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- EARL K. LONG MEDICAL CENTER - BATON ROUGE
- LALLIE KEMP REGIONAL MEDICAL CENTER - INDEPENDENCE
- LEONARD J. CHABERT MEDICAL CENTER - HOUMA
- INTERIM LSU PUBLIC HOSPITAL - NEW ORLEANS
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February 3, 2009

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

RE: Legislative Audit Finding
Inadequate Control Over Financial Reporting
LSU Health Care Services Division
Fiscal Year Ended June 30, 2008

Dear Mr. Theriot:

The LSU Health Care Services Division (HCSD) concurs in part with the referenced audit finding. We concur that there were some errors and adjustments necessary in the HCSD FY2008 Financial Statements. We do not agree that we have inadequate control over our annual financial reporting process in general. As evidence of the due diligence and the processing in place, HCSD utilizes an annual close schedule and an Annual Financial Report (AFR) checklist which provide evidence that there is a logical, managed process for the preparation and submission of the AFR.

The HCSD consists of eight separate entities. Separate financial statements are prepared for each entity and then consolidated at the HCSD level. The HCSD consolidated AFR is then combined with those of the LSU Health Sciences Center-New Orleans (HSC-NO) and its affiliated organizations, which is subsequently submitted to the LSU System's Office and combined with all LSU campuses. Due to these multi-level consolidations, the HCSD generally submits its consolidated AFR to HSC-NO approximately three weeks prior to the Office of Statewide Reporting and Accounting Policy (OSRAP) due date for Colleges and Universities, and HSC-NO submits its AFR approximately one week later, as do the other LSU campuses. The total LSU System report is not final until submitted to OSRAP.

As a courtesy, the HCSD has traditionally provided an advance copy of the AFR to the Office of the Legislative Auditor (OLA) at the same time the report is submitted to HSC New Orleans. Because some entries/balances may not be finalized until elimination/consolidation entries take effect at the HSC-NO or LSU Systems Office level, the copies provided to the OLA are essentially in draft form. Additionally, early submission of the AFR to HSC a full week prior to other campus deadlines limits the available time for more in-depth review. It will be prudent in the future for HCSD to delay distribution of our financial statements to the OLA staff until the

OSRAP due date in order to affect additional quality review and validation. This will allow additional time to correct any errors that may have occurred prior to the date when the draft copies are submitted to HSC and the official submission date.

Inherent in the preparation process for the FYE June 30, 2008 AFR, there were numerous extenuating circumstances that affected the process.

- The required blending of two foundation financial statements for the first time in FY2008 was a contributing factor to the audit exceptions cited. The Health Care Services Foundation was not timely with their audited financial statements for the HCS Foundation or the BCMC Foundation. The MCL Foundation was not required to be reported in HCSD's AFR, but was also not timely with their audited financial statements to allow the auditors the opportunity to test in accordance with GASB's 14 and 39. As of this response, all three of these foundation financial statements remain outstanding issues.
- The transfer of Huey P. Long Medical Center from HCSD to LSU HSC-Shreveport and removal from HCSD's AFR required additional year-end transactions that were not typical to other year ends.
- Continuity of audit staff was also a contributing factor to the difficulty encountered during this audit period and financial statement cycle. During the course of the FY 2008 audit, no less than four (4) senior auditors cycled through our agency which caused excessive time to familiarize them with our operations and repeated coverage of the same activity and background.

While HCSD concurs that the referenced errors were made, we believe that none of the errors cited in the audit finding were significant in relation to the total agency activity. None of the errors constituted significant misreported financial data and undetected errors or fraud. Specific comments about each exception cited are outlined below:

- The current/noncurrent liabilities for compensated absences error was caused by an idiosyncrasy in Excel's average formula function. Furthermore, since the current portion of compensated absences is an *estimate* and cannot be precisely calculated, since the difference of \$186,225 was not material or significant, and since the error had no effect on the total liabilities reported on the AFR, HCSD did not agree to make the audit adjustment. This error occurred at MCLNO due to the fact that for the past three fiscal years, the termination pay that was used in their formula to determine the current portion varied significantly each year due to the downsizing and restoration of services over this time. The calculation was reviewed, but because the amount fluctuated significantly over the past three years, it did not appear to be an unreasonable variance.
- The referenced \$48,944 on the capital assets note was a misclassification between the equipment and building lines. Revised financial statements issued by one of the foundations and the new blending requirement contributed to this error. The change was not detected because of its insignificance and the fact that it did not affect the total capital assets reported in the statements or in the note disclosure.
- The referenced \$4,977,075 on the capital assets note is the result of not reporting the transfer of the Huey P. Long Medical Center (HPLMC) to LSU-Shreveport as of July 1, 2007 in the beginning balance column and eliminating them in the prior period

adjustment column. The restated FY2007 column and the ending Note E balance as reported in the AFR was correctly stated and balanced to the financial statements.

- The \$2,461,424 long-term liabilities note error was part of the new foundation blending process. One of the foundations had a capital lease and a note payable at June 30, 2007 that was paid out during FY2008. These liabilities were not included in the beginning balance column and removed in the reduction column. However, the ending balance in the long-term liabilities note was correctly stated and balanced to the statements.
- The cash flow error involves reporting the net of the purchases of capital assets and principal paid on capital debt amount on one line instead of on separate lines within the same section of the cash flow statement. While the \$27,585,405 amount seems significant, it did not impact the total amount of net cash used by capital financing activities.

In order to further strengthen quality control measures, the following actions are planned by HCSD Finance Management:

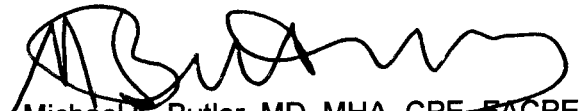
- Contract with a CPA firm to modify the cash flow template for HCSD and build the template in the financial accounting system to map activity by account code to each line in the cash flow template.
- Strengthen the annual check list for specific procedures and review activity.
- Re-evaluate the date wherein HCSD Finance Staff releases the AFR to the Legislative Auditor taking into consideration the official submission date established by OSRAP. This action will provide additional quality review procedures at the HCSD level, the HSC-NO level, and the LSU System level.

In conclusion, as mentioned above, we agree that the errors cited did occur. However, none of the items mentioned affected the bottom line of any of the financial statements. We do not feel that the impact as described above in our specific comments about each cited exception is significant.

The staff members responsible for the corrective actions cited above and available for discussion on these issues include, Clay Dunaway, HCSD Chief Financial Officer, Art Landry Director of Finance and Judy Albin, HCSD Comptroller.

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

Sincerely,



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