LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER -
HEALTH CARE SERVICES DIVISION

LOUISIANA STATE UNIVERSITY SYSTEM

STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 6, 2017

LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor
Daryl G. Purpera, CPA, CFE

LSU Health Sciences Center - Health Care Services Division

December 2017

Audit Control # 80170125

Introduction

As a part of our audit of the Louisiana State University System's (System) financial statements for the year ended June 30, 2017, 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 charity hospital, Lallie Kemp Regional Medical Center in Independence. HCSD's mission is to work and learn collaboratively with other organizations to advance quality and efficiency in care delivery, support education of current and future healthcare providers, and positively impact health and healthcare for Louisiana's citizens.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the HCSD management letter dated December 21, 2016. We determined that management has resolved the prior-year findings related to Weaknesses over State Assets in New Orleans Hospitals and Noncompliance with Debt Collection Requirements. The prior-year findings related to Weaknesses in Agreements for Use of State Assets and Weaknesses over Property Control have not been resolved and are addressed again in this letter.

Current-year Findings

Weaknesses in Agreements for Use of State Assets

For the second consecutive year, HCSD and Louisiana State University administration (LSU) did not have complete, signed agreements for all equipment being utilized by the partner managing the University Medical Center New Orleans (UMCNO). Allowing the partner to use State assets without complete, signed agreements increases the risk that the State has not been properly compensated and assets will be misused, misappropriated, or become unlocated. In addition, there is an increased risk of misunderstandings and/or nonpayment without protection for the State, including remedies for default.

University Medical Center New Orleans Equipment

The agreement for the use of equipment purchased by the state for UMCNO remained unsigned as of June 30, 2017. 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 2017, HCSD completed a reconciliation of the equipment purchases and determined the value of leased equipment to be approximately $99 million. As of June 30, 2017, HCSD has received payments totaling approximately $75 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 2017 Annual Fiscal 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.

Interim LSU Public Hospital in New Orleans Equipment

The agreement for the partner's use of equipment located in the Interim LSU Public Hospital, effective on June 24, 2013, with a lease term of 10 years, did not contain an agreed-upon Exhibit A listing the annual lease payment by equipment item as required by the agreement. As of June 30, 2017, Exhibit A had not been finalized and agreed upon by all parties; therefore, there is insufficient information to determine if the partner has paid adequate rent for these items.

Since fiscal year 2013, the partner has made annual rental payments totaling approximately $25 million based on a schedule that was not agreed upon by all parties and only outlined rental payments through fiscal year 2016. During fiscal year 2017, the partner made a pre-payment of $1.4 million for the fiscal year 2018 rent. In its fiscal year 2017 AFR, HCSD reported all payments received on this lease agreement as unearned revenue until the payment terms and listing of assets is finalized and the revenue can be properly recognized in accordance with lease accounting standards.

The uncertainties relating to agreements for the use of additional buildings and parking lots outlined in the prior finding were resolved during fiscal year 2017, and HCSD appropriately accounted for these transactions within its AFR.

Management of HCSD and LSU should ensure all agreements with the partners are complete and 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 the state receives the agreed-upon payments. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 1-2).

Weaknesses over Property Control

For the third consecutive year, HCSD identified a significant amount of unlocated movable property associated with the now-closed Earl K. Long Medical Center (EKLMC). EKLMC's annual certification of property disclosed unlocated property totaling $1,658,333 identified during the previous three years' certifications that remained unlocated in fiscal year 2017. This total represents 96% of the $1,730,337 in remaining EKLMC movable property not being leased by the hospital's private partner. Failure to establish adequate controls over property increases the risk of misstatements, loss arising from theft or unauthorized use, and noncompliance with State laws and regulations.

Louisiana Revised Statute 39:325 requires entities to conduct an annual inventory of movable property and report any unlocated property to the Louisiana Property Assistance Agency (LPAA). After an extensive search of multiple properties for the past three years, $1.6 million of EKLMC movable property remained unlocated and was written off in accordance with State property regulations.

Management should ensure adequate controls are in place over any remaining EKLMC movable property items as well as those property items being leased by the hospital's private partner. Management concurred with the finding and outlined a plan of corrective action (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, 2017, 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-Buildings
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 Weaknesses over Property Control, as described previously. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

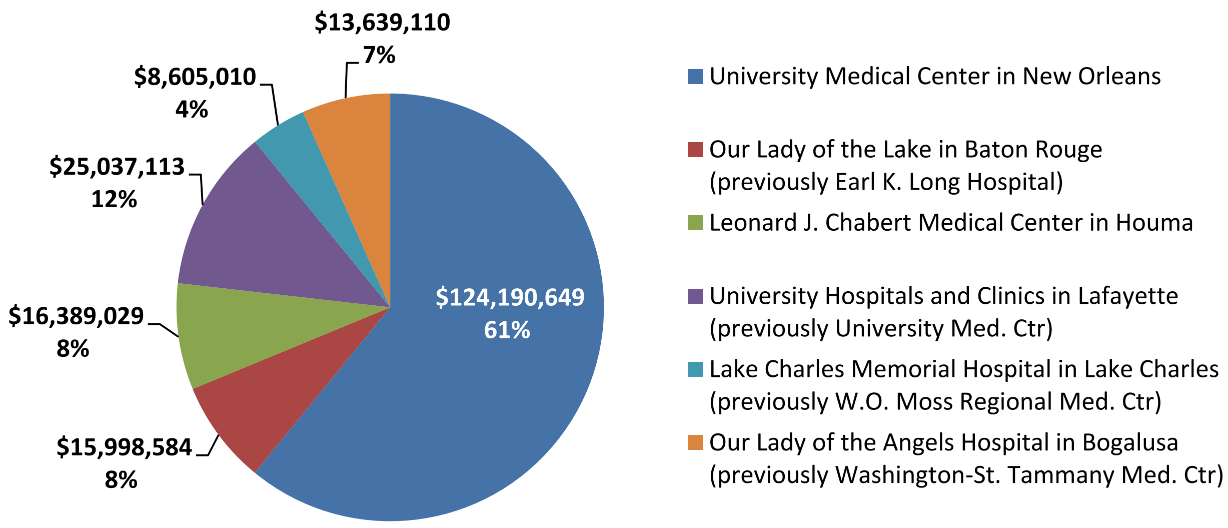
Trend Analysis

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's management for any significant variances.

LPAA Inventory

As shown in the chart below, HCSD currently has approximately $203 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 the state regulations.

HCSD Equipment Certified by Private Hospital Partner



Source: 2017 Certifications of Annual Property Inventory

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:CST:WDG:EFS:aa

HCSD 2017

APPENDIX A: MANAGEMENT'S RESPONSES

LSU Health
ADMINISTRATION AND BUSINESS OFFICE

November 17, 2017

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:

The LSU Health System, Health Care Services Division (HCSD) concurs with the audit finding, Weaknesses in Agreements for Use of State Assets for the Fiscal Year Ended June 30, 2017.

Corrective Action Plan

University Medical Center New Orleans Equipment

LSU HCSD and UMCNO finalized and agreed to the exhibit for the New Equipment Lease. The value of the Leased Equipment is $99,059,012.45. The Payment Schedule for the Equipment Lease has also been agreed upon by both parties and UMCNO has made the scheduled payments from the inception of the lease thru June 30, 2017, even though the lease wasn't signed. University Medical Center Management Corporation (UMCMC) has delayed signing the equipment lease until they could make a final decision on the purchase of equipment with an original purchase price of less than $1,000. If the partner did not agree to purchase this small equipment, that equipment would have to be included in the equipment lease. UMCNO has just recently agreed to purchase this small equipment removing the remaining obstacle to execution of the equipment lease, which they have indicated they will do. We are awaiting receipt of the executed lease document. Once the Lease Document is executed with the payment schedule and the Exhibit attached, copies will be distributed to all interested parties.

LSU HCSD and UMCNO have agreed to execute the documents associated with the purchase of small equipment by UMCNO that was not included in the equipment lease schedule above. Both parties have agreed to the payment schedule and those documents are being drafted and reviewed.

Interim LSU Public Hospital in New Orleans Equipment

LSU HCSD received the payment calculations for the Interim LSU Public Hospital Equipment lease from UMCNO after the receipt of this audit finding. Those calculations have been forwarded to the LSU HCSD Legislative audit team. The schedule includes a detailed listing of the equipment associated with this lease. LSU HCSD is currently reviewing the calculations and schedules. UMCNO is current on the ILH Equipment Lease payments as of June 30, 2017, pre-paying the lease for FY_2018. All payments received for this lease has been forwarded to the State Treasury as required by the Lease Agreement.

LSU HCSD will make the appropriate accounting adjustments in FY_2018, once the lease documents are executed.

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 23, 2017

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

RE: Weakness Over Property Control (EKLMC)

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, 2017.

Corrective Action Plan

LSU HCSD will continue the corrective action plan that was put in place in FY_2016. For FY_2018:

1. HCSD's Property Control Staff will conduct, complete and submit a Physical Inventory for FY_2018 for what remains of the EKLMC LPAA Inventory Unit by the scheduled due date. The FY_2018 Physical Inventory will be the last inventory conducted for the EKLMC LPAA Unit. The EKLMC LPAA Inventory Unit will be shut down by the end of FY_2018.

2. OLOL's Property Manager will conduct, complete and submit a Physical Inventory for FY_2018 for the OLOL LPAA Inventory Unit by the scheduled due date.

3. HCSD's Property Control Staff along with OLOL Property Managers, will conduct additional reviews of the FY_2018 physical inventory taken by the OLOL Property Managers to determine if any un-located EKLMC LPAA assets were housed at the Leased Clinic locations. HCSD will make the appropriate adjustment to EKLMC's LPAA Inventories if applicable.

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LSUHealth
ADMINISTRATION AND BUSINESS OFFICE

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

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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, 2016, through June 30, 2017, 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, 2017.

- 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.

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.