

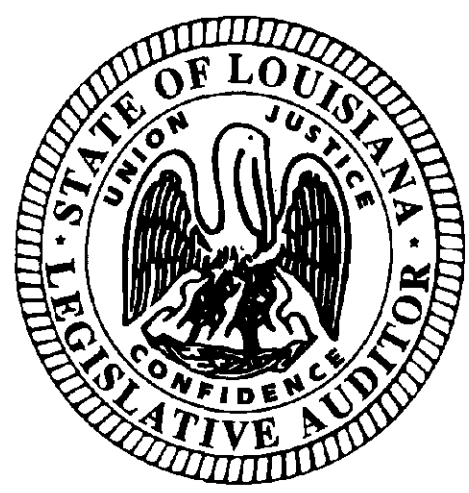
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STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana State University Medical Center
in Shreveport
Shreveport, Louisiana

February 19, 1997



Investigative Audit

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

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

DIRECTOR OF INVESTIGATIVE AUDIT

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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.

**Louisiana State University Medical Center
in Shreveport**

February 19, 1997



**Investigative Audit
Office of the Legislative Auditor
State of Louisiana**

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

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February 19, 1997

DR. MERVIN L. TRAIL, CHANCELLOR
LOUISIANA STATE UNIVERSITY MEDICAL CENTER
Shreveport, Louisiana

Transmitted herewith is our investigative report on the Louisiana State University Medical Center in Shreveport (LSU). Our investigation was conducted in accordance with Title 24 of the Louisiana Revised Statutes and was performed to determine the propriety of certain allegations received by this office.

This report presents our findings and recommendations, as well as the responses of the medical center. Copies of this report have been delivered to authorities as required by state law.

Respectfully submitted,

A handwritten signature in cursive script that reads "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

AFB/ka

[LSU2]

Executive Summary

Investigative Audit Report Louisiana State University Medical Center in Shreveport

The following summarizes the findings and recommendations that resulted from this investigation. Detailed information relating to the findings and recommendations may be found at the page number indicated.

LSU Leases Building for \$1.2 Million Above Operating Cost

(Page 1)

Finding:

Louisiana State University Medical Center in Shreveport (LSU) leases space in the Biomedical Research Institute (Institute) from the Biomedical Research Foundation (Foundation) at an amount greater than the Foundation's cost and greater than the facility's fair market rental value. LSU pays the Foundation \$2.6 million or \$28 per gross square foot annually. Based on the information provided in the financial statements dated December 31, 1995, costs associated with the lease are approximately \$1.4 million, excluding depreciation. The lease provides the Foundation with approximately \$1.2 million in excess cash annually, which is then used at the discretion of the Foundation.

Recommendation:

The Louisiana State University Medical Center in Shreveport should renegotiate its lease with the Foundation to better reflect the operating costs of the Institute and the fair market rental rate of the leased facilities.

Management's Response:

Management concurs with the recommendation of the Legislative Auditor that renegotiation of the terms of the lease with the Biomedical Research Foundation is an acceptable conclusion and will be initiated in the immediate future. In regard to the PET Imaging Center, management states that this center has been in operation since 1995.

LSU Pays \$155,090 for Unfinished Book**(Page 3)**

- Finding:** Louisiana State University Medical Center in Shreveport (LSU) entered into a contract with Dr. Robert Miciotto to author a book on the history of medicine in Shreveport. Dr. Miciotto was paid \$155,090 in salary and benefits over the course of five years to author this book, but the contract was canceled before he was allowed to finish.
- Recommendation:** Management of Louisiana State University Medical Center in Shreveport should determine whether it was appropriate to contract with Dr. Miciotto to write the book and why the contract was canceled before its completion, thereby leaving LSU with an unfinished product.
- Management's Response:** Management does not concur with this finding. The contract in question has been executed and Louisiana State University Medical Center in Shreveport now has a draft of the book and anticipates receiving the final product in 1997. Management is in agreement with the recommendation that closure of this document at an earlier date would have been desirable, but *will be accomplished in the near future.*
-

Background and Methodology

We received several allegations from various sources involving activities occurring at the Louisiana State University Medical Center in Shreveport (LSU). Specifically, the information received indicated that a dentist employed by LSU was practicing anesthesiology without the proper medical license, LSU funds were being improperly diverted to the Biomedical Research Foundation of Northwest Louisiana through excessive rental payments, and various other improper acts. We conducted our investigation to determine the propriety of these allegations.

Our procedures consisted of (1) interviewing employees and officials of LSU; (2) interviewing other persons as appropriate; (2) examining documents and records related to the allegations; (3) making inquiries and performing tests to the extent we considered necessary to achieve our purpose; and (4) reviewing applicable Louisiana laws. The result of our investigation is the findings and recommendations presented herein.

Findings and Recommendations

LSU LEASES BUILDING FOR \$1.2 MILLION ABOVE OPERATING COST

Louisiana State University Medical Center in Shreveport (LSU) leases space in the Biomedical Research Institute (Institute) from the Biomedical Research Foundation (Foundation) at an amount greater than the Foundation's cost and greater than the facility's fair market rental value. LSU pays the Foundation \$2.6 million or \$28 per gross square foot annually. Based on the information provided in the Foundation's financial statements dated December 31, 1995, costs associated with the lease are approximately \$1.4 million, excluding depreciation. The lease provides the Foundation with approximately \$1.2 million in excess cash annually, which is then used at the discretion of the Foundation.

In 1986, the Biomedical Research Foundation of Northwest Louisiana was incorporated as a nonprofit corporation. The purpose of the Foundation was to engage in scientific, educational, and literary purposes directed toward assisting Northwest Louisiana in attracting new industry. One of the goals set by the Foundation was to expand the capacity of LSU in Shreveport.

From 1990 through 1994, the Foundation obtained \$28,287,500 in federal construction grants from the U.S. Department of Energy to construct the Biomedical Research Institute (Institute). In addition, the State of Louisiana provided approximately \$8,750,000 from 1993 to 1996 in equipment grants for research and related equipment. LSU also provided 1.23 acres of land at no cost to the Foundation to construct the Institute on the LSU campus.

On January 28, 1994, the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College and the Foundation entered into a cooperative endeavor to lease seven of the ten floors of the Institute for \$2,628,304 (\$28 per square foot) which includes all utilities and maintenance. The remaining three floors were to be used by the Foundation. Of the three floors occupied by the Foundation, one was to be used strictly for office space, one for an incubator facility, and one for a Positron Emission Tomography (PET) scanner facility.

The Foundation's total cost associated with the lease, excluding depreciation, was only \$1,358,518 or \$14.47 per square foot. Based on the Foundation's 1995 financial statements, the Foundation's direct cost, excluding depreciation, associated with the medical center's lease was \$811,165. Because LSU leased 73 percent of the Institute's total space, 73 percent or \$547,353 of the Foundation's management cost is also allocable to the Foundation's cost

associated with the lease. Therefore, the Foundation's total cost associated with the lease, excluding depreciation, was \$1,358,518 or \$14.47 per square foot. At the current lease amount of \$2,628,304, the Foundation receives approximately \$1,269,786 above the operating cost it incurs.

The Foundation also considers depreciation expense, a non-cash expense, of \$966,222 allocable as a cost associated with the lease. Depreciation is normally used for the purpose of cost recovery or to spread the cost of an asset over a period of time. Because the funds used to build and equip the Institute and the land on which the Institute was built was provided by the state and federal government, the Foundation has no cost to recover. In addition, the Foundation has not set aside the excess funds for repair or replacement of the building or equipment.

Mr. Bill Silvia, Vice President for Administration and Finance of the LSU System, and Dr. Allen Copping, President of the LSU System, assisted in the lease negotiation. According to Mr. Silvia, when the agreement of \$28 per square foot was reached, he believed it fair because the Foundation was to allow LSU access to the PET facility and give LSU ten percent of all income from the Foundation's incubator tenants. The PET facility is not operating and, therefore, of no benefit to LSU. Also, the incubator facility never materialized; therefore, LSU received no income. Mr. Silvia and Dr. Copping also stated that LSU believed it would be receiving research grants from the Foundation funded by any rental payments in excess of the Foundation's costs. However, according to the Foundation's records, research grants of only \$129,201 and \$200,814 were provided to LSU during 1995 and 1996. According to Mr. Jim Dean, Vice President for Finance for the Foundation, the Foundation has \$1,238,773 available for grants to LSU in 1997.

Several individuals did studies on behalf of LSU to establish an acceptable lease rate. Upon examining these studies, as well as contacting other non-profit biomedical research facilities in Portland, Oregon; Birmingham, Alabama; Salt Lake City, Utah; and Springfield, Illinois, we found that rents ranged from \$11 per square foot in Birmingham, Alabama, to \$18 per square foot in Springfield, Illinois, both cities with a higher cost of living than Shreveport. All entities contacted explained that there is no profit involved in their lease amounts and the leases are inclusive of utilities and maintenance. In addition, we also spoke with two commercial real estate agents in the Shreveport area. The agents indicated that medical and lab space in Shreveport usually rents between \$10 and \$15 per square foot.

In June 1995, the lease between LSU and the Foundation was renegotiated. Under the new lease, LSU receives use of another floor in the Institute at no additional charge. This floor was originally designated to house biotech businesses. However, the floor was not rented. As a result of this increased space, LSU's effective rental rate was reduced from \$28 to \$24.65 per square foot. However, the lease continues to provide the Foundation with approximately \$950,000 above the operating cost of the Institute.

We inquired of Mr. Jim Dean as to why the Foundation, a non-profit corporation, is making a profit on the LSU lease. He responded that all non-profit corporations are profit driven.

Since the Foundation chooses to consider depreciation an expense associated with the lease, we asked Mr. Dean if the Foundation is setting aside the lease profits for replacement/repair of existing facilities. He stated that they are not and the Foundation is under no obligation to do so. He added that the Foundation does have cash reserves for emergencies. A review of the Foundation's December 31, 1995, financial statements disclosed a cash and cash equivalents balance of \$4,380,841.

The Louisiana State University Medical Center in Shreveport should renegotiate its lease with the Foundation to better reflect the operating costs of the Institute and the fair market rental rate of the leased facilities.

LSU PAYS \$155,090 FOR UNFINISHED BOOK

Louisiana State University Medical Center in Shreveport (LSU) entered into a contract with Dr. Robert Miciotto to author a book on the history of medicine in Shreveport. Dr. Miciotto was paid \$155,090 in salary and benefits over the course of five years to author this book, but the contract was canceled before he was allowed to finish.

On February 1, 1992, Louisiana State University Medical Center entered into a contract with Dr. Robert Miciotto for the purpose of writing a history of medicine in Shreveport. The contract granted Dr. Robert Miciotto the title of Visiting Scholar. He was assigned an office and equipment at the Noel Memorial Library on the campus of Louisiana State University at Shreveport.

Dr. Laurene E. Zaporozhetz of the Noel Memorial Library addressed a letter to Dr. Miciotto informing him of his duties and obligations of his employment. The letter indicated to Dr. Miciotto that he was to allocate 60 percent of his time to the book and 40 percent of his time assisting in the processing of archival collections for the library. However, the library paid no portion of his salary and in no part of the contract does it allow Dr. Miciotto to work 40 percent of the time for the library.

Dr. Zaporozhetz stated that she had informed the medical center of Dr. Miciotto's duties at the library. However, officials at the medical center stated that they were not aware that Dr. Miciotto was working for the library.

During June 1996, while we were examining the circumstances of this arrangement, the contract between the medical center and Dr. Miciotto was terminated. Dr. Miciotto stated that Dr. Zaporozhetz approached him and informed him that his contract had been changed. He said that he now works exclusively for the library and is no longer associated with the Louisiana State University Medical Center.

Dr. Miciotto stated that he has not finished the book and no one from LSU has approached him concerning the book. According to Dr. Miciotto, if he finishes the book it will be done on his own time. As a result, LSU used \$155,090 of its funds with minimal or no benefit realized for the medical center.

Management of Louisiana State University Medical Center in Shreveport should determine whether it was appropriate to contract with Dr. Miciotto to write the book and why the contract was canceled before its completion, thereby leaving LSU with an unfinished product.

Attachment I

Management's Responses

In addition to his response to our findings, Dr. Trail submitted various exhibits. Because of the volume and nature of the exhibits provided by Dr. Trail, we were unable to include them in our report. However, copies of these documents are available for inspection at the Baton Rouge office of the Legislative Auditor.

**LOUISIANA STATE UNIVERSITY
MEDICAL CENTER**

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Office of the Chancellor

February 13, 1997

Dr. Daniel G. Kyle
Legislative Auditor
Office of Legislative Auditors
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

I have enclosed with this correspondence my response to the Investigative Audit of the LSU Medical Center Shreveport Campus. Included also are the relative documents (Attachments) that are to be used as a part of this response.

I want to specifically express my appreciation to Allen Brown and Dale Purpera who headed up this investigative audit team. The work done by these individuals and staff was intensive and yet I think very fair. I sincerely appreciated the opportunity to participate in the exit interview process regarding this audit and hope that the dialogue exchange was helpful to all present.

Dr. Kyle, I also want to personally thank you for your patience and interest in this and other matters that I have had the opportunity to review with you in my short term as Chancellor of the LSU Medical Center. This all has been a very new and yet challenging experience for me and I appreciate your patience and counsel.

Kindest personal regards,



Mervin L. Trail, M.D.
Chancellor

MTL/bbs

cc: Dr. Copping
Bill Silvia
Ronnie Smith
Harold White

AUDITORS' FINDING

1. "Louisiana State University Medical Center Shreveport (LSU) leases space in the Biomedical Research Foundation (Foundation) at an amount greater than the Foundation's cost and greater than the facility's fair market rental value. LSU pays the Foundation \$2.6 million or \$28 per gross square foot annually. Based on the information provided in the financial statement dated December 31, 1995, costs associated with the lease are approximately \$1.4 million, excluding depreciation. The lease provides the Foundation with approximately \$1.2 million in excess cash annually which is then used at the discretion of the Foundation."

LSUMC-S' RESPONSE

1. Early in the first quarter of calendar 1996, representatives of LSUMC-S and the Biomedical Research Foundation met to review the initial agreement between the parties. At that time the administration of the Medical Center made it clear to the Foundation that LSUMC would be seeking changes to the initial agreement. These changes would be: (1) the increased return of revenues to the Medical Center and its faculty for clinical and basic science research; and (2) the provision of additional space without additional cost which would result in a lowering of the average rental rate per square foot.

The Foundation responded by providing an additional floor--the entire second floor which he been intended to be used by the Foundation for an incubator facility--for clinical cancer research without additional cost to LSUMC.. As a result of obtaining this additional space at no additional cost, the overall average rate per square foot was reduced to \$24.65, or a reduction of 12%. Additionally, the Foundation has included within its 1997 budget and will make available to LSUMC's faculty \$1.2 million for research.

2. In direct response to the rental rate per gross square foot , LSUMC-S feels that this finding may be arguable, although not unreasonable. There is no comparable research space in the Shreveport area as was leased to LSUMC-S by the Foundation. This is sophisticated high technology space with specific design and environmental requirements. As was noted in prior correspondence from the Foundation to the audit team, space found in other research centers and facilities was rated comparable and also rental rates were comparable to that obtained in Shreveport. This documented research data is to be compared with the response of inquiries by the investigative unit. It is not entirely clear if indeed comparative figures are based on the same type of inquires that was done by the Foundation. (See Attachment I, letter from Mr. James Dean)

Although the management of LSUMC-S feels there may be some give and take in the rental rate, it should be stressed that we concur with the recommendation of the investigating unit that renegotiation of the terms with the Biomedical Research Foundation in this regard is an acceptable conclusion and will be initiated in the immediate future. It is anticipated that additional details will be obtained from the

comparable sites as listed by the Foundation and those obtained by the investigative team (obtained from an E-Mail inquiry over the Internet - Attachment II).

3. In reference to the PET Imaging Center located in the Biomedical Research Institute, the auditors' report stated "the PET facility is not operating and, therefore, of no benefit to LSU". LSUMC-S strongly wishes to emphasize that this is an extremely valuable piece of technology (research and clinical) that holds great promise and indeed provides great hope even today for those who have need of its service. Contrary to the assertion, the PET Imaging Center has been in operation by the Foundation since 1995. By April 22, 1996 one hundred patients had undergone procedures (See Attachment III, article from the Times).

The difficulties that have arisen from the operation of this have been technical from a manufacturing and implementation process and have gradually been resolved. As with any new technology in today's health care marketplace there has been significant delay from both federal and state and commercial levels for cost reimbursement for utilization of this technology.

This nonetheless does not diminish the value, and if one will truly look at this investigative and clinical tool in the right light, it is clear that they will see a sophisticated imaging device, a life saving device, and ultimately a cost saving device. As a partner with the Foundation, LSUMC-S feels that this is a most worthwhile research and clinical tool whose uses and value seem almost limitless at this time particularly in the area of Oncology, Neurology and Cardiology.

4. As a concluding comment on the relationship between LSUMC-S and the Biomedical Research Foundation (Institute), it should be emphasized that this is a most unique and opportunistic union of an academic health center and the community and state it serves. This public/private partnership was born of hope and has continued on a course of conquest of illnesses that plague the people of Louisiana. It is a facility that without such cooperative effort of the community, private sector, and the academic health center would have deprived many people now and into the future of its many accomplishments.

One needs only to look at the accomplishments of the PET and others such as the Robotics that have resulted from this cooperative endeavor. (See enclosure from Times, Attachment IV) In addition there have been initiatives of collaborative efforts from surrounding institutions such as LSU-S and Centenary College. Like many new, technical, and sophisticated projects there have been successes and disappointments but in a global context one would have to evaluate this cooperative endeavor as highly successful.

In summary, LSUMC-S had already identified the issues noted in the findings of the investigate team and had taken steps to make the appropriate refinement to the initial agreement.

AUDITORS' FINDING

1. "Louisiana State University Medical Center in Shreveport (LSU) entered into a contract with Dr. Robert Miciotto to author a book on the history of medicine in Shreveport. Dr. Miciotto was paid \$155,090 in salary and benefits over the course of five years to author this book, but the contract was canceled before he was allowed to finish".

LSUMC-S' RESPONSE

1. The management of LSUMC-S does not concur with this finding. The contract is between Louisiana State University Medical Center and Louisiana State University in Shreveport wherein Dr. Miciotto, an archivist and an assistant professor in the Library at LSU-S, was assigned to write the history of medicine in Shreveport which was to include the Charity Hospital System, early beginnings of the Medical School, and the merging of the Confederate Memorial Hospital and Louisiana State University Medical. The contract stated that LSUMC-S would pay LSU-S a total payment not to exceed \$36,000 per year (See Attachment V, Contract with LSU-S).
2. The issue regarding Dr. Miciotto's time split on campus is the responsibility of LSU-S, not Dr. Miciotto. The current administration of LSUMC-S made several personal inquiries to the leadership of this sister institution regarding the performance and participation of Dr. Miciotto and was assured on all occasions that he was a very productive, resourceful and useful individual in their library and archives system. It should be strongly noted that the current Chancellor initiated a status report with Dr. Miciotto in the summer of 1995 (well before this inquiry) and subsequently obtained a response from Dr. Miciotto relating to the completion of this document (See Miciotto letter Attachment VI).
3. LSUMC-S feels that it is an important part of our heritage and our history to chronicle these events relating to medicine in north Louisiana, the Charity Hospital System, and the emergence of the LSU School of Medicine and its relationship to the community, state and Confederate Memorial Hospital. Dr. Miciotto's charge was to perform these duties which he has done. It is stressed that the leadership of the LSU Medical Center has pursued this project with the firm intent that it will lead to a successful conclusion. Thus, the investigative statement that no one had approached Dr. Miciotto regarding this book is not in agreement with the actual events.

In summary, the contract in question has been properly executed between LSUMC-S and LSU-S. LSUMC-S now has a draft of the book and anticipates receiving the final product in July 1997 (See Miciotto letter Attachment VII). LSUMC-S is in agreement with the recommendation that closure of this document at an earlier date would have been desirable, but this will indeed be accomplished in the very near future.