

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

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED MAY 11, 2022

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
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MICHAEL J. "MIKE" WAGUESPACK, CPA

FIRST ASSISTANT LEGISLATIVE AUDITOR
ERNEST F. SUMMERVILLE, JR., CPA

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Louisiana Legislative Auditor

Michael J. “Mike” Waguespack, CPA



LSU Health Sciences Center –
New Orleans

May 2022

Audit Control # 80210078

Introduction

As a part of our audit of the Louisiana State University System (System) and our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2021, 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 control over financial reporting and compliance; and determine whether LSUHSC-NO 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 LSUHSC-NO management letter dated May 10, 2021. We determined that the prior-year finding related to Weakness in Controls over Research and Development (R&D) Project Closeouts and Accounting Records has not been resolved and is addressed again in this letter.

Current-year Findings

Weakness in Controls over R&D Project Closeouts and Accounting Records

For the second consecutive year, LSUHSC-NO did not have adequate controls over project closeouts or accounting records for the R&D Cluster federal program. Federal program closeout guidelines require recipients to liquidate all financial obligations and submit final reports no later than 120 calendar days after the project period of performance ends. LSUHSC-NO internal policy requires any remaining surplus or deficit balances on a project to be certified and transferred to an appropriate, non-sponsored, departmentally-funded account or another sponsored project within 90 days of the project end date. In a test of all 26 R&D projects with end dates between July 1, 2020, and March 31, 2021, eight projects (31%) were identified with transactions for expenses or correcting entries posted to the project between 92 and 524 days after the project’s period of performance ended. None of these costs were requested for federal reimbursement on the closed project.

These exceptions occurred because (1) expenses are charged to projects after their closeout period in anticipation of a forthcoming project renewal, extension, or funding increase that may or may not be received; (2) the accounting system, PeopleSoft Commitment Control, allows certain personnel and other expenses to continue to post to projects after the project has ended unless a form, such as a personnel status change form, is processed to update account coding in the system; (3) projects are not being closed out properly as they end which includes submitting all required forms for updating accounting records; and (4) project budgets were not adequately monitored to ensure that expenses in the accounting system were charged to the correct project and any errors or budget overruns were identified and addressed in a timely manner.

Untimely project updates in the accounting system increase the risk that expenses will be charged to the wrong project which hinders management's ability to effectively monitor the budget and may result in budget overruns that would need to be covered with other funding sources, increase the number of corrections required at year end to ensure accurate financial reporting, and may result in non-compliance with federal program requirements.

Management should continue to monitor budgets and ensure that budget overruns and errors are identified and corrected in a timely manner. Management should ensure that projects are effectively closed out including processing all required forms and updating the accounting system in a timely manner. Management should consider implementing a system control to prevent costs from being charged to projects in the accounting system beyond the project close out period. Management should also consider using temporary non-federal account coding to record costs for new awards or extensions that are not yet finalized and exclude these costs from its Schedule of Expenditures of Federal Awards until the award or extension is final. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 1-3).

Weakness in Controls over Subrecipient Monitoring of R&D Projects

LSUHSC-NO does not have adequate controls over subrecipient monitoring for the federal R&D cluster to ensure that desk audits required by internal policy are completed timely and consistent with the risk assessment performed for the subrecipient. The internal policy requires a desk audit to be completed in accordance with the subrecipient contract but does not set desk audit requirements, such as the number of audits needed, based on the outcome of the risk assessment nor does the policy provide any guidance as to the timing of the required risk assessment and desk audit. As a result, in a sample of nine subrecipient contracts, we identified one subrecipient (11%) that did not have a desk audit until after the project was closed and the final Federal Financial Report (FFR) was submitted to the grantor. In addition, the subrecipient was identified as medium risk in the risk assessment performed with the initial award, which required two desk audits, but the contract only indicated that one desk audit was required.

Inconsistency between the results of a subrecipients risk assessment, and the stated terms and conditions of a subaward, increases the risk that desk audit requirements may not be communicated effectively, or that required desk audits may not be performed in a timely manner. Missed or untimely desk audits hinder management's ability to monitor subrecipient expenditures and increase the risk that errors and omissions in payments to subrecipients may occur, remain undetected, and lead to inaccurate subrecipient expenditures being reported in FFRs and the Schedule of Expenditures of Federal Awards.

Management should revise its subrecipient monitoring policy to set desk audit requirements based on the outcome of risk assessments and ensure that the required number of desk audits

specified in a subrecipient's award match the results of the subrecipient's risk assessment. Management should emphasize the importance of completing desk audits on a regular basis and establish a monitoring program to ensure that all desk audits are performed and completed timely. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 4-5).

Financial Statements – Louisiana State University System

As a part of our audit of the System's financial statements for the year ended June 30, 2021, 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

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, 2021, 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 programs, as follows:

- Research and Development Cluster
- Student Financial Assistance Cluster

Those tests included evaluating the effectiveness of LSUHSC-NO's internal control 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 loan program 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) and on the status of the prior-year finding for the preparation of the state's Summary Schedule of Prior Audit Findings, as required by Uniform Guidance.

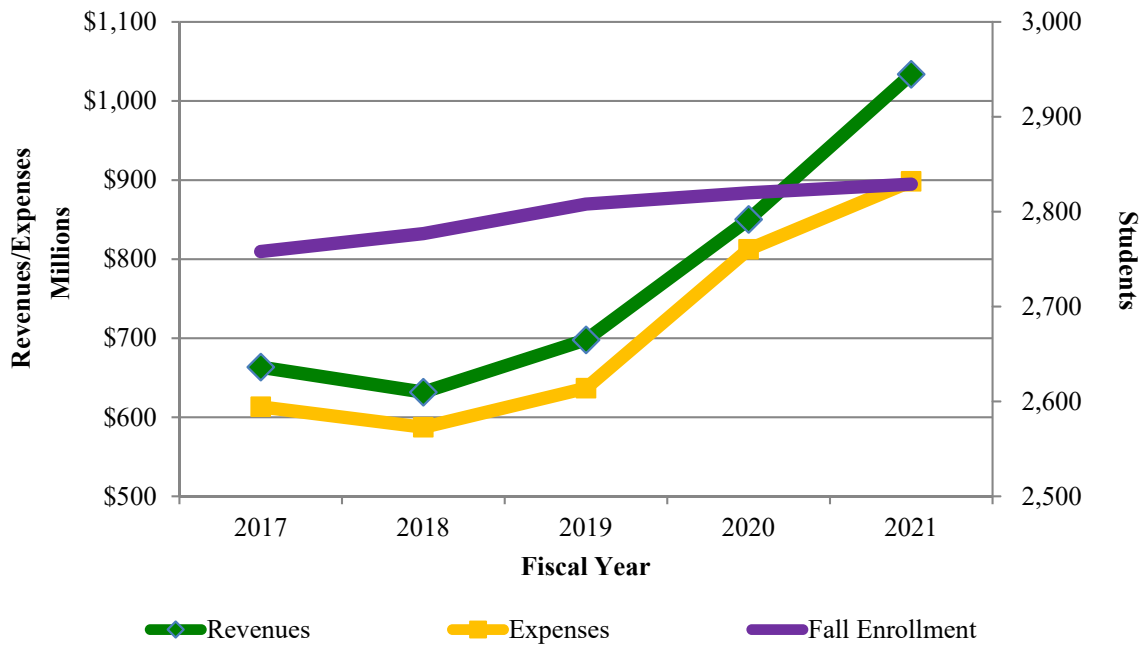
Based on the results of these Single Audit procedures, we reported findings related to Weakness in Controls over R&D Project Closeouts and Accounting Records and Weakness in Controls over Subrecipient Monitoring of R&D Projects. These findings will also be included in the Single Audit for the year ended June 30, 2021. In addition, LSUHSC-NO's loan program information submitted for the preparation of the state's SEFA and prior finding information submitted for the preparation of the state's Summary Schedule of Prior Audit Findings 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.

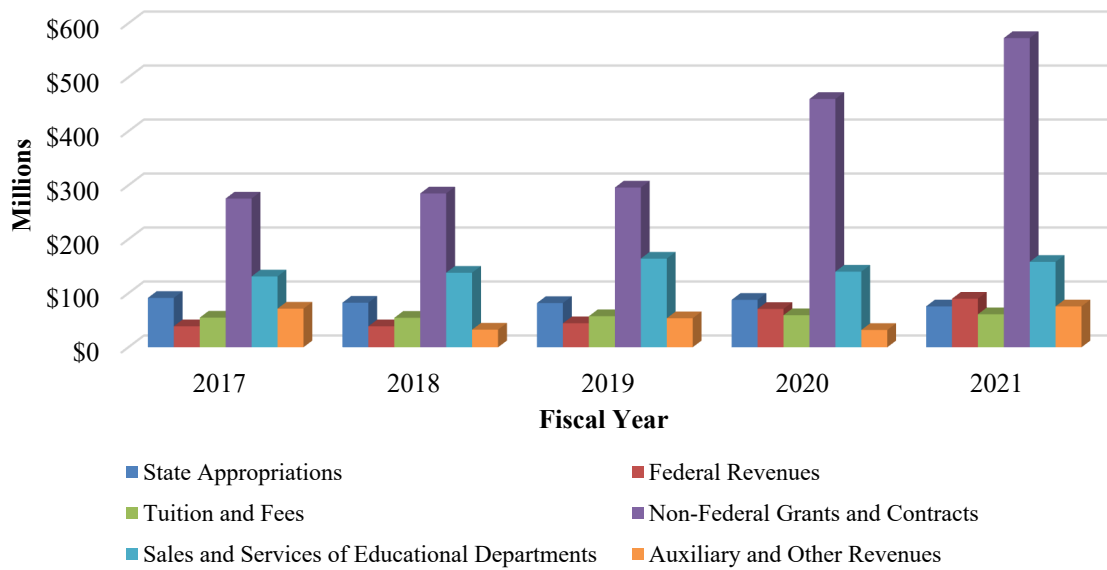
As shown in Exhibit 1, over the past five fiscal years, enrollment has been fairly stable while total revenues increased by 56% and expenses have increased by 47%. As shown in Exhibit 2, the majority of the increase is related to increases in non-governmental contract revenue and related operating expense due to new administration of programs in fiscal years 2020 and 2021. In fiscal year 2020, LSUHSC-NO began administering Medicaid Managed Care Quality Incentive Program contracts and in fiscal year 2021, LSUHSC-NO began administering contracts in the Full Medicaid Pricing Program. In addition, federal revenues increased by 60% in fiscal year 2020, and by 27% in fiscal year 2021, mainly due to funding received for construction projects related to the interim LSU hospital.

Exhibit 1 Fiscal/Enrollment Trends



Source: Fiscal Years 2017-2021 LSU System Audit Reports and Louisiana Board of Regents website

Exhibit 2 Five-Year Revenue Trends



Source: Fiscal Years 2017-2021 LSU System Audit Reports

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of LSUHSC-NO. The nature of the recommendations, their implementation costs, and their 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,



Michael J. “Mike” Waguespack, CPA
Legislative Auditor

MET:DM:BH:EFS:aa

LSUHSC-NO 2021

APPENDIX A: MANAGEMENT'S RESPONSES



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

April 29, 2022

Michael J. Waguespack, CPA
Legislative Auditor
Office of Louisiana Legislative Auditor
1600 North Third Street, Baton Rouge, LA 70804

Dear Mr. Waguespack,

We have reviewed the audit finding from your letter dated April 14, 2022, regarding the "Weakness in Controls over Research and Development Project Closeouts and Accounting Records". Please find our response to the finding below.

Management agrees with the finding listed in the report.

Finding: Weakness in Controls over Research and Development Project Closeouts and Accounting Records

While we agree with the audit that there were projects with transactions for expenses or correcting entries posted after the project's end date, three of the eight identified were in compliance with 2 CFR 200.344. These three projects were authorized for an extension as supported by the documents provided to the auditor. As such, there was no obligation to liquidate under 2 CFR 200.344, as it states, "(b) unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all financial obligations incurred under the Federal award no later than 120 calendar days after the end date of the period of performance."

Corrective Actions:

- 1) The Fiscal Dean's staff in each school will continue to review and monitor departmental compliance with CM-21, which includes the responsibilities of the required financial management of an individual project or group of projects.
- 2) The Dean's Office will ensure that Business Managers are properly trained on account reconciliation and will send out reminders on appropriate monitoring procedures for account reconciliation on a quarterly basis.

Responsible Personnel for #1 and #2: Fiscal Deans

Anticipated Completion Date for #1 and #2: Completed – Started June 30, 2021

- 3) The Fiscal Dean's staff in each school have begun to assist with the Payroll Error Report reconciliation. Specifically, PeopleSoft Financials produces an error report of items that did not post due to various reasons such as: project with an end date that has passed, the project is in deficit, or the project is not setup to accept personnel expenses. The report is broken down by department and distributed to the applicable Business Managers, requesting a response within an allotted period of time on how to resolve each error. Each response is added to the Payroll Error Report and returned to SPA and monitored to be sure the resolution described is addressed/resolved.

Responsible Personnel for #3: Fiscal Deans

Anticipated Completion Date for #3: Completed – Started February 2022

- 4) In addition to above, SPA began escalating requests to correct projects with expenditures posting beyond 90 days that are not addressed timely to the Department Head, Principal Investigator, and Dean, as necessary.

Anticipated Completion Date: April 25, 2022

- 5) SPA will develop written policies and procedures for monitoring and closing projects that are anticipated to be renewed, including but not limited to, actions to be taken if the projects are not subsequently funded and an escalation process to ensure the timely removing charges posted after the end of the initial project.

Anticipated Completion Date: September 30, 2022

Responsible Person for #3 and #4: Executive Director for Accounting Services

- 6) In Fall 2021, LSUHSC-NO implemented an automated process for retroactive and prospective changes in source of funds. This system provides warning messages to the department initiator when a project request is being processed beyond the agreement end date. It also significantly decreases processing time and eliminates the possibility of paper forms being misplaced in routing.

Anticipated Completion Date: Completed

Responsible Person for #3, #4, and #5: Executive Director for Accounting Services

If you have any additional questions or concerns, please do not hesitate to contact me.

Respectfully,



Steve Nelson, M.D.
Interim Chancellor

cc: Dr. Richard DiCarlo
Mr. Ben Lousteau
Mr. Frank Wasser
Ms. Arlean Wehle
Ms. Katherine Diodene



OFFICE OF THE CHANCELLOR

SCHOOL OF ALLIED HEALTH PROFESSIONS
SCHOOL OF DENTISTRY
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SCHOOL OF MEDICINE IN NEW ORLEANS
SCHOOL OF PUBLIC HEALTH

April 26, 2022

Michael J. Waguespack, CPA
Legislative Auditor
Office of Louisiana Legislative Auditor
1600 North Third Street, Baton Rouge, LA 70804

Dear Mr. Waguespack,

We have reviewed the audit finding from your letter dated April 8, 2022, regarding the "Weakness in Controls Over Subrecipient Monitoring of Research and Development Projects".

Management agrees with the finding listed in the report.

Finding: Weakness in Controls over Subrecipient Monitoring of Research and Projects

Louisiana State University Health Sciences Center - New Orleans ("LSUHSC-NO") agrees with the recommendation to revise the Subrecipient Monitoring Policy to strengthen existing controls. LSUHSC-NO has an established Subrecipient Monitoring Policy to assist in compliance with 2 CFR section 200.332. The one exception of the nine subrecipient contracts' desk audits reviewed was completed in an untimely manner mainly due to the department experiencing turnovers in the business manager position during FY 2021 and was in transition to a new business manager when the contract date ended (7/21/21).

Although the internal policy has not been updated to clearly identify the required number of desk audits based upon the risk assessment, LSUHSC-NO has been in compliance with 2 CFR section 200.332 in that evaluations are performed on each subrecipient for risk of noncompliance, and desk audits are required based on that risk assessment. LSUHSC-NO's practice has been one desk audit is required for low risk entities and two desk audits for medium risk entities. For high risk subrecipients, documentation is requested to support each invoice received.

Corrective Actions:

- 1) The Subrecipient Monitoring Policy will be updated to include the appropriate number of desk audits based on the level of risk assessed.

In addition, steps have been taken to strengthen the efforts of desks audits being completed on a timely basis. Sponsored Projects Accounting is escalating matters when departments have not responded to reminders of submitting the required desk audits.

- 2) Sponsored Projects Accounting will continue notifications to departments of desk audits. New subrecipient contracts will contain revised language that LSUHSC-NO has the right to perform desk audits as needed.

Anticipated Completion Date:

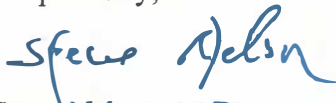
Revised Subrecipient Monitoring Policy - July 1, 2022

Revised Subrecipient contracts - July 1, 2022

Responsible Personnel:

Executive Director for Accounting Services

Respectfully,



Steve Nelson, M.D.

Interim Chancellor

cc: Mr. Ben Lousteau
Mr. Frank Wasser
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, 2020, through June 30, 2021, 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 our work related to the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2021.

- We evaluated LSUHSC-NO’s operations and system of internal control 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 and Student Financial Aid clusters of federal programs for the year ended June 30, 2021, as a part of the 2021 Single Audit.
- We performed procedures on loan program information for the preparation of the state’s Schedule of Expenditures of Federal Awards and on the status of the prior-year finding for the preparation of the state’s Summary Schedule of Prior Audit Findings for the year ended June 30, 2021, as a part of the 2021 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 Reports, and accordingly, we do not express an opinion on those reports. LSUHSC-NO’s accounts are an integral part of the System’s financial statements, upon which the Louisiana Legislative Auditor expresses opinions.