Louisiana State University Health Sciences Center - Health Care Services Division

Louisiana State University System

State of Louisiana

Financial Audit Services
Management Letter
Issued November 25, 2015

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Louisiana Legislative Auditor
Daryl G. Purpera, CPA, CFE

LSU Health Sciences Center - Health Care Services Division

November 2015 *Audit Control # 80150072*

Introduction

As a part of our audit of the Louisiana State University System's (System) financial statements for the year ended June 30, 2015, 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 and to evaluate the effectiveness of HCSD's internal controls over financial reporting. In addition, we determined whether management has taken actions to correct the finding reported in the prior year.

HCSD is a part of the Louisiana State University System and consists of an administrative office and one charity hospital, Lallie Kemp Regional Medical Center in Independence. HCSD's mission is to provide access to high-quality medical care, develop medical and clinical manpower through accredited residency and other health education programs, and to work cooperatively with other health care providers and agencies to improve health outcomes.

Results of Our Procedures

Follow-up on Prior-year Finding

Our auditors reviewed the status of the prior-year finding reported in a management letter dated December 3, 2014. We determined that management has resolved the prior-year finding related to failure to report construction costs.

Current-year Findings

Weaknesses over State Assets in New Orleans Hospitals

HCSD did not ensure asset purchases totaling $15,137,952 for the new University Medical Center New Orleans were considered for tagging and entry into the state's asset management system. In addition, assets assigned to the Interim Louisiana Hospital totaling $1,095,467 were reported as unlocated. Failure to tag and enter data into the state's asset management system increases the risk that assets will be misappropriated or become unlocated, the financial statements will be misstated, and could result in noncompliance with state laws and regulations.

In June 2013, as a result of an executed cooperative endeavor agreement (CEA), a private partner took over management and operation of the Interim Louisiana Hospital in New Orleans. In April 2015, upon completion of construction of the new hospital, the same partner assumed control of the University Medical Center New Orleans. To equip the new hospital, HCSD purchased $23,210,695 of movable equipment while the Division of Administration, Office of Facility Planning and Control (OFPC) purchased an additional $15,137,952 of equipment.

The following deficiencies were noted during our audit:

- According to HCSD and the partner's property control manager, the Division of Administration neglected to provide documentation to HCSD or the partner detailing the $15,137,952 of OFPC equipment purchases. This prevented the property manager from tagging the qualifying assets and entering the information into the state's asset management system. Until proper documentation is provided by OFPC, it is unclear how much of the $15.1 million in purchased assets should have been tagged and reported to the Louisiana Property Assistance Agency (LPAA).

- The partner identified unlocated movable property at the Interim Louisiana Hospital during the current year and three previous years totaling $1,095,467. However, the partner was only responsible for the latter two years' unlocated assets totaling $585,773.

Per the equipment lease associated with the CEA, the partner is responsible for all LPAA procedures, including tagging certain equipment purchases, reporting transactions to LPAA, and performing physical inventory procedures. This requires that all acquisitions of qualified assets be tagged and reported to LPAA within 60 days of receipt and all equipment transactions reported to LPAA on a monthly basis. Louisiana State University (LSU), through HCSD, is responsible for monitoring the partner's performance over the property control obligations.

Management should ensure monitoring controls are designed and operating to ensure the partner is tagging equipment and reporting monthly transactions to LPAA. Management should work with the partner and OFPC to obtain the necessary documentation to record assets appropriately in LPAA and the financial statements. Furthermore, management should continue to devote efforts to locate property previously reported as unlocated and ensure the state is reimbursed for any missing assets in the partner's possession. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 1-2).

Weaknesses over Property Control

HCSD did not ensure the now-closed Earl K. Long Medical Center's (EKLMC) property was inventoried and certified to LPAA and was unable to locate $4,685,445 of movable property. Failure to establish controls over property increases the risk of misstatements, loss arising from theft or unauthorized use, and noncompliance with state laws and regulations.

The cost of the LPAA property leased by the private partner totaled $14,542,177 as of February 2015. LSU, through HCSD, is responsible for monitoring the partner's performance with the property control obligations. The cost of the LPAA property not leased by the partner totaling $5,914,803 as of June 2015 should be inventoried and certified by HCSD.

The following deficiencies were noted during the audit:

- HCSD was unable to locate $4,685,445 (or 79%) of $5,914,803 of EKLMC non-leased assets during the 2015 LPAA inventory certification.
- HCSD did not perform a physical inventory or complete the 2014 LPAA certification reporting for EKLMC non-leased assets.
- The partner did not perform a physical inventory or complete the 2014 LPAA certification reporting for the leased assets, as required in the equipment lease. A 2015 LPAA certification was performed.

As a result of an executed cooperative endeavor agreement in April 2013, inpatient hospital services were transferred to a private partner, with the partner leasing four LSU clinics in the Baton Rouge area to provide outpatient services. Per the equipment lease associated with the agreement, the partner is responsible for the property control obligations set forth in Louisiana Revised Statutes (R.S.) 39:321 and 39:332, including performing the physical inventory and preparing the LPAA certification.

Management should ensure monitoring controls are designed and operating to ensure the partner is performing an accurate physical inventory, reporting to LPAA timely, and handling lost, stolen, or damaged equipment according to the lease agreement. Furthermore, HCSD should continue to devote efforts to locate EKLMC property previously reported as unlocated. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 3-4).

Financial Statements - Louisiana State University System

As a part of our audit of the System's financial statements for the year ended June 30, 2015, 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, capital lease receivable, and capital assets
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, capital appropriations, and other non-operating revenues
Expenses - Hospital expenses and other non-operating expenses

Based on the results of these procedures on the financial statements, we reported findings related to weaknesses over state assets in New Orleans hospitals and weaknesses over property control. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

Trend Analysis

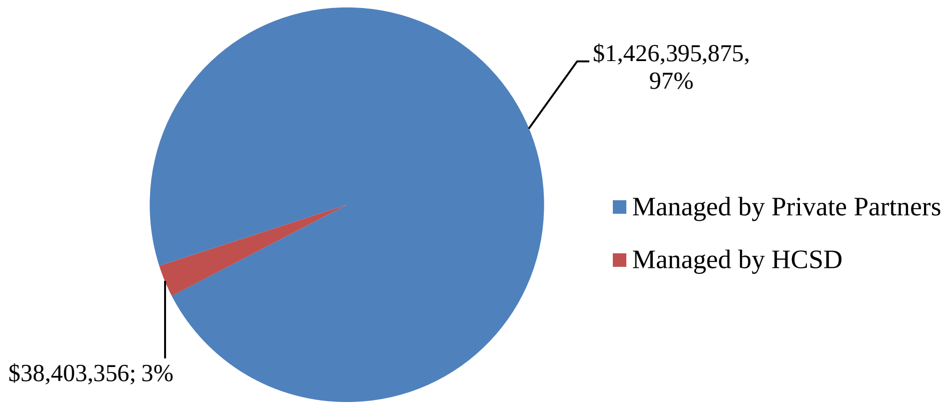
We compared the most current and prior-year financial activity using HCSD's annual fiscal reports and/or system-generated reports and obtained explanations from HCSD management for any significant variances.

Buildings and Equipment

Due to a decrease in the Medicaid federal medical assistance percentage in 2012, the state looked for a new model to continue providing services to the medically-needy residents of Louisiana and still maintain existing levels of graduate medical education. In 2013, the first of six agreements with private hospitals was implemented. As a result of these agreements, the private hospitals began treating patients and receiving funding for services. In addition, the state, through HCSD, began receiving lease payments from the private partners for use of state-owned assets being managed by the partner to accomplish its mission. The private partners are managing $1.4 billion (or 97%) of HCSD's assets, as shown in Exhibit 1.

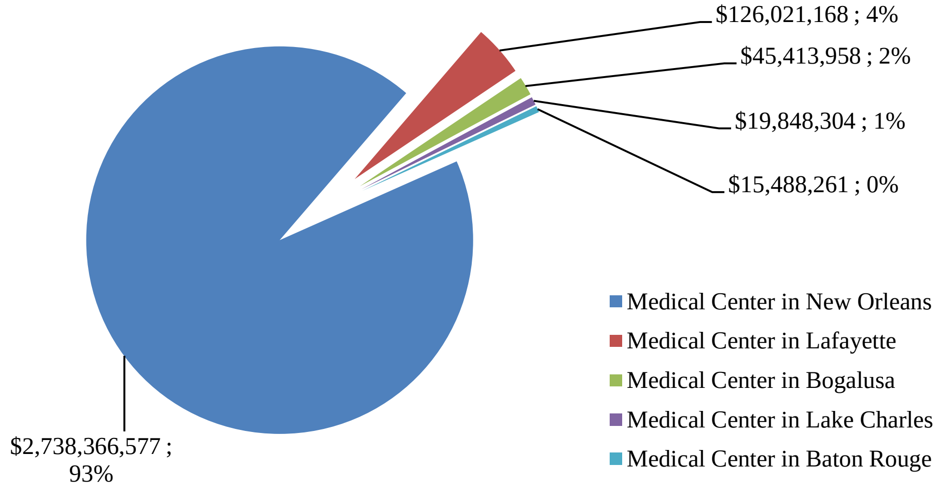
The lease of the state hospital buildings, grounds, and equipment will generate $2.9 billion in future receipts to the state through lease payments. In April 2015, the state finished construction on the Reverend Avery C. Alexander Academic Research Hospital (also known as University Medical Center New Orleans) which will be managed by a private partner for 40 years and generate 93% of the $2.9 billion future lease payments for the state, as shown in Exhibit 2.

Exhibit 1
Buildings and Equipment Managed by HCSD and Private Partners



Source: HCSD FY15 Annual Fiscal Report

Exhibit 2
Future Lease Payments to be Received from the Private Partners



Source: HCSD FY15 Annual Fiscal Report

The recommendations in this letter represent, in our judgment, those which would 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 R.S. 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Daryl G. Purpera,
Legislative Auditor, CPA, CFE

BP:BH:WG:EFS:aa

HCSD 2015

APPENDIX A: MANAGEMENT'S RESPONSES

LSUHealth
ADMINISTRATION AND BUSINESS OFFICE

October 30, 2015

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

RE: Weakness Over State Assets in New Orleans Hospital

Dear Mr. Purpera:

The LSU Health System, Health Care Services Division (HCSD) concurs with the audit finding, Weaknesses over State Assets in New Orleans Hospital, for the Fiscal Year Ended June 30, 2015.

Corrective Action Plan

HCSD and FP&C met on September 1, 2015 to discuss the presentation of the assets purchased by FP&C during FY_2015 for the financial statements and how would HCSD and the Property Manager at UMCMC obtain the documentation necessary to record those assets in both LSU HCSD's Financial System and LPAA. The meeting resulted in the determination of the proper Financial Statement preparation.

As of this response, neither HCSD nor the Property Manager at UMCMC has obtained any copies of the invoices paid thru FP&C in order to determine the number and dollar value of the assets to be tagged and reported to the LPAA. HCSD will continue working to obtain the documentation necessary from FP&C to identify, tag and report any movable property purchased by FP&C for the new Hospital and record the detail in HCSD Financial System during FY_2016.

HCSD Finance will continue to monitor the Property Control function for the partner on a monthly basis. The UMCMC property manager has provided HCSD Finance with status reports identifying the property activity during each month of the fiscal year. The reports were submitted timely during FY_2015 and continued to be submitted timely in FY_2016.

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The UMCMC property manager and his staff are currently managing two LPAA units, the MCLNO/ILH LPAA unit which is being phased out, and implementing the new AMCNO LPAA, the unit for the new Hospital. Any movable property that was reported in the MCLNO/ILH unit that has been moved to the new facility will be transferred and assigned new property tags for the new Hospital. Any movable equipment not moved for the use of UMCMC in the new Hospital will either be transferred to LSUHSC-NO or surplused thru LPAA. The results of this process should lead to the eventual shut down on the MCLNO/ILH LPAA unit.

The UMCMC property manager is aware of the unlocated items and continues to search for and reduce the number of unlocated items reported. With an operation as large as the New Orleans Hospital, with multiple buildings, locations, and now two separate LPAA units, the UMCMC property managers conduct their inventory of assets throughout the year. HCSD Management will review with UMCMC Management the unlocated items and determine additional controls necessary to reduce the number of unlocated items.

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.

Sincerely,

Lanette Buie

Lanette Buie
Deputy Chief Executive Officer

LSUHealth
ADMINISTRATION AND BUSINESS OFFICE

October 5, 2015

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

RE: Weakness Over Property Control

Dear Mr. Purpera:

The LSU Health System, Health Care Services Division (HCSD) concurs with the audit finding, Weaknesses over Property Control (EKLMC), for the Fiscal Year Ended June 30, 2015.

Corrective Action Plan

For FY_2014, the assets for both leased and non-leased asset were comingled in one inventory. Both HCSD and OLOL were not able to certify the inventory in FY_2014.

In early FY_2015, with the assistance of LPAA, HCSD Administration divided the EKLMC Assets into 2 separate LPAA Units. One is a new unit for those items leased by OLOL with the second unit retaining the remaining items in EKLMC's inventory. HCSD had recommended this solution upon the implementation of the Cooperative Endeavor Agreements at the end of FY_2013, however concurrence by the partner did not occur until FY_2015.

HCSD has met with the OLOL staff and agreed to the following Corrective Action Plan for EKLMC Property Control during FY_2015 which involves both the EKLMC & OLOL Inventory Units.

1. HCSD's Property Control Staff will conduct, complete and submit a Physical Inventory for FY_2016 for the EKLMC LPAA Inventory Unit by the scheduled due date.

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2. OLOL's Property Manager will conduct, complete and submit a Physical Inventory for FY_2016 for the OLOL LPAA Inventory Unit by the scheduled due date.

3. HCSD Property Control Staff along with OLOL Property Managers will conduct an inventory of any and all equipment at the Leased Clinic locations to determine if any of the un-located assets in the EKLMC LPAA Inventory are housed at any of those locations. If any of the previously un-located assets are identified, the EKLMC LPAA inventory will be updated.

4. OLOL's Management has agreed to move several storage containers from the Leased Clinical sites to HCSD Administration Business Office. Moving these storage containers to HCSD ABO will allow HCSD Property Control staff to identify, inventory and surplus previously un-located EKLMC LPAA items stored in those containers.

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.

Sincerely,

Lanette Buie

Lanette Buie
Deputy Chief Executive Officer

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, 2014, through June 30, 2015, to provide assurances on financial information significant to the Louisiana State University System (System) and 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, and 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, 2015.

- 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 HCSD's account balances and classes of transactions to support the opinion 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 management for significant variances.

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.