

LOUISIANA STATE UNIVERSITY  
HEALTH SCIENCES CENTER-NEW ORLEANS  
LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES  
MANAGEMENT LETTER  
ISSUED NOVEMBER 26, 2014

**LOUISIANA LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
BATON ROUGE, LOUISIANA 70804-9397**

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DARYL G. PURPERA, CPA, CFE

**FIRST ASSISTANT LEGISLATIVE AUDITOR**  
**AND STATE AUDIT SERVICES**  
PAUL E. PENDAS, CPA

**DIRECTOR OF FINANCIAL AUDIT**  
THOMAS H. COLE, CPA

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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

November 26, 2014

The Honorable John A. Alario, Jr.,  
President of the Senate  
The Honorable Charles E. "Chuck" Kleckley,  
Speaker of the House of Representatives  
Dr. Larry H. Hollier, Chancellor,  
Louisiana State University Health Sciences Center - New Orleans  
Louisiana State University System

Dear Senator Alario, Representative Kleckley, and Dr. Hollier:

This report includes the results of the procedures we performed at Louisiana State University Health Sciences Center - New Orleans (LSUHSC-NO) for the period from July 1, 2013 through June 30, 2014 to evaluate its accountability over public funds. The procedures are a part of our audit of the Louisiana State University System's financial statements and the Single Audit of the State of Louisiana for the year ended June 30, 2014. I hope the information in this report will assist you in your legislative and operational decision-making processes.

We would like to express our appreciation to the management and staff of LSUHSC-NO for their assistance during our work.

Sincerely,

Daryl G. Purpera, CPA, CFE  
Legislative Auditor

DSG:JPT:EFS:THC:aa

LSUHSC-NO 2014



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# Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

LSU Health Sciences Center - New Orleans

November 2014



Audit Control # 80140084

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## Introduction

As a part of our audit of the Louisiana State University System's (System) financial statements and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2014, we performed procedures at Louisiana State University Health Sciences Center - New Orleans (LSUHSC-NO) to provide assurances on financial information that is significant to the System's financial statements; to evaluate the effectiveness of LSUHSC-NO's internal controls over financial reporting and compliance; and to determine whether LSUHSC-NO complied with applicable laws and regulations.

LSUHSC-NO is a part of the Louisiana State University System and reported an enrollment of more than 2,800 students for the fall 2013 semester. The mission of LSUHSC-NO is to provide education, research, and public service through direct patient care and community outreach. LSUHSC-NO comprises the Schools of Allied Health Professions, Dentistry, Graduate Studies, Medicine, Nursing, and Public Health.

## Results of Our Procedures

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### Current-Year Findings

#### Prohibited Activities within Auxiliary Enterprises

Management and employees within LSUHSC-NO's Auxiliary Enterprises received meals and drinks from LSUHSC-NO Dining Services without paying. An LSUHSC-NO Office of Compliance Programs report, dated October 9, 2014, disclosed that the Acting Executive Director and the Business Manager of Auxiliary Enterprises received food and drinks from the main cafeteria in the Medical Education Building and coffee from the kiosk in the Atrium on a routine basis without paying.

LSUHSC-NO took over the operations of Dining Services, which included the Tiger Den Cafe in the Medical Education Building, the Dental School Cafe, the Atrium Coffee Kiosk, and Campus Catering, effective January 21, 2014.

In addition, the following issues were identified in the report:

- The Acting Executive Director also received meals and drinks without paying at the Tiger Den Cafe and the Atrium Coffee Kiosk before January 21, 2014, when a vendor operated Dining Services under a contract with the LSUHSC-NO.
- Fifteen additional LSUHSC-NO employees received meals and drinks either at that Tiger Den Cafe or the Dental School Cafe without paying since LSUHSC-NO took over the operations of Dining Services.
- There is a lack of written departmental policies and procedures to ensure the Dining Services staff know what is expected in the operations.

These issues above are possible violations of the Louisiana State Constitution of 1974, Article VII, Section 14 (A) Prohibited Uses; Louisiana Revised Statute 42:1115 (Gifts); and the LSUHSC-NO Code of Conduct. As of November 14, 2014, the Acting Executive Director and the Business Manager of Auxiliary Enterprises are no longer employed by LSUHSC-NO. The Director of Dining Services will be reprimanded and given specific objectives and due dates for cafeteria operating improvements and a date for a follow-up performance review. Other cafeteria employees will be reprimanded or terminated.

Management should implement the recommendations made by the Office of Compliance Programs that included taking appropriate disciplinary action on all employees commensurate with the findings; developing, approving, and distributing written policies and procedures regarding employee responsibilities; and conducting periodic documented staff trainings to ensure knowledge of all departmental policies and procedures. Management concurred with the finding and provided a corrective action plan (see Appendix A, page 1).

### **Inadequate Controls over Leave Records**

Management of the LSUHSC-NO School of Medicine in Baton Rouge did not ensure that its employees used the appropriate leave forms and that approval of leave requests was documented by the supervisors. Failure to properly document leave requests and supervisory approval of those requests increases the risk of employees taking unauthorized leave. In addition, inadequate controls over leave records result in noncompliance with LSU System and LSUHSC-NO policies and state regulations.

In April 2014, an email was sent to all Faculty and Staff with an updated *Attendance & Leave Policy* link, updated *Attendance & Leave Procedures* link, and a new *Application for Leave Form* link. Both the policy and the procedures state that an *Application for Leave* form must be used for all leave, and approval of leave should also be documented on the form.

We reviewed the leave records of nine employees of the LSUHSC-NO School of Medicine in Baton Rouge that took leave during the months of April, May, and June of 2014. Four of the nine employees did not have an *Application for Leave* form for any of the leave that was taken during those months. In addition, among the five employees who had *Applications for Leave* forms on file, only one was accurate and complete. Management of the School of Medicine in

Baton Rouge has failed to require the appropriate documentation for leave requests and supervisory approval (or disapproval) of those requests as directed in the April 2014 guidance.

Management should ensure that leave policies are followed by reinforcing with appropriate personnel their responsibilities related to compliance with LSU System and LSUHSC-NO leave policies and state regulations. Management concurred with the finding and provided a corrective action plan (See Appendix A, pages 2-3).

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## **Financial Statements - Louisiana State University System**

As a part of our audit of the System's financial statements for the year ended June 30, 2014, we considered LSUHSC-NO's internal controls over financial reporting and examined evidence supporting certain account balances and classes of transactions as follows:

### **Statement of Net Position**

**Assets** - Due from State Treasury, capital assets

**Liabilities** - Due to State Treasury, other postemployment benefits payable

**Net Position** - Net investment in capital assets, restricted-expendable, restricted-nonexpendable, and unrestricted

### **Statement of Revenues, Expenses, and Changes in Net Position**

**Revenues** - Nongovernmental grants and contracts

**Expenses** - Education and general

Our audit included tests of LSUHSC-NO's compliance with laws and regulations that could have a direct and material effect on the financial statements, as required by *Government Auditing Standards*.

Based on the results of these procedures on the financial statements, we reported findings related to prohibited activities within auxiliary enterprises and inadequate controls over leave records. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

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## **Federal Compliance - Single Audit of the State of Louisiana**

As a part of the Single Audit for the year ended June 30, 2014, we performed internal control and compliance testing on LSUHSC-NO's Student Financial Assistance and Research and Development Clusters of federal programs, as required by the Office of Management and Budget (OMB) Circular A-133. Those tests included evaluating the effectiveness of LSUHSC-NO's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether LSUHSC-NO complied with applicable program requirements. In addition, we performed procedures on LSUHSC-NO's Schedule of Disclosures for Federally Assisted Loans (Schedule 8-2), as required by the OMB Circular A-133.

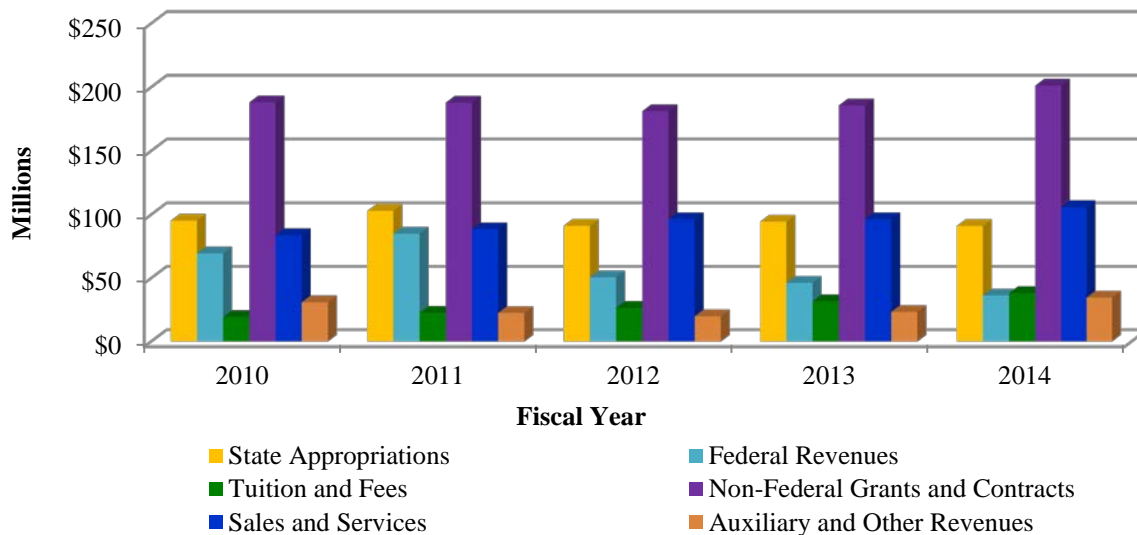
Based on the results of these Single Audit procedures, we did not report any internal control deficiencies or non-compliance with program requirements. In addition, LSUHSC-NO's Schedule 8-2 is materially correct.

## Trend Analysis

We compared the most current- and prior-year financial activity using LSUHSC-NO's annual fiscal reports and/or system-generated reports and obtained explanations from LSUHSC-NO's management for any significant variances. We also prepared an analysis of revenues, expenses, and enrollment over the last five years.

In analyzing financial trends of LSUHSC-NO over the past five years, expenses have remained relatively consistent. Since 2010, tuition and fees have increased by \$18.9 million mainly because of the increases in tuition permitted by the GRAD Act (Act 741 of the 2010 Regular Session of the Louisiana Legislature). In addition, non-federal grants and contracts have increased by \$13.2 million and sales and services of educational departments have increased \$22 million, mainly because of the privatization of the state-owned hospitals and new contracts with private entities. Over that same period, state appropriations have decreased \$4.1 million, and federal revenues have decreased \$33.2 million. However, federal revenues for 2010 and 2011 include State Fiscal Stabilization Funds which were one-time funds received from the federal government that were used to offset reductions in state appropriations. As state appropriations and federal revenues continue to become a smaller portion of total revenues, LSUHSC-NO's operations are becoming more dependent on non-federal grants and contracts revenues and sales and services of educational departments' revenues collected by LSUHSC-NO. Total enrollment for LSUHSC-NO has steadily increased over the last five years.

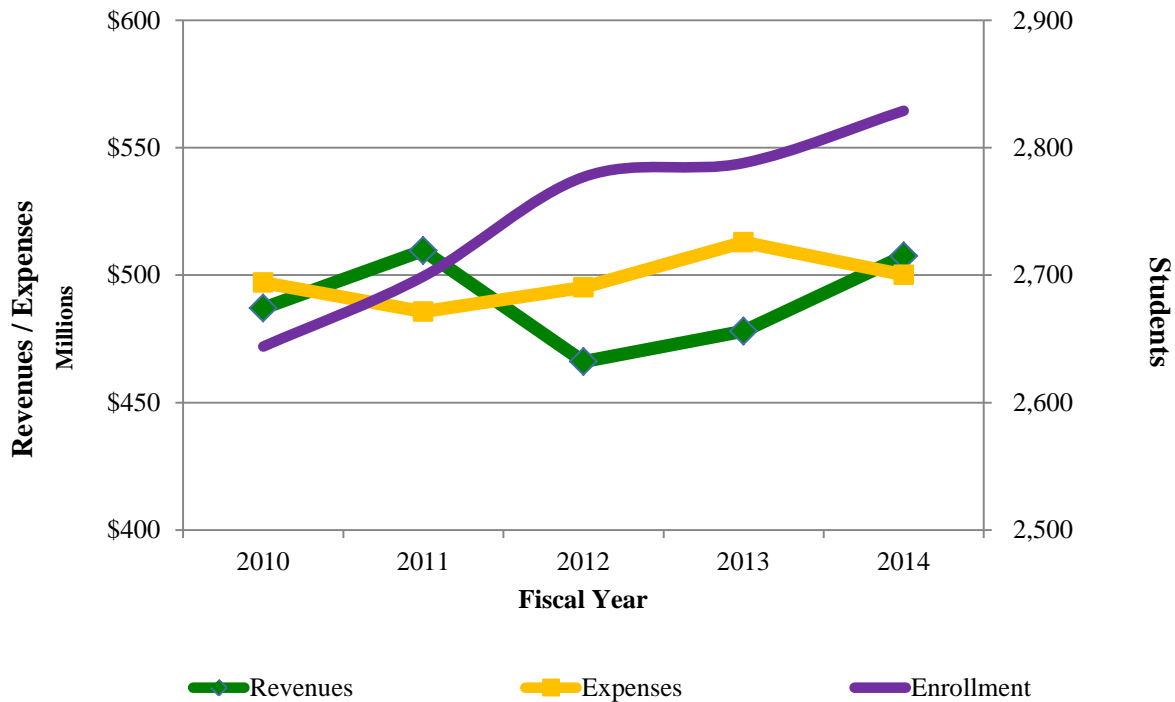
**Exhibit 1**  
**Five-Year Revenue Trend**



**Source:** Fiscal years 2010–2013 LSU System Audit Reports;  
Fiscal year 2014 LSUHSC-NO Annual Fiscal Reports



**Exhibit 2**  
**Fiscal/Enrollment Trends**



**Source:** Fiscal years 2010–2013 LSU System Audit Reports;  
Fiscal year 2014 LSUHSC-NO Annual Fiscal Reports

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of LSUHSC-NO. The nature of the recommendations, their implementation costs, and their potential impact on the operations of LSUHSC-NO should be considered in reaching decisions on courses of action. The findings relating to LSUHSC-NO's compliance with applicable laws and regulations should be addressed immediately by management.

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

## **APPENDIX A: MANAGEMENT'S RESPONSES**



OFFICE OF THE CHANCELLOR

SCHOOL OF ALLIED HEALTH PROFESSIONS  
SCHOOL OF DENTISTRY  
SCHOOL OF GRADUATE STUDIES  
SCHOOL OF NURSING  
SCHOOL OF MEDICINE IN NEW ORLEANS  
SCHOOL OF PUBLIC HEALTH

November 12, 2014

Daryl G. Purpera, CPA, CFE  
Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Purpera,

We are in receipt of the finding regarding "Prohibited Activities Within Auxiliary Services" included in the audit conducted by your office of the LSU Health Science Center-New Orleans (LSUHSC-NO) for the fiscal year ended June 30, 2014. We concur with the finding.

**Corrective Action(s):**

The University will implement the recommendations made by the Office of Compliance Programs as outlined in the original response in that report. This includes, but is not limited to, taking the appropriate disciplinary actions on all employees commensurate with the findings; developing, approving and distributing written policies and procedures regarding employee responsibilities; and conducting periodic documented staff trainings to ensure knowledge of all departmental policies and procedures.

**Anticipated Completion Date:** All corrective actions will be completed by January 1, 2015.

**Contact Person(s):** The contact person responsible for the completion of departmental corrective actions is:

J Pegues, Vice Chancellor for Administration  
Phone: 504-568-5135 Email: [jpegue@lsuhsc.edu](mailto:jpegue@lsuhsc.edu)

As always, we appreciate your comments and recommendations as we know they will improve our operations.

Respectfully,

A handwritten signature in blue ink that reads "Larry H. Hollier, MD".

Larry H. Hollier, MD  
Chancellor

pc: Terry Ullrich  
J Pegues  
Roy Clay  
LaKenya Collins

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OFFICE OF THE CHANCELLOR

SCHOOL OF ALLIED HEALTH PROFESSIONS  
SCHOOL OF DENTISTRY  
SCHOOL OF GRADUATE STUDIES  
SCHOOL OF NURSING  
SCHOOL OF MEDICINE IN NEW ORLEANS  
SCHOOL OF PUBLIC HEALTH

October 14, 2014

Daryl G. Purpera, CPA, CFE  
Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Purpera,

We are in receipt of finding concerning the Inadequate Controls over Leave Records as result of audit conducted by your office of the LSU Health Science Center-New Orleans (LSUHSC-NO) for the fiscal year ended June 30, 2014. We concur with the finding.

**Corrective Actions:**

- 1) The School of Medicine - Baton Rouge campus will develop and distribute departmental procedures to assist in ensuring compliance with LSUHSC Human Resource Management Attendance and Leave Policy and Procedures.

**Anticipated Completion Date:** November 30, 2014

- 2) All School of Medicine – Baton Rouge campus supervisors, timekeepers and employees will be required to review and electronically acknowledge their attendance and leave responsibilities through the University’s online training system (CTMS) on an annual basis. This review will include receipt of the policies and procedures.

**Anticipated Completion Date:** January 31, 2015

- 3) LSUHSC-NO Human Resource Management will conduct a mandatory in-person training regarding Attendance and Leave Policy and Procedures for all School of Medicine - Baton Rouge campus supervisors and Business Managers (timekeepers).

**Anticipated Completion Date:** January 31, 2015

- 4) The School of Medicine – Baton Rouge campus will be one of the first departments/areas to be included in the next phase of decentralization of the leave entry in which leave will not be required to be entered on the voucher but will be entered directly into PeopleSoft by the Department from the Applications for Leave.

**Anticipated Completed Dated: March 31, 2015**

- 5) School of Medicine – Baton Rouge campus management and Business Managers (timekeepers) will complete annual refresher training via the online training system (CTMS).

**Contact Person(s):**

The contact person responsible for the completion of departmental corrective actions is:

Dr. Kevin Reed  
Associate Dean for Baton Rouge Affairs  
Phone: 225-757-4111  
Email: [KReed1@lsuhsc.edu](mailto:KReed1@lsuhsc.edu)

As always, we appreciate your comments and recommendations as we know they will improve our operations.

Respectfully,



Larry H. Hollier, MD  
Chancellor

pc: Terry Ullrich  
J Pegues  
Roy Clay  
LaKenya Collins



## APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at Louisiana State University Health Sciences Center - New Orleans (LSUHSC-NO) for the period from July 1, 2013 through June 30, 2014 to provide assurances on financial information significant to the Louisiana State University System (System) and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The procedures included inquiry, observation, and review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the System's financial statements and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2014.

- We evaluated LSUHSC-NO's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to LSUHSC-NO.
- Based on the documentation of LSUHSC-NO's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on LSUHSC-NO's account balances and classes of transactions to support the opinion on the System's financial statements.
- We performed procedures on the Student Financial Assistance and Research and Development Clusters of federal programs and the Schedule of Disclosures for Federally-Assisted Loans (Schedule 8-2) for the year ended June 30, 2014, to support the 2014 Single Audit.
- We compared the most current- and prior-year financial activity using LSUHSC-NO's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from LSUHSC-NO's management for significant variances.

The purpose of this report is solely to describe the scope of our work at LSUHSC-NO and not to provide an opinion on the effectiveness of LSUHSC-NO's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review LSUHSC-NO's Annual Fiscal Report, and, accordingly, we do not express an opinion on that report. LSUHSC-NO's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.