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**LALLIE KEMP MEDICAL CENTER  
HEALTH CARE SERVICES DIVISION  
LOUISIANA STATE UNIVERSITY MEDICAL CENTER  
STATE OF LOUISIANA  
Independence, Louisiana**

**Management Letter  
Dated May 14, 1998**

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 and at the office of the parish clerk of court.

**May 27, 1998**



BARBARA KULLING D. CPA, CFE  
LEGISLATIVE AUDITOR

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May 14, 1998

**LALLIE KEMP MEDICAL CENTER**  
**HEALTH CARE SERVICES DIVISION**  
**LOUISIANA STATE UNIVERSITY MEDICAL CENTER**  
**STATE OF LOUISIANA**  
Independence, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1998, we conducted certain procedures at Lallie Kemp Medical Center. Our procedures included (1) a review of the medical center's internal controls; (2) tests of financial transactions for the years ending June 30, 1998, June 30, 1997, and June 30, 1996; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the years ending June 30, 1998, June 30, 1997, and June 30, 1996; and (4) a review of compliance with our prior report recommendation.

The Annual Fiscal Reports of Lallie Kemp Medical Center 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 medical center's accounts, within the Louisiana State University Medical 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 medical center personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvements. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior report on Lallie Kemp Medical Center, we reported findings relating to revenue controls, personnel and payroll functions, purchasing controls, and on-line data entry system. These findings have been resolved by management.

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

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#### Meals Provided Without Charge

During fiscal years 1996 and 1997, Lalie Kemp Medical Center provided approximately 3,545 meals to its employees at no charge in violation of Article VII, Section 14(A) of the 1874 Louisiana Constitution and Louisiana State University Health Care Services Division (HCSD) policy. Article VII, Section 14(A) states, in part, that the funds, credit, property, or things of value of the state shall not be loaned, pledged, donated to or for any person, association, or corporation, public or private. HCSD policies allow free meals only for employees on travel status or in conjunction with training or educational expense and any exceptions must have prior approval by the HCSD.

During 1996 and 1997, the medical center provided its employees with free meals on Thanksgiving Day, Christmas Day, and Employee Day. In addition, the medical center allows its food service workers to be served free meals daily. None of these free meals are allowed under HCSD policy nor was any approval for these meals granted by the HCSD. The cost of these free meals totaled approximately \$40,300.

Because management of the medical center was unaware that providing these free meals was not allowable, the medical center is in violation of Article VII, Section 14(A) and HCSD policy.

Management of Lalie Kemp Medical Center should discontinue providing meals at no charge to its employees, except as allowed by HCSD policy. In a letter dated March 17, 1998, Mr. LeVert Meades, Administrator, concurred with the finding and recommendation. He also stated that, upon being informed of this finding, all free meals were stopped and that all meals served shall comply with HCSD and Division of Administration policies.

#### Inadequate Inventory Controls

Lalie Kemp Medical Center has not established adequate internal controls over inventory. Adequate internal controls over inventory include procedures to ensure that (1) the valuation and disposition of inventory is accurately reflected in the accounting records; (2) the amounts recorded in the financial statements are materially correct; and (3) the errors in processing transactions are recognized and corrected timely. In addition, adequate segregation of duties is necessary to safeguard assets from theft and abuse.

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During our review of internal controls over the warehouse, central supply, and pharmacy inventory, we determined the following:

- The annual physical counts of inventory for the warehouse, central supply, and pharmacy are conducted by persons who have custody of the assets and who are also responsible for recording inventory issues and receipts.
- There is no supervisory review of the "Stores Issues Summary Form" used to adjust warehouse inventory in the Government Financial System.
- Requisition slips are not completed for all inventory items issued from the central supply inventory as required by medical center policies and procedures.

These conditions exist because management has not placed sufficient emphasis on adequate inventory controls. Failure to establish adequate controls increases the risk that errors or fraud could occur and not be detected timely.

Management of Lallie Kemp Medical Center should implement policies or procedures to ensure that:

- Independent persons perform test counts and/or observe the annual inventory conducted by the pharmacy, warehouse, and central supply.
- The warehouse supervisor reviews and approves the "Stores Issues Summary Form."
- Requisition slips are completed for the issuance of all central supply inventory items in accordance with medical center policy.

In a letter dated March 17, 1988, Mr. Lelvern Masdes, Administrator, concurred with the findings and recommendations. In addition, he stated that policies were written and incorporated to:

- Have independent personnel do spot audits of actual inventory counts
- Provide for supervisory approval of the "Stores Issues Summary Form"

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- Ensure requisition slips or similar authorizations are used to document supplies issued from central supply.

### Patient Account Credit Balances

Lallie Kemp Medical Center has not instituted internal control policies and procedures to ensure that outstanding patient credit balances, which result from overpayments by patients and insurance companies, are reviewed and liquidated on a timely basis. At November 22, 1997, the medical center had 4,114 credit balances totaling \$203,109 in patient accounts that have not been refunded or reviewed to determine ownership.

Good internal controls require management to establish policies and procedures to record transactions timely and accurately. In addition, Louisiana Revised Statute (R.S.) 9:154 states that any monies due and payable for more than one year is presumed abandoned and must be reported to the Department of Revenue and Taxation.

Ownership of the current credit balances should be determined, the monies should be returned to the rightful owners, and all credit balances more than one year old should be reported to the Department of Revenue and Taxation. In a letter dated March 17, 1998, Mr. LeVern Masdes, Administrator, concurred with the finding and recommendation and stated that all accounts with credit balances will be worked and corrected within 30 days from the date of generation.

### Weaknesses in Electronic Data Processing Controls

Lallie Kemp Medical Center has not established adequate internal controls over electronic data processing (EDP). An adequate system of internal control requires that (1) employees be permitted access only to the data files and programs necessary to perform their duties; (2) duties be segregated so that no one employee is in a position to both initiate and conceal errors or fraud; and (3) periodic verifications be performed to ensure the integrity of the data within the system.

Tests of the medical center's EDP controls identified the following weaknesses:

#### Uniform Payroll System (UPS)

- The medical center failed to conduct periodic verifications of leave reports, time entry reports, or reports that show new and terminated employees and employee adjustments. Of eight overtime entries examined by us, two were coded incorrectly to the UPS.

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**Shared Medical System (SMS)**

- The medical center has not enforced its policy to revoke user access to patient information when employees are terminated. Of the 30 active user identification codes tested, 13 were terminated employees that should have had their user access revoked.
- Two of 18 financial class changes made in SMS to free care were not approved by the supervisor, and there were no written comments entered on the billing system as to why the financial classes were changed.
- For 20 payments in SMS, there was no documentation to determine if the person who posted the payments was someone other than the person who collected the funds.

These conditions occurred because management has not placed sufficient emphasis on establishing controls over the EDP function. Failure to establish adequate controls in an on-line data entry environment could result in the loss of data, inconsistent use of on-line data entry procedures, and increased risk that errors or fraud could occur and not be detected in a timely manner.

Management of the medical center should develop procedures for periodic validations of data entry in UPS. For the SMS, management should develop procedures to ensure the timely deletion of access to terminated employees. In addition, management should fully document the approval of financial class changes made in SMS to free care and should adequately document the appropriate segregation of collecting and posting payments to SMS records. In letters dated March 17, April 7, and May 1, 1999, Mr. LeVern Meades, Administrator, concurred with the findings and recommendations. In addition, he stated that policies have been drafted and incorporated to address the recommendations noted.

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the medical center. The varying nature of the recommendations, the implementation costs, and the potential impact on operations of the medical center should be considered in reaching decisions on courses of action.



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This report is intended for the information and use of the medical center 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,



Daniel G. Kyle, CPA, CFE  
Legislative Auditor

LOC/THC:dj

6/2/99