

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

University Medical Center  
Health Care Services Division  
Louisiana State University  
Health Sciences Center  
State of Louisiana  
Lafayette, Louisiana

September 4, 2002



***Financial and Compliance Audit Division***

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

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**UNIVERSITY MEDICAL CENTER  
HEALTH CARE SERVICES DIVISION  
LOUISIANA STATE UNIVERSITY  
HEALTH SCIENCES CENTER  
STATE OF LOUISIANA  
Lafayette, Louisiana**

Management Letter  
Dated July 18, 2002

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.

September 4, 2002



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

DANIEL G. KYLE, PH.D., CPA, CFE  
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July 18, 2002

**UNIVERSITY MEDICAL CENTER  
HEALTH CARE SERVICES DIVISION  
LOUISIANA STATE UNIVERSITY  
HEALTH SCIENCES CENTER  
STATE OF LOUISIANA  
Lafayette, Louisiana**

As part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2002, we considered the University Medical Center's internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested the medical center's compliance with laws and regulations that could have a direct and material effect on the System's financial statements as required by *Government Auditing Standards*. In addition, we considered the University Medical Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program, as defined in the Single Audit of the State of Louisiana, and we tested the medical center's compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by the U.S. Office of Management and Budget Circular A-133.

The financial information provided to the Louisiana State University System by the University Medical Center is not audited or reviewed by us, and, accordingly, we do not express an opinion on that financial information. The medical center's accounts are an integral part of the Louisiana State University System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on the University Medical Center for the year ended June 30, 2000, we reported a finding related to inadequate control over movable property. That finding is addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2002.

**Payroll/Personnel Internal Control Weaknesses**

The University Medical Center (UMC) does not have adequate internal control procedures to ensure that payroll transactions are valid, authorized, and correctly input into the payroll system and that all aspects of state law and Civil Service regulations are followed. Good internal control requires that adequate procedures be in place to ensure that (1) supporting documentation for time worked and leave taken and paid to employees is maintained; and (2) compliance with laws and regulations applicable to the payroll account balance/class of transactions is followed.



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Audit procedures identified the following weaknesses in control procedures:

1. Two of 24 employees (8%) tested did not sign the Pay Report as certification of time worked. Civil Service Rule 15.2 requires that classified employees certify the number of hours of attendance or absence from duty in the time and attendance records.
2. Two of 24 employees (8%) had supporting time and attendance documentation that did not agree with the payroll register. One of these employees was overpaid \$577. Because certain written documentation of hours worked had been destroyed, it could not be determined if the second employee had also been overpaid.

Subsequent inquiries into the medical center's policy regarding the retention of written payroll records, such as those needed when employees neglect to use the electronic time-keeping system, disclosed that only 40% of the 35 responding departments retain handwritten payroll records for three years as required by Louisiana Revised Statute (R.S.) 44:36. The remaining 60% of the departments do not maintain the written payroll records at all or they maintain them for periods of less than three years.

These conditions occurred because UMC lacks effective written policies and procedures to ensure that proper payroll documentation is maintained and reviewed to ensure that employees are correctly paid for time worked and leave taken. The lack of adequate control procedures subjects the medical center to noncompliance with state rules and regulations and increases the risk that payroll/personnel related errors and/or fraud could occur and not be detected in a timely manner.

UMC should ensure that payroll transactions are valid, authorized, and correctly input into the payroll system and that all aspects of state law and Civil Service regulations are followed. A uniform record retention policy should also be developed immediately. Management concurred with the finding and recommendations and outlined a corrective action plan (see Appendix A, page 1).

**Noncompliance With Patient  
Admissions Law**

UMC did not comply with state law for patient admissions relating to documentation of the patient's ability to pay. R.S. 46.7 states that before any person is admitted to any state hospital, a questionnaire must be completed to determine the patient's financial ability to pay. R. S. 46.6 states that if a person is found not to be medically indigent or needy, then the patient will be assessed a reasonable charge based on ability to pay.

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UMC uses the Patient Information Record (PIR) to determine the patient's ability to pay. A review of 17 patient bills disclosed that six patients (35%) did not have a current and complete PIR on file. This condition occurred because of the large number of patients being screened and receiving treatment at UMC. Failure to have current and complete PIRs increases the risk that an incorrect financial classification will be assigned to the patient and patient charges will be assessed incorrectly.

Management of the medical center should implement policies and procedures to ensure it is in compliance with state law relating to documenting the patient's ability to pay. Management concurred with the finding and recommendations and outlined a corrective action plan (see Appendix A, page 2).

#### **Lack of Control Over Movable Property**

For the second consecutive audit, UMC did not maintain adequate internal control over movable property as prescribed by state law. Good internal control requires that procedures be in place to safeguard assets and to ensure that movable property transactions are recorded in an accurate and timely manner. R.S. 39:325 requires agencies to conduct an annual inventory of movable property and report any unlocated movable property to the Louisiana Property Assistance Agency (LPAA). R.S. 39:323 and Louisiana Administration Code (LAC) 34:VII.307 require that acquisitions be tagged and information forwarded to LPAA within 45 days of receipt of the movable property item(s). In addition, the LAC requires that (1) efforts be made to locate all movable property for which there are no explanations for its disappearance; (2) receipts be obtained from employees entrusted with movable property items; and (3) the location of movable property items be kept current. R.S. 39:324(B) requires the property manager to update the master inventory listing on a monthly basis.

During a review of movable property records for the two years ending June 30, 2002, the following deficiencies were observed:

1. In a test to physically inspect 58 movable property items, 11 (19%) items had incorrect location codes. Five (9%) items were not tagged.
2. In a test of acquisitions, five (50%) of ten items tested were not tagged within 45 days of receipt. Also, the acquisition date per LPAA for seven (70%) items did not agree to the receiving report dates. The cost per LPAA for three (30%) items did not agree to the supporting invoice and payment documentation.

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Management Letter, Dated July 18, 2002

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3. Three (60%) of five items entrusted to medical center employees did not have a form signed by the employee acknowledging receipt of the item.
4. Thirteen (72%) of 18 items tested did not have the internal form required by the medical center for the acquisition or deletion of the item.
5. The following were noted in a review of physical inventories conducted during fiscal years 2001 and 2002 by the Nursing Services Administration unit:
  - a. During the fiscal year 2001 physical inventory, 30 (40%) of 75 items assigned to this unit were not located. During the fiscal year 2002 physical inventory, two (33%) of six items assigned to this unit were not located and were not included on the medical center's unlocated list or discrepancy report. There was no evidence that efforts were made to either explain or follow up on the disappearance of these items.
  - b. The listing of unlocated items submitted by the unit manager during the fiscal year 2002 inventory included 21 items that had been removed from the unit's LPAA records during fiscal year 2001. The listing was a duplicate of the prior fiscal year listing of unlocated items, an indication that a complete inventory was not conducted as prescribed in the inventory instructions.
6. The following were noted in a review of the medical center's annual property inventory certifications submitted to LPAA during fiscal years 2001 and 2002:
  - a. On the January 18, 2001, *Certification of Annual Property Inventory*, acquisitions and items unlocated in 1997 (third year discrepancies) were overstated by \$325,101 and \$52,000, respectively. In addition, the ending inventory was overstated by \$273,110.
  - b. On the *Certification of Annual Property Inventory* dated January 11, 2002, total acquisitions and ending inventory were both understated by \$19,526, and items unlocated in 2001 (current year discrepancies) were understated by \$4,000.



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7. A review of the State Land and Buildings System Report on Changes in Buildings as of June 30, 2001, disclosed that a building addition totaling \$287,037 was erroneously included on the master inventory listing as an equipment item. In addition, management was unable to identify the individual items that comprise the building portion of the plant fund to determine if any other items were reported as both equipment and buildings.

Although the medical center has policies and procedures that contain many elements of a good internal control system, sufficient emphasis has not been placed on adherence to these procedures. Failure to maintain adequate internal control over movable property increases the risk of loss, theft, and misuse of assets and results in noncompliance with state movable property laws and regulations. In addition, failure to maintain an accurate movable property system increases the risk of inaccurate accounting and reporting.

The medical center should require adherence to its policies and procedures to ensure that movable property is safeguarded and accounted for in accordance with state laws and regulations. Management partially concurred with the finding and acknowledged that there were some weaknesses in the internal control over movable property (see Appendix A, page 3).

**Additional Comment:** Before the exit conference on July 18, 2002, we discussed and reviewed the exceptions noted in the above finding with management numerous times. Revisions were made as management provided further explanations and/or additional support. At the exit conference, we again discussed and reviewed with management documentation relating to items 6a and 6b. Management's inability to reconcile its records to the supporting documentation emphasizes the need for the medical center to maintain accurate movable property records.

The recommendations in this letter 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, their implementation costs, and their potential impact on the operations of the medical center should be considered in reaching decisions on courses of action. Findings relating to the medical center's compliance with applicable laws and regulations should be addressed immediately by management.

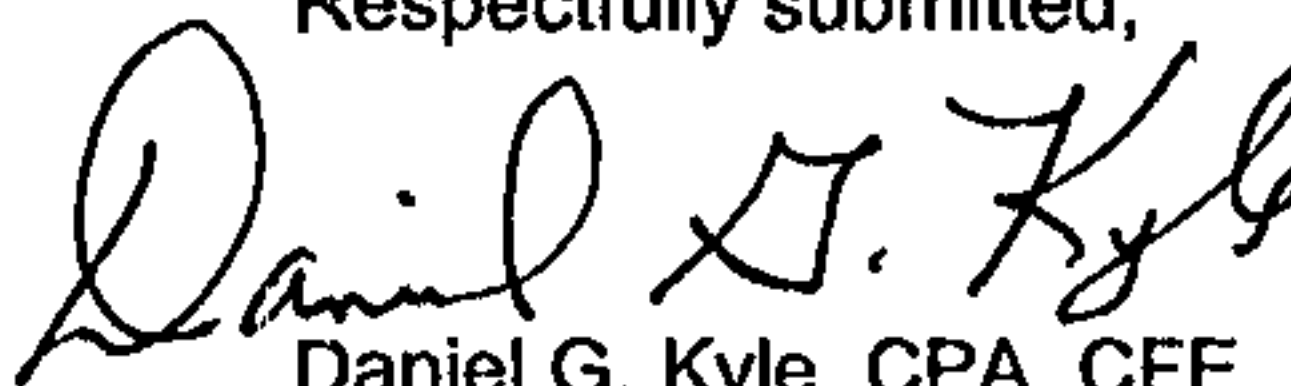


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This letter is intended for the information and use of the medical center and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink that reads "Daniel G. Kyle". The signature is written in a cursive style with a large initial "D".

Daniel G. Kyle, CPA, CFE  
Legislative Auditor

BB:BM:PEP:ss  
[UMC02]

## **Appendix A**

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



**Health Sciences Center**  
HEALTH CARE SERVICES DIVISION

School of Medicine in New Orleans  
School of Medicine in Shreveport  
School of Dentistry  
School of Nursing  
School of Allied Health Professions  
School of Graduate Studies  
Health Care Services Division

May 22, 2002

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

Dear Dr. Kyle:

In response to your letter dated May 14, 2002 regarding the noted reportable finding, we hereby provide the following:

**Audit Finding: Payroll/Personnel Internal Control Weaknesses**

The University Medical Center (UMC) did not have adequate internal control procedures to ensure that payroll transactions are valid, authorized, and correctly input into the payroll system or that all aspects of state law and Civil Service regulations are followed.

**Management's Position:** We concur with the audit finding as noted.

**Corrective Action Plan:** In an effort to strengthen internal controls over payroll transactions, the following steps have been taken:

- On May 7<sup>th</sup>, 2002, there was an upgrade installed in our payroll system, which creates a warning message for 'more than 24 hours'.
- UMC is in the process of scheduling a refresher course for all of its timekeepers to advise them of their responsibility as timekeepers and the liability that they adopt whenever they key in time for employees without supporting documentation. This will also be an opportunity for the timekeepers to inquire about any issues or concerns they may have regarding any other payroll matter. This project will be under the direction of our Payroll Manager, Ms. Sally Sinegal and we are hopeful to have it completed by September 30, 2002.
- UMC's Personnel Policy and Procedure No.7 Subject: Causes for Disciplinary Action states that an employee must properly record his/her time worked, or failure to clock in or out. This policy identifies the levels of infractions and the appropriate action for each occurrence. However, it is evident that greater controls are needed. Our current payroll system is a system-wide system and management plans to discuss this matter with central office to arrive at an appropriate solution to strengthen current controls.

We appreciate your staff's assistance in helping us to improve our operations. If additional information is needed, please feel free to contact me at (337) 261-6001.

Sincerely,



Lawrence Dorsey, Administrator

kgb/LD

CC: Ken Laney, HCSD Internal Audit  
Don Elbourne, HCSD Chief Financial Officer  
Lanette Buie, HCSD Human Resources Director  
Art Landry, HCSD Comptroller  
Sally Sinegal, UMC Payroll Manager  
Denise Fontenot, UMC Acting Human Resources Director  
Karen B. Gardiner, UMC Chief Financial Officer



**Health Sciences Center**  
HEALTH CARE SERVICES DIVISION

School of Medicine in New Orleans  
School of Medicine in Shreveport  
School of Dentistry  
School of Nursing  
School of Allied Health Professions  
School of Graduate Studies  
Health Care Services Division

June 19, 2002

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

Dear Dr. Kyle:

In response to your letter dated May 20, 2002 regarding the noted reportable finding, we hereby provide the following:

Audit Finding: Noncompliance with Patient Admissions Law


The University Medical Center (UMC) did not comply with state law for patient admissions relating to documentation of the patient's ability to pay.

Management's Position: We concur with the audit finding as noted.

Corrective Action Plan: Management has implemented ongoing review of the admission's process to ensure compliance with applicable State Law and HCSD Policy and Procedures as they relate to the compliance of obtaining and safeguarding documentation of patients' ability to pay. It has also been requested that HCSD implement automation technology to efficiently control and manage the large volume of admit screening records.

If additional information is needed, please feel free to contact me at (337) 261-6001.

Sincerely,



Lawrence Dorsey, Administrator

kg/LD

xc: Ken Laney, HCSD Internal Audit  
Don Elbourne, HCSD Chief Financial Officer  
Art Landry, HCSD Comptroller  
Guy LaBauve, HCSD Patient Financial Services  
Karen B. Gardiner, UMC Chief Financial Officer





**Health Sciences Center**  
HEALTH CARE SERVICES DIVISION

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Health Care Services Division

July 29, 2002

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

Dear Dr. Kyle:

The management of LSUHSC-HCSD University Medical Center has reviewed the reportable audit finding regarding moveable property as submitted on July 18<sup>th</sup>, 2002. There are several issues noted that are not consistent with our records. We have expressed our concerns with your staff and have concluded our position regarding these matters below.

**Finding: Lack of Controls Over Movable Property:**

For the second consecutive audit, the University Medical Center did not maintain adequate internal control over movable property as prescribed by state law.

**Management's Position:**

We do not concur with the above noted finding in its entirety. Management received the original notification of such finding on May 28, 2002. After that time, this finding was revised four (4) times and supporting documentation was given to management after the exit conference on Thursday, July 18, 2002. However, since that time we have not been able to reconcile the auditors' supporting documents with records at University Medical Center.

**Corrective Action Plan:**

Management acknowledges that there are some weaknesses in our internal control procedures which governs movable property and takes full responsibility to ensure compliance.

If additional information is needed, please feel free to contact me at (337) 261-6001.

Sincerely,

*Karen B. Gardiner for*  
Lawrence Dorsey, Administrator

kg/LD

- cc: Ken Laney, HCSD Internal Audit
- Don Elbourne, HCSD Chief Financial Officer
- Art Landry, HCSD, Director of Financial Services
- Judy Albin, HCSD Comptroller
- Shelia Bernard-Charles, UMC Property Manager
- Van Thompson, UMC Warehouse Manager
- Karen B. Gardiner, UMC Chief Financial Officer