

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

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED FEBRUARY 26, 2020

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
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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

February 2020

Audit Control # 80190089

Introduction

As a part of our audit of the Louisiana State University System (System) and the Single Audit Report of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2019, we performed procedures at the Louisiana State University Health Sciences Center in Shreveport (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. In addition, we determined whether management has taken actions to correct the finding reported in the prior year.

Results of Our Procedures

Follow-up on Prior-year Finding

Our auditors reviewed the status of the prior-year finding reported in the Center's management letter dated December 10, 2018. The prior-year finding related to Inadequate Controls over Accounts Receivable has not been resolved and is addressed again in this letter.

Current-year Findings

Inadequate Controls over Accounts Receivable

For the second consecutive year, the Center does not have adequate controls over state and private grants and contracts to pursue collection of accounts receivable. Failure to implement adequate collection procedures increases the risk that delinquent accounts could become uncollectible.

The Center failed to implement its policy to notify debtors, past the initial billing, of past due balances or to refer delinquent accounts to the Louisiana Attorney General's Office (AG) or the Office of Debt Recovery (ODR) to pursue collection per its contracts with the AG and ODR. The Center reported \$1.8 million of state and private grants and contracts gross accounts receivable as of June 30, 2019, which were outstanding from fiscal years 2005 to 2018. While

the Center did establish an allowance for doubtful accounts for \$1.7 million of this balance, the Center did not actively pursue collection on those accounts.

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 or ODR in accordance with contract terms and the Center's policy. Management's response outlined a corrective action plan (see Appendix A, page 1).

Inaccurate Classification of Net Position

The Center inaccurately classified net position from BRF Hospital Holdings, LLC; Faculty Group Practice; Ochsner LSU Health; and Ochsner LSU Physician Group contracts totaling \$78,386,269, resulting in a net overstatement of restricted expendable net position and a net understatement of unrestricted net position. The contracts do not place constraints that meet the definition of restricted net position per Governmental Accounting Standards Board Statement 34.

Management should review all grants and contracts with balances reported as restricted expendable and if the grants or contracts do not include external restrictions, the balances for these grants or contracts should be reported as unrestricted net position. Management's response outlined a corrective action plan (see Appendix A, page 2).

Weaknesses in Controls Over Federal Research and Development Expenses

The Center did not adhere to internal policies and procedures to ensure compliance with federal documentation requirements for compensation of personnel services. In a sample of 25 expense transactions charged to the Research and Development Cluster, we noted the following:

- One (4%) of the time detail reports was not approved by the supervisor.
- Two (8%) had time and effort allocated to the award that did not agree to the time and effort certification of actual time devoted to the award.

The Center has not established adequate monitoring over departments to ensure compliance with federal regulations and internal policies, which increases the risk of payroll error or fraud and may result in disallowed costs.

Management should monitor time and attendance records and time and effort certifications completed by the departments to enforce the internal policies established and to ensure compliance with federal documentation requirements. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 3-4).

Weakness in Controls with Special Tests and Provisions Requirements

The Center did not have adequate controls in place to ensure compliance with Special Tests and Provisions requirements. In a sample of 17 federal Research and Development Cluster awards for the fiscal year ending June 30, 2019, one (6%) of the awards had documentation of the key

personnel's effort that did not agree to the effort reported to the federal grantor, and there was no evidence of prior approval from the federal grantor for change in key personnel.

Federal regulations state that, for federal awards, recipients must request prior approvals from federal awarding agencies for changes in the scope or the objective of the project or program; changes in a key person associated with the award; disengagement from the project for more than three months; or a 25 percent reduction in time devoted to the project by the approved project director or principal investigator.

The Center has procedures in place for personnel to certify actual time and effort expended on federal awards, but does not have adequate monitoring procedures to ensure the certifications are accurate and prior written approval is obtained from the federal grantor for changes in effort for key personnel.

Management should utilize the time and effort certifications to monitor changes in effort for key personnel and obtain written approval from the federal grantor for changes that exceed the thresholds in federal regulations. Management partially concurred with the finding and provided a corrective action plan (see Appendix A, pages 5-6).

Financial Statements – Louisiana State University System

As a part of our audit of the System's financial statements for the year ended June 30, 2019, 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

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 Inaccurate Classification of Net Position, as described previously. Except for a misstatement of restricted expendable and unrestricted net position, as described in the Inaccurate Classification of Net Position finding, 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, 2019, 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 the Center's major federal program, Research and Development Cluster.

Those tests included evaluating the effectiveness of the Center's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether the Center complied with applicable program requirements.

Based on the results of these Single Audit procedures, we reported findings related to Weaknesses in Controls Over Federal Research and Development Expenses and Weakness in Controls with Special Tests and Provisions Requirements. These findings will also be included in the Single Audit for the year ended June 30, 2019.

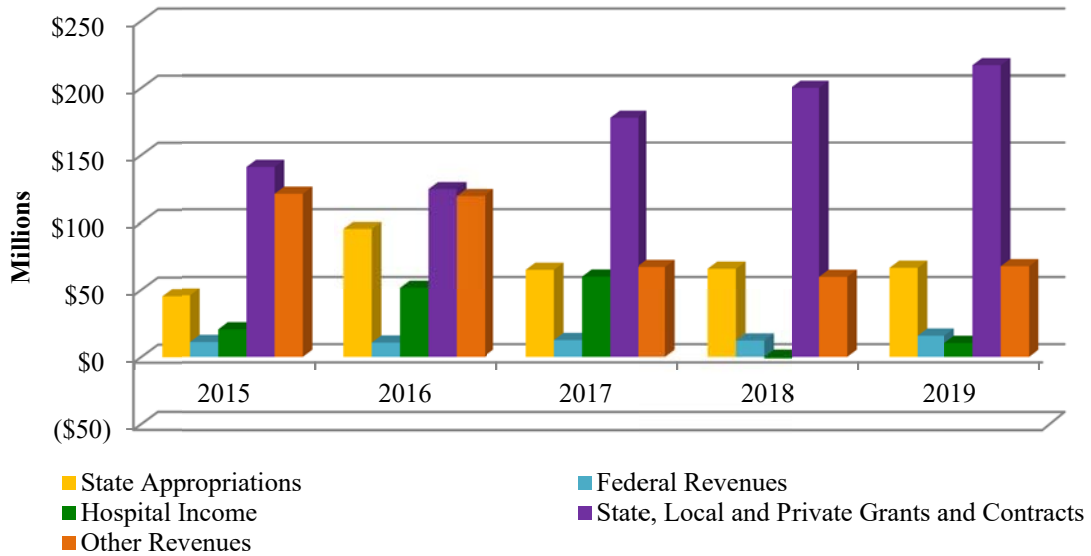
Trend Analysis

We compared the most current and prior-year financial activity using the Center's Annual Fiscal Reports 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, grant and contract revenue has increased consistently since the privatization of the Center's hospitals in fiscal years 2014 and 2015. In addition, in January 2017, net physician related revenues are recognized as private grants and contracts rather than as other revenues. In fiscal year 2018, hospital income decreased due to a write-off of approximately \$54 million for uncompensated care receivables that was recorded against hospital income.

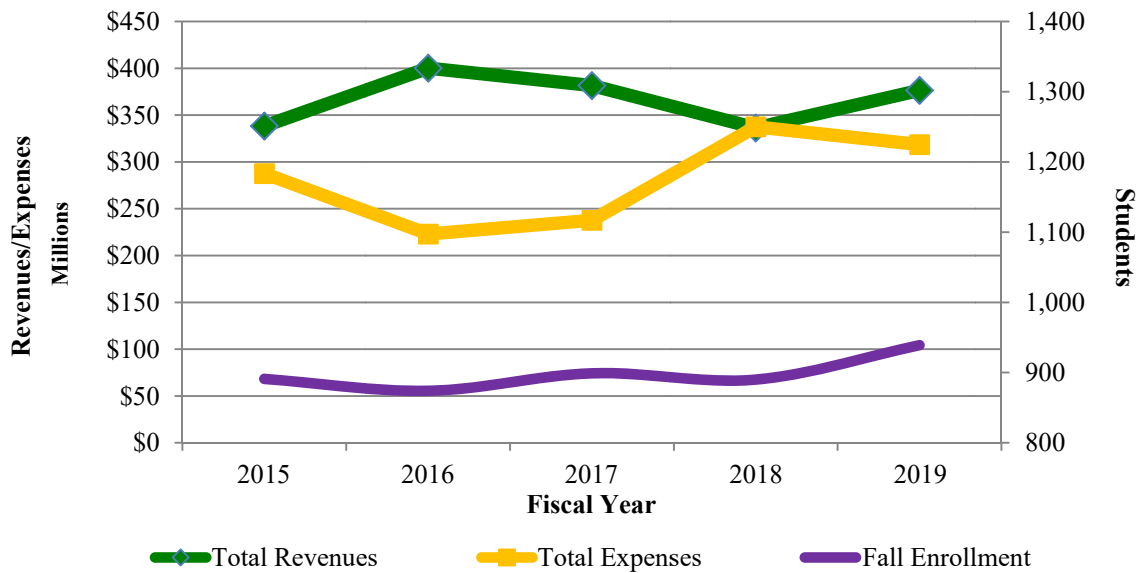
In fiscal year 2018, clinical operations, pension, and building and equipment lease expenses increased. In fiscal year 2019, expenses decreased due to a change in building and equipment lease payments related to the joint venture agreement with Ochsner.

Exhibit 1
Five-Year Revenue Trend, by Fiscal Year



Source: Fiscal years 2015-2019 Financial Statements, as adjusted

Exhibit 2
Fiscal/Enrollment Trends



Source: Fiscal years 2015-2019 Financial Statements, as adjusted, and Board of Regents website Data/Publication

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the Center. The nature of the recommendations, their implementation costs, and their potential impact on the operations of the Center should be considered in reaching decisions on courses of action. The findings related to compliance with applicable laws and regulations should be addressed immediately by management.

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

BEM:RJM:BH:EFS:aa

LSUHSCS2019

APPENDIX A: MANAGEMENT'S RESPONSES

Health Sciences Center
Administration and Finance
1501 Kings Highway
P.O. Box 33932
Shreveport, LA 71130-3932
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www.lsuhseshreveport.edu

December 10, 2019

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

RE: FYE2019 - LSU Health Sciences Center in Shreveport

Dear Mr. Purpera,

LSU Health Sciences Center in Shreveport provides the following response to the audit finding: "For the second consecutive year, LSUHSC-S does not have adequate controls over state and private grants and contracts to pursue collection of accounts receivable"

LSUHSC-Shreveport is developing multiple procedures to address the varying service/payment arrangement under grants and contracts. Each grant and contract are being reviewed to ensure any associated accounts receivables are treated in accordance with State Law.

During SFY2019, various contracts and balances were reviewed in conjunction with the vendor communication. LSUHSC-S has determined the necessary adjustments to the individual invoices and identified the invoices to be reported as doubtful accounts. This review process will continue with the creation of the collection letters and ultimate transfers to the AG/ODR.

LSUHSC-S has committed to additional resources to this process by hiring an additional employee in July of 2019 to assist in the processing of accounts receivables.

The corrective actions recommended from the FYE2018 audit began in SFY2019 and will continue to be implemented in SFY2020.

Anticipated Completion Date for Action Plan: June 30, 2020 and forward

Name of Contact(s) Responsible for Action Plan:

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

Please advise if additional information is required at this time.

Sincerely,



W. Jeff Reynolds
Vice Chancellor of Administration and Finance

Health Sciences Center

Administration and Finance

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

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December 9, 2019

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

RE: SFY2019 - LSU Health Sciences Center in Shreveport

Dear Mr. Purpera,

LSU Health Sciences Center in Shreveport (LSUHSC-Shreveport) provides the following response to the audit finding: "Inaccurate Classification of Net Position"

LSUHSC-Shreveport is conducting a review of the contracts associated with the BRF Hospital Holdings, LLC, Faculty Group Practice, Ochsner LSU Health, and Ochsner LSU Physician Group to determine the appropriate revenue classification under GASB 34.

In addition, LSUHSC-Shreveport will commit additional resources to review all current grants and contracts to determine the appropriate classification under GASB 34.

Anticipated Completion Date for Action Plan: June 30, 2020

Name of Contact(s) Responsible for Action Plan:

Sheila Faour, CFO

Steven McAlister, Associate Director of Accounting Services

Bill Haacker, Assistant Director of Grants Accounting

If you need any additional information, please advise.

Sincerely,



W. Jeff Reynolds

Vice Chancellor of Administration and Finance

Health Sciences Center

Administration and Finance

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February 14, 2020

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

RE: FYE2019

**LSU Health Sciences Center in Shreveport
Research and Development Cluster
Management Letter and Single Audit Report**

Dear Mr. Purpera,

LSU Health Sciences Center in Shreveport is in receipt of the following audit finding:

“Weaknesses in Controls Over Federal Research and Development Expenses”

LSUHSC-S concurs with the recommendation that management should monitor time & attendance records and time & effort certification reports completed by the departments to enforce the internal policies established and to ensure compliance with federal documentation requirements.

Action Plan:

The institution is committed to the following:

- (1) hiring an employee in the division of payroll to conduct training and review time and attendance records (time detail reports) with all departments to ensure compliance
- (2) finalizing and implementing formal training with the departments completing the time and effort certification reports. The completed reports will be distributed to both offices of grants accounting and grants administration for further review and additional training with the departments as necessary

Anticipated Completion Date for Action Plan: September 1, 2020 and forward

Name of Contact(s) Responsible for Action Plan:

Sheila Faour, CFO

Steven McAlister, Associate Director of Accounting Services

Bill Haacker, Assistant Director of Grants Accounting

Annella Nelson, Vice Chancellor of Research Development

Tracy Calvert, Director of OSPTT

If you have any questions or need additional information, please do not hesitate to contact our office.

Sincerely,

A handwritten signature in black ink, appearing to be 'W. Jeff Reynolds', with a large, stylized initial 'W'.

W. Jeff Reynolds

Vice Chancellor of Administration and Finance

Health Sciences Center

February 14, 2020

Administration and Finance

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RE: FYE2019

**LSU Health Sciences Center in Shreveport
Research and Development Cluster
Management Letter and Single Audit Report**

Dear Mr. Purpera,

LSU Health Sciences Center in Shreveport is in receipt of the following audit finding:

“Weakness in Controls with Special Tests and Provisions Requirements”

LSUHSC-S partially concurs with the finding. The internal documentation -- time and effort certification report -- of the key personnel’s effort did not agree to the report submitted to the federal grantor. However, the effort reflected on the report to the federal grantor was correct, and because there were no changes in % of effort associated with this award, prior approval from the federal grantor was not required.

LSUHSC-S does concur with the recommendation that management should utilize the time & effort certifications to monitor changes in effort for key personnel and obtain written approval from the federal grantor for changes that exceed the thresholds in federal regulations.

Action Plan:

The institution is committed to the following:

- (1) finalizing and implementing formal training with the departments completing the time and effort certification reports. The completed reports will be distributed to both offices of grants accounting and grants administration for further review and additional training with the departments as necessary

Anticipated Completion Date for Action Plan: September 1, 2020 and forward

Name of Contact(s) Responsible for Action Plan:

Sheila Faour, CFO

Steven McAlister, Associate Director of Accounting Services

Bill Haacker, Assistant Director of Grants Accounting

Annella Nelson, Vice Chancellor of Research Development

Tracy Calvert, Director of OSPTT

If you have any questions or need additional information, please do not hesitate to contact our office.

Sincerely,

A handwritten signature in black ink, appearing to read 'W. Jeff Reynolds', with a large, stylized flourish extending from the end of the signature.

W. Jeff Reynolds

Vice Chancellor of Administration and Finance

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana State University Health Sciences Center in Shreveport (Center) for the period from July 1, 2018, through June 30, 2019, 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. Our procedures, summarized below, are a part of the audit of the System's financial statements and the Single Audit Report of the State of Louisiana (Single Audit) for the year ended June 30, 2019.

- 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 the Research and Development Cluster for the year ended June 30, 2019, as a part of the 2019 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.