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January 14, 2009

Mr. Steve J. Theriot, CPA
Legislative Auditor
Office of the Legislative Auditors
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Response to Legislative Auditor Findings
Inadequate Controls Over Consumable Inventory
LSU Health Care Services Division
Medical Center of Louisiana at New Orleans (MCLNO)
University Medical Center, Lafayette LA (UMCLA)

Dear Mr. Theriot:

The Louisiana State University Health Care Service Division (HCSD) concurs with the referenced audit findings.

In an effort to address this known deficiency and inaccuracies with its ongoing corrective action plan, HCSD conducted an inventory management seminar on October 14, 2008 in Baton Rouge in which 45 people from all HCSD business units, including six staff members from MCLNO and ten staff members from UMCLA. Also, HCSD Finance staff held a follow up meeting with the seminar participants on December 9, 2008 to get feedback about the seminar, and discuss how to more efficiently and effectively utilize the PeopleSoft Inventory Module tools to implement the concepts they learned at the seminar.

MCLNO has implemented the use of PeopleSoft materials stock requests (MSR) at the department level in one of their three PeopleSoft perpetual inventory business units (IBU) and is in the process of implementing the same functionality in the two central supply IBU's. HCSD Finance staff is working with UMCLA to transition from the use of web based stock requisitions at the departments, to the use of PeopleSoft MSR's at the department level.

Both MCLNO and UMCLA have also implemented the use of PeopleSoft Reorder Report and Outage Reports to monitor their need to re-stock inventory items thereby establishing stronger internal controls. The entering of MSR's in PeopleSoft at the department level as well as the use of PeopleSoft Reorder and Outage Reports will improve the timeliness of inventory transactions processing in the system and reduce count variances.

Both MCLNO and UMCLA will be required to count approximately 10% of their total active inventory items every month using either the location or family cycle count method. Any single counting event with a variance of 5% or greater on either dollar value or items will be required to

LEGISLATIVE AUDIT FINDING
CONSUMABLE INVENTORY
JUNE 30, 2008

be recounted within seven days. These re-counts will not count towards the 10% of items to be counted monthly. This will ensure that all items will be cycle counted within a one year time frame.

Each item variance in a cycle count will be investigated to determine the cause of the variance. If a specific cause is immediately found the Materials Management Staff will detail the corrective action taken to ensure that the variance does not occur again. If no specific cause is immediately found the item will be flagged for monitoring which could include future cycle counts. The IBU manager will report the result of the counts and the corrective actions for the variances to HCSD Finance staff.

The Director of Materials Management and the Chief Financial Office at MCLNO, the Administrative Program Manager, the Chief Financial Office and the Hospital Administrator at UMCLA, and HCSD PeopleSoft Supply Chain Manager at HCSD, are responsible for follow up and adherence to the corrective actions already in place. See attached monitoring plan for roles and responsibilities.

Please contact me should you have additional questions or need further clarifications.

Sincerely,



Michael K. Butler, MD, MHA, CPE, FACPE
Acting Chief Executive Officer

Attachment

LEGISLATIVE AUDIT FINDING
CONSUMABLE INVENTORY
CORRECTIVE ACTION PLAN
JUNE 30, 2008

Louisiana State University Health System – Health Care Services Division
Summary of Monitoring Roles and Responsibilities
For FY08 Legislative Audit Consumable Inventory Finding

January 14, 2009

MCLNO Materials/Inventory Manager

- Perform cycle count on approximately 10% of the total active items in each inventory business unit every month using either the location or family cycle count method. This will ensure that all items will be cycle counted within a one year time frame.
- Analyze and document the reasons for each item variance on a counting event, and the corrective action taken to prevent the variance in the future
- If the variance in a counting event is 5% or great, re-count the same items in the counting event within seven days. These re-counts will not count towards the 10% of items to be counted monthly.
- Report to CFO and HCSD Finance staff monthly on variances and the corrective actions taken on each counting event for the previous month.
- Participate in HCSD inventory managers/staff meetings and training
- Utilize the PS system Reorder Report and Outage Reports to monitor need to re-stock inventory items based on On-hand quantities.
- Implement entering of material stock request at the department level
- Report problem areas and issues to CFO and hospital management immediately.

MCLNO Chief Financial Officer

- Review the materials/inventory managers' reports monthly
- If necessary, issue new policies, or revise the existing policies to address the problems identified through the monthly cycle counts

UMCLA Administrative Program Manager

- Perform cycle count on approximately 10% of the total active items in each inventory business unit every month using either the location or family cycle count method. This will ensure that all items will be cycle counted within a one year time frame.
- Analyze and document the reasons for each item variance on a counting event, and the corrective action taken to prevent the variance in the future
- If the variance in a counting event is 5% or great, re-count the same items in the counting event within seven days. These re-counts will not count towards the 10% of items to be counted monthly.

LEGISLATIVE AUDIT FINDING
CONSUMABLE INVENTORY
CORRECTIVE ACTION PLAN
JUNE 30, 2008

- Report to CFO and HCSD Finance staff monthly on variances and the corrective actions taken on each counting event for the previous month.
- Participate in HCSD inventory managers/staff meetings and training
- Utilize the PS system Reorder Report and Outage Reports to monitor need to restock inventory items based on On-hand quantities.
- Implement entering of material stock request at the department level.
- Report problem areas and issues to CFO and hospital management immediately.

UMCLA Chief Financial Officer

- Review the materials/inventory managers' reports monthly
- If necessary, issue new policies, or revise the existing policies to address the problems identified through the monthly cycle counts

HCSD Finance Staff

- Review the materials/inventory managers' reports monthly
- Provide support and training to each business unit as required.
- Develop PeopleSoft reports, modifications and other tools to assist the facilities.
- Report failure to comply with the corrective action plan to HCSD Senior and Executive Management, including but not limited to the respective Hospital Administrator and HCSD Chief Financial Officer.