

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

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 10, 2018

**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

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



LSU Health Sciences Center in Shreveport

December 2018

Audit Control # 80180098

Introduction

As a part of our audit of the Louisiana State University System (System) and the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2018, we performed procedures at the Louisiana State University Health Sciences Center (Center) to provide assurances on financial information that is significant to the System's financial statements; evaluate the effectiveness of the Center's internal controls over financial reporting and compliance; and determine whether the Center complied with applicable laws and regulations.

Results of Our Procedures

Current-year Finding

Inadequate Controls over Accounts Receivable

The Center does not have adequate controls over federal, state, and private grants and contracts to pursue collection of accounts receivable. Furthermore, the Center failed to establish proper allowance and write-off procedures. Failure to establish adequate collection and write-off procedures increases the risk that delinquent accounts could become uncollectible and that financial statements could be misleading.

The Center does not have a process in place to notify debtors, past the initial billing, of past due balances or a process to refer delinquent accounts to the Louisiana Attorney General's Office (AG) to pursue collection as required per its contract with the AG. Furthermore, the Center did not evaluate the outstanding balance for collectability and establish an allowance for doubtful accounts or write-off balances deemed uncollectable. The Center reported \$2 million of federal, state, and private grants and contracts accounts receivables as of June 30, 2018, which were outstanding from fiscal years 2005 to 2017.

Management should implement procedures to ensure multiple bills are submitted to debtors on past due accounts and, after such established collection efforts are exhausted, ensure delinquent accounts are submitted to the AG in accordance with contract terms. Furthermore, management should implement allowance and write off procedures for outstanding balances. Management concurred with the finding and provided a corrective action plan (see Appendix A).

Financial Statements – Louisiana State University System

As a part of our audit of the System's financial statements for the year ended June 30, 2018, we considered the Center's internal control over financial reporting and examined evidence supporting certain account balances and classes of transactions, as follows:

Statement of Net Position

Assets - Receivables

Net Position - Net Investment in Capital Assets, Restricted-Expendable, Restricted-Nonexpendable, and Unrestricted

Statement of Revenues, Expenses, and Changes in Net Position

Revenues - Nongovernmental Grants and Contracts, Hospital Income

Expenses - Educational and General, Hospital

Based on the results of these procedures on the financial statements, we reported a finding related to Inadequate Controls over Accounts Receivable, as described previously. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

Federal Compliance – Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2018, we performed procedures as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on information submitted by the Center to the Division of Administration's Office of Statewide Reporting and Accounting Policy for the preparation of the state's Schedule of Expenditures of Federal Awards (SEFA).

Based on the results of these Single Audit procedures, the Center's information submitted for the preparation of the state's SEFA is materially correct.

Trend Analysis

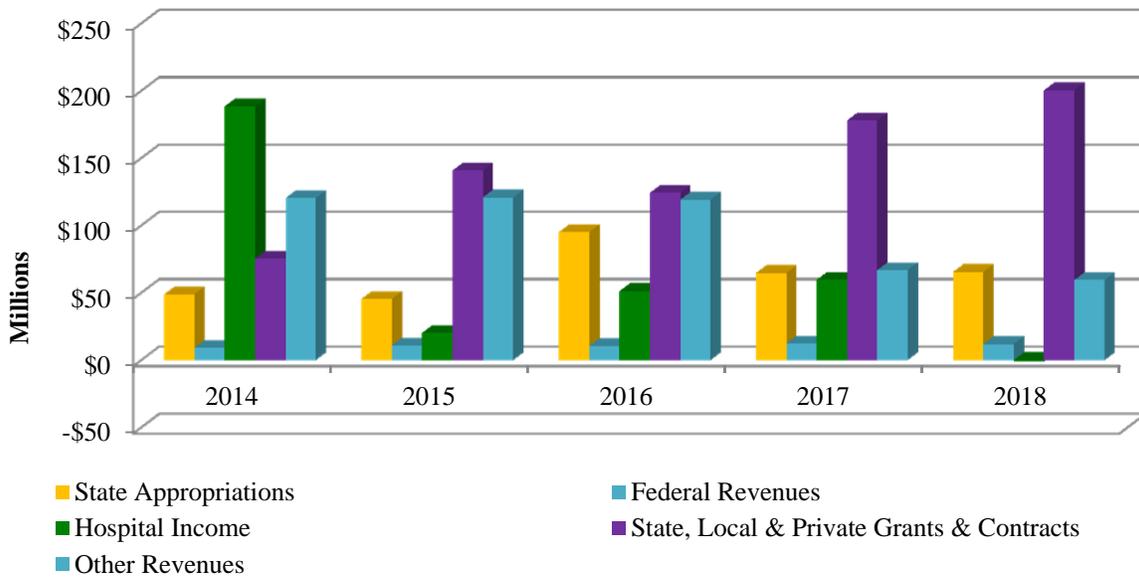
We compared the most current and prior-year financial activity using the Center's financial statements and/or system-generated reports and obtained explanations from the Center's management for any significant variances. We also prepared an analysis of revenues, expenses, and enrollment over the past five fiscal years, as shown in Exhibits 1 and 2.

In analyzing financial trends of the Center over the past five fiscal years, hospital revenues and expenses decreased drastically in fiscal year (FY) 2014 and FY 2015 due to the privatization of the Center's two largest hospitals as of October 2013, and its third as of July 1, 2014. The

medical school continues to utilize tuition and fees, physician services, grants and contracts, and other revenue sources to finance its operations. Since the privatization, the primary source of revenue used to finance the Center’s operations has shifted from hospital revenue to contract revenue for physician services, which have more than tripled. The current hospital revenues mainly consist of state lease payments received from Biomedical Research Foundation/ University Health, a private organization that manages two of the Center’s former hospitals.

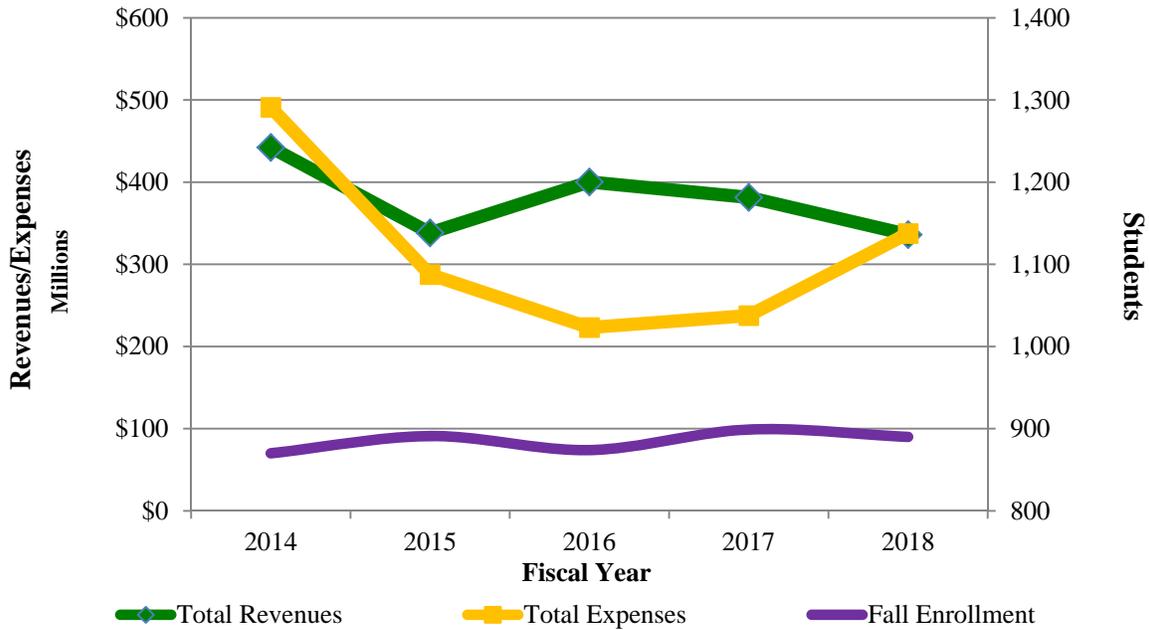
In fiscal year 2018, hospital income decreased due to a write-off of approximately \$54 million for uncompensated care (UCC) receivables that was recorded against hospital income. Beginning in January 2017, net physician related revenues are recognized as private grants and contracts, due to the contract with Faculty Group Practice, rather than other revenues, causing a decrease in other revenues and increase in private grants and contracts revenues in fiscal years 2017 and 2018. In fiscal year 2018, clinical operations, pension, and building and equipment lease expenses increased.

Exhibit 1
Five-Year Revenue Trend, by Fiscal Year



Source: Fiscal years 2014-2018 Financial Statements, as adjusted

**Exhibit 2
Fiscal/Enrollment Trends**



Source: Fiscal years 2014-2018 Center’s Financial Statements, as adjusted, and Board of Regents website Data/Publication

The recommendation in this letter represents, in our judgment, that which will most likely 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.

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

ASM:RJM:BH:EFS:ch

LSUHSCS2018

APPENDIX A: MANAGEMENT'S RESPONSE

Health Sciences Center
Office of the Chancellor

1501 Kings Highway
P.O. Box 33932
Shreveport, LA 71130-3932

O 318-675-5240
F 318-675-5244
www.lsuhsctshreveport.edu

November 26, 2018

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

RE: FYE2018

**Inadequate Controls over Accounts Receivable
Federal, State and Private Grants and Contracts**

Dear Mr. Purpera,

LSUHSC Shreveport concurs with the recommendations to implement written procedures for collections of grants and contracts with a process for allowance and write off procedures.

Due to the complexity of grants and contracts, each will require review before collection letters are initiated and/or transfers to AG/ODR are completed. Multiple procedures, as necessary, will be developed to address the varying service/payment arrangements. The process for allowance and write off procedures will be followed accordingly.

As a result of this review, specific procedures will be outlined with the Attorney General's Office for this area of accounts receivable.

Name of Contact(s) Responsible for Corrective Action:

Sheila Fapur, CFO
Steven McAlister, Associate Director of Accounting Services
Bill Haacker, Assistant Director of Grants Accounting

Anticipated Completion Date for Corrective Action Plan: June 30, 2019

Please advise if additional information is required at this time.

Sincerely,



W. Jeff Reynolds
Vice Chancellor of Administration and Finance

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Center for the period from July 1, 2017, through June 30, 2018, to provide assurances on financial information significant to the Louisiana State University System (System), and to evaluate relevant systems of internal control 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 and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2018.

- We evaluated the Center'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 the Center.
- Based on the documentation of the Center's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain account balances and classes of transactions to support our opinions on the System's financial statements.
- We performed procedures on information for the preparation of the state's Schedule of Expenditures of Federal Awards for the year ended June 30, 2018, as a part of the 2018 Single Audit.
- We compared the most current and prior-year financial activity using the Center's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from the Center's management for significant variances.

The purpose of this report is solely to describe the scope of our work at the Center, and not to provide an opinion on the effectiveness of the Center'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 the Center's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. The Center's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.