

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Medical Center of Louisiana at New Orleans
Louisiana State University Health
Care Services Division
State of Louisiana
New Orleans, Louisiana

December 10, 1997



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Legislative Auditor

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**MEDICAL CENTER OF LOUISIANA AT NEW ORLEANS
LOUISIANA STATE UNIVERSITY HEALTH
CARE SERVICES DIVISION
STATE OF LOUISIANA
New Orleans, Louisiana**

**Management Letter
Dated November 6, 1997**

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.

December 10, 1997



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November 6, 1997

**MEDICAL CENTER OF LOUISIANA AT NEW ORLEANS
LOUISIANA STATE UNIVERSITY HEALTH
CARE SERVICES DIVISION
STATE OF LOUISIANA
New Orleans, Louisiana**

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1997, we conducted certain procedures at the Medical Center of Louisiana at New Orleans. Our procedures included (1) a review of the medical center's internal control structure; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with prior year report recommendations.

The June 30, 1997, Annual Fiscal Report of the Medical Center of Louisiana at New Orleans was not audited or reviewed by us, and, accordingly, we do not express an opinion or any other form of assurance on that report. The medical center's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with management personnel and selected medical center personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvements. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior report on the Medical Center of Louisiana at New Orleans, we reported findings relating to patient charges, movable property records, untimely remittance of unexpended appropriation, and failure to monitor trust fund cash balances. The findings relating to movable property records, untimely remittance of unexpended appropriation, and failure to monitor trust fund cash balances have been resolved by management. The finding relating to patient charges has not been resolved and is addressed again in this report.

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

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Inaccurate Patient Charges

For the tenth consecutive year, the Medical Center of Louisiana at New Orleans has not completed the development and implementation of effective procedures to provide management with assurance that all charges incurred by patients are accurate and billed timely. Complete and accurate information on patient charges is needed to ensure that the medical center is maximizing revenue.

In our test of ineligible inpatient charges for 25 patients' accounts, the following deficiencies were noted:

- Six (24 percent) of the patients' bills were not produced timely. Final bills for the 6 patients were prepared in excess of 30 days following discharge.
- At our request, the medical center's Coding and Revenue Enhancement Department audited the 25 bills, totaling \$384,338. Those audits by the Coding Department revealed inaccuracies in all 25 of the bills. It was determined that 23 bills contained undocumented charges (overcharges), totaling \$28,651 (7 percent). Also, there were undercharges or unbilled charges on 24 of the bills, totaling \$61,668 (16 percent).
- Documentation of the financial eligibility information could not be located for 7 (28 percent) of the 25 patients' files.

In addition, in our test of inpatient Medicare and Medicaid charges, we determined that for 8 (33 percent) of the 24 patients tested, bills were not produced timely. Bills for the 8 patients were produced in excess of 30 days following discharge.

As a result, management has no assurance that all services performed are billed to patients or that amounts billed to patients are timely and accurately reflect charges for services actually received.

Management of the Medical Center of Louisiana at New Orleans should ensure that all charges are documented in the patients' medical records and are processed into the billing system. In addition, the medical center should continue to establish written procedures for patient account information to provide assurance that charges incurred by patients are accurate and billed timely. In a letter dated September 9, 1997, Dr. Michael Butler, Chief Operating Officer, concurred with the finding and recommendation and stated that in April 1997, the medical center established a plan to develop

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and implement procedures to provide management with assurance that all charges incurred by patients are accurate and billed timely.

Failure to Verify the Claims Edit Listing

The Medical Center of Louisiana at New Orleans has not properly verified the Claims Edit Listing received from the Office of Risk Management. Each quarter, the Office of Risk Management distributes to all state agencies a Claims Edit Listing that contains all claims submitted by each agency. The Office of Risk Management uses this listing for computation of experience ratings and premiums. The Office of Risk Management requests that the agencies review this listing for accuracy and report any errors or omissions to the Office of Risk Management.

Because the medical center failed to properly verify the Claims Edit Listing, any errors or omissions would not be detected by the appropriate medical center employees in the normal course of their duties. In addition, experience ratings and premiums assessed by the Office of Risk Management could be incorrect since these errors or omissions are not reported to the Office of Risk Management.

The Medical Center of Louisiana at New Orleans should ensure that the quarterly Claims Edit Listings received from the Office of Risk Management are reviewed by the appropriate personnel for accuracy and completeness of the claims reported. Furthermore, the medical center should ensure that any errors or omissions detected by the appropriate personnel are properly reported to the Office of Risk Management. In a letter dated September 9, 1997, Dr. Michael Butler, Chief Operating Officer, concurred with the finding and recommendation and stated that a corrective action plan was implemented on July 7, 1997, to ensure that the Claims Edit Listing will be verified in the future.

Inadequate Controls Over Perpetual Inventories

The Medical Center of Louisiana at New Orleans did not adequately maintain control and accountability for its pharmacy and warehouse inventories. Good internal controls require that there be an adequate system to account for the receipt, issuance, valuation, and disposition of inventory items. These controls should include investigating, documenting, and approving significant variances between the perpetual inventory records and physical counts, and maintaining accurate perpetual records to ensure the propriety of inventory balances.

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Accurate perpetual inventory records were not maintained during the year by the medical center. Because of problems related to the microwave wide area link, the inventory data were often lost when being transmitted from one location to another. The medical center did not have a system in place to verify that the data entered into the computerized inventory tracking system at one site were actually transmitted, received, and recorded into the system at another site. In our test counts of the pharmacy department inventory, we determined that for 6 of 20 items tested, the physical counts did not agree with the perpetual records. For the warehouse inventory, 11 of 20 items tested did not agree between physical counts and perpetual inventory records. Failure to maintain an adequate perpetual inventory increases the risk that losses may occur and not be detected in a timely manner.

The Medical Center of Louisiana at New Orleans should ensure that an accurate perpetual inventory system is maintained by correcting the problems related to the transmission and receiving of data over the microwave wide area link. Furthermore, the medical center should ensure that significant variances between the perpetual records and the physical counts are investigated, documented, and approved. In a letter dated November 3, 1997, Mr. John S. Berault, Chief Executive Officer, concurred with the finding and stated that corrective actions are being taken. The technical problems involving the transmission of data is being remedied through the installation of fiber optic cables and by switching to an updated version of the software being used for the inventory system. New procedures are also being implemented to improve operating practices.

Failure to Timely File Corrected Tax Forms

The Medical Center of Louisiana at New Orleans has not timely prepared and filed corrected Wage and Tax Statements (Form W-2C) and corrected Employer's Quarterly Federal Tax Returns (Form 941c) for adjustments to prior year Social Security taxes. Internal Revenue Service Circular E requires that whenever an adjustment is made to prior year Social Security taxes, a Form W-2C and a Form 941c providing the corrected information should be filed with the federal government.

As of June 30, 1997, the medical center had overpaid \$175,197 in Social Security taxes to the federal government. These overpayments occurred over a 3-year period when employees who previously worked at Hotel Dieu Hospital (now part of the Medical Center of Louisiana at New Orleans) were determined to be eligible for the State Employees Retirement System rather than Social Security. Although the proper adjustments were made to the employees' payroll records and employer and employee contributions were remitted to the State Employees Retirement System, the corrected

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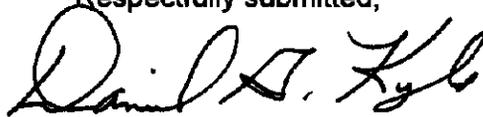
W-2s and 941c were not processed and filed until September 9, 1997. As a result, the medical center has not received a refund of Social Security taxes paid in error, and employees have not been furnished with corrected W-2s for tax filing purposes. The failure to file the proper forms occurred because the finance and payroll departments did not coordinate their efforts to ascertain that the necessary forms were prepared and filed.

The Medical Center of Louisiana at New Orleans should ensure that its policies and procedures pertaining to preparing and filing corrected Form W-2C and Form 941c are followed and that efforts of the finance and accounting departments are coordinated. In a letter dated September 30, 1997, Mr. John S. Berault, Chief Executive Officer, concurred with the finding and recommendation and stated that the medical center has implemented procedures to ensure that corrected W-2C and 941c forms are prepared and filed timely in the future.

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the medical center. The varying nature of the recommendations, their implementation costs, and their potential impact on operations of the medical center should be considered in reaching decisions on courses of action. Findings relating to the medical center's compliance with laws and regulations should be addressed immediately by management.

By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

JES:JR:dl

[CHNO]