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ST. THOMAS HEALTH SERVICES, INC.

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Release Date 9-4-96

FINANCIAL AND COMPLIANCE AUDIT

TOGETHER WITH

INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 1995

Bruno

& Tervalon

CERTIFIED PUBLIC ACCOUNTANTS

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& Tervalon

MICHAEL B. BRUNO, CPA
ALCIDE J. TERVALON, JR., CPA
WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
St. Thomas Health Services, Inc.

We have audited the accompanying balance sheet of St. Thomas Health Services, Inc. (a non-profit corporation) as of December 31, 1995 and the related statements of support, revenues, expenditures and changes in fund balance and functional expenses for the year then ended. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Governmental Auditing Standards, and the provisions of OMB Circular A-133. Those standards and the provisions of OMB Circular A-133 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 audit provides a reasonable basis for our opinion.

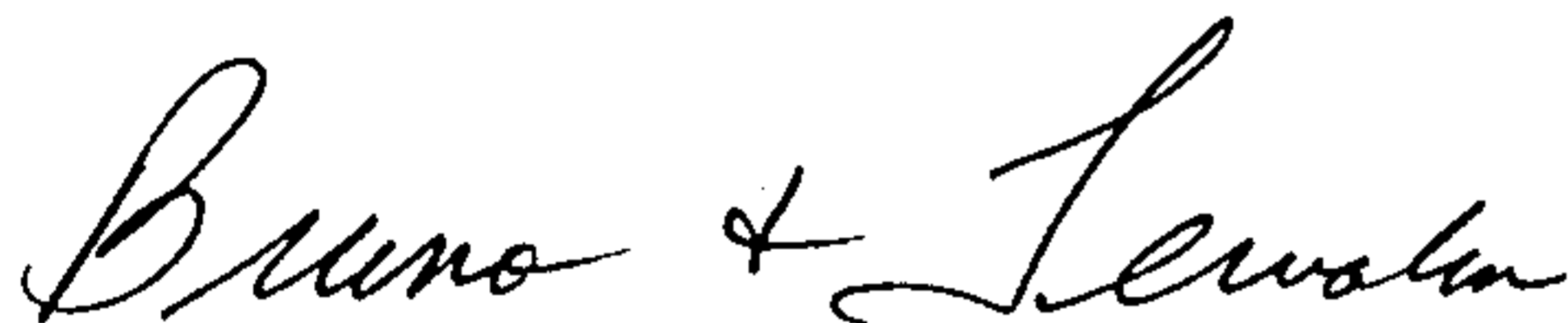
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Thomas Health Services, Inc. as of December 31, 1995, and the results of its operations and changes in fund balance for the year then ended in conformity with generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors
St. Thomas Health Services, Inc.
Page 2

Our audit was made for the purpose of forming an opinion on the financial statements of St. Thomas Health Services, Inc. taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the same auditing procedures applied in the audit of the financial statements and, in our opinion is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated June 14, 1996 on our consideration of St. Thomas Health Services, Inc.'s internal control structure and a report dated June 14, 1996 on its compliance with laws and regulations.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 14, 1996

Bruno

CERTIFIED PUBLIC ACCOUNTANTS

& Tervalon

ST. THOMAS HEALTH SERVICES, INC.
BALANCE SHEET
DECEMBER 31, 1995

	GENERAL FUND	COMMUNITY DEVELOPMENT BLOCK GRANT	GREAT EXPECTA- TIONS	MATERNAL AND CHILD HEALTH	FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN	PRIMARY CARE CLINIC	TOTAL (MEMORANDUM ONLY-NOTE 2)
<u>Current Assets</u>							
Cash and temporary investments (NOTE 3)	\$ 4,784	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 4,784
Grants receivable	8,750	49,000	15,323	43,935	11,590	-0-	128,598
Contributions receivable	5,200	-0-	-0-	-0-	-0-	-0-	5,200
Due from other programs (NOTE 9)	<u>118,582</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>118,582</u>
Total current assets	<u>137,316</u>	<u>49,000</u>	<u>15,323</u>	<u>43,935</u>	<u>11,590</u>	<u>-0-</u>	<u>257,164</u>
Building improvements, furniture and equipment, net of accumulated depreciation of \$209,582 (NOTE 2)	393,462	-0-	-0-	-0-	-0-	-0-	393,462
Other assets	<u>2,891</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>2,891</u>
Total assets	<u>\$533,669</u>	<u>\$49,000</u>	<u>\$15,323</u>	<u>\$43,935</u>	<u>\$11,590</u>	<u>\$-0-</u>	<u>\$653,517</u>

The accompanying notes are an integral part of these statements.

ST. THOMAS HEALTH SERVICES, INC.
BALANCE SHEET, CONTINUED
DECEMBER 31, 1995

	GENERAL FUND	COMMUNITY DEVELOPMENT BLOCK GRANT	GREAT EXPECTA- TIONS	MATERNAL AND CHILD HEALTH	FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN	PRIMARY CARE CLINIC	TOTAL (MEMORANDUM ONLY-NOTE 2)
<u>Current Liabilities</u>							
Accounts payable	\$ 221,257	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 221,257
and accrued expense							
Loans payable	85,599	-0-	-0-	-0-	-0-	-0-	85,599
(NOTE 11)							
Due to other programs	-0-	49,000	15,323	43,935	10,324	-0-	118,582
(NOTE 9)							
Total current liabilities	<u>306,856</u>	<u>49,000</u>	<u>15,323</u>	<u>43,935</u>	<u>10,324</u>	<u>-0-</u>	<u>425,438</u>
<u>Long-Term Liabilities</u>							
Loans payable (NOTE 11)	<u>40,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>40,000</u>
Total liabilities	<u>346,856</u>	<u>49,000</u>	<u>15,323</u>	<u>43,935</u>	<u>10,324</u>	<u>-0-</u>	<u>465,438</u>
CONTINGENCY (NOTE 12)							
<u>Fund balances</u>							
Fund balances	<u>186,813</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,266</u>	<u>-0-</u>	<u>188,079</u>
Total liabilities and fund balances	<u>\$533,669</u>	<u>\$49,000</u>	<u>\$15,323</u>	<u>\$43,935</u>	<u>\$11,590</u>	<u>\$ -0-</u>	<u>\$653,517</u>

The accompanying notes are an integral part of these statements.

ST. THOMAS HEALTH SERVICES, INC.
 STATEMENT OF SUPPORT, REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED DECEMBER 31, 1995

	GENERAL FUND	COMMUNITY DEVELOPMENT BLOCK GRANT	GREAT EXPECTA- TIONS	MATERNAL AND CHILD HEALTH	FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN	PRIMARY CARE CLINIC	TOTAL (MEMORANDUM ONLY-NOTE 2)
Support and Revenues							
Support:							
Grantor-State of Louisiana	\$ 11,250	\$ -0-	\$ -0-	\$191,875	\$43,493	\$ 2,764	\$249,382
Grantor-City of New Orleans	<u>-0-</u>	<u>49,000</u>	<u>79,656</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>128,656</u>
Total support	<u>11,250</u>	<u>49,000</u>	<u>79,656</u>	<u>191,875</u>	<u>43,493</u>	<u>2,764</u>	<u>378,038</u>
Revenues							
Contributions	245,618	-0-	-0-	-0-	-0-	-0-	245,618
Other income	7,819	-0-	-0-	-0-	-0-	-0-	7,819
Clinic revenues (NOTE 6)	<u>144,952</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>144,952</u>
Total revenues	<u>398,389</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>398,389</u>
Total support and revenues	<u>409,639</u>	<u>49,000</u>	<u>79,656</u>	<u>191,875</u>	<u>43,493</u>	<u>2,764</u>	<u>776,427</u>

The accompanying notes are an integral part of these statements.

ST. THOMAS HEALTH SERVICES, INC.
STATEMENT OF SUPPORT, REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 1995

	GENERAL FUND	COMMUNITY DEVELOPMENT BLOCK GRANT	GREAT EXPECTA- TIONS	MATERNAL AND CHILD HEALTH	FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN	PRIMARY CARE CLINIC	TOTAL (MEMORANDUM ONLY-NOTE 2)
<u>Expenses</u>							
Program services	\$ -0-	\$ 56,907	\$ 54,609	\$ 191,875	\$ 51,318	\$ 2,764	\$ 357,473
Management and general	561,027	-0-	-0-	-0-	-0-	-0-	561,027
Depreciation (NOTE 2)	<u>57,444</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>57,444</u>
Total expenses	<u>618,471</u>	<u>56,907</u>	<u>54,609</u>	<u>191,875</u>	<u>51,318</u>	<u>2,764</u>	<u>975,944</u>
Excess (deficiency) of support and revenues over expenses	(208,832)	(7,907)	25,047	-0-	(7,825)	-0-	(199,517)
<u>Other Transfers</u>							
Transfers in (out) of program income (NOTE 8)	(23,233)	7,907	15,326	-0-	-0-	-0-	-0-
Transfer in (out) equipment acquisition	40,373	-0-	(40,373)	-0-	-0-	-0-	-0-
Fund balances, beginning of year	<u>378,505</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>9,091</u>	<u>-0-</u>	<u>387,596</u>
Fund balances, end of year	<u>\$ 186,813</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,266</u>	<u>\$ -0-</u>	<u>\$ 188,079</u>

The accompanying notes are an integral part of these statements.

ST. THOMAS HEALTH SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1995

	COMMUNITY DEVELOPMENT BLOCK GRANT	GREAT EXPECTATIONS	MATERNAL AND CHILD HEALTH	FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN	PRIMARY CARE CLINIC	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	TOTAL (MEMORANDUM ONLY)-NOTE 2
Salaries, wages and related taxes	\$56,907	\$37,860	\$191,875	\$50,728	\$1,736	\$339,106	\$345,962	\$685,068
Employee benefits	-0-	-0-	-0-	-0-	-0-	-0-	37,575	37,575
Pharmacy, medical supplies and services	-0-	677	-0-	-0-	1,028	1,705	24,579	26,284
Insurance	-0-	3,069	-0-	-0-	-0-	3,069	32,336	35,405
Utilities	-0-	161	-0-	-0-	-0-	161	19,072	19,233
Taxes and licenses	-0-	-0-	-0-	-0-	-0-	-0-	533	533
Professional services	-0-	6,000	-0-	-0-	-0-	6,000	32,091	38,091
Maintenance and repairs	-0-	-0-	-0-	-0-	-0-	-0-	7,205	7,205
Office expense	-0-	2,842	-0-	580	-0-	3,422	11,531	14,953
Telephone	-0-	879	-0-	-0-	-0-	879	5,797	6,676
Education and transportation	-0-	1,050	-0-	-0-	-0-	1,050	9,010	10,060
Postage	-0-	-0-	-0-	10	-0-	10	2,373	2,383
Dues and subscriptions	-0-	362	-0-	-0-	-0-	362	1,685	2,047
Other	-0-	820	-0-	-0-	-0-	820	1,750	2,570
Penalties and interest	-0-	-0-	-0-	-0-	-0-	-0-	2,325	2,325
Security	-0-	-0-	-0-	-0-	-0-	-0-	25,753	25,753
Travel and entertainment	-0-	889	-0-	-0-	-0-	889	841	1,730
Donations/outreach	-0-	-0-	-0-	-0-	-0-	-0-	609	609
Total	\$56,907	\$54,609	\$191,875	\$51,318	\$2,764	\$357,473	\$561,027	\$918,500

The accompanying notes are an integral part of these statements.

ST. THOMAS HEALTH SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - Organization:

St. Thomas Health Services, Inc. (St. Thomas or the Clinic) is a community-based, nonprofit, primary health care clinic that provides ambulatory health care services, including diagnostic testing and medications, to the medically indigent of the St. Thomas Housing Project and the surrounding area.

The Clinic was founded in 1987 to improve the health status in the service area with major emphasis being placed on disease prevention.

Start-up funds, equipment, as well as on-going financial support for the operation of *the Clinic* in a neighborhood where 70-80% of residents are uninsured and where 25% of the patients are homeless, have been obtained primarily from private sources and various grants. *The Clinic* also makes use of support services offered by neighboring social service agencies and hospitals such as Hope House, Kingsley House, Bridge House and the New Orleans medical community. *The Clinic* also lends its support through the provision of specialized laboratory testing, diagnostic services and hospitalization services at low or no cost.

St. Thomas is governed by a fifteen (15) member Board of Directors all of whom serve until their resignation or removal from the Board.

In order to assist *St. Thomas* in meeting its goals and mission of providing services as a primary health care clinic, *St. Thomas* has applied for and been awarded several government grants. During the year ended December 31, 1995, *St. Thomas* received and administered the following governmental grants and programs:

o MATERNAL AND CHILD HEALTH CARE PROGRAM

This program, funded by a grant from the State of Louisiana, Department of Health and Hospitals, provides services as follows:

- Comprehensive pediatric care to approximately 1,000 children.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - Organization, Continued:

- Comprehensive health care to approximately 250 adult women and adolescents of child bearing age.
- Social work and nutritionist services.
- Coordination of maternal and child health services offered at the clinic with WIC and Medicaid.
- Development of outreach programs to increase access to primary health care.

o WOMEN, INFANTS, AND CHILDREN (WIC)

This program which was funded by a grant from the State of Louisiana, Department of Health and Hospitals, provides for the following services:

Professional, administrative and clerical services necessary to provide special supplemental foods to qualified women, infants and children living in Orleans Parish and receiving health services provided by *St. Thomas*, or referred by other health providers, according to the terms and specifications of the WIC Program as stated in the Policy and Procedure Manual for the Louisiana WIC Program.

o COMMUNITY DEVELOPMENT BLOCK GRANT

St. Thomas received a grant from the City of New Orleans, the Office of Housing and Urban Affairs to provide adult ambulatory health care.

o GREAT EXPECTATIONS

St. Thomas received a grant from the City of New Orleans to provide low-risk prenatal, family planning and general obstetrical services.

o SEXUAL TRANSMITTED DISEASES (STD) GRANT

St. Thomas received a grant from the State of Louisiana, Department of Health and Hospitals to provide STD and HIV prevention services to clients in the service area.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies:

Principles of Accounting

St. Thomas Health Services, Inc. is a non-profit, community based health clinic whose financial statements are prepared on the accrual basis and in accordance with generally accepted accounting principles.

Fund Accounting

Each program and grant administered by *St. Thomas* is accounted for as a separate fund. Accordingly, resources for various programs are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund.

Inter-Fund Activity

All inter-fund activities have been recorded as due to or due from other programs and represent any loans to or expenses paid by one program on behalf of another.

Building Improvements, Furniture, and Equipment

Building improvements, furniture, and equipment of *St. Thomas* are recorded as assets and are stated at historical costs, if purchased, or at fair market value at the date of the gift, if donated. Additions, improvements and expenditures that significantly extend the useful life of an asset are capitalized.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Furniture, fixtures and equipment	5 years
Building improvements	15 years

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued:

Support and Revenues

Revenues received under government grant programs are recognized when earned.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor or the Board of Directors.

Total-Memorandum Only

The total column on the financial statements is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Such data is not comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

NOTE 3 - Cash and Temporary Investments:

Cash and temporary investments consist of the interest bearing and non-interest bearing checking accounts.

NOTE 4 - Unrestricted Contributions:

Contributions consist of donations made to *St. Thomas* to provide support to the operation of the clinic as well as to fund specific projects as designated by the donor or the Board of Directors.

NOTE 5 - Government Grants:

St. Thomas is the recipient of several federal awards as disclosed in the Schedule of Federal Awards. Included in government grant revenues are funds disbursed from several funding sources to provide funds for the implementation of various community programs as well as to support the operations of *the Clinic*. The method of payment on the grants is cost reimbursement except for the Women, Infants, and Children (WIC) grant and the STD Grant which are on a fee for service basis.

ST. THOMAS HEALTH SERVICES, INC.
 NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 6 - Clinic Revenues:

St. Thomas provides medical assistance to eligible medicaid recipients and receives reimbursements from the Department of Health and Human Services for claims submitted in conjunction with those services provided. Reimbursements for medicaid and medicare claims submitted as of December 31, 1995 totaled \$111,190, which is included in clinic revenues at December 31, 1995.

NOTE 7 - Building Lease:

On January 30, 1991, *St. Thomas* executed a fifteen (15) year lease agreement with the Society of Redemptorists Order for the use of a building located at 1020 St. Andrew Street. The terms of the lease require *St. Thomas* to be responsible for the complete renovation of the building, upkeep and maintenance of the property, utilities and insurance coverage for the building and its contents.

Additionally, *St. Thomas* will not be required to pay any monthly rental expense. The amount of the related value of such arrangement has not been determinable at this time.

The building is to be used solely for the purpose of a neighborhood primary health care facility.

NOTE 8 - Program Income:

Program income for the CDBG and the Great Expectations grants was calculated based upon the percentage relationship of the direct cost of the CDBG's and Great Expectations' program expenditures to the total expenditures (excluding depreciation). The resulting percentage was then applied to revenues as follows:

<u>Description</u>	<u>1995 Income Amount</u>	<u>CDBG Program Income</u>	<u>Great Expectations' Program Income</u>
Clinic revenues	\$144,952	\$7,407	\$14,357
Other income	<u>7,819</u>	<u>500</u>	<u>969</u>
Total	<u>\$152,771</u>	<u>\$7,907</u>	<u>\$15,326</u>

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 9 - Due to (from) Other Programs:

At December 31, 1995 the due to or due from other programs consisted of the following:

<u>PROGRAM</u>	<u>Amount</u>
<u>Due to General Fund</u>	
Community Development Block Grant	\$ 49,000
Maternal Child Health	43,935
Women, Infants and Children	10,324
Great Expectations	<u>15,323</u>
Total	<u>\$118,582</u>

NOTE 10 - Income Taxes:

St. Thomas is exempt from federal income taxes through Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes is made in the accompanying financial statements:

NOTE 11 - Loans Payable:

Non-interest bearing demand loan	\$ 10,000
Non-interest bearing demand loan provided by a sponsor corporation	55,599
Non-interest bearing term loan provided by a sponsor corporation	<u>60,000</u>
Total	<u>\$125,599</u>

During 1994, *St. Thomas* received a non-interest bearing term loan totaling \$100,000 from a sponsor corporation which is forgiven in five equal installments of \$20,000, commencing December 31, 1994. The balance of the term loan is \$60,000 at December 31, 1995.

During 1996, *St. Thomas* repaid the \$10,000 demand loan and \$30,000 of the \$55,599 demand loan.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 12 - Contingency:

St. Thomas is a recipient of several grants and awards of Federal and State funds. These grants and awards are governed by various Federal and State guidelines, regulations, and contractual agreements.

The administration of the program and activities funded by these grants and awards is under the control and administration of *St. Thomas* and is subject to audit and/or review by the applicable funding sources. Any grant or award funds found to be not properly spent in accordance with the terms, conditions, and regulations of the funding sources may be subject to recapture.

NOTE 13 - Fair Value of Financial Instruments:

The estimated fair value of all significant financial statement amounts have been determined by *St. Thomas* using available market information and appropriate valuation methodologies.

St. Thomas considers the carrying amounts of cash and temporary investments, grant receivables, note and loans payable to be fair value.

SUPPLEMENTAL INFORMATION

ST. THOMAS HEALTH SERVICES, INC.

SCHEDULE OF FEDERAL AWARDS

For the Year Ended December 31, 1995

FEDERAL/GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	DISBURSEMENTS/ EXPENDITURES
<u>MAJOR PROGRAM</u>		
Department of Health and Human Services		
Pass-through program:		
DH&H-State of LA - Maternal and Child Health	93.994	\$ <u>191,875</u>
Total Department of Health and Human Services		<u>191,875</u>
<u>NON-MAJOR PROGRAMS</u>		
Pass-through Programs:		
City of New Orleans:		
Community Development Block Grant Entitlement Grants	14.218	56,907
Great Expectations	N/A	94,982
State of Louisiana:		
Primary Care Clinic	N/A	2,764
Special Supplemental Food Program for Women, Infants and Children	10.557	51,318
Sexually transmitted diseases	N/A	<u>11,250</u>
Total Non-Major		<u>217,221</u>
Total Federal Awards		<u>\$409,096</u>

See the Independent Auditors' Report.

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GAS

To the Board of Directors of
St. Thomas Health Services, Inc.

We have audited the financial statements of St. Thomas Health Services, Inc. (a nonprofit corporation), as of and for the year ended December 31, 1995 and have issued our report thereon dated June 14, 1996.

We conducted our audit in accordance with generally accepted auditing standards and 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.

The management of St. Thomas is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GAS
(CONTINUED)

In planning and performing our audit of the financial statements of **St. Thomas** for the year ended December 31, 1995, we obtained an understanding of the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the financial statements. See the Schedule of Reportable Conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or financial irregularities 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.

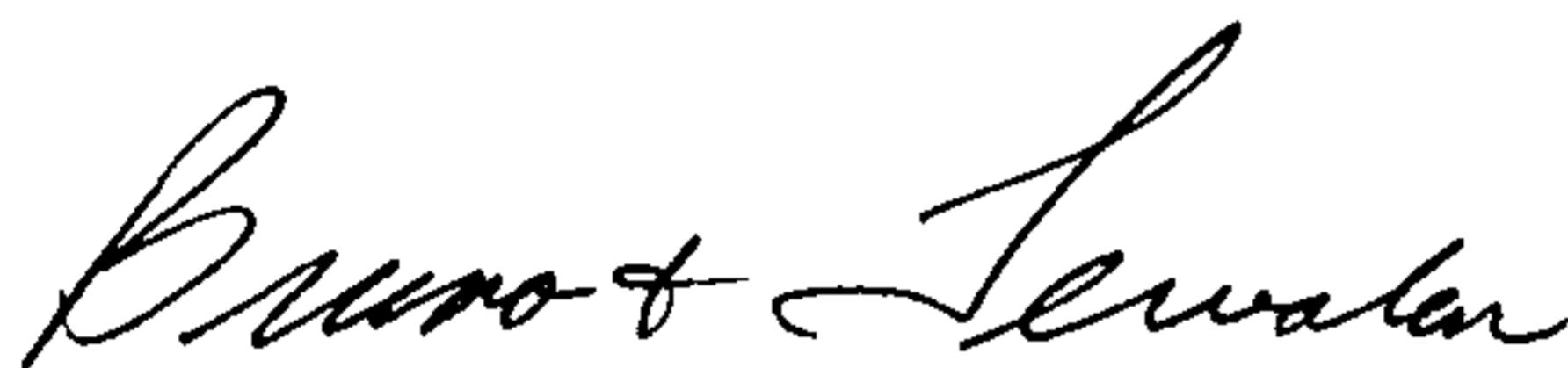
Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition is not a material weakness.

INDEPENDENT AUDITORS REPORT ON THE INTERNAL CONTROL
STRUCTURE BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GAS
(CONTINUED)

In connection with our audit, we reviewed the prior year's reportable conditions on the internal control structure, including applicable internal administrative controls to determine whether management had implemented appropriate corrective action to correct the conditions giving rise to those findings. The results of our review with respect to the prior-year reportable conditions are described in the Schedule of Prior Reportable Conditions.

We also noted certain matters involving the internal control structure and its operation that we have reported to management in a separate letter dated June 14, 1996.

This report is intended for the information of the Board of Directors, management, and the U.S. Departments of Health and Human Services, Agriculture and Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 14, 1996

& Tervalon

MICHAEL B. BRUNO, CPA
ALCIDE J. TERVALON, JR., CPA
WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE USED IN ADMINISTERING FEDERAL AWARDS

To the Board of Directors of
St. Thomas Health Services, Inc.

We have audited the financial statements of St. Thomas Health Services, Inc. (a nonprofit corporation) as of and for the year ended December 31, 1995, and have issued our report thereon dated June 14, 1996. We have also audited St. Thomas Health Services, Inc.'s (St. Thomas) compliance with requirements applicable to the major Department of Health and Human Services program and have issued our report thereon dated June 14, 1996.

We conducted our audits in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133. Those standards and the provisions of OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, and about whether St. Thomas complied with laws and regulations, noncompliance with which would be material to a major federal program.

In planning and performing our audits of the financial statements of St. Thomas for the year ended December 31, 1995, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the organization's financial statements and on its compliance with requirements applicable to the major Department of Health and Human Services assisted program and to report on the internal control structure in accordance with OMB Circular A-133.

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE USED IN ADMINISTERING FEDERAL AWARDS
(CONTINUED)

This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal programs. We have addressed policies and procedures relevant to our audit of the financial statements in a separate report dated June 14, 1996.

The management of St. Thomas is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles and that federal awards programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures into the following categories:

- | | |
|-----------------------------------|-----------------------------|
| o Revenue and Receivables | o Political Activities |
| o Payroll and Related Liabilities | o Civil Rights |
| o Property and Equipment | o Cash Management |
| o Debt and Other Liabilities | o Federal Financial Reports |
| o Cash Receipts | o Drug-Free Workplace |
| o Administrative Requirements | o Budgeting |
| o Allowable Costs/Cost Principle | o Cost Allocation |
| o Eligibility | o Accounts Payable |
| | o Cash Disbursements |
| | o Types of Services Allowed |

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE USED IN ADMINISTERING FEDERAL AWARDS
(CONTINUED)

For all of the internal control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

During the year ended December 31, 1995, St. Thomas expended 60% of its total federal financial assistance under a major Department of Health and Human Services program and the Community Development Block Grant Program.

We performed tests of controls as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we consider relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to St. Thomas' major federal financial assistance program, which is identified in the accompanying schedule of federal awards. Our procedures were less in scope than would be necessary to render an opinion on these internal control policies and procedures. Accordingly, we do not express such an opinion.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the financial statements. See the Schedule of Reportable Conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal awards program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

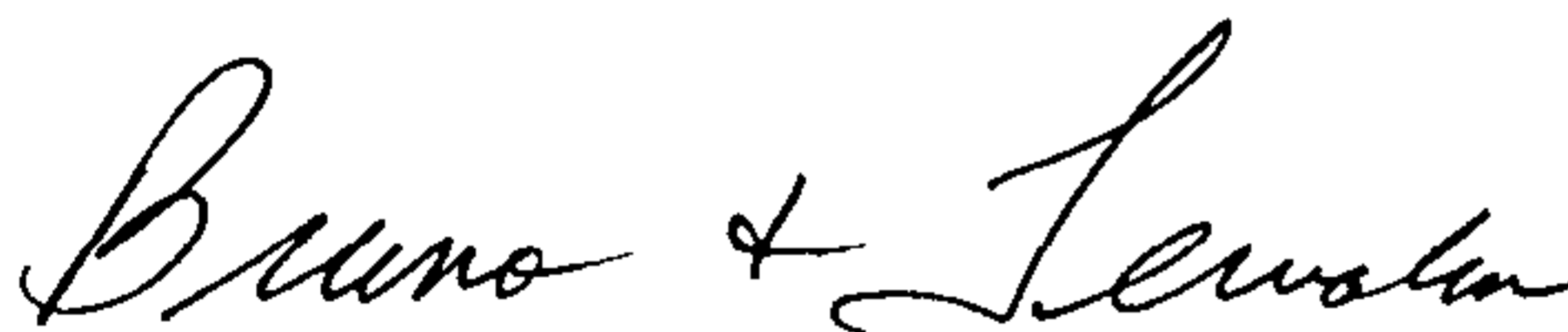
INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE USED IN ADMINISTERING FEDERAL AWARDS
(CONTINUED)

Our consideration of the internal control structure policies and procedures used in administering federal awards would not necessarily disclose all matters in the internal control structure that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable condition is not a material weakness.

In connection with our audit, we reviewed the prior year's reportable conditions on the internal control structure, including applicable internal administrative controls to determine whether management had implemented appropriate corrective action to correct the conditions giving rise to those findings. The results of our review with respect to the prior-year reportable conditions are described in the Schedule of Prior Reportable Conditions.

We also noted certain matters involving the internal control structure and its operation that we have reported to management in a separate letter dated June 14, 1996.

This report is intended for the information of the Board of Directors, management and the U.S. Departments of Health and Human Services, Agriculture, and Housing and Urban Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by St. Thomas, is a matter of public record.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 14, 1996

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF REPORTABLE CONDITIONS

1. BUDGETING AND FINANCIAL MANAGEMENT

Through our observation and analysis of data during the audit and discussions with management, we are aware of the impact that reduced, delayed or terminated funding has on St. Thomas' financial operations. Furthermore, we noted the necessity to temporarily transfer funds from the general fund to programs in order to fund primary expenses for operations (i.e. payroll, payroll taxes and fringe benefits, utilities, etc.).

In addition, we realize that because of the constant efforts to maintain minimum cashflow for operations, management's efforts are restricted in their attempts to control operations via budgetary guidelines, monthly analysis and review of financial statements and the preparation of revised budgets and/or projections based upon changes in funding. However, we must stress that St. Thomas cannot continue to operate while experiencing deficits as in 1995 (approximately \$199,517).

It is because of the fluctuation in funding experienced by St. Thomas that more importance must be placed on a strong adherence to proper budgetary controls, analysis and review of monthly financial statements and the prompt and adequate response to changes in funding. We recommend that St. Thomas' management continue to implement the necessary procedures and practices to assure that proper control over spending as outlined and discussed above.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND
REGULATIONS BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
St. Thomas Health Services, Inc.

We have audited the financial statements of St. Thomas Health Services, Inc. (a non profit corporation-St. Thomas) as of and for the year ended December 31, 1995, and have issued our report thereon dated June 14, 1996.

We conducted our audit in accordance with generally accepted auditing standards, and 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.

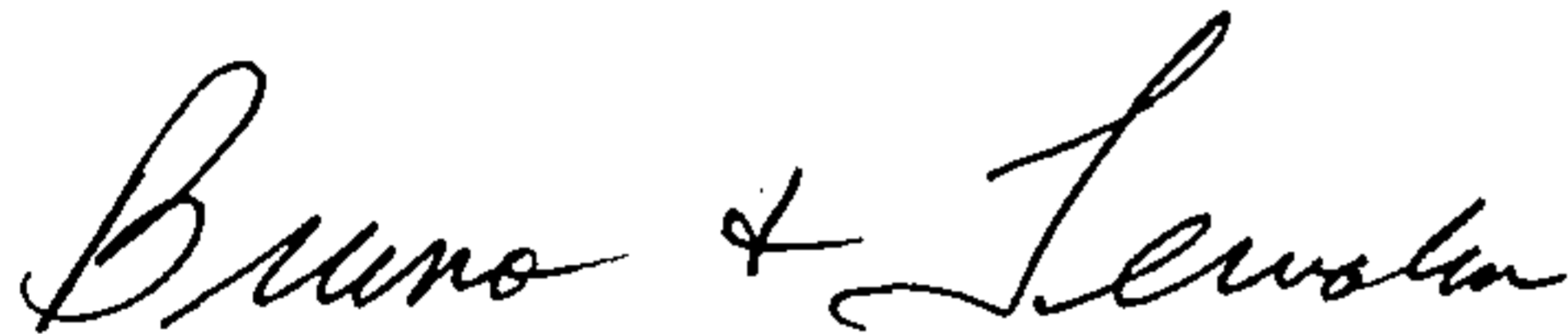
Compliance with laws, regulations, contracts, and grants applicable to St. Thomas is the responsibility of St. Thomas' management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of St. Thomas' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND
REGULATIONS BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

(CONTINUED)

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards. However, the results of our procedures disclosed an immaterial instance of noncompliance with those requirements which is described in the accompanying Schedule of Findings and Questioned Costs.

This report is intended for the information of the Board of Directors, management and the U.S. Departments of Health and Human Services, Agriculture and Housing and Urban Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by St. Thomas, is a matter of public record.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 14, 1996

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

COST REIMBURSEMENT CONTRACT

QUESTIONED COSTS

GREAT EXPECTATION GRANT

Condition

\$40,394

We noted during the year ended December 31, 1995 that St. Thomas requested and received grant funds totaling \$40,394 for the acquisition of equipment under the terms of a cost reimbursement contract. Although, the budgeted equipment was delivered to St. Thomas, actual disbursements relative to the reimbursement request were not made and are reflected in the general fund's accounts payable at December 31, 1995.

Cause

St. Thomas did not properly request grant funds under the terms of a cost reimbursement contract.

Effect

St. Thomas received grant funds in advance of actual expenditures. As such, we have questioned costs in the amount of \$40,394.

Criteria

The terms and the conditions of the contract between Great Expectations and St. Thomas stipulated that Great Expectations would compensate St. Thomas monthly according to actual expenditures.

Recommendation

We recommend that St. Thomas take immediate steps to discontinue the practice of requesting funds prior to the payment of the related costs.

& Tervalon

MICHAEL B. BRUNO, CPA
ALCIDE J. TERVALON, JR., CPA
WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR
FEDERAL AWARDS PROGRAMS

To the Board of Directors of
St. Thomas Health Services, Inc.

We have audited the financial statements of St. Thomas Health Services, Inc. (a non-profit corporation—St. Thomas) as of and for the year ended December 31, 1995 and have issued our report thereon dated June 14, 1996.

We have also audited St. Thomas' compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; claims for advances and reimbursements; special tests and provisions; financial reports; and amounts claimed or used for matching that are applicable to its major federal awards program which is identified in the accompanying schedule of federal awards for the year ended December 31, 1995. The management of St. Thomas is responsible for St. Thomas' compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

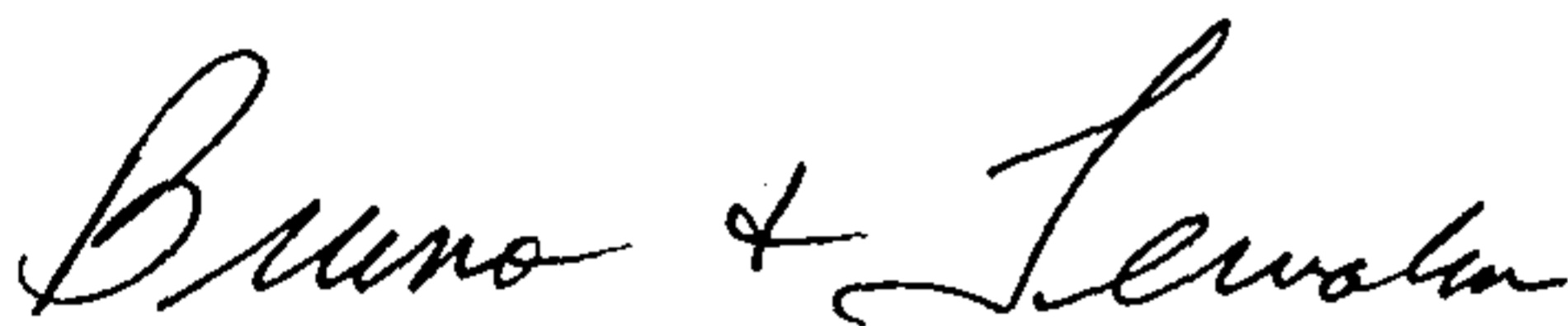
We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-133. Those standards and the provisions of OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about St. Thomas' compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR
FEDERAL AWARDS PROGRAMS
(CONTINUED)

The results of our audit procedures did not disclose any immaterial instances of noncompliance with the requirements previously referred to.

In our opinion, St. Thomas complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; claims for advances and reimbursements; special tests and provisions; financial reports; and amounts claimed or used for matching that are applicable to its major federal program for the year ended December 31, 1995.

This report is intended for the information of the Board of Directors, management, and the U.S. Departments of Health and Human Services, Agriculture, and Housing and Urban Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by St. Thomas, is a matter of public record.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 14, 1996

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MICHAEL B. BRUNO, CPA
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WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH SPECIFIC REQUIREMENTS APPLICABLE TO NONMAJOR
PROGRAM TRANSACTIONS

To the Board of Directors
St. Thomas Health Services, Inc.

We have audited the financial statements of St. Thomas Health Services, Inc. (a non-profit corporation-St. Thomas) as of and for the year ended December 31, 1995, and have issued our report thereon dated June 14, 1996.

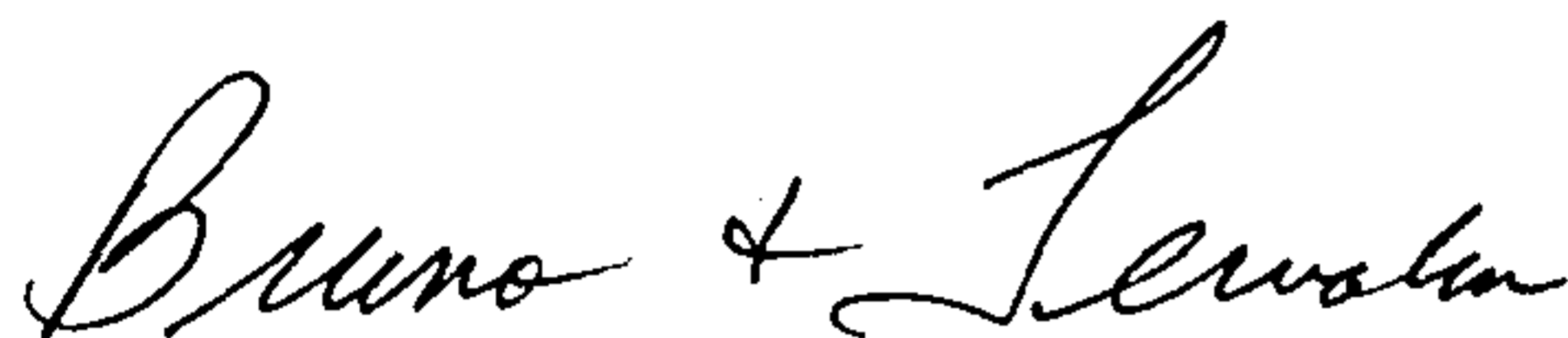
In connection with our audit of the financial statements of St. Thomas as of and for the year ended December 31, 1995, and with our consideration of St. Thomas' internal control structure used to administer federal programs, as required by OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions", we selected certain transactions applicable to certain nonmajor federal programs for the year ended December 31, 1995. As required by OMB Circular A-133, we performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed and eligibility that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on St. Thomas' compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of our procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that St. Thomas had not complied, in all material respects with those requirements. However, the results of our procedures disclosed an immaterial instance of noncompliance with those requirements which is described in the accompanying Schedule of Findings and Questioned Costs.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH SPECIFIC REQUIREMENTS APPLICABLE TO NONMAJOR
PROGRAM TRANSACTIONS

(CONTINUED)

This report is intended for the information of the Board of Directors, management, and U.S. Departments of Health and Human Services, Agriculture and Housing and Urban Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by St. Thomas, is a matter of public record.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 14, 1996

& Tervalon

MICHAEL B. BRUNO, CPA
ALCIDE J. TERVALON, JR., CPA
WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH THE GENERAL REQUIREMENTS APPLICABLE
TO FEDERAL AWARDS PROGRAMS

To the Board of Directors of
St. Thomas Health Services, Inc.

We have audited the financial statements of St. Thomas Health Services, Inc. (a non-profit organization-St. Thomas) as of and for the year ended December 31, 1995 and have issued our report thereon dated June 14, 1996.

We have applied procedures to test St. Thomas' compliance with the following requirements applicable to its federal programs, which are identified in the accompanying schedule of federal awards for the year ended December 31, 1995:

General Requirements

- | | |
|-------------------------------|-----------------------------------|
| o Political Activity | o Allowable Costs/Cost Principles |
| o Civil Rights | o Drug-Free Workplace Act |
| o Federal Financial Reports | o Cash Management |
| o Administrative Requirements | |

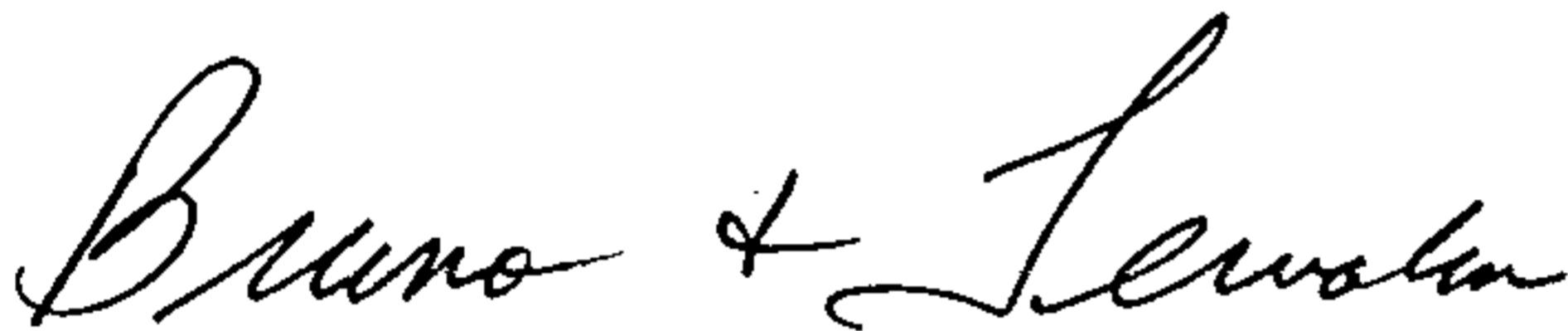
Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of Educational Institutions and Other Nonprofit Organizations. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on St. Thomas' compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH THE GENERAL REQUIREMENTS APPLICABLE
TO FEDERAL AWARDS PROGRAMS

(CONTINUED)

With respect to the items tested, the results of our procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that St. Thomas had not complied, in all material respects, with those requirements.

This report is intended for the information of the Board of Directors, management, and the U.S. Departments of Health and Human Services, Agriculture, and Housing and Urban Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by St. Thomas, is a matter of public record.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 14, 1996

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF PRIOR FINDINGS AND RECOMMENDATIONS

The prior audit report for the year ended December 31, 1994 contained the following findings. The status of the action taken by St. Thomas to resolve the prior audit findings are as follows:

	<u>RESOLVED</u>	<u>UNRESOLVED</u>
1. <u>PAYROLL COSTS-GREAT EXPECTATIONS PROGRAM</u>		X

We noted during the audit that payroll and related tax expense for the part-time pediatrician were less than the cost report amount.

CURRENT STATUS

St. Thomas is still presently negotiating a final determination for this condition. As such, this condition remains unresolved.

2. <u>PROGRAM INCOME</u>		X
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We noted during the audit that St. Thomas had not established adequate procedures to ensure that program income was calculated and recorded properly.

CURRENT STATUS

St. Thomas has developed procedures to ensure that program income was calculated and recorded properly. However, such procedures were not applied to the Great Expectation grant during 1995. As such, this condition remains unresolved.

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF PRIOR FINDINGS AND RECOMMENDATIONS, CONTINUED

	<u>RESOLVED</u>	<u>UNRESOLVED</u>
3. <u>COMPETITIVE BID PROCEDURES</u>	X	
<p>We noted during our audit that St. Thomas had not obtained written competitive bids prior to the purchase of grant equipment totaling approximately \$15,000. We were informed by management that verbal bids were obtained but such bids were not documented.</p>		
<p><u>CURRENT STATUS</u></p>		
<p>St. Thomas has developed procedures to ensure that written competitive bids are obtained prior to the purchase of grant equipment.</p>		
4. <u>FEDERAL FINANCIAL REPORTS</u>	X	
<p>We noted during our audit that the December 1994 federal financial report for the Primary Care Clinic grant was not submitted timely.</p>		
<p><u>CURRENT STATUS</u></p>		
<p>During 1995, St. Thomas did not receive Primary Care Clinic grant funds.</p>		

ST. THOMAS HEALTH SERVICES, INC.

EXIT CONFERENCE

An exit conference was held and those in attendance were as follows:

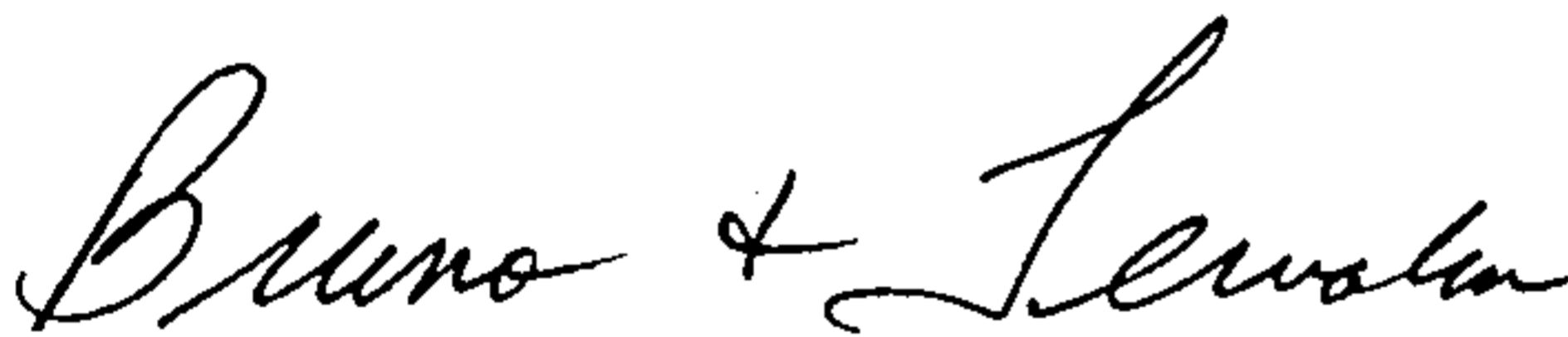
ST. THOMAS HEALTH SERVICES, INC.

Dr. Donald Erwin	--	Chairman of the Board of Directors
Dr. Mary Abell	--	Medical Director
Mr. Tony Keck	--	Administrative Director

BRUNO & TERVALON, Certified Public Accountants

Mr. Edward Phillips	--	Audit Supervisor
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The audit report was discussed. This report is intended solely for the use of the Board of Directors, management and the U.S. Departments of Health and Human Services, Agriculture and Housing and Urban Development and should not be used for any other purpose.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 14, 1996

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MICHAEL B. BRUNO, CPA
ALCIDE J. TERVALON, JR., CPA
WALDO J. MORET, JR., CPA

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INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Board of Directors
St. Thomas Health Services, Inc.

We have audited the financial statements of St. Thomas Health Services, Inc. (St. Thomas) for the year ended December 31, 1995 and have issued our report thereon dated June 14, 1996.

As part of our audit, we made a study and evaluation of the internal control structure, including applicable internal administrative controls, to the extent we considered necessary to evaluate the internal control structure as required by generally accepted auditing standards.

During our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter provides background information on the internal control structure and also summarizes our comments and suggestions regarding those matters.

Additionally, in connection with our audit, we reviewed the prior - year's auditors comments to management to determine whether management had implemented appropriate action to correct the conditions giving rise to the comments. The results of our review with respect to the prior-year's auditors comments to management are described in the prior year comments section.

This letter does not affect our report dated June 14, 1996 on the financial statements of St. Thomas.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

1. PAYROLL TAX DEPOSITS

We noted during our audit that management of St. Thomas failed to disburse payroll tax deposits to the Internal Revenue Service for the third and fourth quarter of 1995 resulting in a tax liability of \$97,635.

We recommend that immediate attention be given to this delinquency. Also, we recommend that management adhere to established procedures with regard to payroll tax deposits.

2. PAYROLL RECORDS

We noted during our audit that certain time cards had not been approved by the employees' immediate supervisor prior to processing for payment.

We recommend that management of St. Thomas adhere to established procedures when processing time cards for payment.

PRIOR YEAR'S AUDITORS' COMMENTS TO MANAGEMENT

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

1. **BUDGET PREPARATION**

Presently, it is the policy of St. Thomas to prepare and submit an annual budget for the upcoming year to its Board for approval. However, it was also noted during our December 31, 1993 audit that St. Thomas does not routinely prepare any cashflow projections in connection with the budget preparation.

While the overall budget for the year provides a framework for St. Thomas' financial operations, we believe that without incorporating cash flow projections into the budget preparation process a vital step is being omitted. We believe that by including cash flow projections in St. Thomas' budget preparation process certain benefits can be obtained.

CURRENT STATUS

St. Thomas has developed procedures to ensure that cashflow projections are included within the budget preparation process.

2. **ACCOUNTABILITY RECORDS**

Our December 31, 1993 audit disclosed that accountability records were not prepared for the receipt of donations. However, during 1994, procedures have been developed for the establishment of accountability records for the receipt of donations.

CURRENT STATUS

St. Thomas has developed procedures to ensure accountability records are maintained for donations.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

3. **TAGGING FIXED ASSETS**

We noted during our December 31, 1994 audit that St. Thomas had not utilized established procedures for tagging fixed assets.

CURRENT STATUS

St. Thomas has established procedures for tagging fixed assets.

4. **MONTHLY INVOICING**

We noted during our December 31, 1994 audit that St. Thomas did not require a contractor to provide monthly invoices for services rendered to St. Thomas. Also, we noted that the vendor file for this contractor did not contain documentation for authorizations for each monthly payment to the contractor.

CURRENT STATUS

St. Thomas has developed procedures to ensure monthly invoices are rendered for such services, and that such invoices are approved prior to payment.

5. **RECEIVING REPORT SIGNATURE**

We noted that the receiving report for one invoice was not signed by a St. Thomas employee to indicate receipt of the goods.

CURRENT STATUS

We did not note a similar condition during the December 31, 1995 audit.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

6. **PERSONNEL ACTION FORM**

We noted during our audit that the personnel action form was not signed for one (1) employee out of ten (10) tested.

CURRENT STATUS

We did not note a similar condition during the December 31, 1995 audit.

7. **WIC NUTRITIONIST**

We noted during our December 31, 1994 audit that St. Thomas received volunteer part-time nutritionist services for seven (7) months in connection with the WIC grant. The revenue received from the WIC grant is to be used, in part, for nutritionist payroll costs. However, it did not appear that the State was made aware that St. Thomas was receiving In-Kind services for the nutritionist.

CURRENT STATUS

During 1995, St. Thomas did not receive volunteer part-time Nutritionist services for the WIC grant.

8. **GRANT PURCHASES**

We noted during our December 31, 1994 audit that St. Thomas purchased over \$15,000 in exercise equipment using Primary Care Clinic Grant funds. The purchase required a change in the original grant budget. However, St. Thomas did not receive written approval from the State for the purchase until after the transaction occurred.

CURRENT STATUS

We did not note a similar condition during the December 31, 1995 audit.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

9. UNEXPENDED GRANT FUNDS

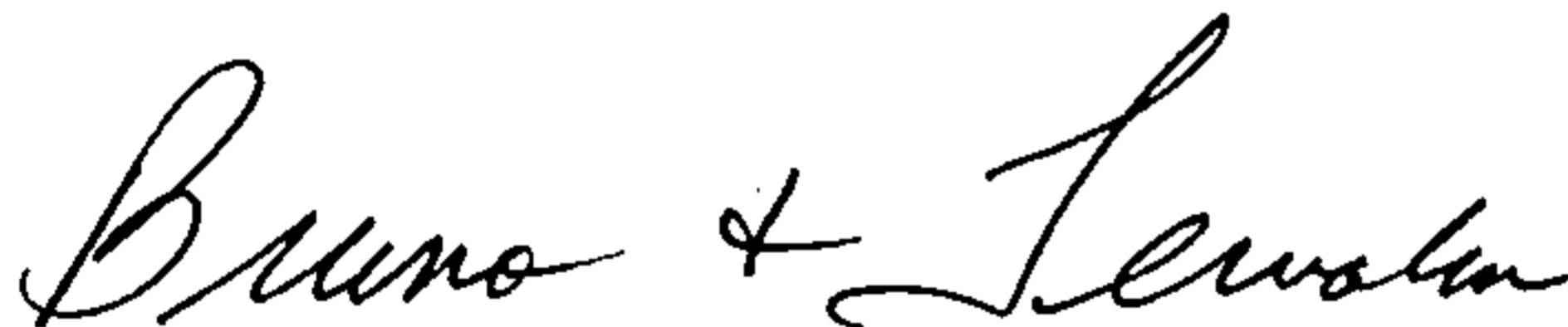
We noted during our December 31, 1994 audit that St. Thomas had \$2,764 in unexpended Primary Care Clinic Grant funds at December 31, 1994. According to the grant agreement, all unexpended grant funds are to be returned to the funding source.

CURRENT STATUS

During 1995, we noted that St. Thomas incurred eligible grant costs that were applied against the unexpended grants funds.

* * * * *

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with appropriate personnel, and we will be pleased to discuss them in further detail at your earliest convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 14, 1996