

LOUISIANA STATE UNIVERSITY HEALTH SCIENCES
CENTER – NEW ORLEANS
LOUISIANA STATE UNIVERSITY SYSTEM

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED FEBRUARY 11, 2019

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Louisiana State University

Health Sciences Center – New Orleans



February 2019

Audit Control # 80180093

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 – New Orleans (LSUHSC-NO) to provide assurances on financial information that is significant to the System’s financial statements; evaluate the effectiveness of LSUHSC-NO’s internal controls over financial reporting and compliance; and determine whether LSUHSC-NO complied with applicable laws and regulations.

Results of Our Procedures

Current-year Finding

Inadequate Controls Resulting in Theft via Wire Transfers

LSUHSC-NO processed two illegitimate wire transfers that resulted in a loss of \$52,886. In April 2018, Accounting Services received and processed two email requests for wire transfers totaling \$60,060. The two email requests appeared to have come from the Associate Vice Chancellor for Administration and Finance (VCAF)’s email account. However, on April 10, 2018, LSUHSC-NO discovered that the emails were counterfeit and not initiated by the Associate VCAF. LSUHSC-NO contacted the bank and was able to recover \$7,174 of the total amount requested. Management has reported the theft to the proper authorities.

While Accounting Services did request an invoice for the transaction, the wire transfers were completed without proper supporting documentation. Internal controls should be designed to minimize the risk of theft or loss of assets. LSUHSC-NO has since approved new policies and procedures for electronic funds transfers which require dual signatures for a transfer to be processed.

Management should continue to utilize the new Electronic Funds Policies and Procedures and periodically evaluate its effectiveness and make changes as necessary. Management agreed with the finding and outlined the corrective actions that have been implemented (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 LSUHSC-NO's internal control over financial reporting and examined evidence supporting certain account balances and classes of transactions, as follows:

Statement of Net Position

Assets - Capital 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

Expenses - Educational and General

Based on the results of these procedures on the financial statements, we reported a finding related to Inadequate Controls Resulting in Theft via Wire Transfers, as described previously. In addition, the account balances and classes of transactions tested 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 internal control and compliance testing 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 LSUHSC-NO's major federal program, as follows:

- Research and Development Cluster

Those tests included evaluating the effectiveness of LSUHSC-NO's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether LSUHSC-NO complied with applicable program requirements. In addition, we performed procedures on information submitted by LSUHSC-NO 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), as required by Uniform Guidance.

Based on the results of these Single Audit procedures, we did not report any internal control deficiencies or noncompliance with program requirements. In addition, LSUHSC-NO'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 LSUHSC-NO's Annual Fiscal Reports and/or system-generated reports and obtained explanations from LSUHSC-NO'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.

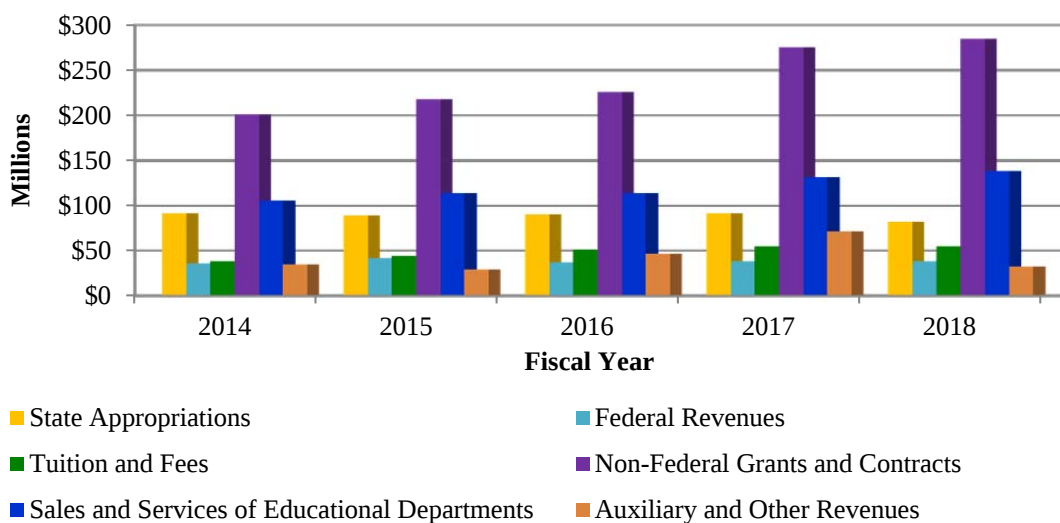
In analyzing financial trends of LSUHSC-NO over the past five fiscal years, total revenues have increased 24%, and expenses have increased 17%. However, since 2014, state appropriations have decreased 9%. As state appropriations continue to become a smaller portion of total revenues, the university's operations are becoming more dependent on non-federal grants and contracts revenues.

Over that same period, tuition and fees have increased by 43%, even though enrollment has remained relatively consistent. This is mainly due to the increases in tuition permitted by Acts of the Louisiana Legislature including the GRAD Act (Act 741 of the 2010 Regular Session), Act 377 of the 2015 Regular Session, and Act 293 of the 2017 Regular Session.

Non-governmental grants and contracts have increased 42%, which is mainly due to renegotiations in clinical contract amounts with area hospitals to include fair market value for billings. Sales and services of educational departments have increased 30%, which is mainly due to Medicaid expansion which took effect July 1, 2016, and the Affordable Care Act.

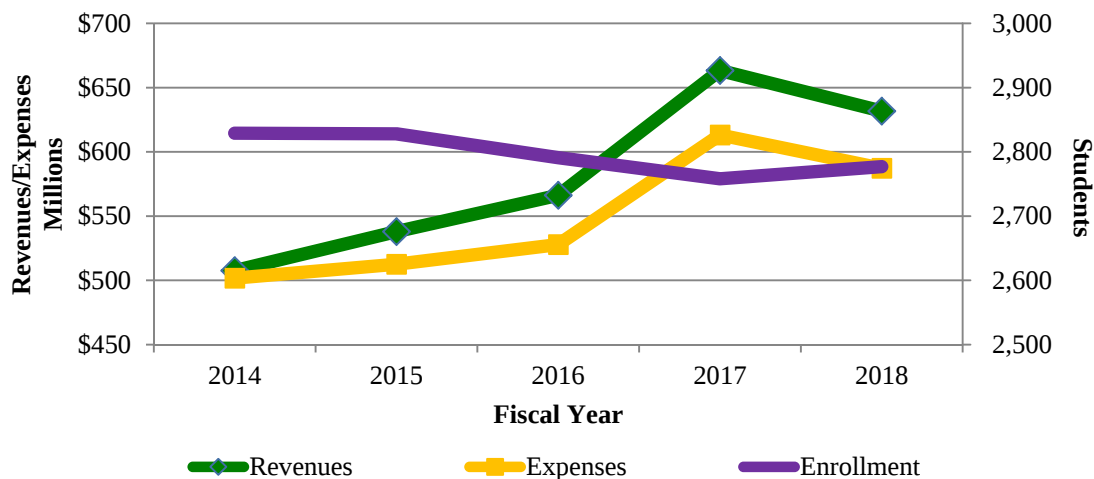
In addition, expenses have increased due to agreements with the Louisiana Department of Health to provide services to low income needy individuals within the state, and faculty costs related to the increased clinical contract amounts with area hospitals.

Exhibit 1
Five-Year Revenue Trends



Source: Fiscal Years 2014-2018 LSU System Audit Reports

Exhibit 2 Fiscal/Enrollment Trends



Source: Fiscal Years 2014–2018 LSU System Audit Reports and Louisiana Board of Regents website

The recommendation in this letter represents, in our judgment, that which will most likely bring about beneficial improvements to the operations of LSUHSC-NO. The nature of the recommendation, its implementation costs, and its potential impact on the operations of LSUHSC-NO 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

JRH:JPT:BH:EFS:aa

LSUHSC-NO 2018

APPENDIX A: MANAGEMENT'S RESPONSE



OFFICE OF THE CHANCELLOR

SCHOOL OF ALLIED HEALTH PROFESSIONS
SCHOOL OF DENTISTRY
SCHOOL OF GRADUATE STUDIES
SCHOOL OF NURSING
SCHOOL OF MEDICINE IN NEW ORLEANS
SCHOOL OF PUBLIC HEALTH

January 15, 2019

John Thiebaud, CPA
Audit Manager
Office of Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804

Dear Mr. Thiebaud,

We have reviewed the audit finding from your letter dated December 20, 2018, regarding the "Inadequate Controls Resulting in Theft via Wire Transfers." We appreciate your attention to this self-reported irregularity resulting from a phishing scam. Please find our response to the finding below.

Management agrees with the finding listed in the report.

Finding: Inadequate Controls Resulting in Theft via Wire Transfers

LSUHSC-NO agrees that cyber fraud occurred from a phishing scam that would have been prevented had proper internal controls been in place for payments through wire transfers.

Corrective Actions:

- 1) LSUHSC reported this incident in accordance with Louisiana State University and Agricultural and Mechanical College (LSU) Permanent Memorandum 76, Detection, Reporting, and Investigation of Incidents of Financial Irregularity on April 11, 2018.
- 2) The University worked with JP Morgan Chase and was able to recover \$7,174 of the total amount wired.
- 3) A claim was filed with Louisiana Division of Administration, Office of Risk Management. The claim is still outstanding. However, we currently do not anticipate any problems receiving the recoverable amount less the deductible.
- 4) The crime was reported to the New Orleans Police Department on April 12, 2018. The crime was also reported to the Federal Bureau of Investigations, who requested we file a complaint with the Internet Crime Complaint Center. This complaint was filed on April 24, 2018.
- 5) New policies and procedures went into effect April 30, 2018, and are being followed to ensure proper internal controls regarding electronic fund transfers. The new policy requires dual signatures and verifications to be performed for new EFTs and all wire transfers.

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6) To reduce the chance that a phishing email will be successful in compromising a user's account, the Information Technology department has implemented, effective December 5, 2018, the following new services:

- Safe Links - This is a service that will disable Internet links determined to be malicious. An advantage of this service is that it protects you even when off campus or on mobile devices.
- Safe Attachments - This service scans and removes unsafe attachments. Messages are delivered immediately, however, the message contains a place-holder for any attachment, allowing preview of the original attachment, until scanning is completed.

Responsible Personnel: Director of Accounting Services

If you have any additional questions or concerns please do not hesitate contacting me.

Respectfully,


Larry Hollier, MD
Chancellor

Cc: Mr. John Harman
Ms. Wendy Simoneaux
Mr. Roy Clay
Ms. Arlean Wehle

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana State University Health Sciences Center – New Orleans (LSUHSC-NO) 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 LSUHSC-NO'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 LSUHSC-NO.
- Based on the documentation of LSUHSC-NO'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 the Research and Development cluster of federal programs for the year ended June 30, 2018, as a part of the 2018 Single Audit.
- 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 LSUHSC-NO's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from LSUHSC-NO's management for significant variances.

The purpose of this report is solely to describe the scope of our work at LSUHSC-NO and not to provide an opinion on the effectiveness of LSUHSC-NO'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 LSUHSC-NO's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. LSUHSC-NO's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.