

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER - NEW ORLEANS
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED JUNE 23, 2010

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

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

May 14, 2010

**LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER - NEW ORLEANS
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
New Orleans, 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 - New Orleans' 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 - New Orleans' 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 - New Orleans 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 opinions.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration.

Noncompliance With State Movable Property Regulations

Louisiana State University Health Sciences Center - New Orleans (LSUHSC-NO) 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 movable property having an original acquisition cost, when first purchased by the State of Louisiana, of \$1,000 or more, all gifts and other property having a fair market value of \$1,000 or more, and all weapons, regardless of cost, ... must be placed on the statewide inventory system." On September 15, 1999, the state's Division of Administration (DOA) granted LSUHSC-NO (formerly the Louisiana State University Medical Center) approval to continue to use its processing system in lieu of the DOA's system for inventory control purposes. The approval applied only to what was currently on the system and did not include the addition of other facilities. As of this time, LSUHSC-NO has neither converted its property records to Protégé nor received additional approval for its exemption from the DOA.

Management expressed that the state's current movable property system will not accommodate LSUHSC-NO's unique accounting and reporting needs. However, because LSUHSC-NO has not entered its property data on Protégé and its exemption is no longer valid, LSUHSC-NO is in noncompliance with state movable property regulations.

Management should comply with the state's movable property laws and regulations by entering its movable property records on Protégé. Management should continue to seek resolution to this issue with the Louisiana Property Assistance Agency (LPAA). Management did not concur with the finding and expressed that management believes the DOA exemption from 1999 is still in force (see Appendix A).

Additional Comments: We asked and were informed by management of LPAA that the exemption granted in 1999 is no longer valid.

The recommendation in this letter represents, in our judgment, one that is most likely to bring about beneficial improvements to the operations of the center. The nature of the recommendation, its implementation costs, and its potential impact on the operations of the center should be considered in reaching decisions on courses of action. The finding relating to the center's compliance with applicable laws and regulations should be addressed immediately by management.

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

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

AC:CGEW:EFS:PEP:dl

LSUHSCNO09

Management's Responses to the Finding and Recommendation



Health Sciences Center

NEW ORLEANS

Administration and Finance
Office of the Vice Chancellor

School of Medicine
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
School of Public Health

February 4, 2010

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

Re: Response to Audit Finding: Noncompliance with State Movable Property Regulations

Dear Mr. Purpera,

We are in receipt of your audit finding concerning noncompliance with state movable property regulations as a result of the legislative audit of LSU Health Science Center - New Orleans (LSUHSC – NO) for the fiscal year ended June 30, 2009. We respectfully disagree with your finding.

For the reasons cited later in this letter, in 1999, LSUHSC-NO (then known as LSUMC) sought, qualified for, and was granted an exclusion which allowed LSUHSC to use its own data processing facilities for tracking and reporting its moveable property inventory in accordance with LAC Title 34, Part VII Section 701. While specific components of the data processing systems of both LSUHSC-NO and LPAA have been upgraded or replaced in the intervening years, the basic conditions under which LSUHSC-NO originally qualified for the exclusion have remained unchanged. As we read the letter, the approval from the Commissioner of Administration does not include any terms of expiration. LAC Title 34, Part VII, Chapter 7 contains no language regarding approval expiration. Therefore, we have always felt we were operating under a valid exemption.

The only limitation included in the approval, which you cited in your finding, was the sentence “This approval applies only to what is currently on the system and does not include the addition of other facilities.” The word “what” is clearly referencing the facilities on the system. This makes sense in the context of the events of 1999. LSUHSC (then LSUMC) was in the process of integrating the eight state charity hospitals into its management structure as a result of the passage of Act III. This included integration of its data processing facilities. For example, all hospital employees were being removed from the statewide system and placed on LSUHSC’s HR information management and Payroll systems. In this case, the concern was that the approval for exclusion be limited to the facilities of the

LSUHSC-NO academic campus and not to “other facilities” (i.e. hospitals) and that those additional facilities would require separate approvals.

While LAC Title 34, Part VII, Section 307(A) (cited in the finding) states that moveable inventory “must be placed on the statewide inventory system,” it does not seem to specify who is responsible for placing the information there. That information is contained in Section 311 (B) which states:

“The data submitted . . . will be forwarded to the Baton Rouge Computer Center by the Louisiana Property Assistance Agency director or his designee, where it will be keypunched into the agency's inventory master file.”

The responsibility for placing the submitted information into the inventory master file lies with LPAA. In accordance with Section 313F11, LSUHSC-NO has submitted annual detailed lists of moveable equipment inventory to LPAA. While copies of correspondence with LPAA describing the exact format LSUHSC-NO should follow in these submissions were lost when the Asset Management office was flooded in 2005 after Katrina, we do have records to show that LSUHSC-NO has been making these submissions in this format since at least 2003.

As a practical matter, Protégé was not designed with the needs and data requirements for capitalized moveable property of an academic health center in mind. LSUHSC – NO is a major research institution with over \$50 million in annual research expenditures. Facility and Administrative (F&A) costs recovered from grants and other sponsored institutional activities are one of our major sources of operating revenues. The total of the F&A cost recovery revenues from grants and other sponsored institutional activities for fiscal year 2009 was \$17.1 million. As you know, our F&A cost rate (also known as the indirect cost rate) is determined by means of very complex calculations included in our F&A proposal regularly submitted to DHHS, our cognizant federal agency. A major component of this most critical proposal includes the capitalized moveable equipment owned by the University.

Other state agencies may not need to calculate their own F&A rates, as this is done at the state level for many or most other agencies. In addition, some smaller state entities are able to use what's known as the “short-form” F&A proposal, which does not require the complex calculations that we are required to use in our proposals. LSUHSC - NO is not allowed to use the “short-form” method due to the size of our research operations.

The shortcomings of the Protégé system which prevent its use in calculating an F&A rate compliant with federal regulations include but are not necessarily limited to:

- Data between the Protégé system and our financial information, such as depreciation calculations, which are required by federal agencies, would differ due to Protégé not being capable of using the half-life depreciation convention.
- Protégé uses whole number accounting.
- The Protégé system estimated useful life calculations do not use the American Hospital Association's Estimated Useful Lives.

- Chartstring information (ie. account, department, funding source, project information, etc.) needed to reconcile the inventory to the general ledger cannot be entered into the Protégé system.
- Detailed location information (ie. building, room, function, etc.) required for compliance with federal programs cannot be entered into the Protégé system.
- The Protégé system does not allow multiple accounting records per inventory item.
- The Protégé system cannot maintain the original accounting separate from the current accounting. This equipment accounting data is critical to LSUHSC – NO’s F&A proposal.

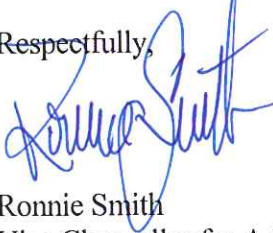
Until these issues can be addressed, using Protégé as the university’s primary inventory tracking system would result in:

- Maintaining two asset management systems, Protégé and one that met LSUHSC-NO’s federal reporting needs.
- Increased costs in maintaining compliance with federal regulations, without commensurate improvement in the level of compliance,
- Reduction in accuracy and reliability of financial statements.

Based on the above, LSUHSC-NO feels that it is, and has been, in compliance with LAC Title 34, Part VII, Section 307(A) as a result of receiving approval of our request for exclusion on September 15, 1999 which is still in force, and that you will agree that it is not in the best interest of the University or the State to mandate such a change.

Notwithstanding the above, LSUHSC-NO wishes to ensure that it is compliant with all state property laws and regulations and would be willing to work with LPAA on periodic electronic submissions of LSUHSC-NO data to LPAA in accordance with sections 703(C) and 707(A).

Respectfully,



Ronnie Smith
Vice Chancellor for Administration and Finance

cc: Larry Hollier, MD
Terry Ullrich
David Dotter



Louisiana State University System

3810 West Lakeshore Drive
Baton Rouge, Louisiana 70808

Chief Financial Officer

February 8, 2010

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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.

Louisiana State University & Agricultural and Mechanical College

*LSU at Alexandria • LSU at Eunice • University of New Orleans • LSU in Shreveport • Hebert Law Center • LSU Agricultural Center
Pennington Biomedical Research Center • LSU Health Sciences Center - New Orleans • LSU Health Sciences Center - Shreveport • LSU Health Care Services Division*

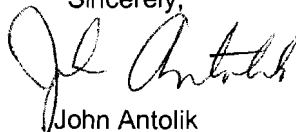
LSU has reported that its survey further indicated that the Protégé system's query capabilities are severely limited. Other institutions reported difficulty in obtaining necessary reports and identified this weakness as the primary reason for having to maintain a dual system. LSU alone currently produces 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