



DARYL G. PURPERA,
CPA, CFE

Report Highlights

Louisiana State University Health Sciences Center – New Orleans

Louisiana State University System

Audit Control # 80150133

Financial Audit Services • February 2016

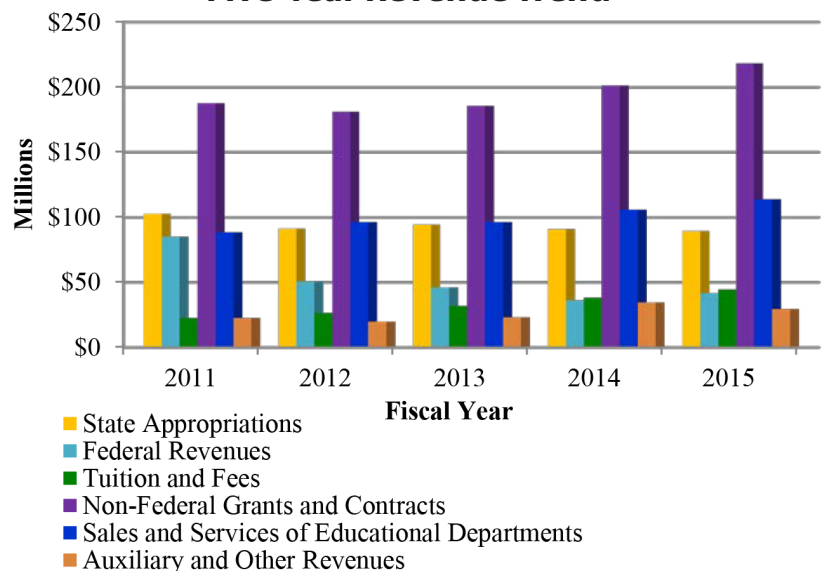
Why We Conducted This Audit

We performed procedures at Louisiana State University Health Sciences Center - New Orleans (LSUHSC-NO) as a part of the Louisiana State University System's (System) audit, the Single Audit of the State of Louisiana, and to evaluate its accountability over public funds for the period July 1, 2014, through June 30, 2015.

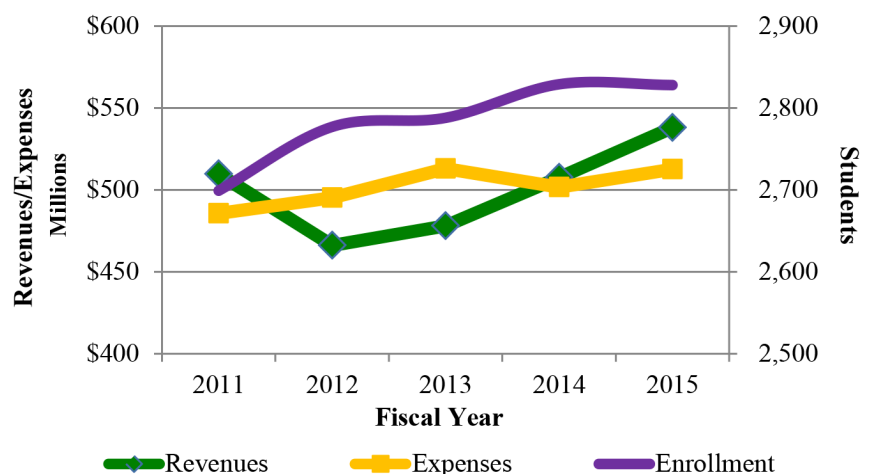
What We Found

- Management of LSUHSC-NO executed and processed personnel actions that were not in compliance with LSU System requirements and LSUHSC-NO's established internal controls. This resulted in certain employees receiving additional compensation that was not properly approved.
- Financial information relating to the following accounts was materially correct, as adjusted: capital assets, net position, nongovernmental grants and contracts revenue, and educational and general expenses.
- In analyzing financial trends of LSUHSC-NO over the past five years, total revenues and expenses have remained relatively consistent. However, since 2011, federal revenues have decreased 51%, and state appropriations have decreased 13%. As these revenues continue to become a smaller portion of total revenues, the university'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.
- Over that same period, tuition and fees have increased by 98% even though enrollment has remained relatively consistent. This is mainly due to the increases in tuition permitted by the GRAD Act (Act 741 of the 2010 Regular Session of the Louisiana Legislature). In addition, sales and services of educational departments have increased 29%, and non-federal grants and contracts have increased by 16%, which is mainly due to new contracts with private entities and the privatization of the state-owned hospitals.

Five-Year Revenue Trend



Fiscal/Enrollment Trends



Source: Fiscal Years 2011-2014 LSU System Audit Reports; Fiscal Year 2015 LSUHSC-NO Annual Fiscal Report; Louisiana Board of Regents Statewide Student Profile System - Institutional Summary Reports

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



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED FEBRUARY 17, 2016

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

LSU Health Sciences Center – New Orleans

February 2016



Audit Control # 80150133

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, 2015, 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; evaluate the effectiveness of LSUHSC-NO's internal controls over financial reporting and compliance; and determine whether LSUHSC-NO complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct the findings reported in the prior year.

LSUHSC-NO is a part of the System and reported an enrollment of 2,828 students for the fall 2014 semester. The mission of LSUHSC-NO is to provide education, research, and public service through direct patient care and community outreach. LSUHSC-NO is comprised of the Schools of Allied Health Professions, Dentistry, Graduate Studies, Medicine, Nursing, and Public Health.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the management letter dated November 26, 2014. We determined that management has resolved the findings related to prohibited activities within Auxiliary Enterprises and inadequate controls over leave records.

Current-year Finding

Management Override of Internal Controls over Additional Compensation

Management of LSUHSC-NO executed and processed personnel actions that were not in compliance with System requirements and LSUHSC-NO's established internal controls. The LSUHSC-NO Office of Compliance Programs performed a limited review of additional compensation, and a report, dated November 4, 2015, disclosed the following:

- The executive director of Accounting Services and the vice chancellor for Finance requested and approved additional compensation providing certain employees a salary increase after the chancellor previously denied base salary raises equal to or very close to the same total compensation. In addition, these management employees did not have the delegated authority to approve the additional compensation, and some of the additional compensation paid does not appear to meet the definition or requirements for additional compensation. An additional compensation personnel action form was initiated by the executive director of Accounting Services and approved by the vice chancellor for Finance for a retroactive increase for four employees in the area under their supervision. The justification provided for the additional compensation request noted “due to 1/1/2015 Merit Increases.”
- Personnel action forms were processed by the Payroll Section that were not reviewed by Human Resources management in violation of LSU System Permanent Memorandum 69 - Delegation of Authority to Execute Personnel Actions (LSU PM-69).
- The Payroll Section failed to route all original executed and processed personnel actions forms to Human Resources management to be included in the employee’s personnel records.
- The Payroll Section processed personnel action forms that included errors, inconsistencies in amounts, and/or improper approvals.

As of December 1, 2015, the vice-chancellor for Finance, the executive director of Accounting Services, and the director of Financial Reporting and Payroll are no longer employed by LSUHSC-NO. The LSUHSC-NO Office of Compliance Programs has expanded its review to identify if additional noncompliance occurred. We will monitor the progress of this review and the related results.

Management should implement the recommendations made by the Office of Compliance Programs that included, but were not limited to, the following: taking appropriate disciplinary action on all employees commensurate with the findings; developing, approving, and distributing written policies and procedures regarding additional compensation; having Human Resources management subsequently review all active additional compensation personnel action forms for compliance with applicable regulations; and sending all additional compensation personnel action forms that are not complete or accurate back to the school/department to be corrected and resubmitted. 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, 2015, 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 - Capital assets

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

Based on the results of these procedures on the financial statements, the account balances and classes of transactions tested, as adjusted, are materially correct. In addition, we reported a finding related to management override of internal controls over additional compensation.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2015, 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 loan 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 Award, as required by OMB Circular A-133.

Based on the results of these Single Audit procedures, we did not report any internal control deficiencies or noncompliance with program requirements. In addition, loan information, as adjusted, was materially correct.

Trend Analysis

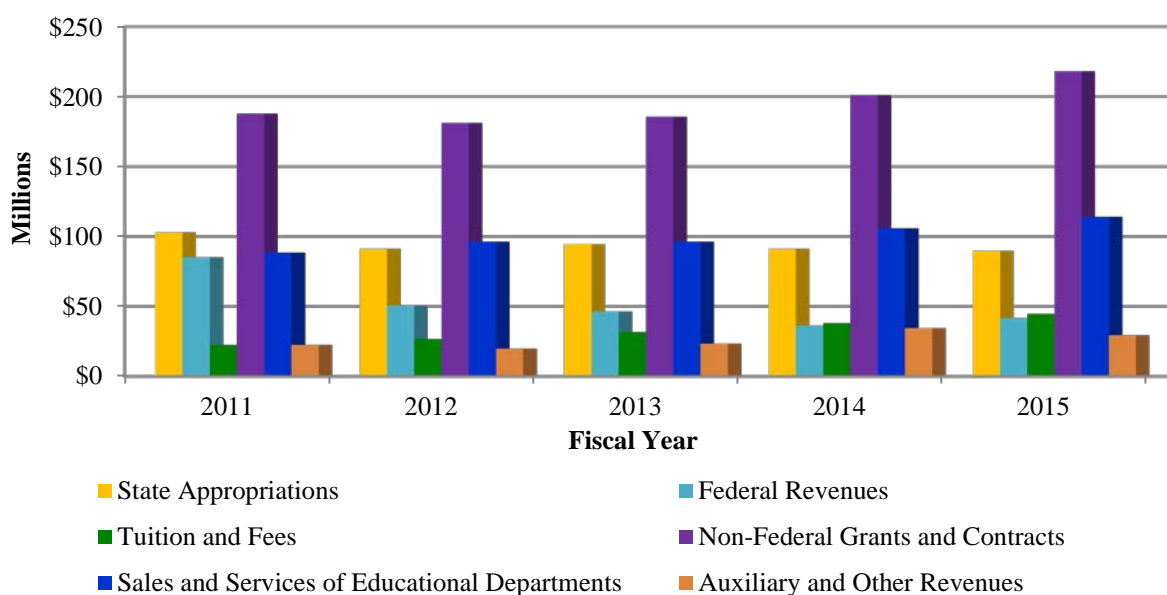
We compared the most current and prior-year financial activity using LSUHSC-NO's annual fiscal reports and/or system-generated reports and obtained explanations from LSUHSC-NO's management for any significant variances. We also prepared an analysis of revenues, expenses, and enrollment over the last five fiscal years, as shown in Exhibits 1 and 2.

In analyzing financial trends of LSUHSC-NO over the past five fiscal years, total revenues and expenses have remained relatively consistent. However, since 2011, federal revenues have decreased 51%, and state appropriations have decreased 13%. As these revenues continue to

become a smaller portion of total revenues, the university'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.

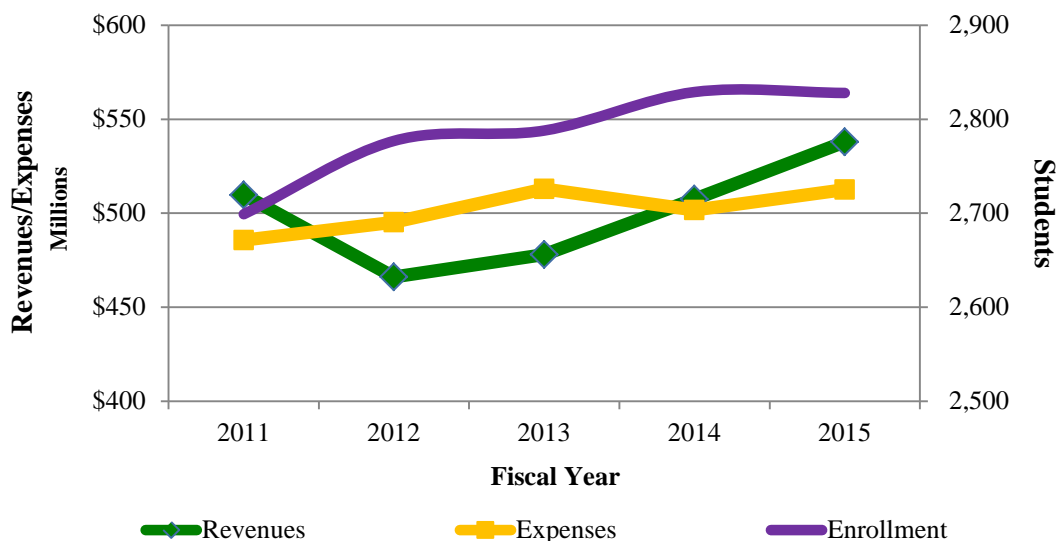
Over that same period, tuition and fees have increased by 98% even though enrollment has remained relatively consistent. This is mainly due to the increases in tuition permitted by the GRAD Act (Act 741 of the 2010 Regular Session of the Louisiana Legislature). In addition, sales and services of educational departments have increased 29%, and non-federal grants and contracts have increased by 16%, which is mainly due to new contracts with private entities and the privatization of the state-owned hospitals.

Exhibit 1
Five-Year Revenue Trend



Sources: Fiscal Years 2011-2014 LSU System Audit Reports;
Fiscal Year 2015 LSUHSC-NO Annual Fiscal Report

Exhibit 2
Fiscal/Enrollment Trend Analysis



Sources: Fiscal Years 2011–2014 LSU System Audit Reports;
Fiscal Year 2015 LSUHSC-NO Annual Fiscal Report;
Louisiana Board of Regents Statewide Student Profile System - Institutional Summary 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.

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

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DSG:JPT:WG:EFS:aa

LSUHSC-NO 2015

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

January 15, 2016

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 "Management Override of Internal Controls over Additional Compensation" 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, 2015. 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 report. This includes, but is not limited to:

- 1) Developing, approving and distributing written policies and procedures regarding additional compensation.

Anticipated Completion Date: March 31, 2016

- 2) Human Resource Management was added to the electronic PER 3 routing for EXC and EXT additional compensation.

Anticipated Completion Date: Completed – Added to PeopleSoft production on November 13, 2015.

- 3) Human Resource Management was added to the routing process for manual PER 3 additional compensation forms. The Chancellor, Vice Chancellor for Academic Affairs and Interim Vice Chancellor for Finance do not approve any additional compensation forms without Human Resources' signature of review and approval.

Anticipated Completion Date: Completed – Added to the routing process on November 1, 2015.

- 4) Human Resource Management will review all active additional compensation personnel action forms for compliance with applicable regulations.

- a. All active additional compensation for employees under the Vice Chancellor for Finance and the Executive Director of Accounting Services were discontinued as of November 1, 2015.

- b. All additional compensation forms that are not complete or accurate will be sent back to the School/Department to be corrected and resubmitted.


Anticipated Completion Date: December 31, 2016

Contact Person(s):

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

Danielle Lombard-Sims
Director of Human Resource Management
Phone: 504-568-2634
Email: dlomb3@lsuhsc.edu

Respectfully,


for Larry H. Hollier, MD
Chancellor

pc: 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, 2014, through June 30, 2015, 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, 2015.

- 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 on loan information submitted by LSUHSC-NO for the preparation of the state's Schedule of Expenditures of Federal Awards for the year ended June 30, 2015, as a part of the 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 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.