ARTHUR ANDERSEN LLP

LOUISIANA STATE UNIVERSITY SCHOOL OF MEDICINE IN NEW ORLEANS FACULTY GROUP PRACTICE (D/B/A) LSU HEALTHCARE NETWORK

FINANCIAL STATEMENTS AS OF JUNE 30, 1999 AND 1998 TOGETHER WITH AUDITORS' REPORT

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of Louisiana
State University School of Medicine in
New Orleans Faculty Group Practice:

We have audited the accompanying statements of financial position of the Louisiana State University School of Medicine in New Orleans Faculty Group Practice d.b.a. LSU Healthcare Network (a Louisiana nonprofit organization) ("LSUHN") as of June 30, 1999 and 1998, and the related statements of activities and changes in net assets and cash flows for the years ended June 30, 1999 and 1998. These financial statements are the responsibility of LSUHN's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards and in accordance with the standards for financial audits contained in Governmental 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.

The Year 2000 supplementary information in Note 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB); we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin 98-1 as amended are not sufficiently specific to permit meaningful results from the prescribed procedures. In addition, we do not provide assurance that LSUHN is or will become Year 2000 compliant, that LSUHN's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which LSUHN does business are or will be Year 2000 compliant.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LSUHN as of June 30, 1999 and 1998 and the results of its operations and its cash flows for the years ended June 30, 1999 and 1998 in conformity with generally accepted accounting principles.

In accordance with Governmental Auditing Standards, we have also issued a report on our consideration of LSUHN's compliance and internal controls over financial reporting dated August 20, 1999.

Arthur Andersen LLP

New Orleans, Louisiana,
August 20, 1999

LSU HEALTHCARE NETWORK

STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 1999 AND 1998

	1999	1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 4,466,141	$ 493,674
Accounts receivable (net of allowances for doubtful accounts of $16,693,908 in 1999 and $4,200,349 in 1998)	19,347,616	16,437,857
Prepaid expenses	54,329	26,299
Total current assets	23,868,086	16,957,830
PROPERTY, PLANT AND EQUIPMENT, net	996,211	267,920
OTHER ASSETS:		
Investment in University Technology Group, LLC (Note 5)	300,000	-
Investment in Crescent Benefits, LLC (Note 5)	-	5,681
Total assets	$ 25,164,297	$ 17,231,431
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 879,773	$ 832,283
Notes Payable, current portion	126,547	-
Leases Payable, current portion	30,225	-
Due to LSUMC Foundation (Note 3)	336,512	336,512
Due to LSU Medical Center (Note 3)	17,302,112	14,637,374
Total current liabilities	18,675,169	15,806,169
NOTE PAYABLE, less current portion	380,605	-
LEASES PAYABLE, less current portion	59,750	-
COMMITMENTS AND CONTINGENCIES (Note 13)	-	-
Total liabilities	19,115,524	15,806,169
NET ASSETS - Unrestricted (Note 2)	6,048,773	1,425,262
Total liabilities and net assets	$ 25,164,297	$ 17,231,431

The accompanying notes are an integral part of these financial statements.

LSU HEALTHCARE NETWORK

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	1999	1998
NET PATIENT SERVICE REVENUE	$ 77,857,313	$ 46,257,548
OPERATING EXPENSES:		
Leased employees – faculty	18,519,156	18,380,893
Leased employees - non faculty	5,328,653	6,424,740
General and administrative	6,096,406	3,828,455
Personnel	5,175,814	2,138,231
Bad debt expense	26,535,175	9,350,886
Medical supplies	3,719,904	1,739,541
Depreciation	142,483	29,770
Total operating expenses	65,517,591	41,892,516
Income from operations	12,339,722	4,365,032
OTHER REVENUES (EXPENSES):		
Medical school enhancement fund (Note 3)	(8,287,044)	(3,702,420)
Contributions (Note 3)	400,000	-
Interest income and other income	221,058	117,534
Interest expense	(44,544)	-
Loss on joint venture	(5,681)	(14,319)
Total other revenues (expenses)	(7,716,211)	(3,599,205)
INCREASE IN UNRESTRICTED NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACOUNTING PRINCIPLE	4,623,511	765,827
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (Note 2)	-	(257,042)
INCREASE IN UNRESTRICTED NET ASSETS	4,623,511	508,785
UNRESTRICTED NET ASSETS, beginning of period	1,425,262	916,477
UNRESTRICTED NET ASSETS, end of period	$ 6,048,773	$ 1,425,262

The accompanying notes are an integral part of these financial statements.

LSU HEALTHCARE NETWORK

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 4,623,511	$ 508,785
Adjustments to reconcile increase in net assets to net cash provided by operating activities-		
Depreciation and amortization	142,483	29,770
(Increase) in accounts receivable	(2,909,759)	(13,432,714)
(Increase) in prepaid expense	(28,030)	(26,299)
Increase in accounts payable	47,490	780,396
(Decrease) in due to LSUMC Foundation	-	(100)
Increase in due to LSU Medical Center	2,664,738	11,888,360
Net cash provided by (used in) operating activities	4,540,433	(251,802)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets, net	(870,774)	(297,690)
Investment in University Technology Group, LLC	(300,000)	-
Organizational costs (write-off) (Note 2)	-	257,042
Loss on investment in Crescent Benefits, LLC	5,681	14,319
Net cash used in investing activities	(1,165,093)	(26,329)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable (Note 8)	650,479	-
Payments on note payable (Note 8)	(53,352)	-
Net cash provided by financing activities	597,127	-
Net increase (decrease) in cash and cash equivalents	3,972,467	(278,131)
CASH AND CASH EQUIVALENTS, beginning of period	493,674	771,805
CASH AND CASH EQUIVALENTS, end of period	$ 4,466,141	$ 493,674

The accompanying notes are an integral part of these financial statements.

LSU HEALTHCARE NETWORK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999 AND 1998

1. NATURE OF ACTIVITIES:

Louisiana State University School of Medicine in New Orleans Faculty Group Practice d.b.a. LSU Healthcare Network ("LSUHN"), a Louisiana non-profit organization, assists the LSU Medical Center ("LSUMC") in carrying out its medical, educational, and research functions. LSUHN provides health care to the general public including, but not limited to, the delivery of physician medical services and other health care services to individuals. LSUHN receives compensation for these services from the Medicare and Medicaid programs, from certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and directly from the patients themselves.

From inception of operations at March 1, 1997 through September 30, 1997, all services provided by LSUHN were rendered in the public hospitals serviced by LSUMC. These hospitals include Earl K. Long in Baton Rouge, University Medical Center in Lafayette, the Medical Center of Louisiana in New Orleans and University Hospital in New Orleans. Beginning October 1, 1997, LSUHN's activities include services provided in both the public hospitals and the private clinics serviced by LSUMC. LSUHN and LSUMC (through the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College) have entered into Cooperative Endeavor and Operating Agreements expiring October 31, 2000 that allows LSUHN to lease certain faculty and non-faculty employees from LSUMC, requires LSUHN to make contributions to the Medical School Enhancement Fund (MSEF) based on gross revenues of LSUHN and otherwise enables the two entities to work together in a mutually beneficial manner. The agreements delineate the obligations and responsibilities of both LSUHN and LSUMC. Both parties have the right to terminate the Operating Agreement with or without cause upon 60 days written notice.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The financial statements of LSUHN have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

LSUHN considers all highly liquid investments in money market funds and investments available for current use with an initial maturity of three months or less to be cash equivalents.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line basis over estimated useful lives of 5 years.

Net Assets

LSUHN has received no contributions with donor-imposed restrictions and therefore all net assets are classified as unrestricted in accordance with Statement of Financial Accounting Standards No. 117. However, the Board of Directors of LSUHN has designated $10,049,468 as of June 30, 1999 and $3,904,355 as of June 30, 1998 of unrestricted net assets to be used to support LSUMC and its various clinical departments.

Net Patient Service Revenue

LSUHN has agreements with third parties that provide for payments at amounts different from its established rates. Net patient service revenue is reported in the financial statements at the estimated net amounts realizable from patients, third party payors, and others for services rendered. Major third party payor arrangements are summarized below.

Medicare - Payment for professional fees is generally based on the Resource Based Relative Value Scale.

Medicaid - Payment for professional services is generally based on either predetermined fee schedules or fee for service.

LSUHN has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to LSUHN under these agreements includes prospectively determined rates per office visit and discounts from established charges.

Charity Care

LSUHN provides care to patients in the public hospital system without regard to their ability to pay for those services. Because LSUHN does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

Organizational Costs

LSUHN elected to adopt American Institute of Certified Public Accountants Statement of Position 98-5, "Reporting on the Cost of Start-up Activities" in its fiscal year ending June 30, 1998 and, accordingly, expensed previously capitalized startup costs. The impact of adopting this statement was a reduction in unrestricted net assets of $257,042 which is reflected as the cumulative effect of a change in accounting principle in the Statement of Activities and Changes in Net Assets for the Year ended June 30, 1998.

Income Taxes

LSUHN is a nonprofit corporation organized under the laws of the State of Louisiana. It is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, and qualifies as a support organization, as defined in Section 501(a) of the Code. It is exempt from Louisiana income tax under the authority of RS 47:121(5).

3. RELATED PARTY TRANSACTIONS:

Physician and non-physician employees of LSUMC provide certain clinical and administrative services to LSUHN. Approximate amounts paid for services provided under this arrangement were $24,700,000 in 1999 and $17,902,000 in 1998. Approximately $13,150,000 and $12,128,000 was owed to LSUMC for physician and non-physician services, including amounts accrued relating to accounts receivable, as of June 30, 1999 and 1998, respectively.

LSUHN's affiliation agreement with LSUMC requires LSUHN to pay ten percent (10%) of its annual gross cash receipts to LSUMC, through the Medical School Enhancement Fund ("MSEF") to support the clinical, academic and research missions of the Medical Center. Cash payments totaling $6,644,000 and $1,602,000 were made to the MSEF during the fiscal years ended June 30, 1999 and 1998, respectively. As of June 30, 1999 and 1998, approximately $4,152,000 and $2,509,000, respectively, was due to LSUMC for MSEF payments, including amounts accrued relating to accounts receivable.

Prior to June 30, 1997, the LSUMC Foundation advanced LSUHN $336,612 to fund organizational costs and certain operating expenses. The unpaid portion of this is reflected as a liability in the accompanying balance sheet.

During 1999, the LSUMC Foundation made unrestricted donations totaling $325,000 to LSUHN.

4. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment at June 30, 1999 and 1998, respectively, consists of:

	1999	1998
Property, plant and equipment	$1,160,675	$ 297,690
Less: Accumulated depreciation	164,464	29,770
Property, plant and equipment, net	$ 996,211	$ 267,920

5. OTHER ASSETS:

Crescent Benefits, LLC

LSUHN had a 20% interest in a Limited Liability Company called Crescent Benefits, LLC ("Crescent"). It was planned that Crescent would provide third party administration health claim services to municipality related customers. LSUHN's interest in Crescent was accounted for under the equity method. Ultimately, Crescent was unsuccessful in obtaining the desired municipality contracts, the company was liquidated and $4,333 was returned to LSUHN as its share of remaining capital in the fiscal year ended June 30, 1999. LSUHN reduced its initial investment in Crescent by $14,319 for the year ended June 30, 1998 to reflect LSUHN's share of operating losses for that fiscal year.

Children's Healthcare Network

LSUHN is a member of the Children's Healthcare Network ("CHN"), a non-profit organization. CHN will negotiate managed care contracts relating to pediatric patient populations on behalf of LSUHN and the other two members of CHN, the Pediatric Physician's Network, Inc. and Children's Hospital. LSUHN owns a 33-1/3% interest in CHN and accounts for its interest in CHN under the equity method.

University Technology Group, LLC

LSUHN is the only member of University Technology Group, LLC ("UTG"). UTG was formed to participate in technology ventures that will assist LSUHN in the delivery of health care services or any other activities that will enhance LSUMC's ability to carry out its medical, educational or research missions. LSUHN contributed $300,000 during the fiscal year ended June 30, 1999 to capitalize UTG. UTG intends to invest these funds in Interpacs LLC in a joint venture with a third party to develop and market medical imaging software.

University Medical Group, LLC

LSUHN is the sole member of University Medical Group, LLC ("UMG"). UMG was formed to facilitate LSUMC faculty participation in various managed care arrangements.

6. COMMITMENTS:

LSUHN leases office space and equipment under operating leases which expire at various dates through March, 2004. Certain of the lease agreements provide for escalations based on cost of operations. Total rent expense for the year ended June 30, 1999 and 1998 was approximately $1,287,000 and $872,000, respectively.

Minimum annual lease payments for each of the next five years ending June 30, are as follows:

Year	Payments
2000	$1,038,936
2001	467,955
2002	233,494
2003	161,727
2004	154,296

LSUHN is leasing certain medical equipment at $17,995 per year under a five-year capital lease agreement that includes no interest and a bargain purchase option.

7. NOTE PAYABLE:

Note payable at June 30, 1999 and 1998 are as follows:

	1999	1998
Note payable to phone vendor at 10.5%, payable in monthly installments of $14,743 through December 31, 2003 including interest, collateralized by phone equipment with a depreciated cost of $505,717	$507,152	$ -
Less current maturities	126,547	-
	$380,605	$ -

8. CREDIT FACILITIES:

On January 1, 1998, LSUHN entered into a $1,250,000 secured revolving credit facility with the LSU Medical Center Foundation ("Lender"), a private, non-profit organization which supports the activities of LSU Medical Center. The Lender exercised its option to terminate its commitment under the loan effective February 28, 1999. During the year ended June 30, 1999, LSUHN borrowed and repaid $750,000 and paid $7,161 of interest expense under the facility.

9. 401(k) PLAN:

In December 1997, LSUHN established a 401(k) plan for the benefit of its employees. The plan permits an employee to contribute up to 15% of their compensation to the plan, subject to certain limitations. At its discretion, LSUHN may make contributions to the 401(k) plan for the benefit of participating employees. For the years ended June 30, 1999 and 1998 401(k) plan expense was $158,582 and $80,964 , respectively.

10. CONCENTRATIONS OF CREDIT RISK:

LSUHN provides services in New Orleans, Baton Rouge and Lafayette. LSUHN grants credit to its patients, some of whom are insured under third-party payor agreements. LSUHN routinely obtains assignment of or is otherwise entitled to receive patients' benefits from Medicare, Medicaid and other third-party payors. The mix of receivables from patients and third party payors at June 30, 1999 and 1998, was as follows:

	1999	1998
Medicaid	29.5%	34.7%
Medicare	21.2%	20.0%
Commercial Insurance	17.3%	19.5%
HMO/PPO	10.3%	12.3%
Self Pay	21.7%	13.5%
	100.0%	100.0%

LSUHN routinely invests any surplus operating funds in money market mutual funds that generally invest in highly liquid U.S. Government and agency obligations. Investments in money market funds are not insured or guaranteed by the U.S. Government; however, management believes the credit risk related to these investments is minimal..

11. GOVERNMENT REGULATIONS:

The healthcare industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. The office of the Inspector General of the Department of Health and Human Services has undertaken a project to audit Medicare billings of certain academic medical institutions. The government has stated that it believes that a significant amount of Medicare claims filed by teaching physicians are not properly documented as required by current interpretations of Medicare standards. If a provider is found to be in violation of these documentation standards, the government may require repayment of any overcharges and may impose a penalty of treble damages plus up to $10,000 per false claim. Management believes that LSUHN is in compliance with fraud and abuse as well as other applicable government laws and regulations, and with the Medicare documentation standards. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Legislation and regulation at all levels of government have affected and are likely to continue to affect the operation of LSUHN. Federal healthcare reform legislation proposals debated in Congress in recent years have included proposals for the imposition of price controls and/or healthcare spending budgets or targets, significant reductions in Medicare and Medicaid program reimbursement to healthcare providers and the promotion of a restructured delivery and payment system focusing on competition among providers based on price and quality, managed care, and steep discounting or capitated payment arrangements with many, if not all, of LSUHN's principal payors. It is not possible at this time to determine the impact on the LSUHN of government plans to reduce Medicare and Medicaid spending, government implementation of national and state healthcare reform or market-initiated delivery system and/or payment methodology changes. However, such changes could have an adverse impact on operating results and cash flows of LSUHN in future years.

12. YEAR 2000 ISSUE (UNAUDITED):

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect LSUHN's operations in fiscal year 2000.

LSUHN has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and are necessary to conduct LSUHN's operations. LSUHN has identified the following systems requiring year 2000 remediation:

- *Patient Billing System.* LSUHN has installed, validated and tested the year 2000 compliant version of its patient billing system. LSUHN remains in close contact with the patient billing software vendor so that any additional year 2000 "patches" will be installed and tested on a timely basis.
- *Financial Reporting System.* LSUHN recently completed the installation of a year 2000 compliant financial reporting system.
- *Laboratory Information System.* LSUHN has installed, validated, and tested the Year 2000 compliant version of the Laboratory Information System.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that LSUHN is or will be Year 2000 ready, that LSUHN's remediation efforts will be successful in whole or in part, or that parties with whom LSUHN does business will be year 2000 compliant.

13. COMMITMENTS AND CONTINGENCIES:

It is possible that LSUHN may become involved in litigation arising in the ordinary course of business. LSUHN has purchased general and professional insurance to cover all employees of LSUHN. Malpractice coverage is provided to LSUHN through LSUMC. Management is not aware of any pending or threatened litigation involving LSUHN and is of the opinion that the current coverages are adequate to provide for any potential losses resulting from litigation.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors
Of Louisiana State University
School of Medicine in New Orleans
Faculty Group Practice:

We have audited the financial statements of the Louisiana State University School of Medicine in New Orleans Faculty Group Practice, d.b.a. LSU Healthcare Network (a Louisiana nonprofit organization) ("LSUHN") as of and for the year ended June 30, 1999, and have issued our report thereon dated August 20, 1999. 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 the financial statements are free of material misstatement, we performed tests of LSUHN's compliance with certain provisions of laws, regulations, and contracts, 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 herein under Government Auditing Standards.

Internal Control Over Financial Reporting

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

This report is intended for the information of the Board of Directors and management. However, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

New Orleans, Louisiana
August 20, 1999

LOUISIANA STATE UNIVERSITY SCHOOL OF MEDICINE
IN NEW ORLEANS FACULTY GROUP PRACTICE
(D/B/A) LSU HEALTHCARE NETWORK

MEMORANDUM ON ACCOUNTING
PROCEDURES AND INTERNAL CONTROLS
JUNE 30, 1999

ARTHUR
ANDERSEN

August 20, 1999

Arthur Andersen LLP

Suite 4500
201 St Charles Avenue
New Orleans LA 70170-4500
504 581 5454

To the Board of Directors
Louisiana State University School of Medicine
in New Orleans
Faculty Group Practice
d.b.a. LSU Healthcare Network:

As part of our audit of the financial statements for the Louisiana State University School of Medicine in New Orleans Faculty Group Practice (LSUHN) for the year ended June 30, 1999, we considered the LSUHN's internal control structure in determining the scope of our audit procedures for the purpose of rendering an opinion on the financial statements. Our primary purpose in this engagement was not to provide assurances on the internal control structure. We noted the following matters that we want to bring to your attention.

Reconciliation of Cash Accounts
LSUHN reconciles cash accounts each month; however, unreconciled differences are consistently included in these reconciliations. Reconciliation of cash accounts to the general ledger, including investigation and follow-up on all reconciling items, is a control technique that should be performed on a monthly basis to ensure that cash is properly stated by LSUHN as well as by the bank.

> Management Response:
> An individual has been assigned the responsibility of reconciling cash accounts on a monthly basis. The Finance Director will be notified of any unreconciled differences and such differences will be investigated until resolved.

Reconciliation of Accounts Receivable Trial Balance
LSUHN reconciles the accounts receivable trial balance to the general ledger on a monthly basis; however, at June 30, 1999 there was an unreconciled difference. Reconciliation of the receivables subsidiary ledger to the general ledger, including investigation and follow-up on all reconciling items, is a control technique that should be performed on a monthly basis to ensure that billing and collection activity is properly recorded in the general ledger and to ensure that accounts receivable and revenue are not misstated.

> Management Response:
> The Controller is responsible for monthly reconciliation of the A/R trial balance to the general ledger. The Finance Director will be notified of any unreconciled differences and such differences will be investigated until resolved.

Travel and Entertainment Expense Reimbursement

LSUHN has an approval policy in place for travel and entertainment expense reimbursement; however, this policy does not require approval for the reimbursement of travel and entertainment expenses of the Medical Director or the CEO. We recommend that a member of the Board of Directors or the Finance Committee approve and sign off on all expenses for the Medical Director and CEO. The use of a travel form including a description of the expense as well as the total amount requested for reimbursement should be submitted with the actual receipts attached.

Management Response:
A recommendation will be presented at the September Finance Committee meeting to have the Chairman of the Finance Committee approve the travel and entertainment expenses of the CEO and/or the Medical Director.

Billing Lag

AA noted that the LSUHN has approximately a month and a half lag between the date of service and the date the bill is posted to the IDX system. One of the reasons noted for the billing lag is delay caused by a doctor not completing the required documentation in a timely manner. We recommend that the Network develop a monitoring control that enables management to identify and follow up with the doctors that consistently sign off on the patient charts late. Management is currently reviewing other reasons for the billing lag and taking steps to improve this area. We encourage management to continue efforts to investigate these delays and to implement solutions as soon as possible.

Management Response:
The Executive Committee of the LSUHN has approved the creation of a Project Manager position that will be responsible for charge capture management. An internal candidate has been identified and it is likely the position will be filled in October.

Annual Leave

LSUHN properly accrued annual leave for state employees at year end; however, LSUHN did not accrue for LSUHN employees. Per review of the Network's summary of benefits, all employees, including Network employees, qualify for annual leave benefits. Vacation pay and those sick pay benefits that accumulate with time worked are earned by employees as services are rendered. Accordingly, these benefits should be accrued over the period when the services are performed in accordance with the Network's formal policies. Accrual is appropriate even when the vacation or sick pay rights do not legally vest or otherwise accumulate, providing the entity's policies indicate payment will be made, however, in such

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cases, the accrual should be reduced for estimated amounts, if any, that will not be paid due to nonuse, termination or other reasons. Vacation and sick pay should be accrued using current salary rates and the accrual adjusted when the rates change. Because of their short-term nature and, in some cases, the inability to estimate the payment date, such accruals should not be discounted.

Management Response:
LSUHN will accrue annual leave for LSHUN employees as recommended by the auditors.

This letter and the accompanying memorandum are intended solely for the use of management and the Board of Directors and are not intended for any other purpose.

We appreciate the courtesies and cooperation extended to our representatives during the course of their work. We would be pleased to discuss the recommendations in greater detail or otherwise assist in their implementation at your convenience.

Very truly yours,

Arthur Andersen LLP

	Implemented	Partially Implemented	Not Implemented
Accounts Receivable Detailed Trial Balance		X	
Accounts Receivable Reconciliation	X		
Billing Lag			X(1)
HMS	X		
Annual Leave			X(1)
Property Depreciation		X	
Conflict of Interest Statements	X		
Information Systems			
Tax Issue	X		
Inventory		X(2)	

Notes

(1) See current year management letter suggestion
(2) LSUHN purchased a new accounting system that includes an inventory module. In purchasing the new system, management analyzed the inventory capabilities of the system noting that they were sufficient to meet inventory needs. Management plans on using the inventory module; however, they are still in the process of installing the new software and want to get it fully installed before working on the inventory system.