are accurately posted to the patient accounts within 30 days of the date of discharge of the patient and that charges for services and supplies are in accordance with approved rates. In addition, personnel responsible for entering this information should receive the training needed before being assigned these duties. Finally, management should periodically perform a review of a random sample of patient accounts to determine if the rates and charges for services and supplies are accurately assessed and recorded. This process should include all rates manually entered. Management concurred with the finding and outlined corrective action (see Appendix A, pages 6-7).

Inadequate Control Over Financial Class Determinations

Walter O. Moss Regional Medical Center (WOMMC) and, for the third consecutive year, EKLMC failed to require and maintain adequate documentation to support “free-care” financial class determinations in accordance with HCSD’s policy. In addition, EKLMC did not timely input financial class changes into the billing system and failed to maintain adequate supporting documentation and obtain proper approval for those changes.

HCSD Policy 1503-00 requires the hospital to gather supporting documentation as part of the screening process to determine a patient’s financial class, which is the primary factor in determining whether the patient qualifies for free care. If the patient/guarantor has no income, a notarized statement, witnessed by an individual not related to the patient/guarantor, is required to substantiate the patient’s financial class. In addition, HCSD’s policy requires that all admission 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. If the patient does not have the information available at registration, he/she is allowed to pay a nonrefundable deposit and is allowed 10 days to provide the information to be evaluated for “free-care” eligibility.

In determining “free-care” eligibility, LSUHSC-HCSD Policy 2525-06 defines a Louisiana “resident” as a person who actually lives in the state and can provide evidence of intent to remain indefinitely, and defines a “family unit” as any group of individuals related by blood, marriage, adoption, or resident, whose income can be legally applied to the patient's medical expenses. The policy requires any family unit whose gross income is greater than 200% of the Federal Poverty Income Guidelines to be responsible for the full amount of the charges for medical services. Good internal control would require adequate documentation be maintained to support financial class determinations and that those determinations be input in the billing system within a standard billing cycle, usually 30 days, after the patient provides the documentation. In addition, EKLMC's policy on manual write-offs, adjustments and financial class to “free-care” changes states that each employee shall complete the daily adjustment request sheet or the financial class to “free-care” log, and the employee shall obtain appropriate supervisor signature for any changes to financial class.

In a review of seven “free-care” patient accounts at WOMMC, documentation did not support the “free care” determination for three (43%) patients. Notarized statements supporting the patients' financial status were not on file for two of the three patients. Gross income exceeded 200% of the federal poverty level for the third patient.

In a review of 37 “free-care” patient accounts at EKLMC, the following were noted:

- Seven (19%) did not have supporting documentation maintained to support the “free-care” determination. Of those, one was for an EKLMC employee and another was for a MCLNO employee.
- One (3%) did not provide all of the required information to be evaluated as “free-care” within the allowable 10-day period.
- One (3%), who was an EKLMC employee, reported gross income greater than 200% of the Federal Poverty Income Guidelines.
- One (3%) had an out-of-state driver's license and had not provided evidence of intent to remain indefinitely in Louisiana to qualify as a Louisiana resident.
- One (3%), who was an EKLMC employee, did not provide financial information for all members in the family unit.

This lack of adequate supporting documentation to support the “free-care” determination indicates these patients should have been classed as “self-pay” and received a bill, rather than being classed as “free-care” where no bill is generated.

In a review of 25 financial class changes at EKLMC, 15 (60%) had no daily adjustment request sheet or financial class to “free-care” log, and four (16%) were not input into the billing system until 73 to 476 days after the supporting documentation was provided by the patient, for an average of 309 days. In addition, none of the daily adjustment request sheets/financial class to “free-care” logs prepared were approved by a supervisor as required by EKLMC’s policy.

Of the 20 financial class changes to “free-care” at EKLMC, seven (35%) did not have documentation to support the “free-care” determination and one (5%) did not provide all required information to be evaluated as “free-care” within the allowable 10-day period.

These errors occurred because the hospitals have not implemented adequate procedures to ensure compliance with system policies regarding the review and maintenance of supporting documentation for financial class determinations and financial class changes. In addition, EKLMC has failed to implement adequate procedures to ensure that adequately supported financial class code changes are made timely in the billing system. Failure to require and maintain adequate documentation to support financial class determinations and changes subjects the hospitals to noncompliance with HCSD’s policies and could cause improper billing of patient accounts, loss of patient revenue, and excess administrative time to detect and correct errors.

Management should implement procedures to ensure compliance with HCSD’s 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 compliance with its policy on financial class changes and to ensure those changes are made within 30 days of the patient supplying the required information. Management concurred with the finding and outlined corrective action (see Appendix A, pages 8-9).

**Inadequate Controls Over Consumable Inventory,
Contract Payments, and Bank Reconciliations**

For the second consecutive year, MCLNO has failed to maintain adequate control over its consumable inventories, which were valued at \$6,195,560 at June 30, 2007. EKLMC failed to maintain adequate control over inventories, certain contract payments, and imprest bank reconciliations for the fiscal year ending June 30, 2007.

A proper system of internal control over inventory should include procedures to ensure that inventories are safeguarded and that inventory losses, should they occur, are detected in a short period of time by normal business procedures. Good internal controls should

also minimize the risk of fraud. 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 receipt of goods at the time of purchase and the issuance of goods as they are withdrawn for use. At any 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. In addition, good accounting control over contract payments should include approval by EKLMC personnel before payment. Bank reconciliations should be prepared timely and should require an independent review of the reconciliation to detect any errors and/or fraud.

At MCLNO, we tested the Warehouse Department and the following conditions were noted for the consumable inventory:

- MCLNO Warehouse Department, with a total inventory value of \$3,974,369 at June 30, 2007, is the only department that is on a perpetual inventory system (PeopleSoft) at MCLNO. MCLNO has a high volume of inventory transactions, yet management does not perform periodic physical counts throughout the fiscal year to ensure the perpetual inventory system is working properly.
- We test counted 54 Warehouse Department inventory items. Of these 54 inventory items, 34 (63%) did not match the inventory amounts recorded in PeopleSoft.

At EKLMC, the following were noted:

- EKLMC has no perpetual inventory system for its non-controlled drugs in the pharmacy and does not have adequate controls in place to monitor those non-controlled drugs to minimize the risk of fraud.
- None of the 12 monthly payments to the LSUHSC, LSU School of Medicine, included EKLMC personnel approval, although the professional services contract specifically requires that approval before payment.
- None of the 12 monthly imprest account bank reconciliations included the name of the preparer, the name of the reviewer, or the date of review. In addition, seven (58%) did not include the date of preparation. As a result, we could not determine if the reconciliations were prepared timely or if adequate review procedures and appropriate segregation of duties are in place.

Failure to implement adequate procedures over consumable inventories increases the risk that losses of inventory may occur and remain undetected and increases the risk of fraud. Failure to implement adequate procedures over contract payments increases the risk of

improper payments and the possibility of exceeding the contract limits. Failure to properly prepare and review bank reconciliations could result in errors and/or fraud that may not be detected in a timely manner.

Management should perform periodic physical test counts to ensure that the perpetual inventory system is functioning properly and should track and monitor all inventories to ensure the inventory is adequately safeguarded, valued, recorded, and maintained to minimize the risk of fraud. In addition, management should ensure proper approval from EKLMC personnel before making contract payments and should ensure that bank reconciliations include the signature of the preparer and reviewer, as well as the dates of preparation and review. Management concurred in part with the finding and outlined corrective action (see Appendix A, pages 10-14).

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, others within the division, 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,



Steve J. Theriot, CPA
Legislative Auditor

BH:WG:PEP:sr

HCS07

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



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December 20, 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
Un-located Movable Property
LSU Health Care Services Division
Fiscal Year Ended June 30, 2007

Dear Mr. Theriot:

The Louisiana State University Health Care Services Division (HCSD) concurs with the referenced legislative audit finding. Comments and corrective action are outlined in the preliminary responses submitted by Sue Tolbert, Chief Financial Officer at Earl K. Long Medical Center (EKLMC) on November 7, 2007 and Phillip H. Baldwin, Jr., Director of Property Accounting at the Medical Center of Louisiana at New Orleans (MCLNO) on October 8, 2007.

While the variance is still at an unacceptable level, the comments of Ms. Tolbert of EKLMC are relevant and important: "the total of unallocated movable property has [been] reduced from \$836,807 to \$405,347" since the inventory was sent to the Louisiana Property Assistance Agency. Adjusting to the new scanning system prevented timely submission of the inventory. While continuing to track un-located property and emphasize the importance of the integrity of the inventory, Ms. Tolbert believes and we concur that the new system will bring more accurate and timely inventory reporting and further reduce and/or eliminate the variance cited above and for future certification periods.

Mr. Baldwin of MCLNO is continuing to trace un-located property and place emphasis on movable property issues. Even though more than two years have passed since Hurricane Katrina, issues related to that tragic event are still affecting the movable property inventory as items are being transferred to and from other locations. More effective tracking mechanisms and heightened enforcement of MCLNO property control policies and procedures should resolve the second consecutive audit finding and reduce the likelihood of a repeat finding.

Sue Tolbert, EKLMC, Chief Financial Officer; Helen Bates, Interim Chief financial Officer, MCLNO; Phillip H. Baldwin, Jr., Director of Property Accounting, MCLNO; and Reginald Ratliff, Sr., HCSD Financials Asset Manager are responsible for follow up and adherence to the corrective actions already put in place.

Sincerely,



Michael K. Butler, MD, MHA, CPE
Acting Chief Executive Officer

cc: Clay Dunaway, HCSDA
Helen Bates, MCLNO
Art Landry, HCSDA

Kathy Viator, EKLMC
Reginald Ratcliff, HCSDA
Judy Albin, HCSDA

Sue Tolbert, EKLMC



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 7, 2007

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 "Unlocated Movable Property" finding. Although the hospital agrees with the finding, the total of unallocated movable property has reduced from \$ 836,807 to \$ 405,347. The hospital has located \$ 431, 460. since the inventory was sent to La. Property Assistance Agency. The hospital had recently implemented an asset management scanning system, which required additional time to inventory the entity. A request to extend the inventory due date was made to Mr. Floyd Rector, but the request was denied. The hospital continues to search for the equipment.

The Information Technology Department is implementing changes in the computer equipment. The majority of computers missing were purchased in 1997 – 1998. Because of the age of the computers the hospital believes the department had scrapped or surpluses the computers but failed to keep adequate records. The missing computers are eight plus years old and only 6 computers are missing from 2002 - 2006.

The hospital is inventorying several departments each month in order to ensure inventory control and identify problems immediately.

Earl K. Long Medical Center believes the new system will bring accurate and timely inventory reporting.

Should you have any questions or need additional information, please contact me at (225) 358-1004.

Sincerely,

A handwritten signature in black ink that reads "Sue Tolbert".

Sue Tolbert
Chief Financial Officer

WWW.LSUHOSPITALS.ORG

DATE: October 8, 2007

Steve J. Theriot, CPA
Legislative Auditor
2400 Veterans Boulevard
Suite 260
Kenner, Louisiana 70062

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

Dear Mr. Theriot:

Please find below the Medical Center of Louisiana at New Orleans management response to the fiscal year 2006-2007 audit finding relating to unlocated movable property.

Management concurs with the audit finding:

1. As of June 30, 2006, Property Accounting reported an estimated discrepancy list to the Legislative Auditors of \$12,285,549 compare to an actual discrepancy list reported to LPAA as of May 30, 2007 in the amount of \$5,088,158, which is a difference of \$7.2 million assets located, a (59%) decrease of items reported not found to the Legislative Auditors! The discrepancy amount listed on the Certification of Annual Property Inventory was submitted and approved by LPAA on June 11, 2007. The Property Accounting staff expects continuous success in lowering discrepancies in fiscal year 2008 for the Medical Center of Louisiana.
2. The estimated discrepancy list to the Legislative Auditors was compiled by Asset Management Resources (AMR) an asset management company contracted to conduct a complete inventory and was supervised by MCLNO and HCSD-HQ asset management personnel. AMR was the competitively selected inventory firm that was hired to assist with our inventory to satisfy the Legislative Auditors. In January 2007, MCLNO Property Accounting staff with assistance from HCSD-HQ asset management personnel began a second inventory that would be submitted to LPAA as part of our Certification of Annual Property Inventory. The FY2007 LPAA inventory certification was submitted on May 30, 2007. MCLNO next inventory certification for FY2008 is due April 30, 2008.

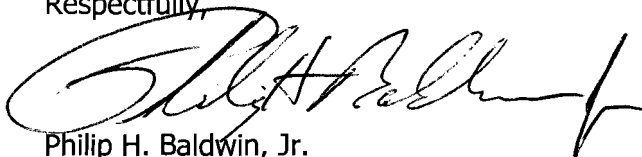
Steve J. Theriot, CPA
October 8, 2007
Page Two

Property Accounting is the voice of MCLNO regarding all property issues and must ensure that MCLNO decreases its risk of movable property loss. I am currently using email once a month to remind the MCLNO community on general information about property. Internal policies and procedures are on our shared drive for everyone to review. We are seen and heard throughout the year with in-services and communications directly to Departmental Directors, Managers and Equipment Custodians as needed.

These actions will be the responsibility of Philip H. Baldwin, Jr., Director of Property Accounting and supervised by Helen Bates, CPA, Interim CFO-MCLNO.

Communication with our cost centers and with the backing of the Administrative Council's support, Property Accountings enforcement of MCLNO policies and procedures should resolve this second consecutive audit finding to the Legislative Auditor's satisfaction and will continue to do so until successfully eliminated.

Respectfully,



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

cc: Dr. Dwayne Thomas, CEO
Helen Bates, CFO
Jullin Renthrope, Legislative Auditor



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December 20, 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 Patient Charges
LSU Health Care Services Division
Fiscal Year Ended June 30, 2007

Dear Mr. Theriot:

The Louisiana State University Health Care Services Division (HCSO) concurs with the referenced legislative audit find for Earl K. Long Medical Center (EKLMC) and Huey P. Long Medical Center (HPLMC).

HCSO Central Office support staff will provide additional assistance to EKLMC staff to write and promulgate a pricing policy to provide department level guidance for reasonable market and cost base price determination. In addition, the policy will require at minimum that each department perform an annual price review of all charges residing in the Charge Description Master (CDM) for their specific department and that the hospital CDM Coordinator reviews cross departmental charges for consistency and accuracy. On a regular basis, charges over a designated threshold will be reviewed to ensure that pricing is accurate and pharmacy factors are set in accordance with the price listed in the CDM.

HCSO Patient Financial Services Management provides all HCSO facilities with a monthly departmental "late charge" report for the hospitals to utilize in monitoring their individual department deficiencies as it relates to charge entry. HCSO Central Office support staff will monitor that EKLMC requires departments with unacceptable late charge percentages to submit a corrective action plan and monitor progress until an acceptable level is reached and maintained. Variances and continued anomalies will be addressed to HCSO Executive Management. In addition, where appropriate, departments will be required to routinely balance charges generated to charges posted to the patient accounting system to ensure that all charges are available to be billed timely. EKLMC will be expected to provide the HCSO Director of Patient Financial Services the results of their continued progress of reducing late charges on a quarterly basis beginning March 31, 2008.

While the audit sampling indicates minimal financial impact to the hospital, EKLMC will ensure that all charges identified in this finding have been corrected in the CDM. Any patient accounts affected by those charges will be corrected and appropriate adjustment bills or refunds will be processed.

Act 220 of the 2007 Legislative Session transferred HPLMC to LSUHSC Shreveport effective 7/1/2007. While HCSO concurs with the finding and the management letter submitted by Gary Crockett, Hospital Administration of HPLMC, the corrective action plan, which has already been implemented, should be monitored by HPLMC, with oversight by LSUHSC Shreveport.

Should you have any questions or need additional information, please contact Sue Tolbert, EKLMC Chief Financial Officer at (225)358-1004, Nita Chambers, HPLMC Chief Financial Officer at (318)473-6320, Gary Crockett, HPLMC Hospital Administrator at (318)448-0811, Guy LaBauve, HCSD Patient Financial Services Director at (225)763-8537, or Art Landry, HCSD Director of Financial Services, at (225)922-1157.

Sincerely,



Michael K. Butler, MD, MHA, CPE
Acting Chief Executive Officer

cc: Clay Dunaway, HCSDA
Nita Chambers, HPLMC
Art Landry, HCSDA

Kathy Viator, EKLMC
Gary Crockett, HPLMC
Judy Albin, HCSDA

Sue Tolbert, EKLMC
Guy LaBauve, HCSDA



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December 20, 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
LSU Health Care Services Division
Fiscal Year Ended June 30, 2007

Dear Mr. Theriot:

The Louisiana State University Health Care Services Division (HCSD) concurs with the referenced legislative audit finding for Walter O. Moss Regional Medical Center (WOMMC) and Earl K. Long Medical Center (EKLMC).

WOMMC implemented a monthly internal registration review of the documentation obtained on patients financially classified as Medically Indigent effective October 1, 2007. Two of the three WOMMC patient records referenced in the Legislative Audit finding did not have a notarized letter on file stating their income. HCSD Central Office is currently reevaluating the Admit Registration policy statement requiring the need for patients with no income to be additionally burdened with notary fees instead of allowing the patients to sign a standard income affidavit upon registration. WOMMC's random monthly monitoring of patient financial documentation will be documented, trended and reported to the HCSD Director of Patient Financial Services quarterly beginning March 31, 2008.

An enterprise-wide Patient Accounting Document Imaging software application was deployed August 30, 2006 at EKLMC. The EKLMC Director of Patient Registration participated in the training along with his employees and they sample and monitor utilization of the application since that time to insure the accuracy of documents being imaged during the screening process. Of the seven (7) that did not have supporting documentation, five (5) patient accounts were for dates of service prior to EKLMC going live with the new document imaging application. It is the hospital's responsibility to locate supporting documents that should have been physically stored at the hospital. All patient accounts reviewed in this audit found to not have supporting documentation will be reclassified as Self-pay by the hospital and the patients will be billed accordingly, including those employees of HCSD facilities.

In addition, the other four (4) patient accounts reported as not providing and disclosing adequate documentation will be reclassified as Self-pay by the hospital and the patients will be billed accordingly. Also, HCSD will request that the screening employees involved in this audit finding be required to be re-trained on the Medically Indigent Determination policy. This mandatory education in-service will be jointly conducted by the EKLMC Director of Registration and the HCSD Registration Manager. EKLMC will be required to provide in-services on Medically Indigent Determination quarterly thereafter for all screening staff

until it can be verified that the deficiencies reported by the Office of the Legislative Auditor relative to the financial class determination policy is eliminated.

EKLMC has begun performing monthly internal registration audits of the documentation obtained to pinpoint the weaknesses in the Registration department. EKLMC's random monthly monitoring of patient financial documentation will be documented, trended and reported to the HCSD Director of Patient Financial Services quarterly beginning March 31, 2008.

It is not the current practice of HCSD to require hospitals to complete a daily adjustment request sheet for financial changes or to maintain a "free care" log. The Siemens patient accounting system accommodates the tracking of financial class changes without manual intervention. Therefore, we don't see the need or consider it cost effective for a duplicate process. However, EKLMC will be required to reevaluate their current practice and procedures and consider revisions to their existing hospital policies and procedures to avoid this deficiency in future audits. The HCSD Medically Indigent Determination Policy allows patients 10 days to provide documentation to support "free care" qualification and EKLMC will not routinely allow patients to exceed the policy requirement.

EKLMC is implementing additional written procedures and protocols to address the findings. EKLMC management will monitor adherence to the procedures. HCSD Central Administration will heighten its monitoring of EKLMC's adherence to its policies and take corrective action when necessary.

Should you have any questions or need additional information, please contact Sue Tolbert, EKLMC Chief Financial Officer at (225)358-1004, Ranelda Benoit, WOMMC Chief Financial Officer at (337)475-8219, Dr. Patrick Robinson, WOMMC Hospital Administrator at (337)475-8157, Guy LaBauve, HCSD Patient Financial Services Director at (225)763-8537, or Art Landry, HCSD Director of Financial Services, at (225)922-1157.

Sincerely,



Michael K. Butler, MD, MHA, CPE
Acting Chief Executive Officer

cc: Clay Dunaway, HCSDA
Ranelda Benoit, HPLMC
Art Landry, HCSDA

Kathy Viator, EKLMC
Dr. Pat Robinson, WOMMC
Judy Albin, HCSDA

Sue Tolbert, EKLMC
Guy LaBauve, HCSDA



- BOGALUSA MEDICAL CENTER - BOGALUSA
- EARL K. LONG MEDICAL CENTER - BATON ROUGE
- LALLIE KEMP REGIONAL MEDICAL CENTER - INDEPENDENCE
- LEONARD J. CHABERT MEDICAL CENTER - HOUMA
- LSU INTERIM HOSPITAL OF MCL - NEW ORLEANS
- UNIVERSITY MEDICAL CENTER - LAFAYETTE
- W.O. MOSS REGIONAL MEDICAL CENTER - LAKE CHARLES

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December 20, 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 Controls Over Consumable Inventory,
 Contract Payments and Bank Reconciliations
 LSU Health Care Services Division
 Fiscal Year Ended June 30, 2007

Dear Mr. Theriot:

The Louisiana State University Health Care Services Division (HCSD) concurs with the referenced legislative audit finding for Medical Center of Louisiana at New Orleans (MCLNO) and concurs in part with the finding for Earl K. Long Medical Center (EKLMC).

The October 2, 2007 preliminary response letter from Helen Bates, Interim Chief Financial Officer, MCLNO, outlines a timeline of events and issues experienced since Hurricane Katrina in August 2005. In addition to the issues included in Ms. Bates' letter, MCLNO continues to experience a severe shortage and turnover of staffs. HCSD Finance staff will continue to provide the necessary support and training to MCLNO Materials Management staff in maintaining a perpetual inventory of consumable property. We also agree with the recommendation to develop and implement cycle counts. All HCSD hospitals recently upgraded from PeopleSoft version 7.5 to PeopleSoft version 8.8 financial systems. HCSD hospitals will take a full physical inventory for perpetuated inventories by the end of January, 2008, to identify and correct set up issues (if any) that might have occurred during the conversion. Periodic sample cycle counts will also be implemented between February and June 2008 at all PS inventory locations.

HCSD concurs with the finding and corrective actions outlined by Sue Tolbert, Chief Financial Officer, EKLMC, in her November 7, 2007 preliminary response letter regarding contract payments and bank reconciliations. These deficiencies have already been corrected and will be monitored on an on-going basis for continued compliance and effective internal control. Timeliness and importance of these controls will be reinforced with all HCSD Chief Financial Officers.

HCSD concurs in part with the finding regarding a perpetual inventory system for non-controlled drugs in the pharmacy. While it is correct that EKLMC does not have a complete perpetual inventory system, there are other compensating controls in place to safeguard the drugs and minimize the risk of fraud, including:

Security - Only authorized individuals have access to medications. All pharmacy departments are locked at all times. Medications located outside of the pharmacy department are kept in automated dispensing units that require individual passwords to gain access. There is a record maintained for which medications are placed in these machines and dispensed from these machines.


Procurement - All medications are procured using approved vendors. The pharmacy controls all ordering for prescription drugs. The Director of Pharmacy or designee approves all orders for procurement. Medications received in the pharmacy are received by a different staff member than the one who actually places the order. All medications are delivered directly to and checked in at the pharmacy. HCSD contracts with a Group Purchasing Organization that makes daily deliveries to the pharmacies which minimizes the amount of inventory kept on hand and minimizes the risk of a loss.

Out-of-Date - Expired medications are removed from the facility utilizing a reverse distributor. The reverse distributor supplies the pharmacy a list of medications with quantities being removed from the facility prior to removal.

Accountability - The pharmacies have the ability to run a history report on all medications purchased and dispensed within a certain time frame in order to monitor possible fraud. This functionality coupled with the ability to do sample cycle counts improves the internal controls over the pharmacy inventory.

Those staff members responsible for follow up and adherence to the corrective action plan, include Sue Tolbert, EKLMC, Chief Financial Officer; Helen Bates, Interim Chief Financial Officer, MCLNO; Mike Brooks, Director of Materials Management, MCLNO; Peter Omorotionmwan, PeopleSoft Supply Chain Management, HCSD.

Sincerely,



Michael K. Butler, MD, MHA, CPE
Acting Chief Executive Officer

cc: Clay Dunaway, HCSDA
Helen Bates, MCLNO
Judy Albin, HCSDA

Kathy Viator, EKLMC
Peter Omorotionmwan, HCSDA
HCSD Pharmacy Council

Sue Tolbert, EKLMC
Art Landry, HCSDA

October 2, 2007

Steve J. Theriot, CPA
Legislative Auditor
2400 Veterans Blvd
Suite 260
Kenner, La 70062

Ref: **Weakness in internal controls over consumable inventory**

Dear Mr. Theriot,

In response to the June 30, 2007 inventory of consumable supplies at the Medical Center of Louisiana warehouse we offer the following response. While it may be true that a perpetual inventory system was not in place for consumable inventory in the warehouse prior to June 30, 2007, it was not due to lack of efforts. The following is a timeline of events regarding the PeopleSoft inventory module at MCLNO from July 1, 2005 through the present.

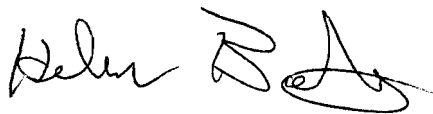
- We went "live" on PS inventory in July 2005. For the 2 months we were working in the system prior to Katrina, we were working through the difficulties of getting familiar with a new system, learning to run reports, getting staff hired and trained to maintain the inventory items, and starting to run cycle counts. The advent of Katrina destroyed all of our efforts and wiped out our entire infrastructure.
- Because of Katrina, there was no permanent electrical service, network access, or phone lines in the warehouse until approximately February 2006. The warehouse was operating off of generator electricity. The freight elevator in the warehouse was not repaired and available for use until May 2006. Thus, inventory was not perpetuated in FY 06.
- It was not until June 2006 when the inventory data was able to be reinstalled on the PS system. Data and phone lines were slow to come back as the underground tray for wiring was flooded. Bellsouth is still unable to supply the warehouse area with additional phone lines due to the constant problem of water in the trays.
- The first part of FY 07 was spent on efforts to support the opening of the various locations of medical facilities and meeting patient and medical personnel supply needs. University was set to open in September which ultimately happened in November 2006 with subsequent units opening between December 2006 and March 2007. The next major hurdle was to move the Trauma center back to UH which did not happen until March 2007.

Mr. Steve J. Theriot
October 2, 2007
Page 2

- The clinics from Lord & Taylor and the opening of OB/GYN clinic were the next major hurdles to be met and that occurred in April and May 2007.
- At this point, a decision was made that instead of performing 2 physical inventories of consumable supplies in the last 2 months of FY 2007 that we would perform one physical inventory in June 2007 and bring the PS perpetual inventory back on line on July 1, 2007. This is the first time that we have used the PS inventory system since Katrina – almost 2 years. We are still having some difficulties, working through the new system. However, the perpetual inventory is on line and will continue to be maintained.

If you need anything further in this matter, please advise.

Very truly yours,

A handwritten signature in black ink, appearing to read "Helen Bates". The signature is fluid and cursive, with a large, stylized initial "B" and "A" at the end.

Helen Bates
Interim Chief Information Officer - MCL

cc

Dwayne A. Thomas, M.D., Chief Executive Officer, MCL
Helen Bates, Interim Chief Information Officer, MCL
Juilin Renthrope, CPA, CGFM, CFE, CGFO
Mike Brooks



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 7, 2007

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

Dear Mr. Theriot,

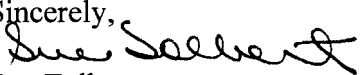
The hospital concurs with part of the finding of "Inadequate Controls over Inventory, Contract Payments, and Bank Reconciliations. Although the hospital does not have an adequate perpetual inventory system for pharmacy, the hospital does not concur with the finding due to there not being a perpetual inventory system available for any pharmacy department in a hospital setting. There is no system available that can establish a perpetual system. Due to the complexity of the dosage requirement on the majority of drugs the department is unable to issue out in the dosage amount. The hospital does report monthly on issues, purchases, etc. in order to minimize theft or fraud. Pyxis machines are in all areas of the hospital, which records the usage and volumes used daily. Pharmacy balances the reports daily.

The hospital takes all steps necessary in order to assure compliance.

The Imprest Fund was not signed or reviewed. The department was short 2 accountants short. The account specialist handled the petty cash and I balanced the accounts each month. Due to the shortage of staff, we separated the duties. I did not sign or date the reconciliation, but the statements were reconciled upon the receipt of the bank statement. The department has returned to full staff and dating and signatures will be on all reconciliations.

The payments to the LSUHSC were not being signed by Earl K. Long staff. The hospital will approve prior to payments.

Should you have any questions or need additional information, please contact me at (225) 358-1004.

Sincerely,

Sue Tolbert
Chief Financial Officer