SLIDELL MEMORIAL HOSPITAL AND MEDICAL CENTER

**Consolidated Financial Statements
as of December 31, 1999 and 1998
and for the Years Then Ended and
Independent Auditors' Report**

SLIDELL MEMORIAL HOSPITAL AND MEDICAL CENTER

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Commissioners
St. Tammany Parish Hospital Service
District No. 2:

We have audited the accompanying consolidated balance sheets of St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital and Medical Center) as of December 31, 1999 and 1998, and the related consolidated statements of revenue, expenses and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of Slidell Memorial Hospital and Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Slidell Memorial Hospital and Medical Center at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 21, 2000 on our consideration of Slidell Memorial Hospital and Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

April 21, 2000

SLIDELL MEMORIAL HOSPITAL AND MEDICAL CENTER

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1999 AND 1998

ASSETS	1999	1998
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,064,313	$ 4,104,724
Patient accounts receivable, net of allowance for uncollectible accounts of $8,695,237 in 1999 and $4,476,792 in 1998, respectively	24,739,084	17,862,565
Assets whose use is limited - required for current liabilities (Note 2)	840,582	841,150
Inventories	1,740,021	1,700,585
Prepaid expenses and other receivables	1,736,760	2,055,124
Total current assets	30,120,760	26,564,148
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:		
By board or under indenture agreement for capital *improvements and debt service (Note 2)*	14,088,075	20,374,277
LAND, BUILDINGS AND EQUIPMENT (Notes 5 and 9):		
Land and improvements	4,541,549	4,601,711
Buildings	50,406,259	49,889,925
Equipment	43,977,219	39,219,534
Less accumulated depreciation and amortization	(48,664,334)	(43,450,887)
Construction in progress	6,412,792	1,517,330
Total land, buildings and equipment	56,673,485	51,777,613
OTHER ASSETS:		
Investment in affiliated organizations (Note 10)	-	2,600,155
Bond issuance costs, net of accumulated amortization of $522,735 in 1999 and $428,067 in 1998, respectively	1,350,154	1,407,822
Goodwill, net of accumulated amortization of $134,266 in 1999 and $3,089 in 1998, respectively	1,209,205	479
Total other assets	2,559,359	4,008,456
TOTAL	$ 103,441,679	$ 102,724,494
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES:		
Trade accounts payable	$ 6,217,994	$ 3,730,997
Salaries, wages and benefits payable	1,091,572	1,820,148
Accrued vacation payable	1,354,385	1,215,724
Accrued interest and other expenses (Note 8)	1,931,673	1,695,125
Amounts due to third-party payors (Note 3)	743,297	154,028
Amounts due within one year on capital lease obligations and long-term debt (Notes 5 and 6)	4,022,419	3,062,176
Total current liabilities	15,361,340	11,678,198
CAPITAL LEASE OBLIGATIONS, less amounts due within one year (Note 5)	1,089,129	1,788,576
LONG-TERM DEBT, less amounts due within one year (Note 6)	39,852,123	35,275,095
FUND BALANCE	47,139,087	53,982,625
TOTAL	$ 103,441,679	$ 102,724,494

See notes to consolidated financial statements.

SLIDELL MEMORIAL HOSPITAL AND MEDICAL CENTER

CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
REVENUE:		
Net patient service revenue (Notes 3 and 6)	$ 89,995,690	$83,954,410
Other revenue (Note 5)	3,258,669	3,645,394
Total revenue	93,254,359	87,599,804
EXPENSES:		
Salaries and wages (Note 7)	35,519,675	34,159,723
Employee benefits (Note 7)	9,659,917	9,159,145
Supplies and materials	14,803,176	13,038,013
Other direct expenses (Note 5)	8,083,277	7,644,564
Professional fees	4,362,847	3,413,215
Purchased services	4,802,516	3,878,796
Provision for bad debts	6,075,238	4,509,753
Depreciation and amortization	6,481,837	5,841,605
Interest	2,439,625	2,321,157
Total expenses	92,228,108	83,965,971
REVENUE IN EXCESS OF EXPENSES BEFORE NET LOSS IN AFFILIATED ORGANIZATION	1,026,251	3,633,833
NET LOSS IN AFFILIATED ORGANIZATION (Note 10)	(7,869,789)	-
(DEFICIENCY IN) EXCESS OF REVENUE OVER EXPENSES AND LOSSES	(6,843,538)	3,633,833
FUND BALANCE AT BEGINNING OF YEAR	53,982,625	50,348,792
FUND BALANCE AT END OF YEAR	$ 47,139,087	$53,982,625

See notes to consolidated financial statements.

SLIDELL MEMORIAL HOSPITAL AND MEDICAL CENTER

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
OPERATING ACTIVITIES:		
(Deficiency in) excess of revenue over expenses and losses	$ (6,843,538)	$ 3,633,833
Adjustments to reconcile (deficiency in) excess of revenue over expenses and losses to net cash provided by operating activities:		
Net loss in affiliated organization	7,869,789	-
Depreciation and amortization	6,481,837	5,841,605
Provision for doubtful accounts	6,075,238	4,509,753
Interest expense	2,439,625	2,321,157
Loss on sale of capital assets	99,569	108,912
Interest income	(757,434)	(1,909,480)
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(12,951,757)	(7,054,314)
Inventories and other operating assets	303,919	(1,185,346)
Accounts payable and other accrued expenses	2,595,492	(2,183,794)
Net cash provided by operating activities	5,312,740	4,082,326
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Receipts from sale of capital assets	320,969	51,395
Payments for acquisitions of land, buildings and equipment	(11,212,305)	(9,791,269)
Proceeds from issuance of long-term debt	6,200,000	-
Payment of bond issuance costs	(37,000)	-
Principal paid on capital lease obligations and long-term debt	(3,062,176)	(2,717,558)
Interest paid on capital lease obligations and long-term debt	(2,312,218)	(2,430,095)
Net cash used in capital and related financing activities	(10,102,730)	(14,887,527)
INVESTING ACTIVITIES:		
Decrease in assets whose use is limited or restricted	6,286,770	10,855,608
Receipts of interest earned	732,443	1,877,504
Investments in affiliated organizations	-	(1,324,556)
Capital contributions to affiliated organization	(5,269,634)	-
Net cash provided by investing activities	1,749,579	11,408,556
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,040,411)	603,355
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,104,724	3,501,369
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,064,313	$ 4,104,724
NON-CASH TRANSACTIONS:		
Increase in capital lease obligation and equipment	$ -	$ 1,600,598

During fiscal 1999, the Hospital purchased a radiation clinic with an acquired value of $357,341 and in exchange issued $1,700,000 of certificates of indebtedness. (Note 6)

See notes to consolidated financial statements.

SLIDELL MEMORIAL HOSPITAL AND MEDICAL CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1999 AND 1998

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization - St. Tammany Parish Hospital Service District No. 2 (the District), d/b/a Slidell Memorial Hospital and Medical Center (the Hospital), is a nonprofit corporation organized as a political subdivision of the State of Louisiana. The governing authority of the District is the St. Tammany Parish Council (formerly the Policy Jury), which is the governing authority of St. Tammany Parish, Louisiana. The governing authority appoints members of the St. Tammany Parish Hospital Service District No. 2 Board of Commissioners (the Board) to oversee and govern the operations of the Hospital.

Principles of Consolidation - The consolidated financial statements include the accounts and transactions of the Hospital and its member organizations, Camellia Leasing Corporation (Camellia) (which was dissolved during 1999), Slidell Memorial Health Foundation, Inc. (SMH Foundation), SMH Physician Practice Services, Inc. (Physician Practice Services) and Slidell Radiation Center, Inc. (SRC). All material intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting - The Hospital utilizes the accrual basis of accounting for proprietary funds. Under Governmental Accounting Standards Board Statement (GASBS) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Hospital has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Income Tax Status - The Hospital is exempt from federal income tax under both Section 115 of the Internal Revenue Code as a governmental entity and Section 501(a) as a hospital organization as described in Section 501(c)(3). The exemption from federal income taxes also extends to state income taxes. SMH Foundation has been designated as a not-for-profit organization described in Internal Revenue Code Section 501(c)(3) and is exempt from federal income taxation under Internal Revenue Code Section 501(a). Camellia and Physician Practice Services are taxable not-for-profit corporations.

Net Patient Service Revenue and Related Receivables - Net patient service revenue and the related accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The Hospital provides care to patients even though they may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges. As a result, the Hospital is exposed to certain credit risks. The Hospital manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances.

Premium Revenue - The Hospital had agreements with health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under such agreements, the Hospital received monthly capitation payments based on the number of the HMO participants, regardless of services actually performed by the Hospital. Under these agreements, the Hospital is liable for payments to outside medical providers for hospital services rendered. Capitation payments received net of payments to outside medical providers approximated $420,000 and $750,000 in 1999 and 1998, respectively, and are included in net patient service revenue. During 1999, the Hospital terminated its capitation contracts.

Medicare and Medicaid Reimbursement Programs - The Hospital is reimbursed under the Medicare Prospective Payment System (PPS) for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. In addition, the Hospital is paid prospectively for Medicare inpatient capital costs based on the federal specific rate. The Hospital qualifies as a disproportionate share provider under the Medicare regulations. As such, the Hospital receives an additional payment for Medicare inpatients served. Except for Medicare disproportionate share reimbursement and Medicare bad debts, there is no retroactive settlement for inpatient costs under the Medicare inpatient prospective payment methodology.

The Hospital is paid a prospective per diem rate for Medicaid inpatients. The per diem rate is based on a peer grouping methodology which assigns a per diem rate to each hospital in the peer group.

Medicare rehabilitation and home health services are reimbursed on a cost basis, subject to certain limitations imposed by governmental authorities. Medicare outpatient services (excluding ambulatory surgery, clinical lab and radiology diagnostic procedures), Medicaid outpatient services (excluding ambulatory surgery and clinical lab), and Medicare bad debts are reimbursed on a cost basis. Outpatient ambulatory surgery, radiology and other diagnostic services rendered to Medicare beneficiaries are reimbursed based on a blend of costs, published facility fees and prevailing charges. Medicare and Medicaid outpatient clinical lab and Medicaid ambulatory surgery are reimbursed based upon the respective fee schedules. Effective July 1, 2000, outpatient services rendered to Medicare beneficiaries are expected to be reimbursed at prospectively determined rates per procedure.

Retroactive cost settlements based upon annual cost reports are estimated for those programs subject to retroactive settlement and recorded in the financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives. The difference between a final settlement and an estimated settlement in any year is reported as an adjustment of net patient service revenue in the year the final settlement is made.

Cash and Cash Equivalents and Assets Whose Use is Limited or Restricted - Cash equivalents and assets whose use is limited or restricted are recorded at fair value. The Hospital reports short-term, highly liquid investments (that are both readily convertible to known amounts of cash and mature within three months or less from date of purchase) as cash equivalents, excluding amounts classified as assets whose use is limited or restricted on the balance sheet. As of December 31, 1999 and 1998, the Hospital's cash, cash equivalents and certificates of deposit were entirely insured or collateralized with securities held by its agent in the Hospital's name.

Investments – Investments are reported at fair value with gains and losses included in the statements of revenues and expenses.

Inventories - Inventories are valued at the lower of cost (first-in, first-out method) or market.

Land, Buildings and Equipment - Land, buildings and equipment acquisitions are recorded at cost except for assets donated to the Hospital. Donated assets are recorded at the fair value of the assets at the date of donation. Depreciation of buildings and equipment is computed using the straight-line method in amounts sufficient to amortize the cost of these assets over their estimated useful lives.

Equipment held under capital lease obligations has been recorded at the present value of the minimum lease payments. Amortization of leased assets is included in depreciation and amortization expense.

ir estimated useful lives

Goodwill – Goodwill relates to the acquisition of Slidell Radiation Center during 1999 accounted for under the purchase method of accounting. The total purchase price for the underlying assets and goodwill was $1,700,000 which was financed by issuing $1,700,000 of certificates of indebtedness. Goodwill of approximately $1,350,000 is being amortized on a straight-line basis over approximately 8 years. Accumulated amortization was approximately $134,000 at December 31, 1999.

Investment in Affiliated Organizations - The Hospital had two investments in affiliated organizations which were accounted for under the cost and equity methods. The investment accounted for under the cost method was a 17% interest in Southeast Medical Alliance, Inc. This investment was recorded at approximately $2,590,000 at December 31, 1998. As discussed in Note 10, this investment was sold during 1999.

Unamortized Bond Issuance Costs - The costs incurred in connection with the issuance of the Hospital's revenue bonds have been deferred and are being amortized over the life of the bond issues. Amortization is included in depreciation and amortization expense.

Employee Health and Workers' Compensation Insurance - The Hospital is self-insured for hospitalization and workers' compensation claims. Estimated amounts for claims incurred but not reported are calculated based on claims experience and, together with unpaid claims, are included in accrued interest and other expenses on the consolidated balance sheet.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. ASSETS WHOSE USE IS LIMITED OR RESTRICTED

The terms of the Hospital's revenue bond issues require certain funds to be maintained on deposit with the trustee. The funds on deposit with the trustee and funds designated by the Board for capital improvements as of December 31, 1999 and 1998 were as follows:

	1999	1998
Current assets:		
Under bond indenture:		
Bond debt service account	$ 840,582	$ 841,150
Noncurrent assets:		
Under bond indenture:		
Capital improvement account	$ 4,898,418	$ 4,351,007
Debt service reserve account	4,848,737	4,465,670
	9,747,155	8,816,677
By board:		
Designated for capital improvements	3,845,496	11,169,971
Other	495,424	387,629
	$14,088,075	$20,374,277

Statutes authorize the Hospital to invest in direct obligations of the U.S. Government, certificates of deposit of state banks and national banks having their principal office in the State of Louisiana, and any other federally insured investments, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories published by Standard & Poor's or Moody's, and mutual or trust fund institutions registered with the Securities and Exchange Commission (provided the underlying investments of these funds meet certain restrictions). The Hospital's funds were invested in certificates of deposit and U.S. Government obligations carried at fair value at December 31, 1999 and 1998.

3. THIRD-PARTY PAYOR ARRANGEMENTS

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended December 31, 1999 and 1998, approximately 39% and 41%, respectively, of the Hospital's gross patient service charges were derived from services provided to Medicare and Medicaid program beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Revenue derived from the Medicare program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Health and Human Services before settlement amounts become final. Revenue derived from the Medicaid program is subject to audit and adjustment and must be accepted by the State of Louisiana, Department of Health and Hospitals before the settlement amounts become final. The fiscal intermediary has completed its review of estimated Medicare and Medicaid settlements for fiscal years ended through December 31, 1997. Annually, management evaluates the recorded estimated settlements and adjusts these balances based upon the results of the intermediary's audit of filed cost reports and additional information becoming available. Although the fiscal intermediary has not completed its audits of the estimated settlements for the year ended December 31, 1998 and the year ended December 31, 1999, the Hospital does not anticipate significant adverse adjustments to the recorded settlements for those years.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and managed care organizations. The basis for payment to the Hospital under these arrangements includes prospectively determined daily rates, discounts from established charges and monthly capitation payments.

4. COMMUNITY BENEFITS (UNAUDITED)

As a community health care provider, the Hospital's stated mission is "to meet the needs of our customer by providing excellence in health maintenance and education services in a compassionate and cost-effective manner." As such, total revenue includes that generated from direct patient care, rentals from various medical office buildings, interest income, and sundry revenue related to the operation of the Hospital and its member organizations.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care provided during the years December 31, 1999 and 1998, measured at established rates, totaled $5,996,286 and $5,328,439, respectively.

In addition, the Hospital sponsors or participates in numerous activities to benefit the community. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. The Hospital has conducted a Community Health Assessment to identify health risks in the community. Through this research, the Hospital has developed wellness and prevention programs that target these high-risk areas for a healthier community.

Annually, the Hospital sponsors several health fairs and programs regarding such issues as diabetes, breast cancer, prostate cancer, smoke stoppers, nutrition, exercise, cardiology, women's health, parenting skills, development topics, etc., to provide the community access to health-related information. Also, the Hospital provides health screening at no cost or a reduced cost to the community. Some health screenings include prostate cancer, cholesterol, colorectal, skin cancer, glucose, and thyroid screenings.

The Hospital also donates employees' time and encourages its employees to volunteer for charitable organizations and to participate in fund-raising activities. In addition, the Hospital aided various community service organizations through donations and sponsorships.

5. LEASES

The Hospital leases medical and administrative equipment under operating leases with terms that vary from month-to-month to five years. Total rental expense included in other direct expenses on the consolidated statements of revenue, expenses and changes in fund balance was $765,362 and $762,743 for the years ended December 31, 1999 and 1998, respectively.

The Hospital also leases medical equipment under lease agreements accounted for as capital lease obligations in accordance with Financial Accounting Standards Board Statement No. 13 "Accounting for Leases." These capital lease obligations expire at various dates through 2003. The land, buildings and equipment balances on the consolidated balance sheet include equipment under capital lease obligations of $3,596,580 and $5,300,032, less accumulated amortization of $1,666,570 and $2,324,803 at December 31, 1999 and 1998, respectively.

The future minimum lease payments at December 31, 1999 for noncancelable leases are as follows:

	Operating Leases	Capital Leases
2000	$217,596	$ 774,305
2001	94,252	471,795
2002	28,061	360,691
2003	-	330,634
	$ 339,909	1,937,425
Amounts representing imputed interest		148,849
Present value of capital lease obligations (including $699,447 classified as amounts due within one year)		$ 1,788,576

The Hospital and its subsidiary, Camellia, lease space to physicians through a combination of cancelable and noncancelable lease agreements. Rental income earned under these agreements was $840,595 and $948,749 for the years ended December 31, 1999 and 1998.

The future minimum lease payments to be received from noncancelable lease agreements at December 31, 1999 are as follows:

	Operating Leases
2000	$ 627,384
2001	506,361
2002	494,167
2003	272,133
2004	66,417
	$ 1,966,462

6. LONG-TERM DEBT

The details and balances of long-term debt at December 31, 1999 and 1998 are presented below:

	1999	1998
Hospital Revenue Bonds, Series 1994, described in detail below ($1,250,000 due in 2000)	$ 28,860,000	$ 30,050,000
Hospital Revenue Bonds, Series 1996, described in detail below ($731,095 due in 2000)	5,933,448	6,624,129
Hospital Revenue Bonds, Series 1999, described in detail below ($1,024,008 due in 2000)	6,200,000	-
Certificates of Indebtedness, Series 1995, described in detail below ($194,828 due in 2000)	481,647	660,652
Notes payable to physicians, 7% ($123,042 due in 2000)	1,700,000	-
	43,175,095	37,334,781
Less amounts due within one year	3,322,972	2,059,686
	$ 39,852,123	$ 35,275,095

Hospital Revenue Bonds - On May 5, 1994, the Hospital issued $35 million of Hospital Revenue Bonds, Series 1994 (the 1994 Revenue Bonds) to finance the cost of constructing improvements to the Hospital and to defease or liquidate outstanding debt. The bonds are collateralized by a pledge of the Hospital's revenue. Proceeds from the 1994 Revenue Bonds were deposited with a trustee and restricted for the purpose described in the Trust Indenture.

At December 31, 1999, the 1994 Revenue Bonds consisted of: (1) $10,430,000 of serial bonds with interest rates ranging from 5.5% to 6%, payable in annual installments of $1,250,000 to $1,750,000 from October 1, 2000 to 2006; (2) $5,905,000 of 6.125% term bonds due October 1, 2009, with mandatory sinking fund requirements of $1,855,000 to $2,085,000 from October 1, 2007 to 2009; (3) $4,565,000 of 6.125% term bonds due October 1, 2011, with mandatory sinking fund requirements of $2,215,000 and $2,350,000 on October 1, 2010 and 2011; and (4) $7,960,000 of 6.25% term bonds due October 1, 2014, with mandatory sinking fund requirements ranging from $2,495,000 to $2,815,000 from October 1, 2012 to 2014. The bonds are subject to redemption prior to maturity, at the option of the Hospital, on or after October 1, 2004, in whole or in part with premiums of up to 2% of the principal balance.

In connection with the 1994 Revenue Bonds, the Hospital purchased a bond insurance policy issued by Ambac Assurance Corporation (formerly Connie Lee Insurance Company) which guarantees the scheduled payment of principal and interest on the 1994 Revenue Bonds. Also, the Hospital entered into a Trust Indenture with First National Bank of Commerce (now Bank One) which stipulates certain terms and covenants, for example debt service ratios and days of cash on hand, with which the Hospital must comply. The Hospital was not in compliance with one of these covenants as of December 31, 1999. The Hospital has obtained a waiver from the trustee regarding such non-compliance.

On May 5, 1994, the Hospital defeased the 1988 Revenue Bonds outstanding with a portion of the proceeds from the 1994 Revenue Bonds. The Hospital created an irrevocable trust to provide for the payment and retirement of the outstanding 1988 Revenue Bonds. The Hospital deposited U.S. Government Securities with a net carrying value of $10,259,635 into the trust from the proceeds of the 1994 Revenue Bonds together with other funds provided by the Hospital. Securities deposited in the trust fund, together with interest earned, are sufficient to provide for the payment of principal and interest on the defeased 1988 Revenue Bonds on the respective maturity dates. The unpaid principal balance of the 1988 Revenue Bonds was $6,925,000 at December 31, 1999

On October 7, 1996, the Hospital issued $8 million of Hospital Revenue Bonds, Series 1996 (the 1996 Revenue Bonds) to finance the cost of constructing improvements to the Hospital. The 1996 Revenue Bonds bear interest at 5.7% and are payable monthly in equal installments of principal and interest totaling $87,533. The 1996 Revenue Bonds are subject to the 1994 Trust Indenture and have been issued on a parity with the outstanding 1994 Revenue Bonds. The 1996 Revenue Bonds are subject to redemption prior to maturity, at the option of the Hospital, at any time, in whole or in part with a defined prepayment penalty. Essentially, the prepayment penalty is equal to the economic difference, if any, to the original purchaser of the bonds, of obtaining an equivalent loan at the time of the redemption.

During 1966 and 1975, the Hospital issued Revenue Bonds of $625,000 and $2,500,000, respectively, to expand and improve Hospital facilities. On October 11, 1988, these bonds were defeased with the proceeds of the 1988 Revenue Bonds. The Hospital created an irrevocable trust to provide for the payment and retirement of its outstanding 1966 and 1975 Revenue Bonds. Proceeds from the 1988 Revenue Bonds were used to purchase U.S. Government securities that were deposited in the irrevocable trust. The U.S. Government securities, together with interest earned, are sufficient to provide for the payment of principal and interest on the defeased Revenue Bonds on the respective maturity dates. These bonds had unpaid principal balances of $65,000 and $215,000, respectively, at December 31, 1999.

On December 27, 1999, the Hospital issued $6.2 million of Hospital Revenue Bonds, Series 1999 (the 1999 Revenue Bonds) to finance the acquisition and construction of improvements, renovations and extensions to the Hospital, including, but not limited to, routine capital expenditures for information technology upgrades, radiation oncology vault and other capital equipment. The 1999 Revenue Bonds bear interest at 5% and are payable monthly in equal installments of principal and interest totaling $117,002 through January 1, 2005, except for the initial payment on February 1, 2000 of $120,446. The 1999 Bonds are subject to the 1994 Trust Indenture and have been issued in parity with the outstanding 1994 Revenue Bonds. The 1999 Revenue Bonds are subject to redemption prior to maturity, at the option of the Hospital, at any time, in whole or in part with a defined prepayment penalty. Essentially, the prepayment penalty is equal to the economic difference, if any, to the original purchaser of the bonds, of obtaining an equivalent loan at the time of redemption.

Certificates of Indebtedness - On April 20, 1995, the Hospital issued $1,203,000 in Certificates of Indebtedness, Series 1995 (the Certificates) to refinance two promissory notes due in April 1995. Principal is payable in monthly installments until 2002. The unpaid principal balances of the Certificates bear interest at a rate of 8.5% which is payable monthly. The Certificates are secured by and payable solely from the Hospital's excess annual revenues. The Hospital was in compliance with all covenants associated with the Certificates as of December 31, 1999.

Notes to Physicians – On March 1, 1999, the Hospital acquired all the membership rights of Slidell Radiation Center, a non-profit membership corporation. The Hospital issued $1,700,000 in certificates of indebtedness which bear an annual interest rate of 7% and are payable in annual installments of principal and interest of approximately $242,000 over a period of ten years.

The combined aggregate amount of maturities and sinking fund requirements of long-term debt for the next five years are:

2000	$ 3,322,972
2001	3,614,410
2002	3,671,581
2003	3,792,624
2004	4,002,924
Thereafter	24,770,584
	$43,175,095

7. EMPLOYEE BENEFITS

The Hospital has a qualified noncontributory defined contribution pension plan which provides pension benefits for eligible employees. Employees are eligible to participate in the plan when they have a minimum of one year of continuous service. The plan agreement requires the Hospital to contribute a percentage of the first $17,500 of compensation, plus an additional percentage for the portion of compensation in excess of $17,500. The percentages to be applied are based on years of continuous service and range from .8% to 8%. Participating employees become fully vested immediately in Hospital contributions and the interest allocated to their accounts.

The Hospital's total payroll for the years ended December 31, 1999 and 1998 was $35,519,675 and $34,159,723, respectively, and its contributions were determined based on covered salaries of $23,801,526 and $22,895,401. During the years ended December 31, 1999 and 1998, the Hospital made required contributions to the Plan of $1,122,208 and $1,002,640, respectively (approximately 4.7% and 4.4% of covered payroll for the years ended December 31, 1999 and 1998, respectively).

8. RISK MANAGEMENT

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. The Hospital participates in the Louisiana Hospital Association Trust Fund ("Trust Fund") and the Louisiana Patients' Compensation Fund ("Compensation Fund") for insurance coverage on medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability which provides that no award can be rendered against it in excess of $500,000, plus interest and costs. The Trust Fund provides malpractice coverage for claims up to $100,000 and the Compensation Fund provides an additional $400,000 of coverage. These funds provide the Hospital with malpractice coverage on an occurrence basis up to the $500,000 statutory limitation. Hospital management has no reason to believe that the

Hospital will be prevented from continuing its participation in the Fund. LHA Trust Fund insures general liability up to $1,000,000 per claim. LHA Trust Fund insures excess liability claims in excess of $1,000,000 but limited to $9,000,000 per claim. At December 31, 1999, there were no malpractice accruals, the Hospital is fully insured. Additional claims may be asserted against the Hospital arising from services provided to patients through December 31, 1999. The Hospital is unable to determine the ultimate cost of the resolution of such potential claims and, accordingly, no accrual has been made for them.

The Hospital is self-insured for workers' compensation up to $300,000 per claim, and employee health up to $120,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors. The Hospital carries commercial insurance which provides coverages for workers' compensation and employee health claims in excess of the self-insured limits.

Changes in the Hospital's aggregate claims liability for workers' compensation and employee health for the years ended December 31, 1999 and 1998 were as follows:

Year Ended December 31	Beginning of year Liability	Current Year Claims and Changes In Estimates	Claim Payments	Balance at Year End
1999	$ 529,222	$ 6,486,708	$ 6,430,732	$ 585,198
1998	$1,443,765	$ 5,598,134	$ 6,512,677	$ 529,222

9. COMMITMENTS

The Hospital has several major construction projects planned or in process, funded by the issuance of its revenue bonds. The remaining estimated costs to be incurred related to these projects is approximately $2,000,000 as of December 31, 1999. The amount of interest capitalized related to these projects during the years ended December 31, 1999 and 1998 is immaterial to the consolidated financial statements.

At December 31, 1999, the Hospital had commitments to acquire approximately $2,500,000 of equipment which it plans to finance in 2000.

10. INVESTMENT IN SOUTHEAST MEDICAL ALLIANCE

During 1994, Southeast Medical Alliance (SMA) created an HMO joint venture through a Louisiana limited liability corporation (LLC). The Hospital's interest in the HMO was approximately 17%. The LLC owns 100% of the HMO's common stock. Members of the LLC are insulated from any liability for debts and obligations of the LLC and the HMO. The HMO experienced continued operating losses, and as a result, the Hospital wrote-off its entire investment in SMA during 1999. These losses necessitated capital contributions from the Hospital during 1999 of approximately $3,000,000 in order to satisfy regulatory reserve requirements of the Department of Insurance of the State of Louisiana. As of January 1, 2000, SMA was sold, and, as a result the Hospital's stock interest was sold and transferred. In conjunction with the sale, the Hospital made a capital contribution of $2,200,000 to SMA to cover the Hospital's share of remaining claims outstanding. The total loss reported in 1999 related to the disposition of the SMA investment was approximately $7,900,000.

* * * * * *

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board of Commissioners
St. Tammany Parish Hospital Service District No. 2
Slidell, Louisiana

We have audited the financial statements of St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital and Medical Center) (the "Hospital"), as of and for the year ended December 31, 1999, and have issued our report thereon dated April 21, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Commissioners and management and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

April 21, 2000

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April 21, 2000

Members of the Board of Commissioners
St. Tammany Parish Hospital Service
District No. 2
Slidell, Louisiana

Dear Members of the Board of Commissioners:

In planning and performing our audit of the financial statements of St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital and Medical Center) for the year ended December 31, 1999 (on which we have issued our report dated April 21, 2000), we developed the following recommendations concerning certain matters related to the Hospital's internal control and certain observations and recommendations on other accounting, administrative, and operating matters. Our comments are presented in Exhibit I and are listed in the table of contents thereto.

This report is intended solely for the information and use of the Board of Commissioners, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss these comments with you and, if desired, to assist you in implementing any of the suggestions.

Yours truly,

Deloitte & Touche LLP

SLIDELL MEMORIAL HOSPITAL AND MEDICAL CENTER

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EXHIBIT I

INCREASING SELF-PAY ACCOUNTS RECEIVABLE

Observation

We noted a significant deterioration in the aging categories for the self-pay accounts receivable financial classes during 1999. Self-pay receivables, which include amounts remaining due from patients after recoveries from insurance and Medicare, carry the greatest credit risk for the Hospital. The Hospital's self-pay patient accounts receivable greater than 150 days old increased approximately 152% from $2.9 million at December 31, 1998 to $7.3 million at December 31, 1999. This deterioration appears to be due to a number of factors including a conversion to SMS, the lack of a Business Office Director for much of the year, the lack of bills being produced for several weeks, and a suspension of write-offs of old accounts. A review of agings at March 2000 indicates that the deterioration has continued in the first quarter of 2000.

Self-pay as a percentage of total accounts receivable (net of contractual allowances) is higher than most hospitals of similar size in the Greater New Orleans area. Self-pay as a percentage of total accounts receivable (net of contractual allowances) approximated 20% at December 31, 1999 and 1998, compared to self-pay for hospitals of similar size in the Greater New Orleans area ranging from 6% to 10% of total accounts receivable for 1999 and 1998.

The Hospital's number of days of net patient revenue in net accounts receivable also remains higher than the average of hospitals similar in size and nature. Days in net patient accounts receivable indicates the number of days of net patient revenues represented by uncollected patient balances after considering all appropriate allowances and deductions. Based upon our computation of data obtained from cost reports of similar not-for-profit providers and other high managed care providers, the 50th percentile of days revenue in net accounts receivable is 66 days; we understand that the current average for New Orleans area hospitals is approximately 80 days. At December 31, 1999, the Hospital's days in patient accounts receivable was 100 days; at December 31, 1998 the statistic was 78 days.

Recommendation

Difficulties encountered in the system conversion and the absence of a Business Office Director caused the Hospital to lose ground in terms of receivables management during 1999. We recognize that management has made the timely collection of accounts receivable a high priority and recommend that the Hospital continue to further evaluate its current practices of monitoring accounts receivable collections in order to reduce the number of days in net patient accounts receivable which, in turn, will improve cash flow of the Hospital. We also recommend that the Hospital critically review its admissions policies to better understand the reasons for the high level of self-pay admissions.

Management Response

A permanent Business Office Manager started March 20, 2000. He is in the process of a detailed analysis and review of accounts receivable. A number of conversion problems have been identified. Numerous file maintenance corrections have been made to patient statements, bill generation, and bad debt programs. We have begun to see an increase in self-pay payments and should begin to soon realize an improvement in the aging of this area of accounts receivable.

ALLOWANCE FOR UNCONTRACTUALIZED PATIENT ACCOUNTS RECEIVABLE

Observation

Management provides an allowance each month for accounts which are not automatically contractualized by the system. The allowance serves as an estimate of charges which will be reduced under the various contracts once the payment on the patient's account is received in full. As the number and terms of managed care plans change during a fiscal year, the expected recovery to the Hospital also changes.

Background

During 1999, management implemented a software application to track the actual recovery experience in each managed care contract. Unfortunately, this capability was lost with the implementation of the SMS system late in the year. We have been informed that these reporting capabilities are scheduled to be restored during the summer.

Recommendation

We recommend that management perform an analysis of the average recovery on managed care business at least quarterly and adjust the allowance rate for patient accounts accordingly in order to more accurately reflect the net patient service revenue.

Management Response

We are currently testing the new extracts which have been written for the TSI system and hope to have them in production within the next couple of weeks. Our next step will be to load and process the data for the last quarter of 1999 and first quarter of 2000. We will then have the ability to perform the analysis recommended on current data. We will incorporate this analysis into our monthly financial statement process.

CHARITY CARE ACCOUNTING POLICY

Observation

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Hospital does not, however, have a consistent accounting policy for recording charity care.

Charity care represents health care services that are provided but are never expected to result in cash flows because of a patients inability to pay. As a result, charity care does not qualify for recognition as receivables or revenue in the financial statements. Alternatively, bad debts result from the unwillingness of a patient to pay. Although it is not necessary for the Hospital to make this determination upon admission or registration of an individual, at some point the Hospital must determine that the individual meets the established criteria for charity care. If such judgments are made timely, the opportunities are enhanced to qualify the patient under Medicaid and derive some recovery under that program.

Currently, management is judgmentally allocating a portion of the amounts written off as bad debts to charity care expense. While it is acceptable to set up an allowance for charity care against the patient accounts receivable balance based on historical experience, actual charity care write-offs should be specifically identified accounts.

Recommendation

The Hospital should develop a written accounting policy for recording amounts written off for charity care.

Management Response

The Business Office Manager has drafted a policy for the application of charity care. This will be reviewed and adopted within thirty days.

BUSINESS CONTINUITY PLAN

Observation

The Hospital does not have a business continuity plan in place to minimize the risks associated with computer system and facility downtime. Limited steps have been taken to provide recovery capabilities for information systems should a disruption in data processing occur. These include the backup of production data and programs. Additionally, a business continuity plan that includes user procedures for capturing information, manual processing of critical transactions, future system entry of transactions, and the balancing and verifying of information once the system in back on-line, has not been documented. This is a key time for the Hospital to re-evaluate business continuity needs as it is undergoing significant system changes.

Business Insight

Critical clinical and business functions are directly dependent upon computer processing throughout the Hospital. While making regular system backups is a proactive measure to mitigate potential outages, backups alone are not sufficient recovery plans. A contingency plan needs to reasonably ensure that data processing services could be efficiently and effectively resumed within an acceptable period of time following a disaster. Without the implementation of a comprehensive business continuity plan for both information technology and user groups to enact it in the event of a processing disruption, the risk of invalid and/or lost information is significantly increased.

As the Hospital is undergoing major system changes, this is an opportunity to develop a thorough business continuity plan along with the new system implementations. It is critical to ensure all aspects of business processes are included within the plan.

Recommendation

The Hospital should determine a strategy for business continuity planning throughout the Hospital. The business continuity plan should include the following considerations:

- A risk assessment in order to prioritize processing of key applications
- Identification of critical data files and software
- Identification of critical hardware and telecommunications equipment
- Documentation of backup processing facilities and any specific agreements concerning such facilities
- Assignment of specific responsibilities to users and data processing personnel, as well as a process to identify change within the organization and make updates to ensure the plan remains current

- Interim procedures to ensure data is captured and maintained in order to be entered at the time the system is available again

- Off-site storage of documentation, procedure manuals, and operation schedules

- Procedures for recovery and restart of processing

Disaster recovery tests should be planned and conducted that involve Information Systems professionals as well as end users. The tests should be comprehensive enough to verify the Hospital's ability to bring up critical systems and network connectivity in a capacity that end users could access critical applications and process transactions from their designated recovery locations. Information Systems and business/clinical partners should work together to ensure that, in the event of a disaster or disruption in computer system availability, both data processing and business functions could be recovered with minimal loss of time and information.

Management Response

Development of a detailed and comprehensive business continuity plan as outlined in the auditors recommendations is a major undertaking, but as the operations of the Hospital continue to increase the reliance on computer systems, the ability to continue to provide patient care and carry on business functions is critical. While the Hospital systems are presently all running on computer servers that utilize hard disk technology that greatly reduces the likelihood that any data could be lost and the systems are backed up weekly or nightly, depending upon the system, to tapes that are stored in the Human Resources safe, the development of detailed service recovery plans are not yet complete. Because the development of this plan will be resource intensive, proposals for the development of the plan will be requested from various consulting firms.

MONITORING AND REVIEW OF SMS SAR REPORT

Observation

Monitoring of SMS processing is not taking place. The Hospital has not received or reviewed a Service Auditor's Report (SAR) for the SMS datacenter being used.

Business Insight

Without monitoring, the Hospital has no way of knowing if they are getting the service defined in their contract. The SAR provides a minimum level of comfort that the SMS datacenter is secure and general computer controls are in place.

Recommendation

We recommend that the Hospital review the SAR for the SMS datacenter. We recommend that the Hospital begin monitoring service provided by SMS to ensure service level agreements are being met.

Management Response

The SAR has since been received and reviewed. Internal monitoring of the response being received from SMS will be developed and compared to the monthly statistics and service bill from SMS.

POST IMPLEMENTATION REVIEW OF SMS

Observation

A post implementation review of SMS has not taken place. The Hospital has not reviewed the security and controls of the system for appropriateness. Internal controls for the SMS system have not been evaluated to ensure proper functionality.

Business Insight

Without reviewing the current access of SMS, the Hospital cannot be sure that all test and implementation Ids have been removed from the system. Based on a review of the Cash group, several training Ids are still active. Also, several Ids used during implementation and testing still have high level access. Excess Ids on the system provide more ways of entry from an intruder or even an innocent mistake. Ids which might have needed high level access for testing, may not need the access now. In addition, several problems with billing functions have occurred since SMS went live.

Recommendation

The Hospital should assign the responsibility of reviewing and monitoring SMS users and their access levels to department managers. Further, policies and procedures regarding monitoring and reviewing user accounts should be documented as part of the Hospital's policies. In addition to access reviews, the Hospital should review the internal controls in the SMS environment to ensure proper functionality.

Management Response

A security officer has been assigned and will perform a total review of all system security access and get all Hospital managers to review their staff security access.

SECURITY MONITORING AND REVIEW

Observation

Security review and monitoring of platform access, application access, remote access (including internet connectivity) and vendor access is not performed on a regular basis, increasing the risk that unauthorized access to information is not being detected in a timely manner.

Business Insight

Security review and monitoring provide an important mechanism in the effort to secure computer environments. This process includes the review of items such as:

- Periodic review of users' access privileges to ensure that the assignment of access privileges is appropriate for the users' job functions and terminated users have been removed from the system

- Daily or weekly review of security violation logs to detect any unauthorized access attempts at both the system and application level

- Periodic review of system parameters to detect any unauthorized changes to critical system settings

- Daily review of remote access to the computer environments to detect any unauthorized access attempts committed by intruders

These types of reviews will help ensure segregation of duties is maintained, terminated users are completely removed from all systems, and intruders are detected early to minimize potential damage that may be done.

Recommendation

The Hospital should assign the responsibility of security monitoring and review to key information system professionals. Further, policies and procedures regarding security monitoring and review should be documented as part of the Hospital's policies.

Management Response

The security officer position is being upgraded, and that individual will spend their time only performing the security monitoring as recommended by the auditors. This will require the hiring of an additional staff member to perform the support functions that the security officer was performing.

AS/400 SYSTEM VALUES

Observation

Our review of AS/400 System Value settings revealed opportunities to enhance system-level security.

Business Insight

AS/400 System Values are default settings for a variety of programmed controls designed to protect system objects (files, databases, programs, etc.) from unauthorized access and resulting loss, corruption and compromise. Although controls over physical access to the AS/400 are in place, programmed controls add an extra layer of security at a negligible cost.

Inactive job time-out (QINACTIV) specifies the inactive job time-out interval in minutes. It specifies when the system takes action on inactive interactive jobs. This control helps ensure that improper individuals do not access active terminals.

Limit Device Session (QLMTDEVSSN) is a utility that helps enforce individual accountability by restricting users to single sessions. This control also helps reduce the incidence of unattended workstations, (as the utility would alert a user if he/she already has a current session).

Maximum sign-on attempts allowed (QMAXSIGN) is a control that determines the maximum number of sign-on attempts a user is allowed. This control helps ensure that someone is not trying to gain unauthorized access.

Recommendation

We recommend changing System Values as per below:

Name	Description	Current Value	Recommended Value
QINACTIV	Inactive job time-out	*NONE	
QLMTDEVSSN	Limit Device Session	0	1
QMAXSIGN	Maximum Signon Attempts Allowed	*NOMAX	3

performing.

Management Response

QINACTIV is a command that will deactivate a terminal if there is no activity –

- Our applications do have security at the application and menu level, which limit the ability for a non-user to move around in the application.

- Many of the users of the AS/400 run jobs / reports that take up to and more than one hour.

- If inactive job time-out was implemented it could possibility kill some of the processing taking place.

We will investigate the impact of implementation of this recommendation on Hospital operations.

QLMTDEVSSN - Limit Device Sessions to one.

We have limited to one and will provide operations, programming and other power users who sign additional security statement with additional sessions.

QMAXSIGN – Limit Maximum Signon Attempts Allowed to 3.

We have set QMAXSIGN to five and after allowing users time to understand new rule we will set to three on June 1, 2000.

POLICIES AND PROCEDURES

Observation

We noted that comprehensive policies and procedures have not been developed for all IS functions. Specifically, we noted that the following areas could be enhanced with policies and procedures:

- Remote access policy that states what type of users can obtain remote access and what the access can be used for.

- Internet usage policy defining who can have Internet access and what the proper uses of access are.

- Program change control procedures that explain who can make program changes and how those changes are implemented into the production environment.

Business Insight

Policies and procedures are important to ensure that common processes are followed for all systems and users regarding system access and setup. Without established policies and procedures access to system resources may not be consistently controlled and contribute to a less secure environment. They also aid in employee training and transitioning job functions when personnel leave. Documentation will provide basic guidelines for users and IT personnel as they transition into their job position. Additionally, policies and procedures set a common standard and provide guidelines to which users can be held accountable. If users are not aware of intended or acceptable usage of resources they cannot be held to any standard.

Recommendation

We recommend that policies and procedures be developed for all areas of information systems. Areas of high risk such as program change should be addressed as soon as possible.

Management Response

The department continues to enhance the policies and procedures each month and has developed a procedure / police / help manual to be placed at each terminal. These were scheduled to be distributed by the end of April 2000. We also have developed training manuals for the SMS system on the proper use of SMS clinical system and have performed training for all new clinical staff. All new Hospital employees receive an introduction from the CIO on security in the Hospital's information systems department as well as a general systems training and review of policies.

Procedures for the safeguarding of data and the proper controlled updating of systems are being followed. The development of formal policies and procedures for the operation of the IS department is being worked on as we address system requirements.

Each IS department manager will be given a list of procedures and policies to formalize for the organization.