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STATE OF LOUISIANA LEGISLATIVE AUDITOR

**Department of Health and Hospitals
State of Louisiana
Baton Rouge, Louisiana**

**Louisiana Health Care Authority
State of Louisiana
Baton Rouge, Louisiana**

Financial Related Audit
Dated September 3, 1996



Financial and Compliance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Baton Rouge, Louisiana

LOUISIANA HEALTH CARE AUTHORITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

Financial Related Audit
Dated September 3, 1996

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

October 3, 1996

**DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**LOUISIANA HEALTH CARE AUTHORITY
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Financial Related Audit and
Independent Auditor's Report
Dated September 3, 1996**

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September 3, 1996

Independent Auditor's Report

DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Baton Rouge, Louisiana

LOUISIANA HEALTH CARE AUTHORITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We performed a financial related audit of the Department of Health and Hospitals (DHH or the department) for the period December 1, 1994, to November 30, 1995, and the Louisiana Health Care Authority (LHCA or the authority) for the period October 1, 1994, to September 30, 1995. The objective of our audit was to determine whether the compensation paid to Deloitte and Touche, an international accounting and auditing firm, under certain contracts with DHH and LHCA, was made in accordance with the January 24, 1995, Settlement Agreement between Deloitte and Touche and the State Board of Certified Public Accountants of Louisiana. The Settlement Agreement specified that compensation paid to Deloitte and Touche could not exceed the lesser of: (1) Deloitte and Touche's compensation prescribed under the contracts, or (2) Deloitte and Touche's actual time at 90 percent of its standard billing rates, plus out-of-pocket expenses, incurred by Deloitte and Touche in performing services under the contracts.

Our audit was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, applicable to a financial related audit. Our limited procedures consisted of (1) examining selected department, authority, and Deloitte and Touche records; (2) interviewing certain department, authority, and Deloitte and Touche personnel; (3) reviewing applicable Louisiana laws and regulations; (4) reviewing pertinent department and authority policies, procedures, rules, and regulations; and (5) making inquiries we considered necessary to achieve our purpose. Our procedures also included an assessment of the likelihood of irregularities and illegal acts, and any such matters that came to our attention are presented in our findings and recommendations.

These limited procedures are substantially less in scope than an audit of financial statements in accordance with government auditing standards, the purpose of which is to provide assurances on the entity's presented financial statements, assess the entity's internal control structure, and assess the entity's compliance with laws and regulations that could materially impact its financial statements. Had we performed such an audit, or had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

LEGISLATIVE AUDITOR

DEPARTMENT OF HEALTH AND HOSPITALS
LOUISIANA HEALTH CARE AUTHORITY
STATE OF LOUISIANA
September 3, 1996

Based on the application of the procedures referred to previously, the accompanying findings and recommendations represent those conditions that we feel warrant attention by the appropriate parties.

This report is intended for the use of management of DHH and LHCA and should only be used by those who fully understand the limited purposes of the procedures performed. By state law, this report is a public document and has been distributed to appropriate public officials as required by Louisiana Revised Statute 24:516.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

JES:BJJ:dl

[DELOITTE]

LEGISLATIVE AUDITOR

**DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**LOUISIANA HEALTH CARE AUTHORITY
STATE OF LOUISIANA
Baton Rouge, Louisiana**

BACKGROUND INFORMATION

CREATION AND DUTIES

The Department of Health and Hospitals (DHH or the department) was created in accordance with Title 36, Chapter 6 of the Louisiana Revised Statutes of 1950, as a part of the executive branch of government. DHH is charged with providing health and medical services for the uninsured and medically indigent citizens of Louisiana either directly, through the operation of health care facilities, or indirectly, by agreement with the Louisiana Health Care Authority (LHCA or authority). Services provided by DHH include, but are not limited to, services for the mentally ill, for persons with mental retardation and developmental disabilities, for alcohol and drug abusers, public health services, and services provided under the Medicaid program. DHH oversees the operations of seven developmental centers, six mental hospitals, two long-term care hospitals, the state health department, various regulatory and licensing boards, mental health and substance abuse clinics, and other health related facilities located throughout Louisiana. The state's acute care hospitals were the responsibility of DHH until January 1, 1992, when they were transferred to LHCA in accordance with Act 390 of the 1991 Regular Session of the Louisiana Legislature.

The Louisiana Health Care Authority was created in accordance with Title 46, Chapter 6 of the Louisiana Revised Statutes of 1950, as a political subdivision of the state. LHCA is governed by a 12-member board, consisting of two ex-officio members (the Secretary of DHH and the Commissioner of Administration), nine at-large members (appointed by the governor), and the chief executive officer of the authority. LHCA is charged with the operation of the state's nine acute care hospitals that provide health and medical services for the uninsured and medically indigent citizens of Louisiana and opportunities for clinical education for the state's students of medicine, nursing, and allied health fields.

DEPARTMENT OF HEALTH AND HOSPITALS
LOUISIANA HEALTH CARE AUTHORITY
STATE OF LOUISIANA
Background Information (Continued)

BACKGROUND

During our audit of DHH for the fiscal years ended June 30, 1991 and 1992, we became aware of several professional service contracts between DHH and Deloitte and Touche. These contracts were described as revenue enhancement contracts, and payments to Deloitte and Touche were contingent upon its ability to generate revenues for DHH above an established base period revenue figure that did not change over the lives of the contracts. The original contracts were initiated in September 1989 and provided for an original maximum payment of \$4,472,500 for one year. Subsequent amendments increased the contracts and payments to \$33,047,500 over a three-year period.

Effective October 1, 1992, DHH negotiated on behalf of LHCA, a one-year revenue enhancement and operations improvement activities contract with Deloitte and Touche. Payments to Deloitte and Touche were also contingent upon its ability to generate revenues for LHCA above an established base period revenue figure that did not change over the life of the contract. LHCA had the option to renew the contract for two additional one-year periods and exercised that option through the third year. Originally, the annual maximum payment under the contract was \$18,350,000, and the contract maximum over the potential three-year life of the contract was \$55,050,000. Subsequently, the maximum payment for the third year was reduced to \$17,350,000, effectively reducing the contract maximum to \$54,050,000. Payments to date total \$51,568,938. An additional \$2,390,846 has been billed by Deloitte and Touche, but final payment is pending at this time. However, the pending amount is limited to \$2,332,801, by the contract maximum of \$17,350,000.

On February 8, 1995, we issued a specified procedures examination of our review of these professional service contracts between DHH and Deloitte and Touche and LHCA and Deloitte and Touche. The report covered the period from September 1989 through June 1993, and stated:

- Both DHH and LHCA appeared to have failed to comply with Louisiana laws and contract provisions relating to contract approvals, contract modifications, retention of records, and contract monitoring.
- DHH and LHCA did not ensure that the method of payment to Deloitte and Touche was directly related to the types of services performed.
- Deloitte and Touche appeared to have benefited from the revenues generated by another contractor, resulting in potential additional costs to the department and the authority of \$3,819,875.

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Background Information (Continued)

- The base period revenues, established as the basis for contract payments, were not adjusted over the three-year lives of the DHH contracts for any revenues that were not the result of Deloitte and Touche's activities.
- The base period revenues for LHCA's contract with Deloitte and Touche was inordinately low when compared to the DHH contracts for the same facilities.

DHH also entered into a revenue enhancement and operations improvement activities contract with Deloitte and Touche for the Office of Mental Health and the Office of Alcohol and Drug Abuse, effective for one year beginning December 1, 1993. Payments to Deloitte and Touche were also contingent upon its ability to generate revenues for DHH above an established base period revenue figure that would not change over the life of the contract. DHH had an option to renew the contract for two additional one-year periods and exercised the option to renew only through the second year. Originally, the annual maximum payment under the contract was \$2,475,000, and the contract maximum over the potential three-year life of the contract was \$7,425,000. Subsequently, the maximum payment for the second year was reduced to \$2,225,000, effectively reducing the contract maximum to \$4,700,000. Payments to date total \$4,465,882. An additional \$387,579 has been billed by Deloitte and Touche, but final payment is pending at this time. However, the pending amount is limited to \$234,118, by the contract maximum of \$2,225,000.

Cumulatively, DHH and LHCA paid Deloitte and Touche \$89,082,320 from September 1989 through September 1995.

On January 24, 1995, the State Board of Certified Public Accountants of Louisiana (the Board) and Deloitte and Touche entered into a Settlement Agreement. The Settlement Agreement followed the Board's inquiry of Deloitte and Touche for allegedly failing to comply with the prohibition of acceptance of contingent fees for services performed and for allegedly performing audits for various state entities while not being independent in accordance with standards promulgated by the American Institute of Certified Public Accountants and regulations contained in the Louisiana Administrative Code Volume 3, Title 46:XIX.501.D and Title 46:XIX.501.A(1)(a)(i). Deloitte and Touche had denied such allegations.

The Settlement Agreement covered the third year of the contract between LHCA and Deloitte and Touche, which encompassed the period October 1, 1994, to September 30, 1995, and the contract with DHH for the period December 1, 1994, to November 30, 1995. Among the terms of the Settlement Agreement was a provision that compensation to Deloitte and Touche under the contracts would not exceed, on a cumulative basis beginning at the start of the third contract year for LHCA and the second contract year for DHH, the lesser of: (1) Deloitte and Touche's compensation prescribed under that contract, or (2) Deloitte and Touche's actual time at 90 percent of its standard billing rates, plus out-of-pocket expenses incurred by Deloitte and Touche in performing services under the contract. This provision had the effect of reducing

LEGISLATIVE AUDITOR

DEPARTMENT OF HEALTH AND HOSPITALS LOUISIANA HEALTH CARE AUTHORITY STATE OF LOUISIANA Background Information (Continued)

Deloitte and Touche's compensation by at least \$1,000,000 for the LHCA contract (\$18,350,000 to \$17,350,000) and \$250,000 for the DHH contract (\$2,475,000 to \$2,225,000), if Deloitte and Touche met the annual fee maximum. In addition, Deloitte and Touche was required to refund \$1,000,000 to the State of Louisiana.

OBJECTIVE

The objective of our audit was to determine that the compensation paid to Deloitte and Touche, under contracts with DHH and LHCA, was made in accordance with the terms of the Settlement Agreement between Deloitte and Touche and the State Board of Certified Public Accountants of Louisiana (the Board). The Settlement Agreement specified that compensation paid to Deloitte and Touche could not exceed the lesser of: (1) Deloitte and Touche's compensation prescribed under the contracts, or (2) Deloitte and Touche's actual time at 90 percent of its standard billing rates, plus out-of-pocket expenses, incurred by Deloitte and Touche in performing services under the contracts.

AUDIT SCOPE AND METHODOLOGY

Our audit was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, applicable to a financial related audit (general standards and the fieldwork and reporting standing for performance audits). Our limited procedures consisted of the following:

1. Reviewing the Settlement Agreement between the State Board of Certified Public Accountants of Louisiana and Deloitte and Touche, dated January 24, 1995
2. Reviewing the contract between Deloitte and Touche and LHCA for the period October 1, 1994, to September 30, 1995, and the contract between Deloitte and Touche and DHH for the period December 1, 1994, to November 30, 1995
3. Reviewing the billing method descriptions in each of the contracts
4. Reviewing and testing the alternative billing method described in the Settlement Agreement by performing the following procedures:

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**DEPARTMENT OF HEALTH AND HOSPITALS
LOUISIANA HEALTH CARE AUTHORITY
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Background Information (Continued)**

- Determining that standard billing rates were used
- Determining that rates billed were only 90 percent of the standard billing rates
- Determining that hours billed were supported by time sheets
- Determining that travel expenses were supported by travel vouchers and supporting documentation
- Determining that other expenses were supported by vendor invoices and/or other supporting documentation

CONCLUSION

As discussed under the Audit Scope and Methodology Section of this report, we reviewed certain documentation to ensure that the amounts paid to Deloitte and Touche did not exceed the amounts specified in the Settlement Agreement.

Although payments to Deloitte and Touche do not exceed the contractual amounts and the billing documentation appears to comply with the terms of the Settlement Agreement, except for the findings addressed later in this report, certain concerns were raised during our review of that billing documentation. For example, the billing rates used by Deloitte and Touche relating to the Settlement Agreement varied from \$13.50 per hour to \$450 per hour, for clerical staff, staff consultants, senior consultants, managers, senior managers, and principals. It appears from our review of the monthly billing documentation submitted by Deloitte and Touche that the number of hours worked and/or the billing rates for certain persons seem excessive.

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STATE OF LOUISIANA
Background Information (Continued)**

Amounts and hourly rates included on the LHCA billing documentation, as submitted by Deloitte and Touche for the period of October 1994 to September 1995, reflect the following for 10 of approximately 189 individuals included in the billing documents.

Employee	Hours Worked	Rate Per Hour	Annual Amount From Billing Documentation	Average Monthly Amount
1	1,193	\$382.50 - \$405.00	\$458,978	\$38,248
2	2,011	\$198.00 - \$261.00	\$443,727	\$36,977
3	1,206	\$351.00 - \$360.00	\$426,168	\$35,514
4	1,527	\$261.00 - \$301.50	\$420,701	\$35,058
5	2,021	\$184.50 - \$211.50	\$393,692	\$32,808
6	2,034	\$189.00 - \$202.50	\$393,005	\$32,750
7	992	\$360.00 - \$405.00	\$369,450	\$30,788
8	1,790	\$189.00 - \$202.50	\$348,199	\$29,017
9	1,981	\$148.50 - \$171.00	\$311,009	\$25,917
10	2,133	\$135.00 - \$157.50	\$306,270	\$25,523

These billing rates appear excessive and are not typical of rates paid consultants contracting with Louisiana government. Generally, accounting professionals afford discounts in providing consulting services to government clients. It is apparent from the rates reflected above that even after the 10 percent reduction in the billing rates required by the Settlement Agreement, both DHH and LHCA have been provided billing documents that reflect excessive rates.

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DEPARTMENT OF HEALTH AND HOSPITALS LOUISIANA HEALTH CARE AUTHORITY STATE OF LOUISIANA Background Information (Concluded)

Currently, Deloitte and Touche is seeking final payment from DHH and LHCA totaling \$234,118 and \$2,332,801, respectively. Given the magnitude of the payments already made under the contracts with Deloitte and Touche totaling \$89,082,320, the high hourly rates billed and paid, the potential overpayments noted in our prior report, and the findings contained in this report, both DHH and LHCA, before making any further payments under the contracts, should consult with its legal counsel to discuss potential negotiation with Deloitte and Touche for the amount, if any, of the final payments.

The information and conclusions presented in this report only relate to concerns that have been raised based upon our review of the documentation submitted by Deloitte and Touche for the final year of the contracts with DHH and LHCA. Our efforts do not address any billing concerns that might arise from any similar review of the information that may exist to support the previous five years of services provided to DHH and LHCA by Deloitte and Touche under the contracts.

If DHH and LHCA had properly monitored these contracts from their inception and made an effort to determine if the billing rates used by Deloitte and Touche were commensurate with the services provided to the state and other similar governments, clearly certain adjustments could have been made to decrease the amounts paid over the lives of the contracts. At a minimum, the base period revenues used to establish the basis for payment to Deloitte and Touche could have been adjusted to arrive at an equitable fee for services provided.

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DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Baton Rouge, Louisiana

LOUISIANA HEALTH CARE AUTHORITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

FINDINGS AND RECOMMENDATIONS

**UNALLOWABLE BILLED HOURLY
COSTS AND TRAVEL EXPENSES**

Deloitte and Touche appears to have improperly billed LHCA \$200,236 in hourly costs and travel expenses for two employees involved with the preparation of billing documentation under the terms of the Settlement Agreement.

The Settlement Agreement dated January 24, 1995, stated that Deloitte and Touche was to receive compensation amounting to the lesser of: (1) Deloitte and Touche's compensation prescribed under that contract, or (2) Deloitte and Touche's actual time at 90 percent of its standard billing rates, plus out-of-pocket expenses incurred by Deloitte and Touche in performing services under that contract. In a letter to the Legislative Auditor dated January 5, 1995, Mr. L. Paul Hood, Chairman of the State Board of Certified Public Accountants of Louisiana, stated that expenses to prepare billing documentation under the terms of the Settlement Agreement would not appear to be valid expenses.

After the Settlement Agreement was signed in January 1995, Deloitte and Touche was required to prepare documentation concerning the billed hourly costs and travel expenses of Deloitte and Touche employees working on the projects and any other out-of-pocket expenses incurred by Deloitte and Touche. Based on interviews with Deloitte and Touche personnel, Deloitte and Touche appears to have spent time beginning June 1, 1995, through September 30, 1995, (the end of the contract period) in preparing the billing documentation necessary to comply with the terms of the Settlement Agreement. The task of compiling the documentation was assigned to two employees, one of which devoted full-time efforts to the assignment.

The billed hourly costs and travel expenses for the employee devoting full-time efforts and the other employee totaled \$62,003 and \$138,233, respectively, for the period in question. None of the expenses appear allowable under the terms of the Settlement Agreement.

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LOUISIANA HEALTH CARE AUTHORITY
STATE OF LOUISIANA
Findings and Recommendations (Concluded)**

By billing LHCA for hourly costs and travel expenses incurred with the preparation of billing documentation, Deloitte and Touche appears to have violated the terms of the Settlement Agreement.

LHCA should not reimburse Deloitte and Touche for any expenses relative to preparing billing documentation as a result of the Settlement Agreement, thereby reducing any amounts owed to Deloitte and Touche by \$200,236.

**UNALLOWABLE BILLING FOR
PRIOR YEAR EXPENSES**

Deloitte and Touche improperly billed LHCA \$585,543 for expenses incurred prior to the contract year covered by the Settlement Agreement.

The Settlement Agreement dated January 24, 1995, stated that Deloitte and Touche was to receive compensation amounting to the lesser of: (1) Deloitte and Touche's compensation prescribed under that contract, or (2) Deloitte and Touche's actual time at 90 percent of its standard billing rates, plus out-of-pocket expenses incurred by Deloitte and Touche in performing services under that contract.

The billing documentation submitted by Deloitte and Touche indicates that \$585,543 in billed hourly costs, travel, and other expenses incurred from May 1994 to September 1994 were charged to the contract period of October 1, 1994, to September 1995. Since these expenses were not incurred by Deloitte and Touche in performing services under the third year of the contract covered by the terms of the Settlement Agreement, they are not reimbursable and should not have been billed to LHCA.

LHCA should not reimburse Deloitte and Touche for any prior period expenses, thereby reducing any amounts owed to Deloitte and Touche by \$585,543.