

LOUISIANA STATE UNIVERSITY  
HEALTH SCIENCES CENTER -  
HEALTH CARE SERVICES DIVISION

LOUISIANA STATE UNIVERSITY SYSTEM

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES  
MANAGEMENT LETTER  
ISSUED DECEMBER 12, 2018

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

**LEGISLATIVE AUDITOR**  
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**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 –  
Health Care Services Division



December 2018

Audit Control # 80180110

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## Introduction

As a part of our audit of the Louisiana State University System's (System) financial statements for the year ended June 30, 2018, we performed procedures at 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 compliance; and determine whether HCSD complied with applicable laws and regulations. In addition, we determined whether management has 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 hospital, Lallie Kemp Regional Medical Center in Independence (LAKMC).

## Results of Our Procedures

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### Follow-Up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the HCSD management letter dated December 6, 2017. The prior-year finding related to Weaknesses in Agreements for Use of State Assets at the University Medical Center New Orleans (UMCNO) has not been resolved and is addressed again in this letter. Regarding the prior-year finding related to Weaknesses over Property Control, \$1.6 million of movable property associated with the now-closed Earl K. Long Medical Center remained unlocated and was written off in accordance with state property regulations in fiscal year 2018.

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### Current-year Findings

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

For the third consecutive year, HCSD and Louisiana State University administration (LSU) did not have a final, signed agreement for the equipment being utilized by the partner managing UMCNO. In addition, the state has not been reimbursed for supplies and other items purchased related to a separate agreement.

Allowing the partner to use state assets without final, signed agreements increases the risk that the state has not been properly compensated and assets will be misused, misappropriated, or become unlocated. There is also an increased risk of misunderstandings and/or nonpayment without protection for the state, including remedies for default. In addition, not following existing agreements that require reimbursement from the partner reduces the availability of state funds for other purposes.

The agreement for the use of equipment purchased by the state for UMCNO remained unsigned as of June 30, 2018. However, the private partner began utilizing that equipment in August 2015 with the opening of the new hospital facility and has made payments to HCSD based on a five-year payment schedule prepared by the partner. In fiscal year 2018, HCSD completed a reconciliation of the equipment purchases and determined the value of leased equipment to be approximately \$99 million. As of June 30, 2018, HCSD has received payments totaling approximately \$82 million for use of this equipment. Due to the lack of a signed agreement, there is insufficient information to determine if the partner has paid adequate rent for these items.

In addition, a bill of sale for supplies and other items purchased by the state totaling \$8.4 million has not yet been executed. The UMCNO master hospital lease agreement requires the partner to pay for the cost of these items; however, repayment has not yet been made.

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. In its fiscal year 2018 Annual Financial Report (AFR), HCSD reported all payments received on this unexecuted lease agreement as unearned revenue until the agreement is finalized and the revenue can be properly recognized in accordance with lease accounting standards.

Management of HCSD and LSU should ensure final agreements with the partners are signed and executed prior to the effective date. Once the agreements have been signed, management should ensure that all necessary information needed to evaluate the agreements for proper lease accounting is compiled and analyzed prior to inclusion within the AFR. In addition, HCSD should ensure that the state receives all agreed-upon payments. Management concurred with the finding and is in the final stages of negotiating an agreement with UMCNO. Management also noted that options are being considered to resolve items purchased by HCSD but not reimbursed by UMCNO (see Appendix A, pages 1-3).

### **Noncompliance with Debt Collection Requirements**

During fiscal year 2018, HCSD did not attempt to collect from a contractor, HarmonIQ, debt totaling \$163,544 for services performed from February 2016 through November 2016. The lack of collection effort results in noncompliance with state law and possible lost revenue.

Louisiana Revised Statute 47:1676 requires the state to aggressively pursue the collection of accounts or claims due and payable through all reasonable means. In addition, HCSD's agency participation agreement with the Office of Debt Recovery (ODR) stipulates that HCSD should send proper notification to the debtor that the failure to pay the debt owed within 60 days shall

result in the debt being sent to ODR for further collection activities. The notice should also inform the debtor that an additional collection fee of up to 25% of the total debt liability shall be added to the debt if it is sent to ODR for further collection activities.

In accordance with the participation agreement with ODR, HCSD management should notify the contractor that its failure to pay the debt within 60 days will result in the debt being sent to ODR for collection activities and that an additional collection fee of up to 25% of the total debt liability will be added to the debt. In addition, HCSD management should transmit this debt with required correspondence information to ODR. Management concurred with the finding and outlined a corrective action plan (see Appendix A, page 4).

### **Inadequate Controls over Outpatient Pharmacy User IDs**

LAKMC did not have adequate controls over user IDs used to order medication inventory for the outpatient pharmacy. In a review of 20 orders placed between July 1, 2016, and December 31, 2017, we identified that all orders reviewed were placed using the same ID. The noted ID was assigned to a pharmacy department employee who separated from LAKMC in June 2017; however, this employee's ID was used to place orders subsequent to that separation. With use of the shared ID, LAKMC was unable to provide sufficient evidence that the orders were placed and received by separate individuals, increasing the risk that medications could be misappropriated without detection.

The outpatient pharmacy department's procedures require that separate individuals perform the ordering and receiving functions for medication inventory. However, the pharmacy department allowed continued use of the former employee's user ID until questioned by the auditors in March 2018. At that time, the pharmacy department disabled the ID in question and established individual user IDs for all pharmacy employees responsible for placing medication orders.

LAKMC should ensure that each employee responsible for ordering medications in the outpatient pharmacy is assigned a unique user ID. In addition, LAKMC should establish a policy that prohibits the sharing of user IDs and requires termination of employee user IDs immediately upon separation. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 5-6).

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## **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 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 and Capital Lease Receivable

**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

**Expenses** - Hospital Expenses

Based on the results of these procedures on the financial statements, we reported findings related to Weaknesses in Agreements for Use of State Assets and Noncompliance with Debt Collection Requirements, as described previously. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

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### **Other Procedures**

In addition to the System procedures noted above, we performed certain procedures that included obtaining, documenting, and reviewing HCSD's controls over the time and attendance function. Based on the results of our procedures, HCSD had adequate controls in place to ensure timely review and approval of employee time statements and leave requests, employees were paid the amounts authorized, and there was proper accounting for leave taken.

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### **Trend Analysis**

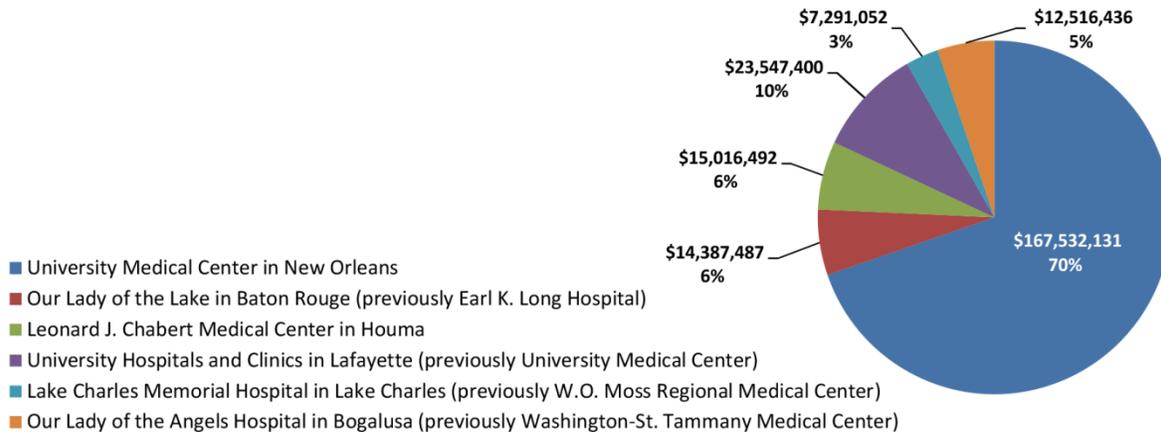
We compared the most current and prior-year financial activity using HCSD's Annual Fiscal Reports and/or system-generated reports and obtained explanations from HCSD's management for any significant variances.

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### **LPAA Inventory**

As shown in the following chart, HCSD currently has approximately \$240 million dollars of state-owned equipment being used by the private hospital partners. The partners are responsible for completing the required annual physical inventory and tracking the equipment in accordance with the state's property regulations. HCSD is responsible for monitoring the partners' performance of these obligations to ensure compliance with state regulations.

**HCS D Equipment Certified, by Private Hospital Partner**  
**Total: \$240,290,998**



**Source:** 2018 Certifications of Annual Property Inventory

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## Lallie Kemp Regional Medical Center

### Accounts Receivable

LAKMC maintains accounts receivable that consists of amounts billed to patients for services and physician charges. We obtained an understanding of LAKMC’s procedures for account collection and subsequent identification of bad debts to be written off. We analyzed the listing of accounts written off as bad debt for financial reporting purposes during the period July 1, 2017, through June 30, 2018, and reviewed selected accounts. Based on the results of our procedures, LAKMC followed established collection and bad debt write-off procedures.

### Outpatient Pharmacy

LAKMC operates an outpatient pharmacy, separate from the inpatient pharmacy, which serves to fill the prescription needs of LAKMC patients, including the inmate patients that are served by LAKMC. Because LAKMC participates in a federal discount drug pricing program, patients can buy select medications for less than the normal cost. We obtained an understanding of LAKMC’s controls over the outpatient pharmacy’s medication inventory.

The medication inventory expenses for the outpatient pharmacy were approximately \$3.5 million during fiscal year 2017 and \$1.7 million during the first six months of fiscal year 2018. We analyzed transaction listings for medication inventory orders placed during the period July 1, 2016, through December 31, 2017, and reviewed selected transactions. Based on the results of our procedures, we reported the control deficiency noted in the Current-year Findings section. LAKMC was unable to provide sufficient

evidence that the established segregation of duties controls were operating effectively during the time period tested.

**Payroll and Personnel**

Salaries and related benefits comprised approximately 56% of LAKMC's expenses in fiscal year 2017 and approximately 61% for the first six months of fiscal year 2018. We obtained an understanding of LAKMC's controls over the time and attendance function and reviewed selected employee time statements and leave records. Based on the results of our procedures, LAKMC had adequate controls in place to ensure timely review and approval of employee time statements and leave requests, employees were paid the amounts authorized, and there was proper accounting for leave taken.

The recommendations in this letter represent, in our judgment, those which will most 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 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

BSL:ETM:RR:EFS:aa

HCSD2018

## **APPENDIX A: MANAGEMENT'S RESPONSES**





November 28, 2018

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:

We concur with the finding that LSU Health Care Services Division (HCSD) does not have a final signed equipment lease with the University Medical Center Management Corporation (UMCMC). There have been extenuating circumstances that have delayed the signing and execution of the lease agreement that are not under the control of HCSD.

UMCMC has been making estimated equipment lease payments since occupancy of the new hospital facility in New Orleans since 2015. The equipment purchased for the hospital was from several sources of funding and by separate entities. Both HCSD and the Office of Facility Planning and Control (FPC) in the Division of Administration made purchases of equipment for the new hospital in New Orleans. HCSD made equipment purchases using FEMA funding from the Charity Hospital contents Project Worksheet. FPC made equipment purchases from several sources of funding, through Act 335 of 2013 (Act 335) and subsequent Capital Outlay appropriations as well as project funds. Act 335 exempted UMCMC from paying for this equipment or making lease payments for this equipment. UMCMC and HCSD needed clarification of the following issues:

- The Division of Administration (DOA) needed to clarify the amount of funding tied to Act 335. HCSD has sought clarification from the DOA since January of 2018.
- The DOA needed to clarify the question of ownership of this equipment and the impact of this on the equipment lease.
- The DOA needed to provide a listing of the equipment purchased by FPC pursuant to Act 335, which were not subject to lease payments.

The questions regarding these issues delayed the development of the equipment list, an exhibit to the lease. HCSD and UMCMC could not determine the total dollar amount of the equipment lease without the equipment exhibit, which has delayed the signing of the Equipment Lease by the Lessee, UMCMC.

UMCMC believed Act 335 granted them ownership of the equipment purchased pursuant to the Act and therefore believed this equipment was not subject to the lease. UMCMC also believed that they were due a credit from the estimated lease payments they have been paying which they felt included the Act 335 equipment. UMCMC also believed that the amount of equipment for which they should receive credit was the amount included in the Capital Outlay appropriation and not the amount actually funded at the State Bond Commission.

LSU HCSD was not privy to the discussions precipitating the passage Act 335 as well as subsequent Capital Outlay appropriations made pursuant to this act and have sought clarification from the Division of Administration regarding the equipment purchased by FPC in accordance with the Act. The Equipment Lease requires a list of equipment as an exhibit to the lease agreement. Finalization of the equipment list could not occur until the DOA clarified the following:

- **The intent of Act 335** (Capital Outlay appropriation was to the LSU Health Science Center and therefore subject to the lease agreement but with no lease charges for the equipment per the Act)
- **Whether the appropriated amount or the funded amount would apply to any credit owed to UMCMC pursuant to estimated equipment lease payments made by UMCMC.** (There is a difference between the dollar amount appropriated in Capital Outlay and the amount subsequently funded by the State Bond Commission by the granting of a cash line of credit. HCSD and UMCMC needed clarification as to the amount of credit owed to UMCMC, the appropriated amount or actual funding the appropriation received at the State Bond Commission. DOA clarified that UMCMC would only receive credit for lease payments made up to the amount of funding by the State Bond Commission.)
- **Provide LSU HCSD and UMCMC with a list of equipment purchased by FPC pursuant to Act 335.** (list of purchases made by FPC pursuant to Act 335 were provided to both UMCMC and HCSD on, October 29, 2018)

There was a meeting on, October 29, 2018 with DOA, UMCMC and HCSD wherein DOA provided the clarifications noted above. We are now in the final stages of lease negotiations with UMCMC.

A second issue raised in this audit finding is the fact that UMCMC has not yet paid \$8.4M for “supplies and other items” and a bill of sale has not been executed for this equipment. The items in question are equipment purchases with an original purchase price of less than \$1,000. UMCMC is reviewing its option to either add this equipment to the leased equipment list with the incumbent responsibility to tag and track the equipment or purchase this equipment outright.



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](mailto:mrobic2@lsuhsc.edu).

Sincerely,

A handwritten signature in blue ink, appearing to read "Lanette Buie", is written in a cursive style.

Lanette Buie  
Deputy Chief Executive Officer



November 28, 2018

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.

Corrective Action Plan

LSU HCSD has sent HarmonIQ via Certified Mail the 60-day notice, dated November 21, 2018, as required by RS 47:1676 to comply with the debt collection process. HCSD has identified January 24, 2019 as the date the balance of \$163,544.40 will be transferred to the Office of Debt Recovery for further collection efforts, if no action is taken by HarmonIQ to eliminate the debt.

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](mailto:mrobic2@lsuhsc.edu).

Sincerely,

A handwritten signature in blue ink, appearing to read "Lanette Buie". The signature is fluid and cursive.

Lanette Buie  
Deputy Chief Executive Officer



June 4, 2018

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

Dear Mr. Purpera:

RE: Lallie Kemp Regional Medical Center  
Inadequate Controls over Outpatient Pharmacy User IDs

Our office along, with staff from Lallie Kemp Regional Medical Center, have reviewed the above referenced audit finding and concur with the finding. A corrective action plan has been established and procedures have been implemented to ensure that each employee who places orders in the pharmacy system will have a unique ordering log in to the system.

Mary Vuljoin, Pharmacy Director at Lallie Kemp, will be the person responsible for monitoring the corrective action plan and assuring that all appropriate pharmacy staff is in compliance with the plan.

Please see response from Rhonda Green, Hospital Administrator which is attached.

If you have any questions, or need any additional information, please let us know.

Sincerely,

A handwritten signature in blue ink, appearing to read "Lanette Buie".

Lanette Buie  
Deputy Chief Executive Officer  
LSU Health Sciences Center –  
Health Care Services Division  
[lbuie@lsuhsc.edu](mailto:lbuie@lsuhsc.edu)  
225-354-7008

Cc: Dr. Wayne Wilbright, Chief Executive Officer  
Dr. Larry Hollier, Chancellor  
Rhonda Green, Hospital Administrator



**Health Care Services Division**  
Lallie Kemp Regional Medical Center

May 25, 2018

Carrie Thompson, CPA  
Audit Manager, Financial Audit Services  
Louisiana Legislative Auditor  
P.O. Box 94397  
Baton Rouge, La 70804-9397

Re: Inadequate Controls over Outpatient Pharmacy User IDs– Lallie Kemp Regional Medical Center

Ms. Thompson,

The Inadequate Controls over outpatient pharmacy user ID's identified in your audit occurred during a transition of staffing. We concur with the finding of this audit. We have implemented procedures to ensure that this does not occur in the future. Any staff member who places orders will have their own unique log in ensuring that each person will be identified.

We have identified Mary Vuljoin, the Pharmacy Director of LAK, as the monitor of this finding. She will ensure that processes and procedures are in place to ensure each employee has a unique ordering log in to the system. This process is already in place.

Please feel free to contact me should you have additional questions.

Sincerely,

A handwritten signature in black ink that reads "Rhonda Green".

Rhonda Green  
Hospital Administrator

## 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, 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 for the year ended June 30, 2018.

- 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 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's management for significant variances.

We also conducted certain procedures at the Lallie Kemp Regional Medical Center (LAKMC) for the period from July 1, 2016, through June 14, 2018. 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. In addition, we performed certain procedures that included obtaining, documenting, and reviewing HCSD's controls over the time and attendance function. The scope of these 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.