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Financial Report

*East Jefferson Community
Health Center, Inc.*

June 30, 1997

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Release Date 4-15-98

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June 30, 1997

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Bourgeois Bennett

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,
East Jefferson Community Health Center, Inc.

We have audited the accompanying statement of financial position of East Jefferson Community Health Center, Inc. (the Health Center) (a nonprofit corporation) as of June 30, 1997, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Health Center's management. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards required 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 East Jefferson Community Health Center, Inc. as of June 30, 1997, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 1998, on our consideration of East Jefferson Community Health Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of East Jefferson Community Health Center, Inc. taken as a whole. The accompanying schedule of expenditures of federal award is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bougie Bennett, L.L.C.

Certified Public Accountants

New Orleans, La.,
January 20, 1998.

STATEMENT OF FINANCIAL POSITION

East Jefferson Community Health Center, Inc.

June 30, 1997

ASSETS

Current Assets

Cash and cash equivalents	\$ 2,282
Accounts receivable - patients service revenue (net of allowance for uncollectible accounts of \$17,487)	11,829
Grants receivable	227,590
Prepaid expenses	1,178
Total current assets	<u>248,789</u>

Property and Equipment

Land	117,680
Building (net of accumulated depreciation of \$26,231)	742,581
Furniture and equipment (net of accumulated depreciation of \$39,365)	128,628
Net property and equipment	<u>988,289</u>

Other Assets

Deposits	1,380
Grant receivable (net of discount of \$7,084)	117,916
Total other assets	<u>119,296</u>

Total

\$1,257,214

LIABILITIES AND NET ASSETS

Liabilities

Bank overdraft	\$ 17,628
Accounts payable	28,628
Accrued salaries and wages payable	10,084
Payroll taxes payable	52,184
Total current liabilities	<u>108,524</u>

Net Assets

Unrestricted	451,525
Temporarily restricted	815,065
Total net assets	<u>1,248,620</u>
Total	<u>\$1,257,214</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

East Jefferson Community Health Center, Inc.

For the year ended June 30, 1997

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, Gains and Other Support			
Net patient service revenues	\$ 91,397		\$ 91,397
Operating gains:			
Grants:			
East Jefferson General Hospital Community Development Block Grant (CDBG)		\$ 12,825	12,825
Miscellaneous	244	488,941	488,941
	<u>244</u>	<u>488,941</u>	<u>488,941</u>
Total revenues, gain and other support	<u>91,841</u>	<u>418,766</u>	<u>511,407</u>
Net Assets Released From Restrictions			
Satisfaction of purpose restrictions:			
East Jefferson General Hospital:			
Medical director	143,541	(143,541)	-
Operating salaries and expenses	408,225	(408,225)	-
Construction and equipment	48,131	(48,131)	-
Satisfaction of time restriction - depreciation	24,193	(24,193)	-
	<u>624,090</u>	<u>(624,090)</u>	<u>-</u>
Total net assets released from restrictions	<u>624,090</u>	<u>(624,090)</u>	<u>-</u>
Total revenues, gains, other support and net assets released from restrictions	<u>715,731</u>	<u>(205,324)</u>	<u>511,407</u>

**Exhibit B
(Continued)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Expenses			
Salaries and wages	368,911		368,911
Payroll taxes	23,808		23,808
Advertising	5,137		5,137
Accounting fees	10,709		10,709
Bad debt	24,829		24,829
Consultant fees	23,710		23,710
Contract labor	19,563		19,563
Depreciation	56,774		56,774
Dues and subscriptions	733		733
Equipment rental	9,197		9,197
Health insurance	26,278		26,278
Lab and pharmacy items	28,932		28,932
Legal fees	10,051		10,051
Liability and workman's comp insurance	24,096		24,096
Malpractice insurance	6,084		6,084
Marketing expense	9,628		9,628
Meeting and printing expense	2,843		2,843
Miscellaneous	24,030		24,030
Office supplies	17,867		17,867
Postage and box rental	2,936		2,936
Professional conference	2,575		2,575
Repairs and maintenance	27,091		27,091
Supplies	23,159		23,159
Telephone	18,253		18,253
Travel	10,579		10,579
Utilities	15,300		15,300
	<u>795,176</u>	<u>-</u>	<u>795,176</u>
Total expenses			
Decrease in Net Assets	(79,445)	(204,324)	(283,769)
Net Assets			
Beginning of year	<u>512,970</u>	<u>1,018,419</u>	<u>1,531,389</u>
End of year	<u>\$ 433,525</u>	<u>\$ 815,095</u>	<u>\$ 1,248,620</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

East Jefferson Community Health Center, Inc.

For the year ended June 30, 1997

Cash Flows From Operating Activities

Decrease in net assets	\$ (283,369)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:	
Depreciation	56,374
Amortization of discount on long-term promises to give	(12,834)
Allowance for uncollectible accounts	17,487
(Increase) decrease in assets:	
Accounts receivable - patient service revenue	(30,385)
Grants receivable	36,543
Prepaid expenses and deposits	9,677
Increase (decrease) in liabilities:	
Bank overdraft	17,638
Accounts payable	(87,593)
Accrued salaries and wages payable	3,699
Payroll taxes payable	36,614
	<u> </u>
Net cash used in operating activities	<u>(246,521)</u>

Cash Flows Used in Investing Activities

Building improvements	(18,834)
Purchase of furniture and equipment	<u>(20,637)</u>
	<u> </u>
Net cash used in investing activities	<u>(39,471)</u>

Net Decrease in Cash

(277,992)

Cash

Beginning of year	<u>180,274</u>
End of year	<u>\$ 2,282</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

East Jefferson Community Health Center, Inc.

June 30, 1997

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of East Jefferson Community Health Center, Inc. (the Health Center) is presented to assist in an understanding the Health Center's financial statements. The financial statements and notes are representations of the Health Center's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

a. Nature of Activities

The East Jefferson Community Health Center, Inc. is a nonprofit corporation, formed to provide primary health care services to under-served areas in Jefferson Parish.

b. Financial Statement Presentation

The Health Center follows the reporting requirements contained in Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 117, the Health Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Health Center is required to present a statement of cash flows.

The Health Center classifies its resources into three separate classes of net assets as follows:

Unrestricted Net Assets - Receives net patient service revenues, grants and other resources and expends funds for the general operation of the Health Center.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Financial Statement Presentation (Continued)

Temporarily Restricted Net Assets - Receive grants and other revenues specifically authorized by the grantor or donor to be used for a certain purpose or to benefit a specific accounting period.

Permanently Restricted Net Assets - The Health Center does not have any permanently restricted net assets.

c. 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 and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d. Cash and Cash Equivalents

At June 30, 1997, the Health Center had \$2,282 of cash and cash equivalents which was obtained from temporarily restricted sources.

e. Allowance for Uncollectible Accounts

Services rendered to the Health Center's patients are either paid at the time of the visit or through a third party. A receivable is recorded for third party reimbursements and patients unable to pay at the time of visit. Receivable amounts that are deemed uncollectible are written off and an allowance for uncollectible accounts is recorded based on management's estimate.

f. Accounts Receivable - Patient Service Revenue - Third-Party Contractual Adjustments

Calculated third-party contractual adjustments are accrued on an estimated basis in the year the related services are rendered. Net patient service revenue is adjusted as required in subsequent year based on final settlements.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Grants Receivable

Grants are recognized when the grantor makes a promise to give that is, in substance, unconditional. Conditional grants are recognized when the conditions on which they depend are substantially met. For the year ended June 30, 1997, all unconditional grants were recognized as assets and revenues. All grants receivable are deemed by management to be collectible.

h. Property and Equipment

Property and equipment acquisitions are recorded at cost. Donated property is recorded at its fair market value at the date of receipt, which is then treated as cost. Depreciation is provided for each class of depreciable assets and is computed on the straight-line method using estimated useful lives as shown below:

Classification	<u>Estimated Useful Life in Years</u>
Building	39
Furniture and equipment	5 - 10

i. Net Patient Service Revenues

Net patient service revenues represent the estimated net realizable amounts from patients, third-party payors and others for services rendered.

j. Statement of Cash Flows

For the purpose of reporting cash flows, the Health Center considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

k. Income Taxes

The Health Center is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(c) of the Code.

Note 2 - CONCENTRATION OF CREDIT RISK

The Health Center has its principal office in River Ridge, Louisiana. Medical services are provided to patients who reside primarily in the Hamman and River Ridge area.

In addition, the Health Center maintains its cash balances (including cash equivalents) at several financial institution located in the New Orleans area. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to \$100,000. There were no uninsured balances for the year ended June 30, 1997.

Note 3 - RESTRICTIONS ON NET ASSETS

The Health Center classifies the following funding sources as temporarily restricted and accounts for the assets, liabilities, revenues and expense attributable to:

- **East Jefferson General Hospital Grant** - These funds are to be used for the Medical Director's salary and benefits.
- **1994 Department of Housing and Urban Development (HUD) Community Development Block Grant** - These funds are to be used for the acquisition of certain medical equipment along with construction cost related to the medical clinic.
- **1995 Department of Housing and Urban Development (HUD) Community Development Block Grant** - These funds are to be used for certain staffing and operational expenses of the medical clinic.
- **Jefferson Parish Land Donation** - This fund accounts for the value of property donated to the Health Center for the medical clinic construction.

Temporarily restricted net assets are restricted by the donor for specific purposes or are available for future periods. The temporarily restricted net assets are comprised of cash, receivables and certain property and equipment.

Note 3 - RESTRICTIONS ON NET ASSETS (Continued)

Temporarily restricted net assets at June 30, 1997, are available for the following purposes or periods:

East Jefferson General Hospital Grant - Medical director salary and benefits	5276,288
1994 Department of Housing and Urban Development Community Development Block Grant - Net book value of equipment and building acquired	427,807
Jefferson Parish Land Donation - Net book value of land donated by Jefferson Parish	<u>117,000</u>
Total temporarily restricted net assets	<u>5815,095</u>

Note 4 - GRANTS RECEIVABLE

Grants receivable at June 30, 1997 comprised the following amounts:

	Operations and Building Construction	Medical Director	<u>Total</u>
Current:			
1994 HUD Community Development Block Grant - Building construction	\$ 14,043	\$ -	\$ 14,043
1995 HUD Community Development Block Grant - Operations	88,457	-	88,457
East Jefferson General Hospital	<u>-</u>	<u>125,000</u>	<u>125,000</u>
Totals	<u>\$102,500</u>	<u>\$125,000</u>	<u>\$227,500</u>
Noncurrent:			
East Jefferson General Hospital, net of discount of \$7,084	<u>\$ -</u>	<u>\$117,916</u>	<u>\$117,916</u>

Grant receivable from East Jefferson General Hospital is to be received in two annual installments in the amount of \$117,916 per year for the fiscal years 1998 and 1999.

Note 5 - FINANCIAL SUPPORT

In August 1995, the Board of Directors of the East Jefferson General Hospital agreed to fund up to one million dollars towards the following areas: \$500,000 for capital costs and \$500,000 for the medical director's salary and benefits to be received in four annual installments of \$125,000.

The Health Center received the first installment of \$125,000 during August 1995 for the medical director's salary and benefits. For the year ended June 30, 1997 the second installment for the medical director's salary was received in September 1996. As of June 30, 1997, \$500,000 had been received for capital costs.

The Jefferson Parish Council has approved allocations of \$500,000 and \$452,000 to the Health Center from their Federal 1995 and 1994 Community Development Block Grant Fund, respectively. The funding from the 1995 Community Development Block Grant is subject to certain program income provisions which reduce the cash received under this grant. These funds became available for capital and operating expenses in April 1996 and May 1995 respectively. The 1995 funds are designated for operating expenses while the 1994 funds were designated for capital expenses. As of June 30, 1997, the Health Center had received \$406,941 (\$449,708 less \$42,767 of program income) under the 1995 grant and \$452,000 (\$119,270 in 1996 and \$292,730 in 1995) under the 1994 grant. The 1995 grant is considered a conditional grant, and a receivable of \$88,457 for reimbursable cost incurred in 1997 has been recorded at June 30, 1997.

In March 1997, the Jefferson Parish Council approved the extension of the term of the 1995 Community Development Block Grant Fund from March 15, 1997 to September 30, 1997. In June 1997, the council approved the increase in the contract amount from \$300,000 to \$641,962.

Note 6 - FUNCTIONAL ALLOCATION EXPENSES

Expenses have been reported on the statement of activities by natural classification for the year ended June 30, 1997. To present total expenses by functional classifications, expenses are charged to program services and supporting services (management and general expense) on the basis of management's estimate of periodic time and expense evaluations. Management and general expense include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Health Center.

Note 6 - FUNCTIONAL ALLOCATION EXPENSES (Continued)

The expenses for the year ended June 30, 1997 are allocated by function as follows:

Program services	\$855,664
Supporting services: Management and general	<u>138,512</u>
Total	<u>\$994,176</u>

Note 7 - OFFICE AND EQUIPMENT LEASES

The Health Center is leasing office equipment, beginning June 1, 1995, in the amount of \$291 a month for a period of 36 months. Minimum lease payments required under this lease is \$3,201 for the year ending June 30, 1998.

Note 8 - CONTINGENCY

In May 1995, the Health Center was awarded a grant of \$452,000 by the Jefferson Parish Council from their Community Development Block Grant Fund. The terms of the grant provide for repayment under certain conditions which generally relate to a change in ownership from a not-for-profit organization to a for-profit organization or changes in uses of such assets procured with the grant funds. These terms will remain in effect until the year 2015.

Note 9 - JUDGEMENTS, CLAIMS AND SIMILAR CONTINGENCIES

There is no litigation pending against the Health Center at June 30, 1997.

The Health Center receives funding from various federal and local government programs which are subject to final review and approval as to allow space ability of expenditures by the respective grantor agencies. Any settlements or expenses arising out of a final review are recognized in the year in which agreed upon by the agency and the Health Center. Also, it is management's opinion that any audits by the grantor agencies would not produce disallowed program costs and liabilities to such an extent that they would materially affect the Health Center's financial position.

Note 10 - ECONOMIC DEPENDENCY

The Health Center receives the majority of its revenue from funds provided through grants administered by the Jefferson Parish Community Development Department and East Jefferson General Hospital. The grant amounts are appropriated each year by these granting agencies. If significant budget cuts are made by these granting agencies, the amounts of the funds the Health Center receives could be reduced significantly and have an adverse impact on its operations. The Health Center has been approved to receive \$358,618 in federal funding from the Jefferson Parish Community Development Department from its 1996 Community Development Block Grant for the year ending June 30, 1998.

SPECIAL REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS



Beargout Bennett

**REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors,
East Jefferson Community Health Center, Inc.

We have audited the financial statements of East Jefferson Community Health Center, Inc. as of and for the year ended June 30, 1997, and have issued our report thereon dated January 20, 1998. We conducted our audit in accordance with generally accepted auditing standards 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 East Jefferson Community Health Center, Inc.'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 these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which is described in the accompanying schedule of findings and questioned costs as item 97-9 and 97-10.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Jefferson Community Health Center, Inc.'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. However, we noted certain matters involving the internal

control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect East Jefferson Community Health Center, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 97-1 through 97-8.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe some of the reportable conditions described above is a material weakness.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bouygues Bennett, L.L.C.

Certified Public Accountants

New Orleans, La.,
January 28, 1998.



Comptroller General

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB
CIRCULAR A-133**

To the Board of Directors,
East Jefferson Community Health Center, Inc.

Compliance

We have audited the compliance of East Jefferson Community Health Center, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 1997. East Jefferson Community Health Center, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of East Jefferson Community Health Center, Inc.'s management. Our responsibility is to express an opinion on East Jefferson Community Health Center, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about East Jefferson Community Health Center, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of East Jefferson Community Health Center, Inc.'s compliance with these requirements.

In our opinion, East Jefferson Community Health Center, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1997. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 97-11, 97-12, 97-14 and 97-15.

Internal Control Over Compliance

The management of East Jefferson Community Health Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered East Jefferson Community Health Center, Inc.'s internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect East Jefferson Community Health Center, Inc.'s ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 97-11 and 97-13.

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 noncompliance with applicable requirements of laws, regulations, contracts and grant what would be material in relation to major federal program 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 over compliance would not be necessary disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclosed all reportable conditions that are also considered to material weakness. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bourgeois Bennett, L.L.C.

Certified Public Accountants

New Orleans, La.,
January 28, 1998.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARD

East Jefferson Community Health Center, Inc.

For the year ended June 30, 1997

<u>Federal Grantor / Pass Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditure</u>
Department of Housing and Urban Development: Jefferson Parish Community Development Department: Community Development Block Grant	14.218	<u>\$448,708</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARD

East Jefferson Community Health Center, Inc.

June 30, 1997

Note 1 - SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133, SINGLE AUDIT ACT AMENDMENTS OF 1996

All Federal grant awards of the East Jefferson Community Health Center, Inc. are included in the scope of the OMB Circular A-133, Single Audit Act Amendments of 1996. The United States Department of Housing and Urban Development is the oversight Federal audit agency.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Award has been prepared on the accrual basis of accounting.

Note 3 - FINDINGS OF NONCOMPLIANCE

The findings of noncompliance are disclosed in the Schedule of Findings and Questioned Cost. The potential reimbursement effects of the findings are not ascertainable.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

East Jefferson Community Health Center, Inc.

For the year ended June 30, 1997

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of East Jefferson Community Health Center, Inc.
2. Reportable conditions disclosed during the audit of the financial statements are discussed in Part B.
3. Instances of noncompliance material to the financial statements of East Jefferson Community Health Center, Inc. are discussed in Part B.
4. Reportable conditions disclosed during the audit of the major federal award program are discussed in Part C.
5. The auditor's report on compliance for the major federal award program for East Jefferson Community Health Center, Inc. expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for East Jefferson Community Health Center, Inc. are reported in Part C of this Schedule.
7. The program tested as the major program was:

	<u>Federal</u>
	<u>CFDA Number</u>
Community Development Block Grant	14.218
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The East Jefferson Community Health Center, Inc. was not determined to be a low-risk auditee.

B. Findings - Financial Statement Audit

97-1 **Condition** - During our testing of cash disbursements we noted the following:

- Some invoices did not contain documentation as being approved for payment.
- Some invoices were not marked as paid.
- Some invoices did not contain documentation as to which general ledger account the expense was charged.
- One disbursement was not properly supported by an invoice.

Recommendation - Steps be taken to ensure that invoices contain the appropriate documentation with respect to approval, payment and general ledger expense distribution and invoices be retained to support all disbursements.

Response - Systems were not in place at the beginning of fiscal year to document the above concerns. Currently we are adhering to those concerns. We will also begin to use a rubber stamp that will address these concerns.

97-2 **Condition** - Patient service revenue accounts receivable subsidiary ledgers are not reconciled to the general ledger control account.

Recommendation - Patient service revenue accounts receivable be reconciled to the general ledger control account on a monthly basis.

Response - We agree to the conditions and we are presently reconciling the subsidiary ledger.

97-3 **Condition** - Reconciliations are not performed of Federal payroll Form 941 and general ledger salary accounts. Also, we were unable to reconcile Form 941 to payroll reports.

Recommendation - Reconciliations should be prepared quarterly between the Federal Form 941 and general ledger salary accounts to ensure accurate reporting on Form 941.

Response - In the past, our automated accounting system had generated the 941 reports and transfers to the general ledger. We will begin to manually reconcile this report prior to general ledger transfer.

97-4 **Condition** - When examining adjusting journal entries recorded by the accounting department we were unable to understand supporting documentation, calculations or explanations for journal entries.

Recommendation - Supporting documentation, calculations and explanations should be attached to all journal entries prior to being entered into the general ledger.

Response - We will begin to fully support all future adjusting journal entries with written description to be attached and kept in a binder monthly.

97-5 **Condition** - For the year ended June 30, 1997, bank reconciliations were prepared for all checking accounts maintained by the Health Center. However, when testing the bank reconciliations we noted that the general ledger cash accounts were not adjusted to agree to the reconciled balance.

Recommendation - Entries should be recorded when needed to adjust the general ledger cash balance to agree to the bank reconciliations.

Response - We agree and will begin adjusting the general ledger to agree to the bank reconciliation.

97-6 **Condition** - While testing cash disbursements, we noted a check to the Executive Director for reimbursement of expenses. The expense report did not have documentation of approval and the check was signed by the Executive Director.

Recommendation - Consideration should be given to having the expense reports of the Executive Director approved by one of the Members of the Board of Directors prior to being paid.

Response - All future expense reports will be approved by the Board Chairman prior to payment.

97-7 **Condition** - As discussed at Part C Item 97-10 the Health Center has failed to maintain a listing of fixed assets.

97-8 **Condition** - In January 1996, the Board of Directors of the Health Center decided to change the year end of the organization from December 31 to June 30. Accordingly, an audit was performed for the six-months ended June 30, 1996. The general ledger and internal financial statements are currently being maintained and prepared using the

previous year end of December 31 instead of June 30.

Recommendation - The general ledger of the Health Center should be maintained and internal financial statements prepared using the June 30 year end.

Response - Due to automated accounting system restraints the year end internal financial reporting cannot be adjusted until July 1, 1988.

- 97-9 **Finding** - Louisiana state law requires all governmental and quasi-governmental entities to have audit engagements completed within six months for the close of the critical fiscal year. The Health Center was unable to meet this deadline as required by state law. At the Health Center's request the auditors delayed the start of the engagement and encountered several accounting issues which required more time to resolve than anticipated. Due to the circumstances previously mentioned, the Health Center was unable to have the audit completed within six months of the close of its fiscal year.

Recommendation - In the future steps be taken to ensure that the financial statements be filed in a timely manner.

Response - Due to numerous external audits being performed by various funding sources, we were unable to properly coordinate the financial audit by Bourgeois Bennett, L.L.C. We will take future steps to assure that proper time is allotted per audit to make sure all deadlines are met.

- 97-10 **Finding** - As discussed in Part C Item 97-14 the Health Center is delinquent on paying certain payroll taxes.

C. Findings and Questioned Costs - Major Federal Award Program Audit

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Community Development Block Grant
CEDA No. 14218

Questioned
Cost

97-11 **Finding** - For the year ended June 30, 1997, the Health Center failed to maintain a listing of fixed assets purchased including those purchased with Federal funds in accordance with OMB Circular A-110.

\$-0-

Criteria - Property management standards included in OMB Circular A-110 require fixed asset listings be maintained for assets acquired with Federal funds.

Effect of Condition - Failure to maintain this listing would prohibit the Health Center from complying with Federal requirements on property management.

Cause of Condition - Management has not completed compiling sufficient information to prepare a fixed asset listing.

Recommendation - The Health Center should maintain a fixed asset listing in accordance with the property management standards included in OMB Circular A-110 as follows:

- A description of the equipment.
- Manufacturer's serial number, model number, or other identification number.
- Source of equipment, including the award number.
- Whether title vests in the recipient or the Federal Government.
- Acquisition date and cost.
- Information from which one can calculate the percentage of Federal participation in the cost of the equipment.
- Location and condition of the equipment and the date the information was reported.
- Unit acquisition cost.
- Ultimate disposition data, including date of disposal and sales price.

Community Development Block Grant
CFDA No. 14.218

Questioned
Cost

- 97-12 **Finding** - The Health Center failed to submit monthly balance sheets (statements of financial position) and income statements (statements of activities) to the Jefferson Parish Department of Community Development. \$-0-
- Criteria** - According to the Cooperative Endeavor Agreement between the Health Center and Jefferson Parish Department of Community Development the Health Center is to submit monthly financial statements to the Jefferson Parish Department of Community Development.
- Effect of Condition** - Funding may be in jeopardy for non performance.
- Cause of Condition** - Management was unaware of requirement to submit monthly financial statements.
- Recommendation** - The Health Center should begin submitting their monthly internal financial statements to the Jefferson Parish Department of Community Development.
- 97-13 **Finding** - The Health Center did not have documentation to support calculations of program income generated by CDBG funding. \$-0-
- Criteria** - Program income is to be calculated on a monthly basis by using the ratio of CDBG funding to total expenditures.
- Effect** - Without proper supporting calculations program income can be incorrectly over or under reported.
- Cause of Condition** - Management failed to retain calculations of program income.
- Recommendation** - Documentation of calculations regarding program income should be retained in order to support the amounts reported to granting agency.

Community Development Block Grant
CFDA No. 14.218

Questioned
Cost

93-14 **Findings** - During the year ended June 30, 1997 the Health Center requested reimbursement for \$52,364 of payroll tax expenses and salary withholding which was not paid to the Internal Revenue Service but instead was used for other purposes.

\$-0-

Criteria - According to the cash management compliance requirement the Health Center should minimize the amount of time between the receipt of funds and the disbursement of the funds in accordance with its intended purpose. According to the sub-recipient agreement with Jefferson Parish it appears that the Health Center is to be reimbursed for funds expended or incurred. The reimbursement by the Parish for payroll taxes not actually paid may result in these payroll taxes not being an allowable cost to be reimbursed.

Effect - The Health Center will be assessed interest and most likely penalties by the Internal Revenue Service. Also, the Health Center could be asked to return to the Parish, the Parish's reimbursements for payroll taxes that were used by the Health Center for other allowance costs.

Cause of Condition - The Health Center has been experiencing severe cash flow problems during fiscal year 1997.

Recommendation - We suggest the Health Center obtain short term financing to pay these unremitted payroll taxes as soon as possible. Additionally, a meeting with the Parish should be held immediately to discuss the Health Center's use of funds.

Community Development Block Grant
CDBG No. 14-218

Questioned
Cost

97-15 Finding - During the year ended June 30, 1997 the Health Center did not maintain documentation regarding the income qualifications on all patients receiving service at the Health Center.

\$ -0-

Criteria - According to the Cooperative Endeavor Agreement between Jefferson Parish and the Health Center Section 2 states that "The Consultant shall perform income qualification to assure that only eligible clients receive assistance funded by the Parish's Community Development Program." According to 24 CFR 570.506 this eligibility is to be based on the size and annual income of the family of each patient receiving the benefit.

Effect - Failure to maintain income eligibility determination could result in sanctions, including an unfavorable eligibility determination by HUD which may require a return of HUD funding.

Cause of Condition - During the year ended June 30, 1997, the first year of operations, the Health Center experienced significant turnover at the Executive Director position and the Jefferson Parish Department of Community Development did not perform a monitoring visit until February 3, 1997.

Recommendation - The Health Center should follow the recommendations of the Jefferson Parish Department of Community Development and complete the agreed-upon eligibility form for all patients receiving services at the Health Center.

CORRECTIVE ACTION PLAN ON CURRENT YEAR FINDINGS

East Jefferson Community Health Center, Inc.

June 30, 1997

<u>Finding Number</u>	<u>Status</u>
97-11	We implemented an automated in-house accounting system in November 1997. After implementing the automated accounting system, the fixed assets were entered and maintained in-house.
97-12	We implemented an automated in-house accounting system in November 1997 and have begun to submit the monthly financial statements to Jefferson Parish Department of Community Development Department.
97-13	We have implemented a new formula that will adequately calculate the percentage of program income that is generated by CDHG's funding.
97-14	<p>We had our contractual agreement revised whereas the Health Center would not have to go beyond 30 days for payment on an invoice. The Health Center would also be allotted a cash advancement to be used specifically during gap periods of invoices being processed.</p> <p>We also opened a special Tax Account whereas the necessary percentages of each invoice could be deposited until the required tax deposit is due.</p> <p>In addition to these steps, we have obtained a line of credit to assist with the cash flow shortages as well as to pay the unsubmitted payroll taxes.</p>
97-15	We have requested technical assistance from Jefferson Parish Department of Community Development HUD representatives to design, train, and implement the required income eligibility guidelines.

STATUS OF PRIOR YEAR AUDIT FINDINGS

East Jefferson Community Health Center, Inc.

June 30, 1997

Finding
Number

_____ Status _____

95-1

We have complied with the auditor's recommendation and all employees are now completing time sheets.