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ST. TAMMANY PARISH HOSPITAL

Consolidated Financial Statements for the Years Ended December 31, 1997 and 1996 and Independent Auditors' Report

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date ~~[illegible]~~ 1 3 1998

ST. TAMMANY PARISH HOSPITAL

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Commissioners
St. Tammany Parish Hospital Service
District No. 1:

We have audited the accompanying consolidated financial statements of St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Parish Hospital) as of December 31, 1997 and 1996 and for the years then ended, listed in the foregoing table of contents. These financial statements are the responsibility of St. Tammany Parish Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of St. Tammany Parish Hospital as of December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 13, 1998 on our consideration of St. Tammany Parish Hospital's internal control structure and a report dated March 13, 1998 on its compliance with laws and regulations.

Deloitte & Touche LLP

March 13, 1998

ST. TAMMANY PARISH HOSPITAL

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1997 AND 1996 (IN THOUSANDS)

ASSETS	1997	1996
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,626	$ 2,069
Investments	11,365	7,374
Assets whose use is limited - required for current liabilities	445	454
Patient accounts receivable	16,484	14,741
Less allowance for doubtful accounts	(4,652)	(4,317)
Net patient accounts receivable	11,832	10,424
Inventories	1,190	1,047
Prepaid expenses and other receivables	998	1,291
Total current assets	29,456	22,659
ASSETS WHOSE USE IS LIMITED:		
By board for capital improvements:		
Facility enhancements	5,761	6,718
Routine replacements	2,000	1,901
By board for professional and other liability claims	575	575
Under bond ordinances - held by trustee	1,570	1,579
Total assets whose use is limited	9,906	10,773
Less assets whose use is limited and required for current liabilities	(445)	(454)
Total noncurrent assets whose use is limited	9,461	10,319
PROPERTY, PLANT AND EQUIPMENT:		
Land and improvements	2,703	2,788
Buildings	29,957	29,170
Equipment	26,832	24,794
Construction in progress	118	35
Less accumulated depreciation and amortization	(25,288)	(21,342)
Net property, plant and equipment	34,322	35,445
OTHER ASSETS	318	346
TOTAL	$ 73,557	$ 68,769

See notes to consolidated financial statements.

LIABILITIES AND FUND BALANCE	1997	1996
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 2,805	$ 2,627
Accrued employee compensation	1,262	1,539
Accrued vacation	858	759
Settlements due to Medicare and Medicaid intermediaries	4,355	4,350
Amounts due within one year on long term debt	350	591
Amounts due within one year on capital lease obligations	338	529
Total current liabilities	9,968	10,395
ACCRUED PROFESSIONAL LIABILITY CLAIMS	536	561
LONG-TERM DEBT, less unamortized issuance discount (1997 - $335; 1996 - $356) and amounts due within one year	13,451	13,696
CAPITAL LEASE OBLIGATIONS, less amounts due within one year	934	1,269
FUND BALANCE	48,668	42,848
TOTAL	$73,557	$68,769

ST. TAMMANY PARISH HOSPITAL

CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE YEARS ENDED DECEMBER 31, 1997 AND 1996 (IN THOUSANDS)

	1997	1996
REVENUE:		
Net patient service revenue	$ 65,147	$ 54,390
Other revenue	2,762	1,908
Total revenue	67,909	56,298
EXPENSES:		
Salaries, wages and benefits	31,642	28,754
Supplies and other	16,150	13,281
Provision for bad debts	4,039	2,340
Professional and contractual services	5,251	4,401
Depreciation and amortization	3,957	3,309
Interest	1,050	851
Total expenses	62,089	52,936
REVENUE IN EXCESS OF EXPENSES	5,820	3,362
FUND BALANCE AT BEGINNING OF YEAR	42,848	39,486
FUND BALANCE AT END OF YEAR	$ 48,668	$ 42,848

See notes to consolidated financial statements.

ST. TAMMANY PARISH HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1997 AND 1996 (IN THOUSANDS)

	1997	1996
OPERATING ACTIVITIES:		
Revenue in excess of expenses	$ 5,820	$ 3,362
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:		
Provision for bad debts	4,039	2,340
Depreciation and amortization	3,957	3,309
(Gain) loss on disposal of equipment	(48)	7
Interest expense	1,050	851
Interest earned on investments	(1,182)	(1,184)
Changes in operating assets and liabilities:		
Patient accounts receivable	(5,447)	(3,949)
Inventories, prepaid expenses and other receivables	150	(290)
Accounts payable and accrued expenses	178	(445)
Accrued employee compensation and vacation	(178)	469
Net settlements due to/from medicare and medicaid intermediaries	5	1,091
Accrued professional liability claims	(25)	49
Net cash provided by operating activities	8,319	5,610
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property, plant and equipment	(3,053)	(6,087)
Proceeds from sale of property, plant and equipment	295	-
Principal payments on long-term debt and capital lease obligation	(1,012)	(1,199)
Interest payments	(1,050)	(851)
Net cash used in capital and related financing activities	(4,820)	(8,137)
INVESTING ACTIVITIES:		
Net change in assets whose use is limited	867	(1,485)
Net change in investments	(3,991)	1,006
Interest earned on investments	1,182	1,184
Net cash (used in) provided by investing activities	(1,942)	705
INCREASE (DECREASE) IN CASH	1,557	(1,822)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,069	3,891
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,626	$ 2,069
NON-CASH INVESTING AND FINANCING TRANSACTION -		
Capital lease additions	$ -	$ 1,740

See notes to consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

St. Tammany Parish Hospital (the Hospital) is owned and operated by St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (a nonprofit corporation organized by the St. Tammany Parish Police Jury under provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950). The Hospital is exempt from federal income taxes under Section 115 of the Internal Revenue Code. The governing authority of St. Tammany Parish Hospital Service District No. 1 (District) is the St. Tammany Parish Hospital Board of Commissioners. The Policy Jury appoints members of the Hospital Board of Commissioners.

The consolidated financial statements include the Hospital, St. Tammany Medical Services (STMS) and St. Tammany Physician Network (STPN). STMS and STPN are corporations which are wholly owned by the Hospital. STMS and STPN are not, however, exempt from federal taxation. No income taxes were paid or owed for the years ended December 31, 1997 and 1996 by STMS or STPN. All material intercompany accounts and transactions have been eliminated upon consolidation.

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

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), excluding those issued after November 30, 1989.

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

Inpatient acute care services and defined capital costs related to Medicare program beneficiaries are paid at prospectively determined rates per discharge These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and certain outpatient services rendered to Medicare beneficiaries are reimbursed on a cost basis subject to certain limits. Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per diem; reimbursement for outpatient services rendered to Medicaid program beneficiaries are reimbursed on a cost basis subject to certain limits. Retroactive cost settlements based upon annual cost reports are estimated and included in net patient service revenue. Final determination of amounts to be received under cost reimbursement regulations is subject to review by program representatives. Retroactive settlements are adjusted in future periods as final settlements are determined.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides to all of its qualifying patients. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The Hospital provided charity care of $920,000 and $629,000 for the years ended December 31, 1997 and 1996, respectively, based upon charges foregone using established rates.

Cash and cash equivalents include investments in highly liquid debt instruments and money market accounts with an original maturity of three months or less when purchased and exclude amounts whose use is limited by board designation or under bond ordinances.

Investments include investments in U.S. Government and federal agency securities with an original maturity of greater than three months and are stated at cost or amortized cost.

Inventories are valued at the most recent invoice price. This method approximates the lower of cost (first-in, first-out method) or market.

The Hospital records all property, plant and equipment acquisitions at cost and provides for depreciation using the straight-line method in amounts sufficient to amortize the cost of its assets over their estimated useful lives. Assets held under capital lease obligations are recorded at the present value of the minimum lease payments and are included in equipment. Amortization of leased assets is included in depreciation and amortization expense.

Interest costs for the construction of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. The Hospital capitalized net interest costs of $210,000 for the year ended December 31, 1996; no such costs were capitalized for the year ended December 31, 1997.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits - Louisiana Statutes require that all of the Hospital's deposits be protected by insurance or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance. As of December 31, 1997 all of the Hospital's bank balances of deposit (including cash, money market accounts and certificates of deposit), except for $59,000 which was uninsured and undercollateralized, were entirely insured or collateralized by investments held by the Hospital's third-party agent in the Hospital's name.

Investments - The Hospital may invest idle funds as authorized by Louisiana Statutes, as follows:

(a) Direct United States Treasury obligations, the principal and interest of which are fully guaranteed by the government of the United States.

(b) United States government agency obligations, the principal and interest of which are fully guaranteed by the government of the United States, or United States government obligations, the principal and interest of which are guaranteed by any United States government agency.

(c) Direct security repurchase agreements of any federal book entry only securities enumerated in paragraphs (a) and (b).

(d) Time certificates of deposit of state banks organized under the laws of Louisiana and national banks having their principal office in the state of Louisiana.

(e) Mutual or trust funds, which are registered with the Securities and Exchange Commission under the Security Act of 1933 and the Investment Act of 1940 and which have underlying investments consisting solely of and limited to securities of the United States government or its agencies.

The Hospital's investments are categorized below to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Hospital's name.

Balances at December 31, 1997 were as follows (in thousands):

Securities Type	Credit Risk Category 1	2	3	Carrying Amount
U S government	$ -	$1,125	$ -	$ 1,125
Federal agency	19,126	-	-	19,126
Total investments	$19,126	$1,125	$ -	$20,251

3. HEALTH INSURANCE PROGRAM REIMBURSEMENT

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended December 31, 1997 and 1996, approximately 39.4% and 40.1%, respectively, of the Hospital's net patient service charges (excluding newborn charges) were furnished to Medicare and Medicaid program beneficiaries. Revenue derived from the Medicare program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Human Services before settlement amounts become final. Revenue derived from the Medicaid program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the Department of Health and Hospitals of the State of Louisiana before settlement amounts become final. Estimated settlements for Medicare and Medicaid through the years ended June 30, 1995 and 1991, respectively, have been reviewed by program representatives. Net patient service revenue for the years ended December 31, 1997 and 1996 have been increased by $717,000 and $438,000, respectively, to reflect the favorable appeal of the skilled nursing facility's routine service cost limits for the 1991-1995 Medicare cost reports. Additionally, as a result of information related to other Medicare contractual arrangements, the Hospital recorded changes in estimates and increased net patient service revenue for the year ended December 31, 1997 by $900,000. With respect to the settlements for years subsequent to June 30, 1995, management does not anticipate any adjustments by program representatives that would have a material impact on the recorded Medicare and Medicaid settlements.

4. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

The details of investments and assets whose use is limited at December 31, 1997 and 1996 are as follows:

	1997 (In thousands)		1996 (In thousands)	
	Cost	Market	Cost	Market
Investments:				
Federal agency securities	$11,365	$11,345	$ 7,374	$ 7,389
Assets whose use is limited:				
For capital improvements:				
Federal agency securities	7,761	7,748	8,619	8,639
For professional and other liability claims:				
Certificates of deposit	575	575	575	575
Debt service fund:				
U.S. government securities	1,125	1,125	1,125	1,125
Cash	445	445	454	454
	1,570	1,570	1,579	1,579
Total investments and assets whose use is limited	$21,271	$21,238	$18,147	$18,182

In connection with the issuance of the Series 1992 Revenue Bonds, the Hospital established a Debt Service Fund for the purpose of making payments of principal and interest on the bonds if funds available for payment of principal and interest were insufficient. The funds held by the Trustee in this account is subject to a prior lien in favor of the owners of the Bonds.

The Hospital is required to maintain a $100,000 certificate of deposit held by the Workers Compensation Fund as collateral against its self-insured portion of workers compensation claims. This investment is recorded in assets whose use is limited for professional and other liability claims.

Also included in assets whose use is limited for professional and other liability claims is a $125,000 certificate of deposit held by the State Treasurer's Office on behalf of the Louisiana Patients' Compensation Fund. The Hospital is required to maintain this investment as collateral against its self-insured portion of professional liability claims.

5. LONG-TERM DEBT

The details and balances of long-term debt at December 31, 1997 and 1996 are presented below:

	1997	1996
	(In thousands)	
Hospital Revenue Bonds Series 1992, net of unamortized original issue discount of $335,000 and $356,000 at December 31, 1997 and 1996, respectively, ($240,000 due in fiscal year 1998)	$ 13,579	$ 13,783
Note payable, 6.5%, 60 monthly installments of $29,192 including interest	-	172
Certificate of Indebtedness, Series 1992, 8.0%, 120 monthly installments of $3,094 including interest ($27,000 due in fiscal year 1998)	139	163
Demand note payable, 9.75%, 84 monthly installments of $8,272 including interest ($83,000 subject to demand in fiscal year 1998)	83	169
	13,801	14,287
Less amounts due within one year	(350)	(591)
	$ 13,451	$ 13,696

The combined aggregate amount of maturities for all long-term debt for each of the next five years ending December 31 are as follows (in thousands): 1998 - $350; 1999 - $279; 2000 - $297; 2001 - $319; 2002 - $316 and thereafter - $12,575.

Hospital Revenue Bonds, Series 1992 - In December 1992, the Hospital issued $14,755,000 of tax-exempt Hospital Revenue Bonds, Series 1992 (the Bonds) comprised of $2,180,000 of serial bonds and $12,575,000 of term bonds with a final maturity of July 1, 2022 at stated interest rates ranging from 4.0% to 6.5% to expand, improve and renovate Hospital facilities. The Bonds were issued at a discount of $446,000 and yield 4.0% to 6.875%. The original issue discount is being amortized over the life of the bonds using the interest method. In connection with the issuance of the Bonds, the Hospital is required to maintain a debt service coverage ratio (as defined by the Bond Resolution) of 1.20. The Bonds are payable from a pledge of all future operating revenue of the Hospital.

The Bonds maturing after June 30, 2003 are callable by the Hospital prior to maturity beginning July 1, 2002. The redemption of the Bonds prior to maturity is subject to a premium of up to 2% until July 1, 2004.

Note Payable - During 1993, the Hospital entered into a 6.5% note payable which matured in June 1997.

Certificate of Indebtedness, Series 1992 - During 1992, the Hospital issued a Certificate of Indebtedness in the amount of $255,000 to acquire land for the purpose of future Hospital expansion. The certificate is secured by and payable solely from a pledge of excess annual revenue of the Hospital.

Demand Note - The demand note assumed by STMS during 1992 is collateralized by land and a building with a carrying value of $499,000 at December 31, 1997.

6. CAPITAL AND OPERATING LEASES

Future minimum lease payments by year at December 31, 1997 under all capital lease obligations are as follows for the years ending December 31 (in thousands):

1998	$ 396
1999	396
2000	377
2001	225
	1,394
Less imputed interest (interest rates range from 6.5% to 7.5%)	(122)
Present value of future lease obligations	1,272
Less amounts due within one year	(338)
Long-term portion of capital lease obligations	$ 934

Leased assets included in equipment totaled $1,979,000 at December 31, 1997. Accumulated amortization was $548,000 at December 31, 1997. The leased equipment collateralizes the capital lease obligations.

Total rental expense incurred for all operating leases was $315,000 and $417,000 for the years ended December 31, 1997 and 1996, respectively.

7. EMPLOYEE BENEFIT PLANS

The Hospital has a noncontributory defined contribution plan (Plan) that covers substantially all of its employees. The Plan allows for employees age 21 or older with one year of service (defined as 1,000 hours of service in any one year) to participate. The Plan Agreement requires contributions to the Plan equal to 6% of the aggregate compensation of all participants. Participating employees with five or more years of service become 100% vested in their account balance. Employees terminating their employment prior to five years forfeit their account balance.

Total payroll and covered payroll for all Hospital employees during the year ended December 31, 1997 totaled $26,231,000 and $21,119,000, respectively. Contributions during 1997 required by the Plan document were $1,248,000, which represents 6% of covered payroll. Required contributions paid by the Hospital were $1,198,000 during the year ended December 31, 1997.

Pension expense included in salaries, wages and benefits related to the Plan described above approximates $1,123,000 and $907,000 for the years ended December 31, 1997 and 1996, respectively.

8. PROFESSIONAL LIABILITY INSURANCE

The Hospital participates in the Louisiana Patients' Compensation Fund for medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability which provides that no award can be rendered against it in excess of $500,000, plus interest and costs. The Fund provides coverage on an occurrence basis for claims over $100,000 and up to $500,000. The Hospital is self-insured for costs up to $100,000 per claim.

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. It is the opinion of management that estimated malpractice costs resulting from pending or threatened litigation are adequately accrued at December 31, 1997. Losses from asserted claims and from unasserted claims identified under the Hospital's incident reporting system are accrued based on estimates that incorporate the Hospital's past experience as well as other considerations including the nature of each claim or incident and relevant trend factors. Additional claims may be asserted against the Hospital arising from service provided to patients through December 31, 1997 that have not been identified under the incident reporting system. The Hospital is unable to determine the ultimate cost of the resolution of such potential claims; however, management believes it has adequately provided for them.

9. RECENT ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board ("GASB") has issued GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." This Statement requires investments to be reported at fair value and is effective for the Hospital's year ending December 31, 1998. If the Hospital had elected early implementation of GASB Statement No. 31, the effect would have been a decrease in fund balance of $33,000.

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

Members of the Board of Commissioners
St. Tammany Parish Hospital Service
District No. 1:

We have audited the consolidated financial statements of the St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Parish Hospital), as of and for the year ended December 31, 1997, and have issued our report thereon dated March 13, 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 St. Tammany Parish Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. Tammany Parish Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation or one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of St. Tammany Parish Hospital in a separate letter dated March 13, 1998.

This report is intended for the information of the Board of Commissioners, management, and the State of Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche LLP

March 13, 1998

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH BOND RESOLUTION

Members of the Board of Commissioners
St. Tammany Parish Hospital Service
District No. 1:

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Parish Hospital) as of December 31, 1997 and the related consolidated statements of revenue, expenses and changes in fund balance, and cash flows for the year then ended, and have issued our report thereon dated March 13, 1998.

In connection with our audit, nothing came to our attention that caused us to believe that St. Tammany Parish Hospital failed to comply with the terms, covenants, provisions or conditions of Sections 2.8, 4.2 through 4.4, 5.1, 5.3 through 5.9, 6.1, 6.2 and 7.13, inclusive, of the Bond Resolution as adopted by the Board of Commissioners of St. Tammany Parish Hospital Service District No. 1 on November 5, 1992 in connection with the issuance of $14,755,000 St. Tammany Parish Hospital Service District No. 1 Hospital Revenue Bonds (Series 1992) insofar as they relate to financial and accounting matters. However, our audit was not directed primarily toward obtaining knowledge of noncompliance with such Sections.

This report is intended for the use of the Board of Commissioners, management, the Trustee, and the State of Louisiana Legislative Auditor and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche LLP

March 13, 1998

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March 13, 1998

Members of the Board of Commissioners
St. Tammany Parish Hospital Service
District No. 1:

In planning and performing our audit of the consolidated financial statements of St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Parish Hospital) for the year ended December 31, 1997 (on which we have issued our report dated March 13, 1998), we developed the following recommendations concerning certain matters related to its internal control structure and certain observations and recommendations on other accounting, administrative, and operating matters. Additionally, we have presented a summary of our prior year recommendations and the status of implementation thereof. A description of the responsibility of management for establishing and maintaining an internal control structure, and the objectives of and inherent limitations in such a structure, is set forth in the attached Appendix, and should be read in conjunction with this letter. Our comments are presented in Exhibits I, II and III and are listed in the table of contents thereto.

This report is intended for the information of the Board of Commissioners, management, and the State of Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited

Yours truly,

Deloitte & Touche LLP

ST. TAMMANY PARISH HOSPITAL

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INTERNAL CONTROL STRUCTURE

FIXED ASSET RECORDS

Observation

The Hospital has not conducted an inventory of fixed assets in a number of years. We understand that management has been considering such a project for several years and has initiated plans to perform a physical fixed asset inventory.

Recommendation

Complete and accurate fixed assets records are necessary to support amounts claimed for reimbursement purposes and to assure adequacy of insurance coverage. If it is not practicable to perform a complete physical count at a single point in time, such procedures should be implemented on a departmental basis. The related detailed accounting records should be adjusted for the results of these procedures.

Management's Response

Management agrees with this recommendation and will initiate a departmental physical fixed asset inventory. The inventory will be conducted in phases during fiscal 1998 and fiscal 1999.

PROFESSIONAL LIABILITY CLAIMS

Observation

Hospital accounting personnel have the responsibility of compiling a data base of professional liability claims paid, as well as those which are open or outstanding. Currently, there is no reconciliation of the information contained in this data base with the detailed information provided by the Hospital's external legal counsel. Additionally, no actuarial valuation has been performed to assess the adequacy of the reserves included within the accrual for professional liability claims.

Background

The Hospital participates in the Louisiana Patients' Compensation Fund (the Fund). As such, the Hospital is insured through the Fund for professional liability claims in excess of $100,000 up to $500,000. The Hospital, therefore, is self-insured with respect to the first $100,000 of each such claim. Louisiana law does not currently provide for a professional liability damage award greater than $500,000.

Recommendation

The Hospital should reconcile all data compiled internally with that provided by external legal counsel. Additionally, due to the increasing number of professional liability claims being received as a result of increasing patient volumes, the Hospital should consider having an actuarial valuation performed on the reserves included within the accrual for professional liability claims.

Management's Response

The Risk Management department discusses all claims with external legal counsel. Accounting discusses all claims with the Risk Management department and records liability accruals based on these in depth discussions. At present, most claims only have the Hospital listed as secondarily liable, and the majority of the claims appear to be nuisance claims; therefore, the Hospital does not feel that an actuarial valuation is currently needed. The Hospital will continue to monitor this situation in the future.

USER TERMINATION PROCEDURES

Observation/Background

From our selected sample of 25 users from the DG-UNIX password file, we noted that approximately 40% of the IDs belonged to terminated employees. Active user IDs for parties no longer requiring access pose an unnecessary security risk, as such accounts could potentially be used to gain unauthorized system access. They also diminish accountability, as activity by an unauthorized ID would be difficult to track.

The information systems department has taken steps towards addressing this issue. A weekly human resource report on terminated employees is received so that terminated employee access can be removed on a timely basis. However, the terminated employees remaining on the system most likely had not been removed prior to the implementation of this procedure.

Recommendation

We recommend that user IDs defined on all key platforms (DG-UNIX, Cerner VAX, etc.) be reviewed for current applicability. Also, from a strategic standpoint, the Information Systems and Human Resources Departments should work together in defining policies and approaches for notification of terminated user IDs, especially those of third parties such as consultants and contractors who have access to the Hospital's systems. A suggested approach is as follows:

- Have a centralized database with information on all users or groups, their access rights to applications and various platforms such as the DG-UNIX, VAX VMS, Novell, etc.
- Define procedures in developing and maintaining the above mentioned database.
- Define procedures related to timely notification of termination and transfers of employees so that access could be deleted or modified.
- The above database could be used to identify all points of access to be deleted upon notification.
- Contractor/consultant IDs have set expiration intervals which need to be renewed periodically.

Management's Response

An audit of terminated employees will be accomplished. A formal policy and procedure for notification of terminated users will be written. There is no central database in existence with information on all users. A means of identifying to which systems a user has access will be developed as network and systems access grows.

INTERNET USAGE POLICY

Observation/Background

Currently, the Hospital is connected to the Internet via the HBOC's VAN (Value Added Network); however, allowing access to internal systems from the Internet without establishing an Internet Security and Usage Policy could result in usage that is not consistent with management's expectations. The security policy should address key issues related to how the Hospital will ensure that its risk and exposure are minimized. We would expect an Internet Security Policy to be defined first, documenting the business purposes for the Internet and overall strategy for minimizing risks and exposures of the Internet. This strategy would guide the procedures, such as "access and use" that users follow to help ensure consistent usage and risk mitigation.

Recommendation

The Hospital should define the Hospital's Internet strategy. Such strategy would define the Internet services the Hospital will utilize and how its internal network will be protected. In addition, policies and procedures should be developed to ensure that the Internet's design, configuration, technology and administration will continue to protect the Hospital's internal networks. As the Hospital's internal network, external connections and Internet usage change, these policies and procedures should be reviewed and modified.

Management's Response

Access to the Internet will not be granted hospital-wide until internal and external control processes and policies and procedures are in place.

BACKUP PROCEDURES

Observation/Background

Currently, the Hospital's key threat prevention procedures against disaster are the daily and monthly backups of the Hospital's information on tapes. These tapes would be used to restore the Hospital's information when needed. However, the DG-UNIX and VAX VMS backups have not been tested. The System 36 backups have not been tested for a few years.

Recommendation

The Hospital should consider testing the backups by restoring them in the test region of the respective platforms. The Hospital should get assurance that the backups will restore the Hospital's information when needed. Also, information systems management may want to consider maintaining a listing of the backup tapes detailing the contents, location, etc.

Management's Response

Testing back-ups may be difficult due to vendor restrictions and space available in the test environment. Based on the recommendation presented, we will contact HBOC and Cerner to discuss any process they may have available to accomplish testing of back-up tapes. Information Systems maintains a listing of all back-up tapes both on and off-site, which indicates the contents of each tape.

HBOC VAN (VALUE ADDED NETWORK) SERVICE

Background

The Hospital's Internet connection has been outsourced. Internet connectivity is provided via HBOC's VAN service. Protection from potential security breaches into the Hospital's internal network from the Internet and HBOC's VAN is protected by HBOC's firewall. As such, the Hospital is relying upon controls that HBOC has in place to ensure proper security and continuity of services. However, the Hospital has no assurance that these controls function properly and are consistently administered by HBOC.

The Hospital has the right to audit the operational effectiveness of controls within HBOC's VAN environment. Alternatively, the Hospital can request the service provider to provide a Service Auditor Report ("SAR" or SAS 70 report). A SAR on the operational effectiveness of the information systems general and application computer controls bases its opinion on the results of the operational effectiveness of the controls. The report also identifies user considerations that should be implemented by the client to compliment controls at the service provider.

Recommendation

The Hospital should consider requesting from HBOC a copy of the independent auditor's report (SAR or SAS 70 report).

Management's Response

The Hospital will initiate a request to HBOC for a copy of the Service Auditor Report. Full access to the Internet will not be granted hospital-wide until controls and internal usage policies and procedures are in place. At this time, the Hospital does not have a complete understanding of the Firewall protection offered through the VAN connection. Therefore, the Hospital limits access to the Internet.

ADMINISTRATIVE AND OTHER MATTERS

RECENT ACCOUNTING PRONOUNCEMENT

Observation

The Governmental Accounting Standards Board ("GASB") has issued GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investments Pools." Once effective, the Hospital will be required to report its investments at fair value. All investment income, including changes in the fair value of investments, will be recognized as revenue in the statement of revenue and expense. GASB Statement No. 31 will be effective for the Hospital's year ending December 31, 1998.

Recommendation

We recommend management take a proactive approach in addressing this reporting requirement during 1998.

Management's Response

Management agrees with the audit recommendation. Financial reporting will be changed to reflect changes in the fair value of investments and any gains or losses will be reflected in the statement of revenue and expense for fiscal 1998.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Observation

During our testing of the allowance for doubtful accounts, we noted that accounts receivable beyond 180 days within the insurance financial classification has doubled from approximately $1.1 million to $2.2 million.

Recommendation

We recommend that management verify that accounts receivable within the insurance financial classification are being properly contractualized and investigate the reasons why these accounts are not being collected in a timely manner.

Management's Response

Management agrees with the audit recommendation. An accounts receivable aged trial balance by payor will be printed semi-monthly and used to monitor the productivity of the collection staff. The patient accounting department will report monthly to management on the status of accounts receivable collection activities.

DISASTER RECOVERY PLAN

Observation/Background

Currently, the Hospital has a contract with Sunguard for an EDP recovery. However, a 'Business Resumption Plan' is lacking. A Business Resumption Plan contains the necessary arrangements to perform key business functions in the event of a disaster. A plan would help reduce the financial impact and the time necessary to replace key processing components after the event. The plan would be developed from an overall business perspective and would address only critical business processes. A plan should include:

- The identification of key automated business processes required to continue when a disaster is declared.
- The specific arrangements to recover those key processes identified, including personnel, facilities, telecommunications, supplies and equipment.
- A process to identify changes within the organization and make updates to help ensure the plan remains current.
- Periodic testing, where feasible and cost effective, to help ensure the plan is operational.

Completion of a business impact analysis would define risks and exposures to the business and drive the recovery strategy. IS management can then secure the most cost effective arrangements for recovering business services in the event of a disaster.

Recommendation

The Hospital should consider performing a Business Impact Analysis ('BIA'). A BIA would define the risks and exposures to the Hospital and identify the financial amount and Hospital services impacted in case of a disaster. Then based on this analysis, the Hospital can decide on the best approach for developing a business continuity plan and needed arrangements for EDP recovery to support this plan.

Management's Response

The Hospital intends to address the development of a Business Resumption Plan through a Quality Improvement process as a Quality Council initiative.

STATUS OF OUR PRIOR YEAR RECOMMENDATIONS

	Implemented	Partially Implemented	Not Implemented
INTERNAL CONTROL STRUCTURE:			
Fixed Asset Records		X	
Professional Liability Claims			X
Security Violation Logs and Review	X		
ADMINISTRATIVE AND OPERATING MATTERS:			
Disaster Recovery Plan		X	
Year 2000 (separate letter provided)		X	
Training and Cross Training	X		
Patient Charges	X		
Recent Accounting Pronouncement		X	
Accounting for Investments	X		

APPENDIX

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, THE INTERNAL CONTROL STRUCTURE

The following comments concerning management's responsibility for the internal control structure and the objectives of and the inherent limitations in the internal control structure are adapted from the Statements on Auditing Standards of the American Institute of Certified Public Accountants.

Management's Responsibility

Management is responsible for establishing and maintaining the 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 policies and procedures.

Objectives

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.

Limitations

Because of inherent limitations in any internal control structure, errors or irregularities may 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.

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March 13, 1998

Members of the Board of Commissioners
St. Tammany Parish Hospital Service
District No. 1:

We have audited the consolidated financial statements of St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Parish Hospital) for the year ended December 31, 1997, and have issued our report thereon dated March 13, 1998.

Our professional standards require that we communicate with you concerning certain matters that may be of interest to you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of St. Tammany Parish Hospital is responsible. We have prepared the following comments to assist you in fulfilling that obligation.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

We conducted our audit of the 1997 consolidated financial statements of St. Tammany Parish Hospital in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. When performing an audit in accordance with those standards, we are required only to obtain an understanding of the Hospital's internal control structure sufficient to enable us to properly plan our audit and not to provide assurance on the internal control structure.

Based, in part, on our understanding of the control environment, we designed our audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements. However, because of the characteristics of irregularities, particularly those involving forgery and collusion, a properly designed and executed audit may not detect such items.

We have issued a separate report to you, also dated March 13, 1998, containing our comments on the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The Hospital's significant accounting policies are set forth in Note 1 to the Hospital's 1997 consolidated financial statements. During the year ended December 31, 1997, there were no significant changes in previously adopted accounting policies or their application.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Hospital's 1997 consolidated financial statements include an allowance for doubtful accounts receivable and estimates of amounts to be received under government healthcare programs. The basis for our conclusions as to the reasonableness of these estimates, as expressed in our auditors' report, is our review and tests of the process used by management to develop the estimates.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Hospital's 1997 consolidated financial statements.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no difficulties in dealing with management related to performance of our audit.

This report is intended solely for the use of the Board of Commissioners, management, and others within the organization and should not be used for any other purpose.

We will be pleased to discuss this report with you further at your convenience.

Yours truly,

Deloitte & Touche LLP