

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



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 28, 2016

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

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

ASSISTANT LEGISLATIVE AUDITOR
FOR STATE AUDIT SERVICES
NICOLE B. EDMONSON, CIA, CGAP, MPA

DIRECTOR OF FINANCIAL AUDIT
ERNEST F. SUMMERVILLE, JR., CPA

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 is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor and at the office of the parish clerk of court.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$0.50. 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 website at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3418 or Report ID No. 80160088 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Elizabeth Coxe, Chief Administrative Officer, at 225-339-3800.

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

LSU Health Sciences Center – New Orleans

December 2016



Audit Control # 80160088

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, 2016, 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; to evaluate the effectiveness of LSUHSC-NO’s internal controls over financial reporting and compliance; and to determine whether LSUHSC-NO complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct the finding reported in the prior year.

LSUHSC-NO is a part of the System and reported an enrollment of 2,791 students for the Fall 2015 semester. The mission of LSUHSC-NO is to provide education, research, and public service through direct patient care and community outreach. LSUHSC-NO comprises the schools of Allied Health Professions, Dentistry, Graduate Studies, Medicine, Nursing, and Public Health.

Results of Our Procedures

Follow-up on Prior-year Finding

Our auditors reviewed the status of the prior-year finding reported in the management letter dated February 17, 2016. We determined that management has resolved the finding related to management override of internal controls over additional compensation.

Current-year Finding

Noncompliance with Debt Collection Requirements

During fiscal year 2016, LSUHSC-NO did not forward outstanding accounts receivable to the Attorney General’s office (AG) for the collection of delinquent debts owed to the state, resulting in noncompliance with state law and potential lost collection of funds owed to the state.

Act 399 of the 2013 Regular Legislative Session established that all debts owed to the state shall be referred to either the AG or the Office of Debt Recovery (ODR) for collection. The System

had a three-year agreement with the AG beginning June 28, 2013, but LSUHSC-NO was not utilizing the agreement as no delinquent debts were forwarded to the AG during fiscal year 2016.

Management should ensure that LSUHSC-NO is abiding by the contract between the System and the AG to ensure the AG is being utilized for collection of LSUHSC-NO's delinquent debts. If management chooses not to submit delinquent debts to the AG, management should work with ODR to establish an agreement, and work with the System to amend the contract with the AG. Management concurred with the finding and described the corrective actions that have been taken (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, 2016, 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 expenses

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 noncompliance with debt collection requirements.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2016, 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 Research and Development cluster of federal programs. 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 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 did not report any internal control deficiencies or noncompliance with program requirements. In addition, the information submitted for preparation of the state’s SEFA, as adjusted, was materially correct.

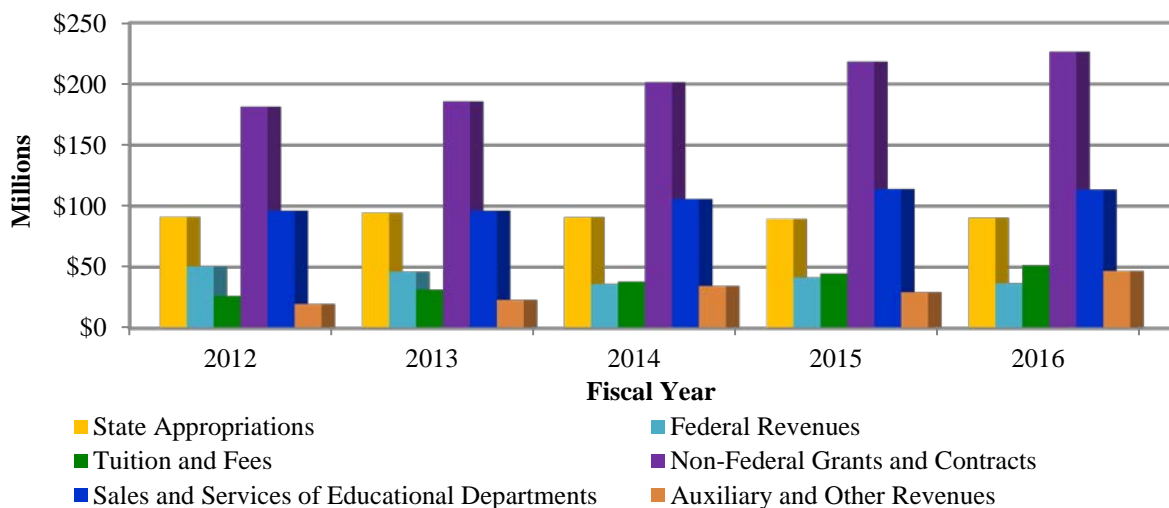
Trend Analysis

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 have increased 21% and expenses have increased 7%. However, since 2012, federal revenues have decreased 27%. 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 tuition and fees.

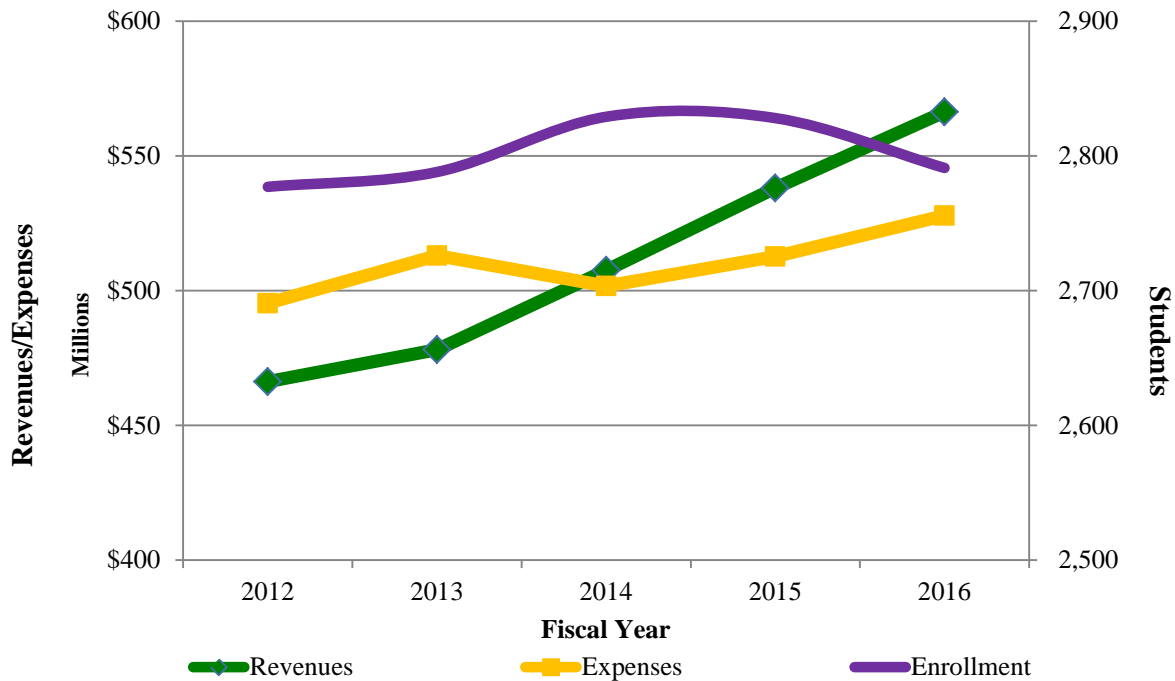
Over that same period, tuition and fees have increased by 95%, even though enrollment has remained relatively consistent. This is mainly due to the increases in tuition permitted by the GRAD Act (Act 741 of the 2010 Regular Session of the Louisiana Legislature). In addition, sales and services of educational departments have increased 18%, and non-federal grants and contracts have increased by 25%, 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 2012-2015 LSU System Audit Reports; Fiscal Year 2016 LSUHSC-NO Annual Fiscal Report

Exhibit 2
Fiscal/Fall Enrollment Trend Analysis



Sources: Fiscal Years 2012–2015 LSU System Audit Reports; Fiscal Year 2016 LSUHSC-NO Annual Fiscal Report; Louisiana Board of Regents Statewide Student Profile System - Institutional Summary Reports

The recommendation in this letter represents, in our judgment, 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,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DSG:JPT:BH:EFS:ch

LSUHSC-NO 2016

APPENDIX A: MANAGEMENT'S RESPONSE



OFFICE OF THE CHANCELLOR

December 14, 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 "Noncompliance with Debt Collection Requirement" as a result of the audit conducted by your office of the LSU Health Science Center-New Orleans (LSUHSC-NO) for the fiscal year ended June 30, 2016. We concur with the finding.

Corrective Action(s):

LSUHSC-NO initiated the corrective action for this finding in June 2016.

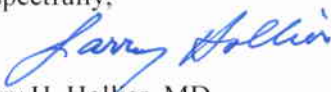
Specifically, LSUHSC-NO consulted with the LA Attorney General – Collection Division (AG) staff and discussed processes surrounding each of the unique collection points. This consultation included a transition plan for segregating existing debt held by an outside collection agency and the placement of future debt with the AG. Following these discussions, the major collections points of the LSUHSC-NO have worked with the Accounting Services Director or directly with the AG to initiate processes to ensure due process of the debtor is properly followed for each type of debt. The process includes placement of delinquent debt with the AG or further consultation with the AG staff on an as-needed-basis regarding LSUHSC-NO debt.

Contact Person(s):

The contact people responsible for the completion of departmental corrective actions are:

Ronald L. Rodriguez, Accounting Services
A.J. DiVincenti, School of Dentistry
Brent Herold, Supply Chain Management
Joseph Lassalle, School of Allied Health Professions

Respectfully,


Larry H. Hollier, MD

pc: Wendy Simoneaux
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, 2015 through June 30, 2016, 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, 2016.

- 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 opinions on the System's financial statements.
- We performed procedures on the Research and Development cluster of federal programs and on information submitted by LSUHSC-NO for the preparation of the state's Schedule of Expenditures of Federal Awards for the year ended June 30, 2016, 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.