

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana State University
Health Sciences Center -
Health Care Services Division
State of Louisiana
Baton Rouge, Louisiana

November 24, 1999



Financial and Compliance Audit Division

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

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**LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER -
HEALTH CARE SERVICES DIVISION
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Management Letter
Dated November 1, 1999**

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, New Orleans, and Shreveport offices of the Legislative Auditor.

November 24, 1999



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

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November 1, 1999

**LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER -
HEALTH CARE SERVICES DIVISION
STATE OF LOUISIANA
Baton Rouge, Louisiana**

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1999, we conducted certain procedures at Louisiana State University Health Sciences Center (LSUHSC) - Health Care Services Division (HCSO). Our procedures included (1) a review of the division's internal control; (2) tests of financial transactions for the years ending June 30, 1999, and June 30, 1998; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the years ending June 30, 1999, and June 30, 1998; and (4) a review of compliance with prior report recommendations.

The Annual Fiscal Reports of the LSUHSC, which include the activity of HCSO, were not audited or reviewed by us, and, accordingly, we do not express an opinion or any other form of assurance on those reports. The division's accounts within the center are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with management personnel and other selected division personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvement. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior report on HCSO, formerly the Louisiana Health Care Authority, for the two years ended June 30, 1997, we reported a finding relating to inadequate cash controls. This finding is partially addressed again in this report.

Based on the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

Inadequate Cash Controls

LSUHSC - HCSO does not have an adequate system of internal control over the collection and deposit of cash receipts. Louisiana Revised Statute 49:308 requires that funds received by state agencies be deposited immediately in the State Treasury. In addition, an adequate system of internal control requires that policies and procedures be established and implemented to safeguard assets, to reduce the risk that funds could be lost, to ensure that errors and/or fraud are prevented and detected in a timely manner,

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and to ensure that duties are properly segregated. The following deficiencies were noted:

- Checks for delinquent patient fees, which totaled approximately \$12,000, are not being logged upon receipt, and deposits are not being made in a timely manner. Checks are received and transferred to a second employee before being logged. Because the receipt date is not noted, it is not possible to determine the time elapsed between receipt date and deposit date. However, it was noted that of 25 checks tested, 10 had a range of anywhere from 10 to 82 days between the check date and date of deposit. This is the second consecutive audit these conditions have been noted.
- Two employees responsible for billing certain types of revenues, totaling approximately \$570,000 a year, perform incompatible duties since they are also responsible for collection of that revenue.

Since management has not placed sufficient emphasis on compliance with state law and adequate internal control, the risk increases that funds could be lost or stolen and that errors and/or fraud could occur and not be detected in a timely manner. In addition, untimely deposits result in the loss of interest earnings.

Management should develop and implement adequate internal controls over cash to ensure that funds received are properly logged and deposited timely. In addition, management should establish adequate segregation of duties between the billing and collection functions. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 1).

**Inadequate Controls Over Restricted
 Fund Expenditures**

LSUHSC - HCSD did not have an adequate system of internal control over its restricted fund expenditures to ensure compliance with state laws and internal policies and procedures. An adequate system of internal control requires that policies and procedures be established and implemented to ensure that expenditures are in compliance with state laws and internal policies and procedures. The following deficiencies were noted during the audit:

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- Various hospitals under the administration of HCSD failed to comply with movable property regulations. Louisiana Administrative Code 34:VII.307(A) requires that all items of qualified property be tagged and reported to the Louisiana Property Assistance Agency within 45 days of actual receipt of the property. The following exceptions were noted:
 1. On October 15, 1998, the Medical Center of Louisiana at New Orleans (MCLNO) purchased a tape drive for \$3,860 through the restricted fund. In addition, on October 28, 1998, MCLNO purchased 10 pieces of warehouse equipment (including three trucks) totaling \$146,183, through the restricted fund. As of July 22, 1999, these property items were not tagged.
 2. The HCSD Central Office purchased six printers totaling \$6,543 through the restricted fund for University Medical Center (UMC). UMC received the printers on November 15, 1998. As of June 17, 1999, these property items were not tagged.
 3. On October 1, 1998, the HCSD Central Office purchased teleconferencing equipment totaling \$16,000 from LSUHSC - Shreveport through the restricted fund. As of June 23, 1999, this equipment still had the LSUHSC - Shreveport tag numbers and was still listed on the LSUHSC - Shreveport inventory.
- Various hospitals under the administration of HCSD failed to comply with internal policies and procedures. Procedures established for the administration of the restricted funds require that a monthly report titled "Restricted Project Monthly Report," be issued by each project manager on each project. The purpose of this report is to monitor project activity and to detail the project budget, encumbrances, items in process, and any unobligated balances. In addition, internal procedures require a "Direct Pay Check Request" form be attached to each reimbursement request along with proper authorization and the original invoice. This form is used by the medical center to request payment from LSUHSC for a restricted fund expenditure. The following matters were noted:
 1. Of the five projects tested for evidence of monthly reports being properly filed with the HCSD Budget Unit, none were found.
 2. Of the 23 restricted fund expenditures tested, six items did not have the required Direct Pay Check Request attached; one

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request lacked authorized signatures, and four requests did not have the original invoice attached.

- HCSD failed to monitor restricted fund expenditures. Good internal control requires that expenditures be monitored at the agency/hospital level and centrally for all agencies/hospitals, so that budgets, purchase orders, and contracts are not over expended.
 1. The HCSD Central Office did not maintain project files for each of its restricted fund projects and, as a result, was unable to determine the total amount of expenditures of each project. This information was not available until the HCSD Central Office re-created files for each project.
 2. Information such as total expenditures by hospital and by project was not available centrally for all agencies/hospitals. The information was not available because the HCSD Budget Unit did not monitor total expenditures and activities of the restricted fund to ensure budgets, purchase orders, and contracts were not over expended.

Since management has not placed sufficient emphasis on compliance with state law, internal policies, and adequate internal control, the risk increases that errors and/or fraud could occur and not be detected in a timely manner. It also subjects HCSD to noncompliance with state laws and internal policies and procedures.

Management should develop and implement adequate internal control over its restricted funds to ensure compliance with state laws and internal policies and procedures. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 3).

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

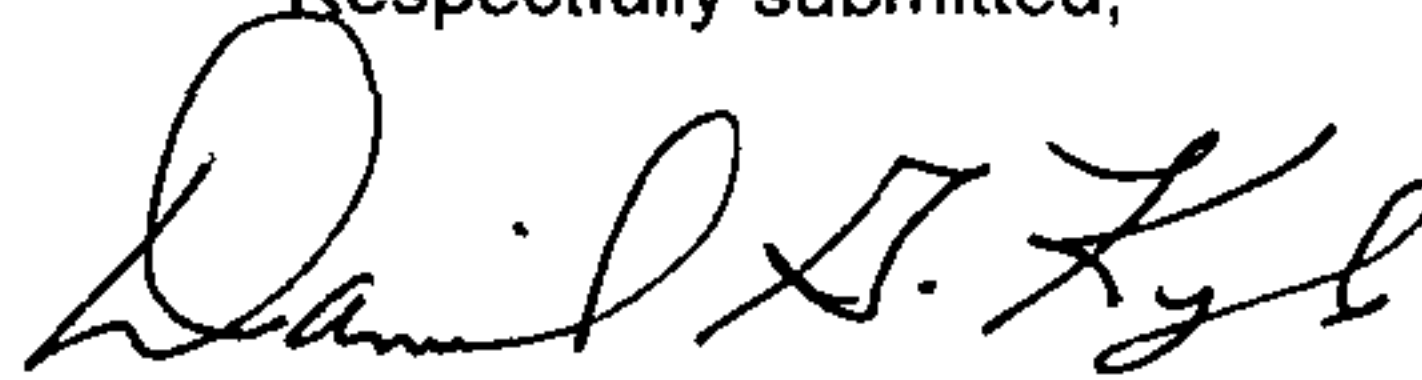
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This report is intended for the information and use of the division and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is fluid and cursive, with a large initial "D" and "K".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

JR:BJJ:PEP:dl

[HCSD]

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



August 25, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Re: Preliminary Audit Finding – Inadequate Cash Controls

Dear Dr. Kyle:

This letter is our response to the above audit finding resulting from your audit of Louisiana State University Health Sciences Center, Health Care Services Division (LSUHSC-HCSD) for the year ended June 30, 1999. We concur with your finding to the extent that cash receipts being defined herein by your office are represented by checks made payable to LSUMC-HCSD and do not represent cash currency transactions. Furthermore, checks routinely do not exceed \$25 in amount for activity in this process. In addition, the processes that were put in place as a result of the previous audit report on inadequate internal controls over the collection and deposit of cash receipts, relating to logging the receipt of the checks failed to record the date the checks were actually received in the office.

This deficiency led the auditor to use the check log column for **check date**, which may or may not represent an accurate length of time that the check was actually in our hands. Since the checks may have been cut and held for a period of time that is indeterminable before they were transmitted to HCSD the finding, in our opinion, is speculative in this area. To clarify this issue, HCSD has already implemented a **check-received** column on the current check log.

Furthermore, HCSD will explore the redesign of the receipt, logging, and deposit function in an effort to more readily split the responsibility and to insure timely deposit. One potential solution being considered is the establishment of a separate post office box specifically dedicated to the receipt of checks for these patient fees. Upon receipt of the mail, the first person to accept delivery would become responsible for the preparation of the check log and the check distribution to the depositing staff person. This dialog is still in its formulation and discussion stage, but should be concluded shortly.

Dr. Daniel G. Kyle, CPA, CFE
August 25, 1999
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Relative to the two employees assigned incompatible duties relative to billing and collection, this response has to be split into the different program areas for which each is responsible. One is concerning the Anatomical Board billings and subsequent collection of monies. Following last audit's recommendation, this process has now been expanded to include a supervisory review of the billing process so that independent verification can be made as to the accuracy and validity of the Anatomical Board billings. Due to staffing considerations that are presently being implemented at HCSD, management concurs with the recommendation relative to splitting the billing and collection process. Action in this area is imminent.

Regarding the Women, Infants, and Children's (WIC) program, which is not part of the finance section, but a program office operation, we will pursue changing the protocols relative to this reimbursement only activity with the Office of Public Health and the program office. We will ascertain the possibility of using a system-generated transfer of funds instead of a check instrument. This approach is the preferred and DOA recommended approach in financial transactions between state agencies.

If you need any additional information or clarification, please contact me or Judy Albin at 225 922-2265

Sincerely,



Arthur D. Landry CPA, MHA
Comptroller

AL/mf

xc: Don Elbourne
Terry Hessick
Marcia Daigle
Judy Albin
Don Hutchinson
Bruce Janet

99CashMgtResponse



September 20, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Re: Preliminary Audit Finding -- Inadequate Controls Over
Restricted Fund Expenditures

Dear Dr. Kyle:

This letter is our response to the above audit finding resulting from your audit of Louisiana State University Health Sciences Center, Health Care Services Division (LSUHSC-HCSD) for the year ended June 30, 1999. We concur with your finding to the extent that:

- Equipment purchased with restricted funds on the 6 purchases identified during examination and testing by your office was not tagged within the required 45 days after receipt,
- Monthly reports were not filed in accordance with internal policies and procedures for the period examined, and
- Office policies and procedures were not adequately maintained to ensure proper monitoring of funds for the period examined.

The Restricted Fund reporting and monitoring requirements is relatively new to the LSUHSC-HCSD. Over the course of the period examined, we were developing and implementing procedures for allocation, purchasing, payment processing, and monitoring of Restricted Fund activity. Procedures were not communicated adequately to appropriate staff in the Central Office as well as at the hospital level in the early stages of the process, which is when most of the exceptions were noted in your examination.

Corrective actions taken, or being taken, are as follows:

1. Tagging of Movable Property Purchased from the Restricted Fund

- For equipment purchases originating out of the Central Office and delivered to the remote hospitals, the purchasing agent provides a copy of the purchase order to the property control manager in the Central Office. The Central Office property control manager then forwards a copy of the purchase order to the property control manager of the affected hospitals. Therefore, the hospital property control manager knows to be looking for the equipment so it can be tagged upon receipt. Along with better communication at the hospital, this procedure should ensure proper tagging of equipment purchases from the Restricted Fund through the Central Office.
- Hospital Chief Financial Officers, procurement staff, and property control managers have been reminded that Restricted Fund equipment purchases from the hospitals should be handled just like Operating Fund equipment purchases for tagging and accounting purposes.

It should be noted that even though proper procedures were not always followed, all equipment purchased through the Restricted Fund was physically located and accounted for.

2. Internal Policies and Procedures for Restricted Funds

- Internal policies and procedures were written during the past fiscal year, after the on-set of the Restricted Funds, for allocation, purchasing, payment processing, and monitoring of Restricted Fund activity. The monthly monitoring report has not been used in most cases. Also, it took time to gain connectivity to LSUHSC's internal accounting system to access Restricted Fund activity and to learn its control features. We now have that access and are monitoring allocations and expenditures on a monthly basis. The Restricted Fund policies and procedures are currently under review to determine what reporting and monitoring mechanisms should be continued or revised based upon Legislative Auditor's recommendations.

- Use of "Direct Pay Check Requests" with authorized signatures is now required and a current list of authorized individuals is maintained by the LSUHSC Comptroller's Office in New Orleans.

It should be noted that even though the "Direct Pay Check Request" was not used in all cases, approval was granted through a properly authorized memo format which, in our opinion, was an acceptable alternative.

3. Monitoring of Restricted Fund Expenditures

- LSUHSC-HCSD's Central Office currently maintains files on each project assigned to the Central Office. Each individual hospital maintains files on each project assigned to them.
- As previously stated in #2, we now have access into LSUHSC's internal accounting system and are monitoring Restricted Fund allocations and expenditures on a monthly basis. The Restricted Fund policies and procedures are currently under review to determine what reporting and monitoring mechanisms should be continued or revised.

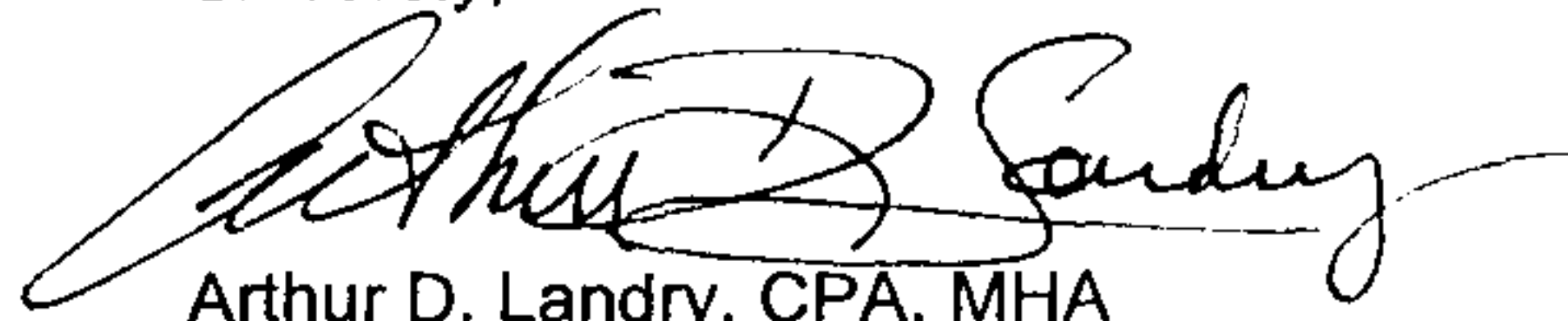
It should also be noted that no Restricted Fund projects were over expended despite some oversight in the monitoring process.

The revisions for the Restricted Fund policies and procedures should be completed by June 30, 2000. Nona Westmoreland and Judy Albin are the contact persons for this corrective action plan.

Dr. Daniel G. Kyle
September 20, 1999
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If you need any additional information or clarification, please contact Judy Albin or me at 922-2265.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur D. Landry". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Arthur D. Landry, CPA, MHA
Comptroller

AL:JA:mf

xc: Don Elbourne
Joy Barnett
Nona Westmoreland
Judy Albin
Bruce Janet

063099RestrictedFundResponse