STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Medical Center of Louisiana at New Orleans
Louisiana State University
Health Sciences Center
Health Care Services Division
State of Louisiana
New Orleans, Louisiana

December 31, 2002

Financial and Compliance Audit Division

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

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MEDICAL CENTER OF LOUISIANA AT NEW ORLEANS
LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER
HEALTH CARE SERVICES DIVISION
STATE OF LOUISIANA
New Orleans, Louisiana

Management Letter
Dated December 6, 2002

December 31, 2002

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

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December 6, 2002

MEDICAL CENTER OF LOUISIANA AT NEW ORLEANS
LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER
HEALTH CARE SERVICES DIVISION
STATE OF LOUISIANA
New Orleans, 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 Medical Center of Louisiana at New Orleans' 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 Medical Center of Louisiana at New Orleans' 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 United States Office of Management and Budget Circular A-133.

The financial information provided to the Louisiana State University System by the Medical Center of Louisiana at New Orleans 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 an opinion.

In our prior management letter on the Medical Center of Louisiana at New Orleans for the year ended June 30, 2001, we reported findings relating to inaccurate patient charges and inadequate controls over movable property. Those findings are 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's 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.

Inaccurate Patient Charges

For the fifteenth consecutive year, the Medical Center of Louisiana at New Orleans has not completed the development and implementation of effective procedures required to accurately record patient charges and timely process patient bills. Although most earned revenues are generated on a fixed amount or negotiated rate basis, an adequate system of internal control requires the recording of complete and accurate patient charges.

Except for self-pay patients, patient charges are not used as a basis to generate revenues. Most patient service revenues are earned from the treatment of patients covered by Medicare, Medicaid, and commercial insurance. Revenues from those programs are not generated by the patient charges system but are on a fixed amount or negotiated rate basis. Nevertheless, Medicare, Medicaid, and commercial insurance companies require summary and/or itemized billing information. For the purpose of testing the accuracy of those summary or itemized bills, the medical center's Coding and Revenue Enhancement Department was requested to audit 35 bills totaling $290,193. Those audits by the Coding Department revealed inaccuracies in 35 (100%) of the 35 bills. Thirty-four bills contained undocumented charges (overcharges) totaling $28,287 (9.75%). Also, undercharges or unbilled charges on 31 of the bills totaled $20,154 (6.95%).

In addition, eight (23%) of the 35 bills examined were not produced timely. Initial billings were prepared in excess of 30 days following discharge ranging from 37 days to 73 days after discharge. In a separate examination of Medicare and Medicaid inpatient charges, five (21%) of the 24 inpatient bills were not produced timely, ranging from 48 days to 172 days after discharge. A further review of patient bills for the last two months of the fiscal year revealed that only one of ten bills was not issued timely (39 days after patient's discharge date).

As a result of these deficiencies, management has no assurance that the patient accounting system accurately reflects charges for services performed nor that patient bills are timely generated.

Management of the medical center should establish policies and procedures that ensure accurate recording of patient charges and continue its efforts to timely process patient bills. Management of the medical center generally concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

Inadequate Controls Over Movable Property

For the fifth consecutive year, the Medical Center of Louisiana at New Orleans did not maintain adequate internal controls over movable property as prescribed by the commissioner of administration and Louisiana law. Louisiana Revised Statute (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). Louisiana Administrative Code (LAC) 34:VII.313 states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance. In addition, R.S. 39:323 and LAC 34:VII.307 require that acquisitions be tagged and information forwarded to LPAA within 60 days of receipt of the movable property item(s). We observed the following deficiencies in movable property records:

- The medical center has devoted considerable effort and resources in trying to locate movable property, and this has resulted in reducing total unlocated movable property from approximately $10.5 million in fiscal year 2001 to $5.6 million in fiscal year 2002. However, its Certification of Annual Property Inventory dated June 30, 2002, reports that the medical center could not locate movable property valued at $1.8 million for the fiscal year 2002, and movable property valued at $3.8 million was unlocated from the previous three years.

- In a review of 174 movable property items acquired and added to the movable property listing for the period January through June 2002, 53 items (30.46%) totaling $469,896 were not reported to LPAA within 60 days of receipt of the items. The items were reported to LPAA between 70 and 327 days after receipt.

Failure to locate and timely tag all movable property exposes the medical center to possible loss, theft, and misuse of its assets.

The medical center should continue to improve its efforts to locate movable property and should improve its efforts to timely tag and report all movable property. Management of the medical center concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 2-3).

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. The finding relating to the medical center's compliance with applicable laws and regulations should be addressed immediately by management.

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,

Daniel G. Kyle, CPA, CFE
Legislative Auditor

EB:JR:RCL:dl

[MCLNO02]

Appendix A

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

LSU Health Sciences Center

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

November 13, 2002

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Response to the Legislative Auditor Findings
Medical Center of Louisiana at New Orleans
Inaccurate Patient Charges

Dear Dr. Kyle:

We concur with the findings that the Medical Center of Louisiana at New Orleans has not completed the development and implementation of effective procedures required to accurately record patient charges. We do not concur with the findings that MCLNO have not developed and implemented procedures to timely process patient bills.

The percent of under and over charges would be greatly reduced if we were to have a more automated system for charging, most charges at MCLNO are entered though a manual process. Unfortunately an automated system for charging would cost millions of dollars, which MCLNO cannot expend at this time. And which cannot be justified based on the fact that very little additional revenues would be generated from more accurate charging as stated in your audit findings. We have trained employees responsible for charging on the proper procedures to follow and continue to do so on an ongoing basis. As noted in the findings the percentage of under charges has dropped to less than 7% of charges in the sample tested. The over charges, for the most part, we believe are caused not by charges for services not received, but by services not documented in the patients records. This is a difficult problem to solve because of the large number of staff doctors, residents and others responsible for documentation that change on a regular basis. It should be noted, that even with the problems of training doctors and residents to maintain proper documentation, our over charge percentage of the sample was less than 10%.

The findings also indicated that billing was not being completed in a timely manner. I must agree with this finding at the beginning of the State fiscal year when unbilled days reached a high of 43 days. But as noted by your report by the end of the year changes had been made and the unbilled days have dropped to 5 days. This represents a decrease in unbilled dollars of $50 million.

Respectfully,

Dwayne A. Thomas, M.D.

Dr. Dwayne Thomas
Chief Executive Officer
Medical Center of Louisiana

cc: Bernie Hebert, CFO
Ken Laney, Internal Audit Director
Edward Booker, Auditor-In-Charge

LSU Health Sciences Center

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

October 4, 2002

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Response to the Legislative Auditor Findings
Medical Center of Louisiana at New Orleans
Inadequate Controls Over Movable Property

Dear Dr. Kyle:

Please find below the Medical Center of Louisiana at New Orleans management response to the fiscal year 2001-2002 audit finding relating to inadequate controls over movable property.

Management concurs with the two audit findings:

1. As of September 23, 2002, Property Accounting has identified an additional $203,984 of the $5.6 million reported as 2002 discrepancies to Louisiana Property Assistance Agency. This fiscal year we reported discrepancies of $1.8 million compared to $3.8 million in last fiscal year, which is a difference of $2 million, a (51%) decrease! The Property Accounting staff expects continuous success and lower discrepancies in fiscal year 2003 for the medical center.

2. A new financial software package called PeopleSoft® was implemented in fiscal year 2002 for all LSUHSC-HCSD. Instant information on acquired assets in ISIS was no longer available to Property Accounting and Asset Management module was not going to be implemented until fiscal year 2003. The learning curve on PeopleSoft® took many months to figure out on how to obtain the information on assets without the implementation of PeopleSoft® Asset Management module.

As noted in your report we have located $4.9 million in property that was reported as unlocated in prior years. Management would like to point out that the $1.8 million reported as unlocated in 2002 may have been unlocated in prior years but were not reported correctly. Of the $1.8 million reported as unlocated in 2002 only $126,000 is for equipment purchased in 2000 and 2001. No equipment purchased in 2002 was reported as unlocated. Additionally, of the $5.6 million reported as unlocated for all years, $1.4 million was purchased prior to 1992, $3.2 million was purchased prior to 1997, and only $180,000 was purchased since 2000. The vast majority of the items purchased prior to 1997 were computers that probably were replaced and the old computer trashed and not reported correctly to LPAA. This year Property Management is going to work with departments to document that items reported as unlocated to LPAA have been disposed of and paper work will be submitted to LPAA to remove those items from our records.

Louisiana State University Health Sciences Center
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In order to ensure that MCLNO locates, tags, records and updates LPAA AM18 system for all movable property items timely, the following steps will be taken:

1. Effective September 2, 2002, run weekly queries in PeopleSoft® to get new acquisitions identified and tagged timely. Property Manager will remind staff weekly that this gets done.

2. Reconcile monthly with our Budget Department on all new acquisitions starting in September 2002.

3. Start, complete and certified our 2003 movable equipment inventory from October 2002 through April 2003.

These actions will be the responsibility of Bernie Hebert, CFO-MCLNO and Philip H. Baldwin, Jr., Property Control Director-MCLNO.

Property Accounting enforcement of MCLNO policies and procedures should resolve this finding to the Legislative Auditor's satisfaction and will continue to do so until successfully eliminated.

Respectfully,

Dwayne A. Thomas, M.D.

Dwayne A. Thomas, M.D.
Chief Executive Officer
Medical Center of Louisiana

cc: Bernie Hebert, CFO
Ken Laney, Internal Audit Director
Henry Wallace, Budget Director
Philip Baldwin, Property Accounting Director
Edward Booker, Auditor-In-Charge
John Gilbeaux, LPAA