

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



MANAGEMENT LETTER
ISSUED MARCH 19, 2008

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

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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 and New Orleans offices of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Six copies of this public document were produced at an approximate cost of \$15.06. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.state.la.us. When contacting the office, you may refer to Agency ID No. 3418 or Report ID No. 80070020 for additional information.

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

February 25, 2008

**LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER - NEW ORLEANS
LOUISIANA STATE UNIVERSITY SYSTEM
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, 2007, we considered the Louisiana State University Health Sciences Center - 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 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 Louisiana State University Health Sciences Center - 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 center's compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by U.S. Office of Management and Budget Circular A-133.

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

In our prior management letter on the Louisiana State University Health Sciences Center - New Orleans for the year ended June 30, 2006, we reported three findings relating to unlocated movable property, inadequate internal controls over Social Services Block Grant, and weaknesses in internal controls over payroll. The finding relating to inadequate internal controls over Social Services Block Grant has been resolved by management. The findings relating to unlocated movable property and weaknesses in internal controls over payroll were not resolved and 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, 2007.

Unlocated Movable Property

For the third consecutive year, the Louisiana State University Health Sciences Center - New Orleans (LSUHSC-NO) did not place sufficient emphasis on locating the items reported as unlocated on its movable property listing. Louisiana Administrative Code Title 34 Part VII Section 313 (A) states, in part, that efforts should be made to locate all movable property items for which there are no explanations available for their disappearance. Property unlocated after three years is permanently removed from movable property records. Good internal control provides that assets should be adequately monitored to safeguard against loss or theft, and periodic counts of property inventory, as well as the search for missing items, should be thorough.

As required by state movable property regulations, LSUHSC-NO conducted physical inventories and submitted its annual certification of property inventory to the Louisiana Property Assistance Agency on December 15, 2006. As reported in our prior year management letter dated April 24, 2007, that annual certification reported unlocated movable property items totaling \$4,849,657 for the four-year period from fiscal year 2004 to fiscal year 2007. Of that amount, items totaling \$485,876 were removed from the property records because they had not been located for three consecutive years. That certification of property inventory also disclosed \$99,616,065 in total movable property administered by LSUHSC-NO. After the prior year audit finding was reported, management strengthened its internal controls and as a result, the total unlocated value of movable property has decreased to \$2,573,614 as of September 14, 2007. Of that total, the amount of unlocated computers and computer-related equipment is \$853,200.

In the period immediately following Hurricane Katrina, LSUHSC-NO opened temporary locations and moved equipment to use in those locations. As buildings and facilities in New Orleans are reopened, the equipment is being moved back into those locations. Because of the movement of equipment between these locations, some of the equipment is still being located. However, failure to thoroughly secure, locate, and account for movable property increases the risk of loss arising from unauthorized use of property and could subject LSUHSC-NO to noncompliance with state laws and regulations. Also, the risk exists that sensitive information could be improperly retrieved from the missing computers and/or computer-related equipment, which could compromise LSUHSC-NO's data integrity.

Management of LSUHSC-NO should continue its efforts to strengthen internal controls over movable property, including the procedures for securing movable property assets and conducting the physical inventory and should devote additional efforts to locating movable property reported as unlocated in previous years. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 1-2).

Weaknesses in Internal Controls Over Payroll

For the second consecutive year, LSUHSC-NO failed to maintain adequate internal controls over payroll processes, which resulted in overpayments made to employees. Good internal control requires that payroll processing should be accurate, timely, and complete to avoid errors, overpayments, and fraud. Also, Article VII, Section 14 of the Louisiana Constitution of 1974 prohibits the funds of the state or any political subdivision to be loaned, pledged, or donated to or for any person, association, or corporation, public or private. Louisiana Revised Statute 42:460 provides the university the ability to develop rules to recoup overpayments made to state employees.

In our tests of payroll transactions for 49 employees, we identified overpayments to three employees totaling \$32,847. The three employees had overpayments ranging from \$1,930 to \$18,000 each. These overpayments occurred because of administrative errors.

Management should strengthen its internal controls over payroll processing and ensure that documentation is complete, accurate, and submitted timely. Management should also strengthen payroll review and reconciliation processes to detect and prevent duplicate payments and overpayments. In addition, the university should continue seeking reimbursement from the employees for amounts overpaid. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 3-5).

Noncompliance with LaCarte Purchasing Card Policies

LSUHSC-NO did not ensure that all purchasing card purchases were within the maximum Single Purchase Limit of the LaCarte Purchasing Card program. The State of Louisiana, Division of Administration's Louisiana LaCarte Purchasing Card policy establishes the maximum Single Purchase Limit (SPL) of \$1,000. The LSUHSC-NO's LaCarte program user's guide also states that cardholders may use LaCarte only for job-related purchases less than \$1,000 per transaction.

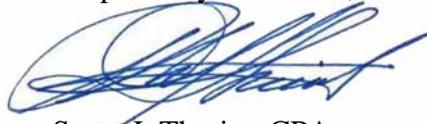
In a test of 17 LaCarte purchasing card transactions, six transactions had invoices greater than \$1,000 but were made with more than one payment of \$1,000 or less applied to each invoice. Using multiple payments for \$1,000 or less for purchases greater than \$1,000 violates the established SPL policy. Failure to adhere to established policy and control procedures increases the risk that errors and/or fraud could occur and remain undetected.

Management should ensure that the cardholders comply with all state and medical center control procedures relating to the LaCarte Purchasing Card program and prohibit multiple payments less than the SPL for invoices greater than \$1,000. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 6-7).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the center. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the center should be considered in reaching decisions on courses of action. Findings relating to the 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 center and its management, others within the center, and the Louisiana Legislature 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,



Steve J. Theriot, CPA
Legislative Auditor

DSG:ES:PEP:dl

LSUHSCNO07

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



Health Sciences Center

NEW ORLEANS

Administration and Finance
Office of the Vice Chancellor

School of Medicine
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
School of Public Health

December 20, 2007

Re: Response to Audit Finding: Unlocated Movable Property

Steve J. Theriot, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot,

I concur with the finding.

LSUHSC-NO, in accordance with the corrective action plan contained in LSUHSC-NO's February 14, 2007 response to the fiscal year 2006 audit finding, has continued the thorough search for items reported missing from fiscal year 2004 through fiscal year 2006. The current original acquisition cost of the unlocated movable property from those years is down to \$1,703,635. The net book value of this property is \$163,396. Included in this amount is computer equipment with an original acquisition cost of \$532,228 and a net book value of \$14,746.

Corrective action plan:

The Internal Audit department of LSUHSC-NO is currently conducting an audit of unlocated movable property. This audit includes an evaluation of the adequacy of existing internal controls. The recommendations resulting from this audit will be reviewed by management and implemented where reasonable and appropriate.

In the interim, LSUHSC-NO will continue conducting the thorough search for unlocated movable property from fiscal year 2004 through fiscal year 2006. The majority of this unlocated movable property is concentrated in two LSUHSC-NO schools. The deans of these schools will be asked to take a personal interest and make a personal commitment to have their applicable schools conduct a thorough search for the remaining unlocated movable property.

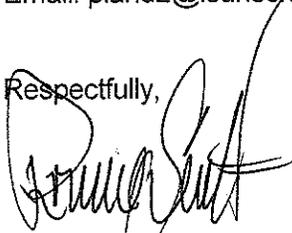
Anticipated Completion Date:

The university anticipates the corrective action plan to be completed no later than November 30, 2008.

Person responsible for corrective action:

Patrick Landry, Executive Director of Accounting Services
Phone: 504-568-4815
Email: pland2@lsuhsc.edu

Respectfully,

A handwritten signature in black ink, appearing to read "Ronnie Smith", written over the word "Respectfully,".

Ronnie Smith
Vice Chancellor for Administration and Finance

cc: Larry Hollier, MD
Terry Ullrich
David Dotter
Patrick Landry



Health Sciences Center

NEW ORLEANS

Administration and Finance
Office of the Vice Chancellor

School of Medicine
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
School of Public Health

December 19, 2007

Steve J. Theriot, CPA
Legislative Auditor
State of Louisiana
1600 North Third Street
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Audit Finding of Weaknesses in Internal Controls Over Payroll

Dear Mr. Theriot:

We concur with the finding.

The LSUHSC-NO workgroup established last year has been working diligently to identify deficiencies, develop solutions and implement new controls to address the issues identified in the finding reported earlier this year.

The workgroup has finished its review of the deficiencies and has forwarded its draft report of 15 distinct conditions that could result in over or underpayments. Given the number of issues, the workgroup decided the best course of action was to review all aspects of payroll processing practices. This is a more in-depth and extensive review than was originally anticipated in our corrective action plan submitted last year. As such, it will require additional time to implement.

The draft report also included over twenty recommendations for new and revised controls for management's review and approval. Once this review is complete, an implementation timeline will be developed. A number of these recommendations require changes to the PeopleSoft HR/Payroll system. The impending upgrade of the HR/Payroll system to version 9 must be considered as part of the review, not only to minimize any adverse impact, but to identify additional opportunities the new software provides to address the needed changes both from automation and policy perspectives. Close communication and cooperation amongst all the LSUHSC business units is needed to ensure that:

1. Both the system and policy changes are implemented as effectively and efficiently as possible with minimal adverse impact to the other campuses.

2. System changes are not rendered obsolete by the upgrade to version 9.
3. Shreveport and HCSD have the opportunity to take advantage of the benefits to be derived from the recommended changes.

Of the recommendations in the draft report, management has approved and the workgroup has implemented the following items to address recoupment of overpayments:

1. Developed new reports to detect instances of overpayments.
2. Developed and had approved Chancellor's Memorandum 57, the policy and procedures that govern recoupment of overpayments.
3. Developed a procedure for administering installment payments based upon the one used by the Division of Administration.
4. Developed procedures to coordinate activities between Accounting Services and Payroll to ensure that payments are accurately tracked and properly credited.
5. Exploring the amendment of an existing collection agency contract to collect any delinquent installment agreements.

Beginning in July 2007 to date, LSUHSC-NO has sent 141 demand letters totaling \$448,177. We have recouped approximately forty percent of this amount or \$181,128 to date. The cases identified by the Legislative Auditor were included in the most recent batch of letters sent demanding repayment. The rest of the cases are being reviewed to certify the balances due prior to sending demand letters. A number of both current and former employees have contacted LSUHSC-NO and requested payment plans. Current employees are placed on payroll deduction. Former employees are asked to sign a promissory note.

Management has approved and the workgroup has implemented the following recommendations to improve controls to reduce instances of overpayments.

1. Visits were made to other LSU campuses to learn what controls they had in place to address the issues the workgroup identified.
2. Instances of LWOP of less than 30 days can now be reported on a leave form (SF-6). This speeds notification of essential departments.
3. A special team has been set up in Human Resources to review all extraordinary issues of leave.
4. Business managers have been given access to a panel which displays the leave recorded in the PeopleSoft HR system.
5. A new document has been developed and implemented to capture certifications of time worked by all employees, including part-time employees.

The following items have been approved by management and are under development by the workgroup:

1. Amending CM-57 to include a budgetary penalty for departments that allow overpayments to occur.

2. Mandatory training for all business managers, assistant business managers and department heads on payroll and leave issues.
3. A report distributed to department heads that identifies all instances of untimely paperwork filings that could potentially result in overpayments.
4. In instances where an employee is working in more than one department, signatures from each department shall be required to process payroll changes to prevent double postings.
5. Develop an email notification list consisting of all the departments an employee might contact in the process of separating from the University. If one department is contacted by a separating employee it notifies the others on the list.
6. Provide an easily referenced set of HR and payroll policies on the web.

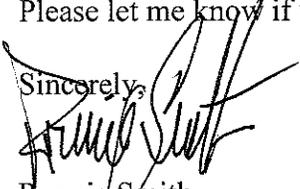
The recoupment efforts will continue until either all the balances due are collected or deemed uncollectible in accordance with state and university policies. The above items under development are expected to be completed by the end of the current fiscal year. The implementation timeline for the recommendations still under management review will be forwarded once that review is completed.

The person responsible is:

Roy Clay, Compliance Officer
433 Bolivar Street
New Orleans, LA 70112
504-568-5135
Rclay1@lsuhsc.edu

Please let me know if you have any questions or concerns.

Sincerely,



Ronnie Smith
Vice Chancellor, Administration and Finance

cc: Larry Hollier, MD
David Dotter
Roy Clay



Health Sciences Center

NEW ORLEANS

Administration and Finance
Office of the Vice Chancellor

School of Medicine
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
School of Public Health

December 18, 2007

Steve J. Theriot, CPA
Legislative Auditor
State of Louisiana
1600 North Third Street
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Audit Finding of Noncompliance with LaCarte Purchasing Card Policies

Dear Mr. Theriot:

We concur with the finding.

It was LSUHSC - NO's interpretation that the \$1,000 single transaction limit was a competition threshold. Therefore, transactions exempt from competition per the Executive Order for Small Dollar Purchases that appeared "split" were not questioned. These types of non-competitive transactions included conference registration fees, advertising, and scientific and laboratory supplies (exempt up to 10K; exemption increased to 25K in April, 2007). This practice has ceased.

The corrective action plan described below is now in place.

Corrective action plan:

1. Inform all card holders by email that transactions greater than \$1000 can not be divided to avoid the single transaction limit of \$1000. **COMPLETED** Nov. 13, 2007
2. Email all Business Managers and Asst Deans for Finance reinforcing the policy that the single transaction limit is \$1,000 and cite specific examples where splitting payments to exceed this threshold is not authorized. **COMPLETED** Nov. 14, 2007
3. Review single transaction limit and split payment policy at Business Manager training class. **COMPLETED** Dec. 12, 2007.

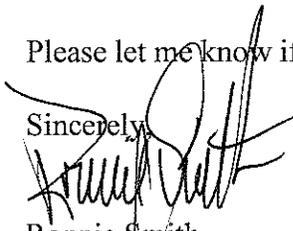
4. At LaCarte Procurement Card monthly training, reinforce policy using several examples to explain the procedure. **ONGOING** starting Dec. 5, 2007
5. Monitor the new LaCarte "Works" real time reporting tools to ensure compliance. **ONGOING**
6. Continue to monitor compliance with our 100% audit of monthly transaction logs. **ONGOING**
7. Follow our established procedures for card holders who fail to comply with the procedures (check reimbursement, payroll deduction, card suspension, etc). **ONGOING**

The person responsible for this correction action plan is:

Brent Herold
Executive Director of Supply Chain Management
LSU Health Sciences Center
433 Bolivar Street
New Orleans, LA 70112
504-568-2412
bherol@lsuhsc.edu

Please let me know if you have any questions or concerns.

Sincerely,



Ronnie Smith
Vice Chancellor, Administration and Finance

cc: Larry Hollier, MD
David Dotter
Brent Herold