LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER -
HEALTH CARE SERVICES DIVISION

LOUISIANA STATE UNIVERSITY SYSTEM

STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 21, 2016

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

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

**ASSISTANT LEGISLATIVE AUDITOR**
**FOR STATE AUDIT SERVICES**
NICOLE B. EDMONSON, CIA, CGAP, MPA

**DIRECTOR OF FINANCIAL AUDIT**
ERNEST F. SUMMERVILLE, JR., 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 is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of $1.00. 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 website at www.lla.la.gov. When contacting the office, you may refer to Agency ID No. 5257 or Report ID No. 80160105 for additional information.

# Louisiana Legislative Auditor
**Daryl G. Purpera, CPA, CFE**

## LSU Health Sciences Center - Health Care Services Division

December 2016

*Audit Control # 80160105*

## Introduction

As a part of our audit of the Louisiana State University System's (System) financial statements for the year ended June 30, 2016, we performed procedures at the LSU Health Sciences Center - Health Care Services Division (HCSD) to provide assurances on financial information that is significant to the System's financial statements, evaluate the effectiveness of HCSD's internal controls over financial reporting, and determine whether HCSD complied with applicable laws and regulations. In addition, we determined whether management had taken actions to correct the findings reported in the prior year.

HCSD is a part of the System and consists of an administrative office and one charity hospital, Lallie Kemp Regional Medical Center in Independence. HCSD's mission is to provide access to high-quality medical care, develop medical and clinical manpower through accredited residency and other health education programs, and to work cooperatively with other health care providers and agencies to improve health outcomes.

## Results of Our Procedures

### Follow-Up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in a management letter dated November 25, 2015. We determined that management has not fully resolved the prior-year findings related to weaknesses over state assets in New Orleans hospitals and weaknesses over property control.

### Current-year Findings

#### Weaknesses in Agreements for Use of State Assets

At June 30, 2016, HCSD and Louisiana State University administration (LSU) did not have complete, signed agreements for all equipment, buildings, and parking lots being utilized by the partner managing the University Medical Center New Orleans (UMCNO). As a result, HCSD and LSU were unable to provide sufficient support for the method used to account for the assets and related transactions in its Annual Fiscal Report (AFR), resulting in significant identified and potential misstatements. Allowing the partner to use state assets without complete, signed agreements increases the risk that assets will be misused, misappropriated, or become unlocated. In addition, there is an increased risk of misunderstandings and/or nonpayment without protection for the state, including remedies for default.

**Buildings and Parking Lots**

During fiscal year 2016, LSU executed an amendment to the UMCNO hospital lease agreement for the rental of buildings and parking lots at Interim LSU Public Hospital in New Orleans (ILH), which the partner wanted to use subsequent to the opening of the new hospital. This agreement, signed in July 2015, was effective beginning October 16, 2015, with an annual rental payment of $2,673,230 for 40 years or a total in future lease payments of approximately $103.8 million. Subsequent to this amendment, the partner informed LSU that it no longer wanted to rent one of the buildings included in the agreement, and a second amendment was drafted, effective April 2016, reducing the annual rental payments. However, as of June 30, 2016, this second amendment had not yet been signed.

In addition to not having a signed copy of the second amendment, HCSD was unable to provide the fair value and estimated economic lives of the lease premises (buildings and parking lots), both of which are necessary to adequately assess the correct accounting treatment for this lease as either capital or operating.

Based on the information available, HCSD reported this agreement as an operating lease within its AFR. Therefore, if this agreement is a capital lease, HCSD's AFR contains potential misstatements within the capital lease receivable, unearned revenues, and capital assets accounts, as well as the capital lease note disclosures. While reporting the agreement as an operating lease, HCSD did not include the future minimum lease payments of $103.8 million within the related note disclosure based on the signed agreement available at June 30, 2016.

On November 10, 2016, HCSD provided a copy of the second amendment signed by the final party on October 25, 2016. This amendment includes an effective date of April 1, 2016, and minimum future lease payments totaling approximately $51.5 million.

**University Medical Center New Orleans Equipment**

An agreement for the use of equipment purchased by the state for UMCNO was not signed as of June 30, 2016, and does not contain a listing of equipment to be leased. However, the private partner began utilizing equipment in August 2015 with the opening of the new hospital facility and made payments to HCSD based on a payment schedule prepared by the partner. This schedule outlined lease payments totaling approximately $90 million over five years, of which HCSD has received $24.9 million for fiscal year 2016 and a pre-payment of $24.3 million for fiscal year 2017.

In its fiscal year 2016 AFR, HCSD accounted for the agreement as an operating lease. However, the accounting standards for leases require that agreements be in writing, signed by all parties, and should specifically set forth the principal provisions of the agreement. If any of the principal provisions are yet to be negotiated, the agreement or commitment does not qualify for lease accounting. Therefore, without a valid lease agreement, the related assets and transactions should not be accounted for as an operating lease and audit adjustments were made to correct the AFR.

**Interim LSU Public Hospital in New Orleans Equipment**

The agreement for the partner's use of equipment located in ILH, effective on June 24, 2013, with a lease term of 10 years, did not contain an agreed-upon Exhibit A listing the annual lease payment by equipment item as required by the agreement.

During fiscal years 2013 through 2015, the partner made annual rental payments based on a schedule that was not agreed upon by all parties and only outlined rental payments through fiscal year 2016. During fiscal year 2016, the partner made payments totaling $3.7 million, which did not agree to the scheduled payment of $5.3 million, and a pre-payment for fiscal year 2017 of $3.3 million.

HCSD accounted for the agreement as an operating lease within its AFR; however, since Exhibit A, including the schedule of annual lease payments for the term of the lease, had not been agreed upon as of June 30, 2016, the related assets and transactions did not qualify for lease accounting and audit adjustments were made to correct the AFR.

Because HCSD is not a named party to the agreements outlined above, we requested that LSU, the named lessor on these agreements, provide the signed agreements and adequate support for the accounting treatment used within HCSD's AFR. LSU responded on September 30, 2016, confirming that the information provided by HCSD was everything available as of June 30, 2016.

Management of HCSD and LSU should ensure all agreements with the partners are complete and signed and executed prior to the effective date. In addition, management should ensure that all necessary information needed to evaluate the agreements for proper accounting is compiled and analyzed prior to inclusion within the AFR. HCSD management should work with the partner to ensure the state receives the agreed-upon payments. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 1-2).

**Weaknesses over State Assets in New Orleans Hospitals**

For the second consecutive year, HCSD did not ensure assets purchased by the Division of Administration, Office of Facility Planning and Control (OFPC) for the University Medical Center New Orleans were considered by the hospital's managing partner for tagging and entry into the state's asset management system. LSU, through HCSD, is responsible for monitoring the partner's performance over the property control obligations.

As of June 30, 2016, OFPC purchases totaling approximately $75 million had not been analyzed to determine if the related items were subject to Louisiana Property Assistance Agency (LPAA) requirements or properly reported in HCSD's financial statements. In addition, assets assigned to ILH totaling $1,153,106 were reported by the partner as unlocated. Failure to maintain accountability over state assets increases the risk that assets will be misappropriated or become unlocated, financial statements will be misstated, and results in noncompliance with state laws and regulations.

Based on our procedures, the following was noted:

- During fiscal year 2015, approximately $60 million of purchases were identified by OFPC as fixed equipment. As such, HCSD included the $60 million within the total cost of the new hospital building when accounting for the related capital lease in its AFR. The result of this accounting removed the building value from capital assets and recorded unearned revenues for the difference between the building value and the capital lease receivable.

  However, on September 28, 2016, during a meeting with LSU administration, OFPC, and the hospital partner's property manager, HCSD discovered that the $60 million included purchases of fixed medical equipment which, per HCSD's accounting policies, should be reported as capital assets, tagged, and entered into the state's property management system. Subsequent to this meeting, the partner's property manager was provided with the supporting documentation necessary to analyze the purchases to determine if the items should be recorded as equipment, building additions, or expensed items. LSU has represented to us that this analysis will be completed no later than December 31, 2016.

  As a result, HCSD's fiscal year 2016 capital asset balance is potentially understated by an amount up to $60 million but cannot be reasonably estimated at this time due to limited available information. In addition, HCSD's reported unearned revenues are potentially understated by the portion of the $60 million that should not be included within the value of the building.

- At year-end, OFPC reported to HCSD that it made additional purchases totaling approximately $15 million during fiscal year 2016. HCSD recorded this $15 million within Construction in Progress in HCSD's AFR until such time as the purchases can be analyzed to determine accurate reporting. Once again, LSU has represented to us that this analysis will be completed no later than December 31, 2016. As a result, HCSD's fiscal year 2016 capital asset balance is potentially misstated by an amount up to $15 million but cannot be reasonably estimated at this time due to limited available information. In addition, HCSD's reported unearned revenues are potentially overstated by the portion of the $15 million that should be included within the value of the building.

HCSD's prior year management letter included a finding noting that OFPC neglected to provide documentation detailing $15,137,952 of OFPC equipment purchases. During fiscal year 2016, the hospital partner was subsequently provided the necessary support and tagged and entered the qualifying assets into the state's asset management system as required.

Management should work with the hospital partner to ensure all OFPC purchases identified above are analyzed and qualifying assets are recorded appropriately in LPAA's system and HCSD's financial statements. Management should ensure monitoring controls are designed and operating to ensure the partner is tagging equipment and reporting monthly transactions to LPAA. Management should also continue to devote efforts to locate property previously reported as unlocated and ensure the state is reimbursed for any missing assets in the partner's possession. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 3-4).

**Weaknesses over Property Control**

For the second consecutive year, HCSD identified a significant amount of unlocated movable property associated with the now-closed Earl K. Long Medical Center (EKLMC). EKLMC's annual certification of property inventory was disapproved by the LPAA due to an unacceptable amount of discrepancies reported in the current year. The latest certification disclosed unlocated property totaling $2,050,726 (or 93%) of the $2,212,284 remaining EKLMC movable property not being leased by the private partner. Of the total unlocated, $132,441 was identified during the current inventory certification, and $1,918,285 was the remaining property identified as unlocated in the previous three years. Failure to establish adequate controls over property increases the risk of loss arising from theft or unauthorized use, noncompliance with state laws and regulations, possible errors, or misstatements in financial reporting.

R.S. 39:325 requires entities to conduct an annual inventory of movable property and report any unlocated property to the LPAA. After an extensive search of multiple properties during fiscal year 2016, HCSD was able to locate approximately $1.5 million of movable property that was being utilized by the private partner previously reported as unlocated. In addition, another $1.6 million of previously unlocated property was found and transferred to LPAA.

While significant progress was made during fiscal year 2016 in locating previously unlocated movable property, management should continue to devote efforts to locate the remaining unlocated EKLMC movable property. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 5-6).

**Noncompliance with Debt Collection Requirements**

During fiscal year 2016, HCSD did not have an agreement with the Attorney General's office (AG) or the Louisiana Department of Revenue, Office of Debt Recovery (ODR) for the collection of delinquent debts, resulting in noncompliance with state law and potential lost collection of funds owed to the state.

Act 399 of the 2013 Regular Legislative Session established the ODR as a centralized debt collection unit authorized to collect delinquent debt owed to the State of Louisiana. This act required state agencies that did not have a collections contract with the AG as of January 1, 2014, to refer all delinquent debts to ODR. Beginning January 7, 2014, HCSD entered into a one-year contract with the AG's office to collect on delinquent accounts owed to HCSD. Prior to the expiration of the contract, HCSD was informed by the AG's office that the contract would not be renewed. Since then, HCSD has performed in-house debt collection without an agreement from ODR to do so.

HCSD management should contact ODR to establish an agreement regarding the collection of delinquent debt. In management's initial response, it concurred with the finding and outlined a plan of corrective action.

**Additional Comments:** On December 9, 2016, management informed us that it became aware that LSU has an interagency agreement with the AG's office that was in effect as of June 28, 2013, with an amendment effective June 30, 2016, that covered HCSD for compliance with Act 399 of the 2013 Regular Session. However, HCSD did not utilize this agreement for any recovery efforts during the year under audit. Management also noted that it will continue with the corrective actions listed in its initial response (see Appendix A, pages 7-9).

## Financial Statements - Louisiana State University System

As a part of our audit of the System's financial statements for the year ended June 30, 2016, we considered HCSD's internal controls over financial reporting and examined evidence supporting certain account balances and classes of transactions as follows:

**Statement of Net Position**

**Assets** - Cash and cash equivalents, capital lease receivable, and capital assets
**Liabilities** - Unearned revenues
**Net Position** - Net investment in capital assets, restricted-expendable, restricted-nonexpendable, and unrestricted

**Statement of Revenues, Expenses, and Changes in Net Position**

**Revenues** - Hospital income and other non-operating revenues
**Expenses** - Hospital expenses and other non-operating expenses

Based on the results of these procedures on the financial statements, we reported findings related to weaknesses over state assets in New Orleans hospitals, weaknesses in agreements for use of state assets, weaknesses over property control, and noncompliance with debt collection requirements, as described previously. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

## Trend Analysis

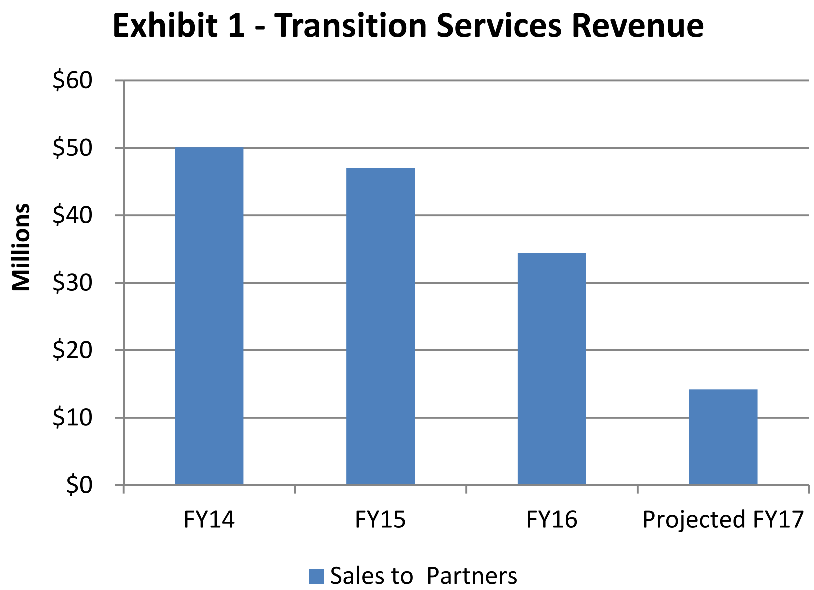
We compared the most current and prior-year financial activity using HCSD's annual fiscal reports and/or system-generated reports and obtained explanations from HCSD management for any significant variances.

## Lallie Kemp Regional Medical Center

We conducted certain procedures at the Lallie Kemp Regional Medical Center (LAKMC) for the period from July 1, 2014, through June 30, 2016. The primary purpose of our procedures was to evaluate certain controls that LAKMC uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and overall accountability over public funds. We evaluated LAKMC's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the applicable laws and regulations. Based on the documentation of LAKMC's controls and our understanding of related laws and regulations, we performed procedures on selected controls and transactions relating to patient revenues and non-payroll expenses. As a result of our procedures, we did not identify any reportable findings.

## Transition Services

When the private hospital partner agreements were implemented, the partners contracted with HCSD to provide a range of transition services to ensure an orderly transfer of hospital operations without a disruption in patient care. The number of these services provided by HCSD has declined over time, as indicated in Exhibit 1. In addition, at the end of 2016, all of the partners terminated their accountable care service contracts with the exception of New Orleans, which terminated its contract in July 2016. In October 2016, as a response to this decrease in revenue, HCSD notified 24 employees of pending layoffs. These layoffs were effective the first week of December 2016.




**Source:** HCSD's fiscal year 2014 – 2016 general ledger and HCSD's projection for fiscal year 2017

The recommendations in this letter represent, in our judgment, those which would likely bring about beneficial improvements to the operations of HCSD. The nature of the recommendations, their implementation costs, and their potential impact on the operations of HCSD should be considered in reaching decisions on courses of action.

Under R.S. 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

BP:CST:WDG:EFS:ch

HCSD2016

# APPENDIX A: MANAGEMENT’S RESPONSES

December 1, 2016

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

RE: Weakness in Agreements for Use of State Assets

Dear Mr. Purpera:

The LSU Health System, Health Care Services Division (HCSD) concurs with the audit finding, Weaknesses in Agreements for Use of State Assets for the Fiscal Year Ended June 30, 2016.

Corrective Action Plan

Buildings and Parking Lots

LSU HCSD & LSU Management to work to ensure that signed agreements are complete, executed, and have adequate support for the appropriate accounting treatment prior to the financial statement presentation. LSU HCSD will correct the note disclosures in the financial statements.

University Medical Center New Orleans Equipment

LSU HCSD was notified by the Property Manager at University Medical Center Management Corporation (UMCMC) on November 30, 2016, all of the outstanding fixed medical equipment purchased by Office of Facility Planning and Control (FPC) has been tagged and entered in LPAA.

With that information, LSU, HCSD Finance, and UMCMC will:

1. Review the additions made by the UMCMC Property Manager in New Orleans.
2. Finalize the exhibits necessary for the Lease Agreement.

3. Execute the Equipment Lease.
4. And, based on the appropriate accounting treatment, properly present the Equipment Lease in the financial statements and note disclosures.

Interim LSU Public Hospital in New Orleans Equipment

LSU HCSD Finance will work with LSU and UMCMC to:

1. Obtain the documented changes made on the Interim LSU Public Hospital Equipment Lease payments.

2. Present updated exhibits for the Interim LSU Public Hospital Equipment for the financial statement and note disclosure presentations.

Person Responsible for Corrective Action Plan

Mark Robichaux, HCSD Comptroller, is the person responsible for the corrective action plan. If further information is needed, he may be contacted by phone at (225) 354-3771 or by e-mail at mrobic2@lsuhsc.edu.

Sincerely,

Lanette Buie

Lanette Buie
Deputy Chief Executive Officer

LSU Health
ADMINISTRATION AND BUSINESS OFFICE

December 1, 2016

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

RE: Weakness over State Assets in New Orleans Hospitals

Dear Mr. Purpera:

The LSU Health System, Health Care Services Division (HCSD) concurs with the audit finding, Weaknesses over State Assets in New Orleans Hospitals for the Fiscal Year Ended June 30, 2016.

Corrective Action Plan

LSU HCSD will continue the corrective action plan that was put in place in FY_2016 in which the University Medical Center Management Corporation (UMCMC) Property Manager will analyze and tag the fixed medical equipment purchased by Office of Facility Planning and Control (FPC) in the Division of Administration.

As stated in the finding, the corrective action was immediately implemented to tag and report the equipment that should have been reported in LPAA. The supporting documentation for those purchases was provided to the UMCMC property manager on September 28, 2016.

LSU HCSD received notification from the UMCMC Property Manager on November 30, 2016 that updates to LPAA have been completed for the assets purchased by OFPC previously identified as fixed medical equipment. LSU HCSD Finance will review the additions made to LPAA and will confirm that all of the necessary updates have been completed in LPAA and will determine that proper fair market valuations were applied.

LSU HCSD Finance will continue to monitor the Property Control function for UMCMC on a monthly basis. UMCMC's Property manager has provided monthly status reports as stated in last year's response and will continue to search for any un-located assets during FY_2017 as an integral part of the FY_2017 LPAA inventory for UMCMC.

Person Responsible for Corrective Action Plan

Mark Robichaux, HCSD Comptroller, is the person responsible for the corrective action plan. If further information is needed, he may be contacted by phone at (225) 354-3771 or by e-mail at mrobic2@lsuhsc.edu.

Sincerely,

Lanette Buie

Lanette Buie
Deputy Chief Executive Officer

**LSU Health**
**ADMINISTRATION AND BUSINESS OFFICE**

November 11, 2016

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

RE: Weakness Over Property Control (EKLMC)

Dear Mr. Purpera:

The LSU Health System, Health Care Services Division (HCSD) concurs with the audit finding, Weaknesses over Property Control (EKLMC), for the Fiscal Year Ended June 30, 2016.

Corrective Action Plan

LSU HCSD will continue the corrective action plan that was put in place in FY_2016. For FY_2017:

1. HCSD's Property Control Staff will conduct, complete and submit a Physical Inventory for FY_2017 for the EKLMC LPAA Inventory Unit by the scheduled due date.
2. OLOL's Property Manager will conduct, complete and submit a Physical Inventory for FY_2017 for the OLOL LPAA Inventory Unit by the scheduled due date.
3. HCSD Property Control Staff along with OLOL Property Managers, will conduct an additional physical inventory at the Leased Clinic locations to determine if any un-located assets in the EKLMC LPAA Inventory are housed at any of those locations. LSU HCSD conducted an exhaustive inventory at the OLOL Clinics and Urgent Care Center in 2016 resulting in the location of $3,160,450.00 of previously un-located assets. If any additional un-located assets are identified during FY_2017, the EKLMC LPAA inventory will be updated. As you are likely aware, the Earl K. Long Hospital was demolished

LSUHealth
ADMINISTRATION AND BUSINESS OFFICE

by the Office of Facility Planning and Control and all that remains of the EKL Hospital are the EKL Clinics and Urgent Care Center.

Person Responsible for Corrective Action Plan

Mark Robichaux, HCSD Comptroller, is the person responsible for the corrective action plan. If further information is needed, he may be contacted by phone at (225) 354-3771 or by e-mail at mrobic2@lsuhsc.edu.

Sincerely,

Lanette Buie
Deputy Chief Executive Officer

LSUHealth

ADMINISTRATION AND BUSINESS OFFICE

November 11, 2016

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

RE: Noncompliance with Debt Collection Requirements

Dear Mr. Purpera:

The LSU Health System, Health Care Services Division (HCSD) concurs with the audit finding, Noncompliance with Debt Collection Requirements, for the Fiscal Year Ended June 30, 2016.

Corrective Action Plan

LSU HCSD is currently implementing the following corrective action plan:

1. LSU HCSD met with the Office of Debt Recovery on October 14, 2016 to assist LSU HCSD in meeting the requirements of Act 399 of the 2013 Regular Legislative Session.

2. LSU HCSD and the Office of Debt Recovery are currently executing a Memorandum of Understanding to meet those requirements.

3. LSU HCSD is currently assessing and formatting the data and information necessary to transfer the delinquent accounts to the Office of Debt Recovery.

4. LSU HCSD and the Office of Debt Recovery have targeted January 2017 as the date the delinquent accounts will be transferred to the Office of Debt Recovery.

LSU HEALTH CARE SERVICES DIVISION • P.O. BOX 91308 • BATON ROUGE, LOUISIANA 70821-1308


PHONE: 225.354.7000 • WWW.LSUHOSPITALS.ORG

**LSUHealth**
**ADMINISTRATION AND BUSINESS OFFICE**

Person Responsible for Corrective Action Plan

Mark Robichaux, HCSD Comptroller, is the person responsible for the corrective action plan. If further information is needed, he may be contacted by phone at (225) 354-3771 or by e-mail at mrobic2@lsuhsc.edu.

Sincerely,

Lanette Buie

Lanette Buie
Deputy Chief Executive Officer

LSUHealth
ADMINISTRATION AND BUSINESS OFFICE

December 9, 2016

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

RE: Update to Noncompliance with Debt Collection Requirements

Dear Mr. Purpera:

After completing the response for Noncompliance with Debt Collection Requirements, LSU HCSD became aware that LSU has an interagency agreement with the Department of Justice for Debt collections that was in effect as of June 28, 2013, with an amendment to the same agreement, effective June 30, 2016, specifying the agencies covered by the debt collections services. LSU HCSD was specified in the amended agreement effective June 30, 2016.

LSU HCSD will continue as planned with the corrective actions stated in the response on November 11, 2016, but felt it important to notify your office that LSU HCSD was covered by and is still covered by an agreement to comply with Act 399 of the 2013 Regular Session.

If further information is needed, Mark Robichaux, HCSD Comptroller, may be contacted by phone at (225) 354-3771 or by e-mail at mrobic2@lsuhsc.edu.

Sincerely,

Lanette Buie

Lanette Buie
Deputy Chief Executive Officer

LSU HEALTH CARE SERVICES DIVISION • P.O. BOX 91308 • BATON ROUGE, LOUISIANA 70821-1308

PHONE: 225.354.7000 • WWW.LSUHOSPITALS.ORG

# APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at LSU Health Sciences Center - Health Care Services Division (HCSD) for the period from July 1, 2015, through June 30, 2016, to provide assurances on financial information significant to the Louisiana State University System (System) and to evaluate relevant systems of internal controls in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The procedures included inquiry, observation, review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the System's financial statements for the year ended June 30, 2016.

- We evaluated HCSD's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to HCSD.

- Based on the documentation of HCSD's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain HCSD account balances and classes of transactions to support the opinions on the System's financial statements.

- We compared the most current and prior-year financial activity using HCSD's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from HCSD management for significant variances.

We also conducted certain procedures at the Lallie Kemp Regional Medical Center (LAKMC) for the period from July 1, 2014, through June 30, 2016. Our objective was to evaluate certain internal controls LAKMC uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and overall accountability over public funds. The scope of our procedures was significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is solely to describe the scope of our work at HCSD and not to provide an opinion on the effectiveness of HCSD's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review HCSD's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. HCSD's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.