

LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER —
NEW ORLEANS
LOUISIANA STATE UNIVERSITY SYSTEM

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED MAY 10, 2021

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Michael J. “Mike” Waguespack, CPA



LSU Health Sciences Center –
New Orleans

May 2021

Audit Control # 80200064

Introduction

As a part of our audit of the Louisiana State University System (System) and our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2020, we performed procedures at the Louisiana State University Health Sciences Center – New Orleans (LSUHSC-NO) to provide assurances on financial information that was significant to the System’s financial statements; evaluate the effectiveness of LSUHSC-NO’s internal control over financial reporting and compliance; and determine whether LSUHSC-NO complied with applicable laws and regulations.

Results of Our Procedures

Current-year Finding

Weakness in Controls over Research and Development Project Closeouts and Accounting Records

LSUHSC-NO did not have adequate controls over project closeouts or accounting records for the Research and Development (R&D) cluster federal program. Federal program closeout guidelines require recipients to liquidate all financial obligations and submit final reports no later than 120 calendar days after the project period of performance ends. LSUHSC-NO internal policy requires any remaining surplus or deficit balances on a project to be certified and transferred to an appropriate, non-sponsored, departmentally-funded account or another sponsored project within 90 days of the project end date. In a sample of 40 R&D cluster expense transactions, five (12.5%) transactions for expenses or correcting entries were posted to the project between 133 and 244 days after the project’s period of performance ended. None of these costs were requested for federal reimbursement on the closed project.

These exceptions occurred because (1) the accounting system, PeopleSoft Commitment Control, allows certain personnel and other expenses to continue to post to projects after the project has ended unless a form, such as a personnel status change form, is processed to update account coding in the system; (2) projects are not being closed out properly as they end, which includes submitting all required forms for updating accounting records; and (3) project budgets were not adequately monitored to ensure that expenses in the accounting system were charged to the correct project and any errors or budget overruns were identified and addressed in a timely manner.

Untimely project updates in the accounting system increase the risk that expenses will be charged to the wrong project, which hinders management’s ability to effectively monitor the budget and may result in budget overruns that would need to be covered with other funding sources, increase the number of corrections required at year-end to ensure accurate financial reporting, and may result in noncompliance with federal program requirements.

Management should continue to monitor budgets and ensure that budget overruns and errors are identified and corrected in a timely manner. Management should ensure that projects are effectively closed out including processing all required forms and updating the accounting system in a timely manner. Management should consider implementing a system control to prevent costs from being charged to projects in the accounting system beyond the project close out period. Management concurred with the finding and provided a corrective action plan (see Appendix A).

Financial Statements – Louisiana State University System

As a part of our audit of the System’s financial statements for the year ended June 30, 2020, we considered LSUHSC-NO’s internal control over financial reporting and examined evidence supporting certain account balances and classes of transactions, as follows:

Statement of Net Position

Assets – Capital Assets, Receivables

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 – Educational and General

The account balances and classes of transactions tested, as adjusted, were materially correct.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2020, we performed internal control and compliance testing as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on LSUHSC-NO’s major federal programs, as follows:

- Research and Development Cluster
- Student Financial Assistance Cluster

Those tests included evaluating the effectiveness of LSUHSC-NO's internal control 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 loan program information submitted by LSUHSC-NO to the Division of Administration's Office of Statewide Reporting and Accounting Policy for the preparation of the state's Schedule of Expenditures of Federal Awards (SEFA), as required by Uniform Guidance.

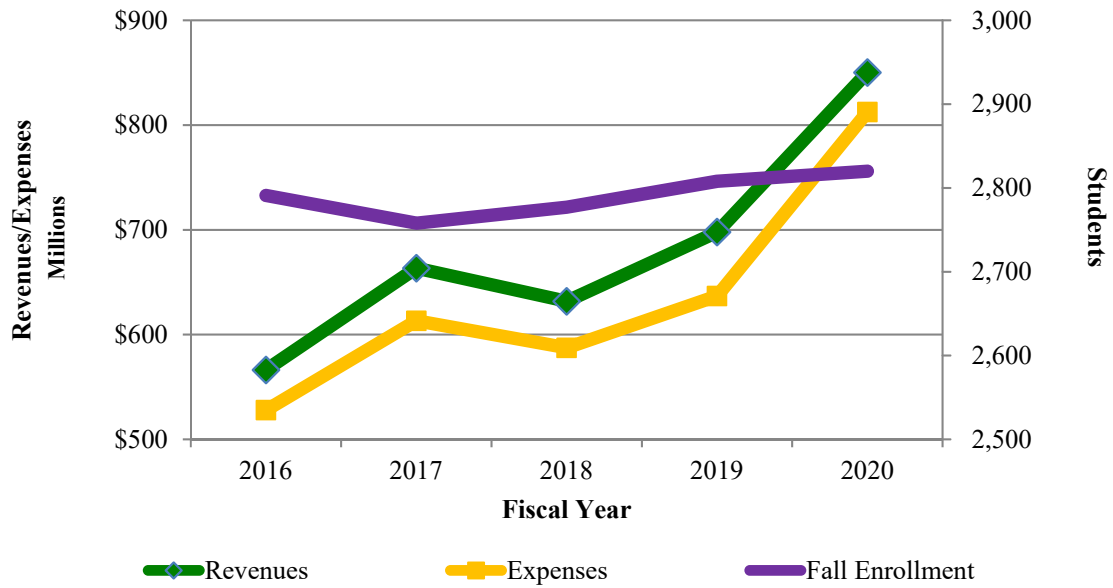
Based on the results of these Single Audit procedures, we reported a finding related to Weakness in Controls over Research and Development Project Closeouts and Accounting Records. This finding will also be included in the Single Audit for the year ended June 30, 2020. In addition, LSUHSC-NO's loan program information submitted for the preparation of the state's SEFA, as adjusted, 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 past five fiscal years, as shown in Exhibits 1 and 2.

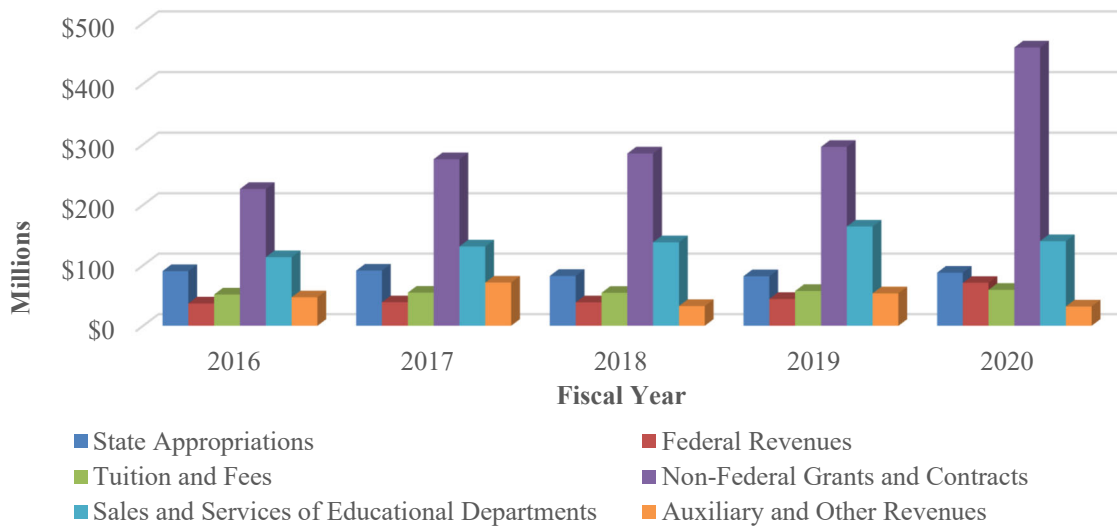
As shown in Exhibit 1, over the past five fiscal years, enrollment has been fairly stable, while total revenues increased by 50% and expenses have increased by 54%. As shown in Exhibit 2, the majority of the increase is related to increases in non-governmental contract revenue and related operating expense in fiscal year 2017 due to renegotiations in clinical contract amounts with area hospitals to include fair market value for billings and in fiscal year 2020 due to the new Medicaid Managed Care Quality Incentive Program contracts that LSUHSC-NO administers on behalf of the Louisiana Department of Health and surrounding hospitals. In addition, federal revenues increased by 60% in fiscal year 2020, mainly due to funding received for construction projects related to the interim LSU hospital.

**Exhibit 1
Fiscal/Enrollment Trends**



Source: Fiscal Years 2016-2020 LSU System Audit Reports and Louisiana Board of Regents website

**Exhibit 2
Five-Year Revenue Trends**



Source: Fiscal Years 2016-2020 LSU System Audit Reports

The recommendation in this letter represents, in our judgement, that which will most likely bring about beneficial improvements to the operations of LSUHSC-NO. The nature of the recommendation, its implementation costs, and its potential impact on the operations of LSUHSC-NO should be considered in reaching decisions on courses of action.

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

Respectfully submitted,



Michael J. “Mike” Waguespack, CPA
Legislative Auditor

MET:DM:BH:EFS:aa

LSUHSC-NO 2020

APPENDIX A: MANAGEMENT'S RESPONSE



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

April 27, 2021

Michael J. Waguespack, CPA
Legislative Auditor
Office of Louisiana Legislative Auditor
1600 North Third Street, Baton Rouge, LA 70804

Dear Mr. Waguespack,

We have reviewed the audit finding from your letter dated April 14, 2021 regarding the “Weakness in Controls over Research and Development Project Closeouts and Accounting Records”. Please find our response to the finding below.

Management agrees with the finding listed in the report.

Finding: Weakness in Controls over Research and Development Project Closeouts and Accounting Records

Louisiana State University Health Sciences Center New Orleans (“LSUHSC-NO”) has intentionally created a decentralized Sponsored Projects Administration function. Management understands there is an inherent risk with our decentralized environment. The fiscal responsibility over sponsored projects has been placed in the individual schools, where the direct knowledge of the day to day functions reside. In order to mitigate the risk, LSUHSC-NO management implemented revised Chancellor Memorandum 21 (“CM-21”), dated January 8, 2019, which clearly defines all employees’ financial management responsibilities. The individual Schools’ Fiscal Agent(s), Principal Investigators (“PIs”) and/or Business Managers are responsible for the day-to-day financial management of an individual project or group of projects over which they have approval authority. The Schools’ department heads, Fiscal Deans, and Deans/Vice Chancellor have oversight responsibility of financial transactions affecting individual schools. In addition to CM-21, the following supplemental controls and support are provided by Accounting Services to the business managers.

- Sponsored Projects Accounting (“SPA”) provides the business managers with a monthly list of upcoming Final Financial Reports (“FFR”), the due date of the FFR, the date Purchase Orders (“PO”) should be closed, the date the Journal Entries (“JE”) should be submitted, and the date on which SPA will conduct final drawdown, submit the FFR, and close down the budget to match expenditures in PeopleSoft.

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- As a part of SPA’s monthly federal drawdown calculations, SPA generates an “exceptions list” showing which projects may be overspent and communicates with departments about any deficits to be cleared.
- As part of the monthly invoicing process, SPA only invoices up to the awarded amount. If expenses exceed this amount, that is noted when the invoice is sent to the department for business manager/PI signature.
- The PeopleSoft Human Capital Management (“HCM”) files are used to generate the payroll journals to post to the general ledger. Since HCM does not interface with PeopleSoft Financials, PeopleSoft Financials produces an error report of items that did not post due to various reasons such as: project with an end date that has passed, the project is in deficit, or the project is not setup to accept personnel expenses. General Accounting will extend the closed projects temporarily to allow for the salary to post as employees must be paid, even if to an incorrect project initially. General Accounting prepares a manual monthly Payroll Project Error Report, which shows projects that generated an error, including the reason for the error. SPA reviews this report, helps the department identify the source of the error, notes the action required to clear the problem, and sends the list to the departments. The departments are responsible for making the corrective entries so the project status in the system may be updated.
- As part of the fiscal year-end process of accruals and deferrals, SPA emails departments with projects in deficit status and requests corrective action.
- There are additional controls in place in SPA to avoid overdrawing the allowable amounts on Federal Grants and Contracts.

Corrective Actions:

- 1) In addition to above noted controls, LSUHSC-NO is in the process of developing and implementing the automation of the retroactive and prospective change in source of funds process. This process will include error checks to ensure that “retro PER-3s” cannot be processed if the dates are outside of the performance period, or if the project is not set up to accept personnel expenses. This automation will reduce most of the issues with personnel expenses continuing to post to closed sponsored projects.

Anticipated Completion Date:

October 31, 2021

Responsible Personnel:

Arlean Wehle

- 2) The School of Medicine’s Dean’s Office will continue to review and monitor departmental compliance with CM-21.

In addition, the Dean's Office will ensure that Business Managers are properly trained on account reconciliation and will develop and implement a written operating procedure to assist in this task.

Anticipated Completion Date:

June 31, 2021

Responsible Personnel:

Katherine Diodene

If you have any additional questions or concerns, please do not hesitate contacting me.

Respectfully,

L. H. Hollier, M.D.

Dr. Larry Hollier
Chancellor

cc: Mr. Keith Schroth
Mr. Louis Colletta
Mr. Frank Wasser
Ms. Arlean Wehle

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana State University Health Sciences Center – New Orleans (LSUHSC-NO) for the period from July 1, 2019, through June 30, 2020, 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. Our procedures, summarized below, were a part of the audit of the System’s financial statements and our work related to the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2020.

- We evaluated LSUHSC-NO’s operations and system of internal control 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 certain account balances and classes of transactions to support our opinions on the System’s financial statements.
- We performed procedures on the Research and Development and Student Financial Aid clusters of federal programs for the year ended June 30, 2020, as a part of the 2020 Single Audit.
- We performed procedures on loan program information for the preparation of the state’s Schedule of Expenditures of Federal Awards for the year ended June 30, 2020, as a part of the 2020 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 Reports, and accordingly, we do not express an opinion on those reports. LSUHSC-NO’s accounts are an integral part of the System’s financial statements, upon which the Louisiana Legislative Auditor expresses opinions.