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**ST. THOMAS HEALTH SERVICES, INC.**

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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 8-11-99

**FINANCIAL AND COMPLIANCE AUDITS**

**TOGETHER WITH**

**INDEPENDENT AUDITORS' REPORTS**

**FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying statements of financial position of **St. Thomas Health Services, Inc.** (a non-profit corporation) as of December 31, 1998 and 1997 and the related statement of activities for the year ended December 31, 1998 and the statements of functional expenses and cash flows for the years ended December 31, 1998 and 1997. These financial statements are the responsibility of the management of **St. Thomas Health Services, Inc.** 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 the standards applicable to *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, the financial statements referred to above present fairly, in all material respects, the financial position of **St. Thomas Health Services, Inc.** as of December 31, 1998 and 1997, and the changes in its net assets for the year ended December 31, 1998 and its cash flows for the years ended December 31, 1998 and 1997 in conformity with generally accepted accounting principles.

**INDEPENDENT AUDITORS' REPORT**  
**(CONTINUED)**

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 1999 on our consideration of **St. Thomas Health Services, Inc.**'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants as of and for the year ended December 31, 1998.

Our audit was made for the purpose of forming an opinion on the basic financial statements of **St. Thomas Health Services, Inc.** taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



**BRUNO & TERVALON**  
**CERTIFIED PUBLIC ACCOUNTANTS**

July 23, 1999

**ST. THOMAS HEALTH SERVICES, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 1998 AND 1997**

	<u>1998</u>	<u>1997</u>
<b><u>ASSETS</u></b>		
Cash (NOTE 13)	\$ 64,503	\$ 53,322
Accounts receivable	11,444	1,850
Grants receivable	166,841	188,382
Deposits	3,379	3,379
Prepaid insurance	2,351	-0-
Furniture, equipment and building improvements, net of accumulated depreciation of \$411,576 and \$341,299 in 1998 and 1997 (NOTE 2)	<u>325,965</u>	<u>384,241</u>
Total assets	<u>\$574,483</u>	<u>\$631,174</u>
<b><u>LIABILITIES</u></b>		
Accounts payable	\$ 41,230	\$ 53,186
Due to funding sources (NOTE 2)	49,706	1,095
Loans payable (NOTE 10)	<u>10,000</u>	<u>30,000</u>
Total liabilities	<u>100,936</u>	<u>84,281</u>
<b>CONTINGENCY (NOTE 11)</b>		
<b><u>NET ASSETS (NOTE 2)</u></b>		
Unrestricted	122,582	137,652
Unrestricted - fixed assets	325,965	384,241
Permanently restricted	<u>25,000</u>	<u>25,000</u>
Total net assets	<u>473,547</u>	<u>546,893</u>
Total liabilities and net assets	<u>\$574,483</u>	<u>\$631,174</u>

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

ST. THOMAS HEALTH SERVICES, INC.  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 1998  
WITH SUMMARIZED FINANCIAL INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 1997

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	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>December 31, 1998 - Total</u>	<u>December 31, 1997 - Total</u>
<u>OPERATING REVENUES</u>				
Contributions	\$ 335,563	\$ -0-	\$335,563	\$ 525,726
Grant revenues	594,596	-0-	594,596	807,566
Patient revenues	168,186	-0-	168,186	136,836
Other revenues	<u>2,639</u>	<u>-0-</u>	<u>2,639</u>	<u>13,400</u>
Total operating revenues	<u>1,100,984</u>	<u>-0-</u>	<u>1,100,984</u>	<u>1,483,528</u>
<u>OPERATING EXPENSES</u>				
Health care	850,056	-0-	850,056	647,076
Management and general	<u>324,274</u>	<u>-0-</u>	<u>324,274</u>	<u>457,365</u>
Total operating expenses	<u>1,174,330</u>	<u>-0-</u>	<u>1,174,330</u>	<u>1,104,441</u>
Changes in net assets	(73,346)	-0-	(73,346)	379,087
Net assets at beginning of year	<u>521,893</u>	<u>25,000</u>	<u>546,893</u>	<u>167,806</u>
Net assets at end of year	\$ <u>448,547</u>	\$ <u>25,000</u>	\$ <u>473,547</u>	\$ <u>546,893</u>

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

**ST. THOMAS HEALTH SERVICES, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

	<u>1998</u>	<u>1997</u>
<u>Cash Flows from Operating Activities</u>		
Changes in net assets	\$ (73,346)	\$ 379,087
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	70,277	69,457
Changes in operating assets and liabilities:		
Decrease (increase) in accounts and grants receivable	11,947	(77,115)
Decrease in accounts payable	(11,956)	(140,201)
Increase in prepaid insurance	(2,351)	-0-
Increase in due to funding source	<u>48,611</u>	<u>-0-</u>
Net cash provided by operating activities	<u>43,182</u>	<u>231,228</u>
 <u>Cash Flows from Investing Activities</u>		
Purchase of equipment	<u>(12,001)</u>	<u>(108,186)</u>
Net cash used in investing activities	<u>(12,001)</u>	<u>(108,186)</u>
 <u>Cash Flows from Financing Activities</u>		
Loans from sponsor organization	-0-	70,000
Repayment of loans to sponsor organization	<u>(20,000)</u>	<u>(180,599)</u>
Net cash (used in) provided by financing activities	<u>(20,000)</u>	<u>(110,599)</u>
 Net increase in cash	11,181	12,443
 Cash at the beginning of the year	<u>53,322</u>	<u>40,879</u>
 Cash at the end of year	\$ <u><u>64,503</u></u>	\$ <u><u>53,322</u></u>

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

**ST. THOMAS HEALTH SERVICES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Health Care</u>	<u>Management and General</u>	<u>Total Expenses</u>
Salaries and related benefits	\$ 663,936	\$ 132,347	\$ 796,283
Professional fees	77,700	19,750	97,450
Other	-0-	4,151	4,151
Telephone	-0-	19,216	19,216
Computer supplies	-0-	1,241	1,241
Contributions	-0-	925	925
Continuing education	427	-0-	427
Due and subscription	182	-0-	182
Educational materials	1,090	-0-	1,090
Licenses, permits and fees	-0-	642	642
Repairs and maintenance	-0-	13,837	13,837
Insurance	24,491	13,057	37,548
Lab testing and diagnostics	14,374	-0-	14,374
Medical supplies	12,368	-0-	12,368
Medical waste removal	2,860	-0-	2,860
Meetings and conferences	-0-	1,127	1,127
Office supplies	-0-	18,958	18,958
Penalties	-0-	6,409	6,409
Pharmacy supplies	52,047	-0-	52,047
Postage	-0-	7,994	7,994
Transportation	-0-	1,228	1,228
Uniforms	581	-0-	581
Utilities	-0-	13,114	13,114
Depreciation	-0-	70,278	70,278
<b>Total expenses</b>	<b>\$ <u>850,056</u></b>	<b>\$ <u>324,274</u></b>	<b>\$ <u>1,174,330</u></b>

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



**ST. THOMAS HEALTH SERVICES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 1997**

	<u>Health Care</u>	<u>Management and General</u>	<u>Total Expenses</u>
Salaries and related payroll taxes	\$496,054	\$242,204	\$ 738,258
Employee benefits	15,087	8,161	23,248
Insurance	18,482	18,317	36,799
Other	966	9,621	10,587
Educational fees	3,685	1,296	4,981
Professional fees and contract services	30,742	55,619	86,361
Repairs and maintenance	8,491	1,158	9,649
Pharmacy and laboratory supplies	28,442	10,487	38,929
Office supplies	3,155	1,156	4,311
Marketing and recruitment	-0-	1,241	1,241
Telephone	20,785	328	21,113
Postage	647	4,709	5,356
Utilities	9,965	5,871	15,836
Subscriptions	288	224	512
Meetings and conferences	-0-	1,381	1,381
Penalties and interest	-0-	5,630	5,630
Taxes, licenses and permits	230	155	385
Contributions	-0-	3,000	3,000
Travel	1,038	381	1,419
Waste removal	385	4,331	4,716
Leased equipment	4,000	3,899	7,899
Contract labor	888	4,347	5,235
Computer supplies	3,746	4,392	8,138
Depreciation	<u>-0-</u>	<u>69,457</u>	<u>69,457</u>
 Total expenses	 <u>\$647,076</u>	 <u>\$457,365</u>	 <u>\$1,104,441</u>

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

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

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NOTE 1 - Organization:

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

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

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

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

In order to assist *the Clinic* in meeting its goals and mission of providing services as a primary health care clinic, *St. Thomas* has applied for and been awarded several government grants. During the year ended December 31, 1998, *St. Thomas* received and administered the following governmental grants and programs:

o MATERNAL AND CHILD HEALTH CARE PROGRAM

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

- Comprehensive pediatric care to a defined number of children.

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

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NOTE 1 - Organization, Continued:

o **MATERNAL AND CHILD HEALTH CARE PROGRAM,  
CONTINUED**

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

o **RYAN WHITE**

*St. Thomas* received a grant from the City of New Orleans, the Mayor's Office of Health Policy to provide health care for individuals afflicted with AIDS.

NOTE 2 - Summary of Significant Accounting Policies:

Principles of Accounting

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

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

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NOTE 2 - Summary of Significant Accounting Policies, Continued:

Basis of Reporting

*St. Thomas* has adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 117 which establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories which are unrestricted, temporarily restricted and permanently restricted net assets according to externally (donor) imposed restrictions.

A description of the three net asset categories is as follows:

- o Unrestricted net assets include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the mission of *St. Thomas* are included in this category. *St. Thomas* has determined that any donor-imposed restrictions for current or developing programs and activities are generally met within the operating cycle of *St. Thomas* and, therefore, *St. Thomas'* policy is to record these net assets as unrestricted.
- o Temporarily restricted net assets include realized gains and losses, investment income and gifts and contributions for which donor imposed restrictions have not been met.
- o Permanently restricted net assets are contributions which are required by the donor-imposed restriction to be invested in perpetuity and only the income be made available for program operations in accordance with the donor restrictions. Such income is reflected in temporarily restricted net assets until utilized for donor imposed restrictions.

At December 31, 1998, *St. Thomas* did not have any temporarily restricted net assets.

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

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NOTE 2 - Summary of Significant Accounting Policies, Continued:

Furniture, Equipment and Building Improvements

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

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

Furniture and equipment	5 years
Building improvements	15 years

Such assets and related accumulated depreciation consist of the following:

Furniture and fixtures	\$ 162,108
Leasehold improvements	425,677
Machinery and equipment	149,756
Accumulated depreciation	<u>(411,576)</u>
Net fixed assets	\$ <u>325,965</u>

Support and Revenues

Revenues received under government grant programs are recognized when earned.

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

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

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NOTE 2 - Summary of Significant Accounting Policies, Continued:

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Due to Funding Sources

This amount represents unexpended grant funds that are required to be repaid to the funding source.

Prior-Year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with *St. Thomas'* financial statements for the year ended December 31, 1997, from which the summarized information was derived.

Cash Equivalents

For purposes of the Statements of Cash Flows, *St. Thomas* considers all investments purchased with a maturity of three months or less to be cash equivalents.

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

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NOTE 3 - Economic Dependency:

The primary source of revenue for *St. Thomas* is federal, state and local grants provided through various funding agencies. The continued success of *St. Thomas* is dependent upon the renewal of contracts from current funding sources as well as obtaining new funding.

NOTE 4 - Unrestricted Contributions:

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

NOTE 5 - Government Grants:

*St. Thomas* is the recipient of several federal awards as disclosed in the Schedule of Expenditures of Federal Awards. Included in government grant revenues are funds disbursed from several funding sources to provide funds for the implementation of various community programs as well as to support the operations of *St. Thomas*. The method of payment on the grants is cost reimbursement.

NOTE 6 - Clinic Revenues:

*St. Thomas* provides medical assistance to eligible medicaid recipients and receives reimbursements from the State of Louisiana's Department of Health and Human Services for claims submitted in conjunction with those services provided. Reimbursements for medicaid and medicare claims submitted as of December 31, 1998 and 1997 totaled \$134,115 and \$59,157, respectively and are included in patient revenues.

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

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NOTE 7 - Building Lease:

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

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

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

NOTE 8 - Pension Plan:

Certain employees of *St. Thomas* participate in a 403b Pension Plan which was established during January 1996. The plan is funded by employee deductions which are not required to be matched by *St. Thomas*.

NOTE 9 - Income Taxes:

*St. Thomas* is exempt from federal income taxes through Section 501(c)(3) of the Internal Revenue Code.



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

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NOTE 10 - Loans Payable:

	<u>1998</u>	<u>1997</u>
Non-interest bearing demand loan	\$ 10,000	\$ 10,000
Non-interest bearing term loan provided by a sponsor corporation	<u>-0-</u>	<u>20,000</u>
Total	<u>\$10,000</u>	<u>\$30,000</u>

NOTE 11 - Contingency:

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

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

NOTE 12 - Fair Value of Financial Instruments:

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

*St. Thomas* considers the carrying amounts of cash and restricted cash, grant receivables, and loans payable to be fair value.

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

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NOTE 13 - Restricted Cash:

On June 28, 1996, *St. Thomas* received a \$25,000 grant from the Fannie Mac Foundation in which the interest income is to be utilized to establish a revolving loan fund for expectant mothers who are uninsured and not eligible for federal or local government assistance with their health care. Such funds are recorded as permanently restricted net assets. The funds are maintained in the operating payroll account.

NOTE 14 - Year 2000

The management of *St. Thomas* is assessing its computer systems and business process and intends to initiate actions to address the Year 2000 (Y2K). At this time, management is not able to determine the impact, including the costs of remediation, of the "Year 2000 issue" on *St. Thomas*.

**SUPPLEMENTAL INFORMATION**

**ST. THOMAS HEALTH SERVICES, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

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<u>FEDERAL GRANTOR/PROGRAM NAME</u>	<u>Federal CFDA Or Other Number</u>	<u>Pass-Through Entity's Number</u>	<u>Activity</u>
<b><u>U.S. Department of Health and Human Services</u></b>			
<u>Awards from a Pass-Through Entity</u>			
Through: City of New Orleans			
<u>HIV Emergency Relief Cluster</u>			
HIV Emergency Relief Grant - Ryan			
White Program	93.915	210-6835	\$ 15,172
Through: State of Louisiana's Office of			
Public Health			
Maternal Child Health Program	93.994	515-450	139,995
		538-411	46,685
Family Planning	93.217	72110837401	<u>25,640</u>
Total Expenditures of Federal Awards			<u>\$227,492</u>

See the Independent Auditors' Report on Supplementary Information.

INDEPENDENT AUDITORS' 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  
**St. Thomas Health Services, Inc.**

We have audited the financial statements of the **St. Thomas Health Services, Inc. (St. Thomas)** as of and for the year ended December 31, 1998, and have issued our report thereon dated July 23, 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 **St. Thomas'** 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 statements' 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 an instance of noncompliance that is required to be reported under Government Auditing Standards, and which is described in the accompanying schedule of findings and questioned costs as item 98-03.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(CONTINUED)

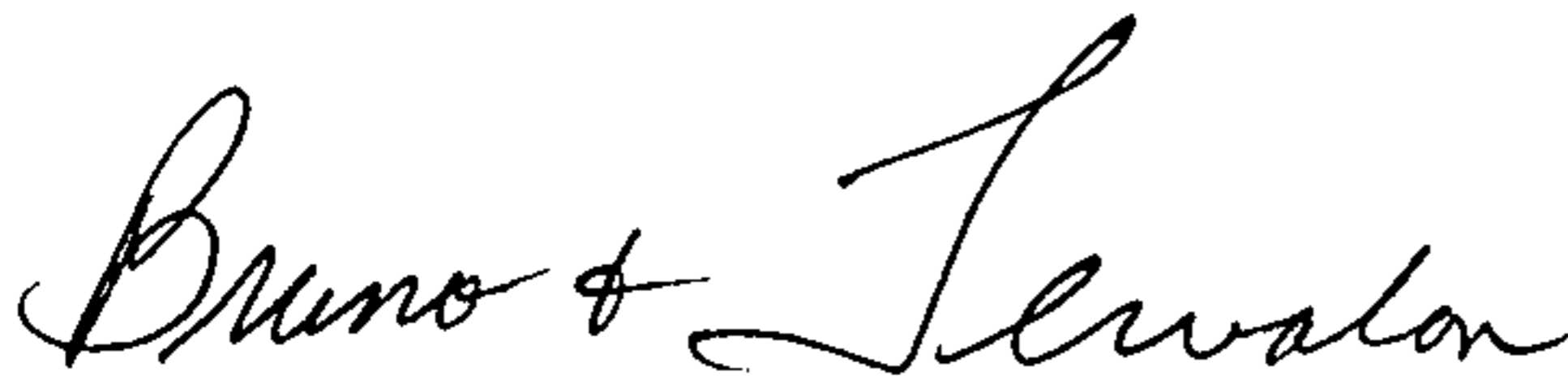
**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered **St. Thomas'** 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 a certain matter involving the *internal control over financial reporting and its operation that we consider to be a reportable condition*. 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 **St. Thomas'** 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 98-01 and 98-02.

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 consider the reportable conditions as described above to be material weaknesses.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(CONTINUED)

This report is intended solely for the information and use of the Board of Directors, management, the State of Louisiana, and the City of New Orleans and is not intended to be and should not be used by anyone other than these specified parties.



**BRUNO & TERVALON**  
**CERTIFIED PUBLIC ACCOUNTANTS**

July 23, 1999

INDEPENDENT AUDITORS' 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  
**St. Thomas Health Services, Inc.**

**Compliance**

We have audited the compliance of **St. Thomas Health Services, Inc. (St. Thomas)** 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 program for the year ended December 31, 1998. **St. Thomas'** major federal program is identified in the summary of independent auditors' 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 programs is the responsibility of **St. Thomas'** management. Our responsibility is to express an opinion on **St. Thomas'** compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained 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.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(CONTINUED)

An audit includes examining, on a test basis, evidence about **St. Thomas'** 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 on **St. Thomas'** compliance with those requirements.

In our opinion, **St. Thomas** complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 1998. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 98-04.

**Internal Control Over Compliance**

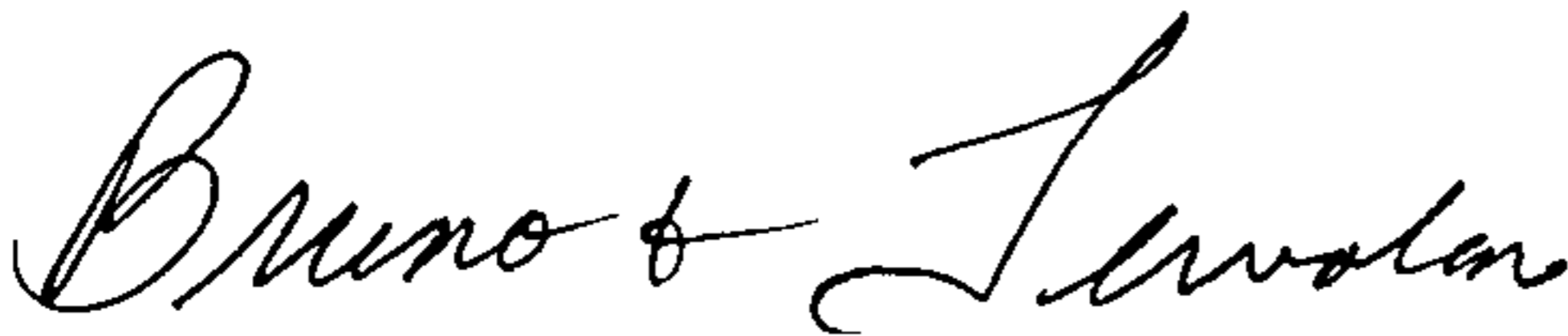
The management of **St. Thomas** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered **St. Thomas'** internal control over compliance with requirements that could have a direct and material effect on a 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 a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. 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 **St. Thomas'** ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 98-04.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(CONTINUED)

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 grants that would be material in relation to a 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 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 the reportable condition previously described is a material weakness.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**BRUNO & TERVALON**  
**CERTIFIED PUBLIC ACCOUNTANTS**

July 23, 1999

**ST. THOMAS HEALTH SERVICES, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS  
FOR THE YEAR ENDED DECEMBER 31, 1998**

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1. Type of report issued on the financial statements: **Unqualified**.
2. Did the audit disclose any reportable conditions in internal control: **Yes**.
3. Were any of the reportable conditions material weaknesses: **Yes**.
4. Did the audit disclose any noncompliance which is material to the financial statements of the organization: **Yes**.
5. Did the audit disclose any reportable conditions in internal control over major programs: **Yes**.
6. Were any of the reportable conditions in internal control over major programs material weaknesses: **Yes**.
7. Type of report issued on compliance for major programs: **Unqualified**.
8. Did the audit disclose any audit findings which the independent auditors are required to report under OMB Circular A-133, Section 510(a): **Yes**.
9. The following is an identification of major programs:

CFDA  
Number

Federal Program

93.994

Maternal Child Health

**ST. THOMAS HEALTH SERVICES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS, CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

---

10. The dollar threshold used to distinguish between Type A and Type B Programs, as described in OMB Circular A-133, Section 520(b) is as follows:

<u>Program</u>	<u>Amount</u>
Type A	\$300,000

11. Did the auditee qualify as a low-risk auditee under OMB Circular A-133, Section 530:  
No.

SCHEDULE II

**ST. THOMAS HEALTH SERVICES, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 1998  
FINANCIAL STATEMENTS FINDINGS**

---

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

Audit Finding Number:

98-01 - Financial Records

We noted during our audit that the management of **St. Thomas** did not properly record accounting information to the financial records on a timely basis. Also, we noted that *management of St. Thomas failed to ensure bank reconciliations were performed during the year ended December 31, 1998.* These conditions resulted in management failing to obtain current and accurate financial statements and delayed the issuance of the audit report past the statutory state requirement.

OMB Circular A-110, Subpart C, Section 21 establishes standards for financial management systems that non-profits are required to adhere to. Also, Louisiana Revised Statute 24:513 require financial audits to be completed and issued no later than six months after the close of the organization's fiscal year.

We recommend that management of **St. Thomas** take immediate steps to develop and implement policies and procedures to correct the noted deficiencies.

Audit Finding Reference Number:

98-02 - Employee Advances

We noted during our audit that management of **St. Thomas** had disbursed \$11,443 in employee advances, which represented a \$9,594 increase during the year. However, repayment agreements were not maintained nor a mechanism to ensure timely repayment of such advances was implemented. The source of such advances was not federal dollars.

We recommend that management of **St. Thomas** take immediate steps to ensure repayment agreements are maintained and complied with.

SCHEDULE II

**ST. THOMAS HEALTH SERVICES, INC.**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued  
FOR THE YEAR ENDED DECEMBER 31, 1998  
FINANCIAL STATEMENTS FINDINGS

---

COMPLIANCE

Audit Finding Reference Number:

Questioned Costs

98-03 - Earmarking

\$48,611

Federal Program and Specific Federal Award Identification

CFDA Title and Number

93.994 Maternal Child Health Program

Summary of Conditions and Recommendation

We noted during our audit that management of **St. Thomas** had incorrectly calculated salary reimbursement requests resulting in an excess reimbursement totaling \$48,611. See audit finding 98-04 for further details. We recommend that management of **St. Thomas** take immediate steps to contact the funding source regarding this matter and establish policies and procedures to ensure future billing are calculated correctly.

**ST. THOMAS HEALTH SERVICES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**  
**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

Questioned Costs

Internal Control over Compliance and Federal Compliance

\$ 48,611

Audit Finding Reference Number:

98-04 - Earmarking

Federal Program and Specific Federal Award Identification

CFDA Title and Number

93.994 Maternal Child Health Program

Federal Award Years

September 30, 1998

September 30, 1999

Federal Agency

U.S. Department of Health and Human Services

Pass-through Entity

State of Louisiana's Office of Public Health

Criteria

OMB Circular A-133 Compliance Supplement, Part 3, Section G specifies that non-profit agencies must establish procedures to ensure that requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities are adhered to.

**ST. THOMAS HEALTH SERVICES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**  
**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

Conditions and Perspectives

The Maternal Child Health grant agreement provides that a specific percentage (subject to an individual employee salary cap) of grant personnel salaries would be reimbursed by grant funds.

However, we noted during our audit that management of **St. Thomas**, in requesting reimbursement from the funding source, did not consider the related percentages, but instead requested and received reimbursement up to the individual employee's salary cap. This was performed without regard to what was actually paid to the grant personnel.

Questioned Costs

For purposes of this finding, we have questioned the amount of the over-reimbursement which totaled \$48,611. The over-reimbursement totaled \$34,061 and \$14,550 for the October 1, 1997 through September 30, 1998 grant period and for the three months ending December 31, 1998, respectively.

Effect

Non-compliance with the grant agreement and federal regulations.

Recommendations

We recommend that management of **St. Thomas** take immediate steps to contact the funding source regarding this matter and establish policies and procedures to ensure future billings are calculated correctly.



**ST. THOMAS HEALTH SERVICES, INC.**

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**EXIT CONFERENCE**

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

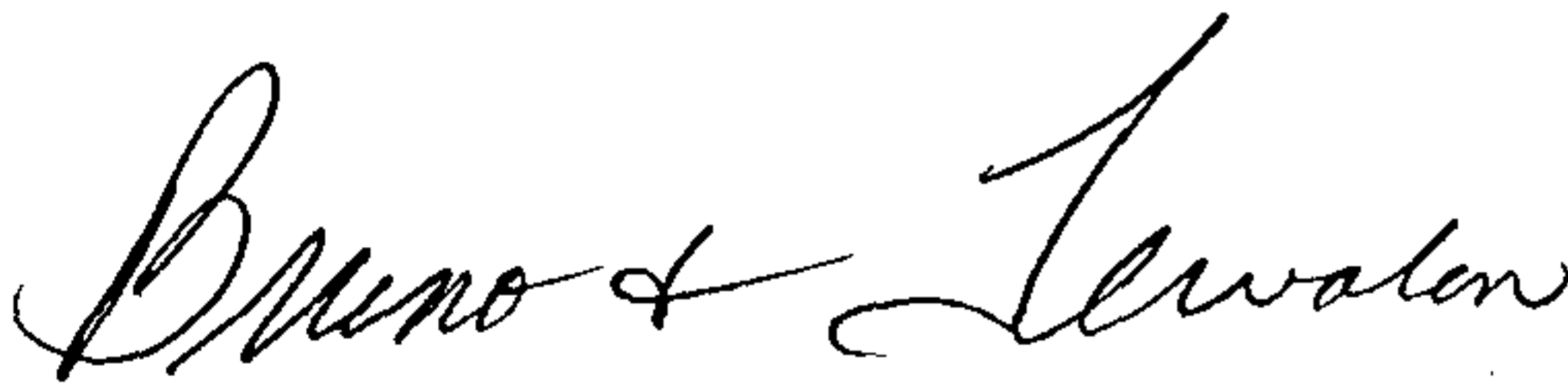
**ST. THOMAS HEALTH SERVICES, INC.**

Ms. Barbara Major	--	Executive Director
Mr. W. Eric Parks	--	Director of Clinical Services

**BRUNO & TERVALON, CERTIFIED PUBLIC ACCOUNTANTS**

Mr. Alcide J. Tervalon, Jr., CPA	--	Partner
Mr. Edward Phillips, Jr.	--	Senior Manager

The audit report was discussed. This report is intended solely for the information and use of the Board of Directors, management, the City of New Orleans and the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.



**BRUNO & TERVALON  
CERTIFIED PUBLIC ACCOUNTANTS**

July 23, 1999

RECEIVED  
LEGISLATIVE AUDITOR  
99 JUL 30 AM 9:42INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Board of Directors  
**St. Thomas Health Services, Inc.**  
New Orleans, Louisiana

We have audited the financial statements of the **St. Thomas Health Services, Inc.** for the year ended December 31, 1998 and have issued our report thereon dated July 23, 1999.

During our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our report dated July 23, 1999 on the financial statements of the **St. Thomas Health Services, Inc.** This report is intended solely for the information of management and pass-through entities, such as the State of Louisiana and Legislative Auditor's office and is not intended to be used and should not be used by anyone other than these specified parties.

## INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

(Continued)

### 1. Grant Reimbursement

We noted during our audit that management of **St. Thomas (St. Thomas)** had requested and received grant funds from the Maternal Child Health Program as reimbursement for salary costs for the maternal fetal doctor. However, **St. Thomas** had not paid the contractor for such salary costs until after receipt of the reimbursement.

We recommend that **St. Thomas** adhere to established procedures for requesting reimbursement of grant costs.

### 2. Fannie Mae Foundation Grant

We noted during our audit that **St. Thomas** had not invested the \$25,000 Fannie Mae Foundation Grant in a separate interest bearing account as specified by the funding source.

We recommend that **St. Thomas** take immediate steps to ensure compliance with the terms and conditions of the grant.

### 3. Record Retention

We noted during our audit that **St. Thomas** had experienced difficulties in locating certain purchase orders, invoices, bank statements, cancelled checks, and grant documents that were requested for the audit.

We recommend that management adhere to established procedures with regard to the filing of vendor invoices, purchase orders, bank statements, cancelled checks, and grant documents.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT  
(Continued)

\*\*\*\*\*

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

*Bruno & Tervalon*  
**BRUNO & TERVALON**  
**CERTIFIED PUBLIC ACCOUNTANTS**

July 23, 1999

ST. THOMAS HEALTH SERVICES, INC.  
CORRECTIVE ACTION PLAN-AUDIT FINDINGS  
DECEMBER 31, 1998

---

FEDERAL/PASS  
THROUGH AGENCY  
CONTACTED

CONTACT PERSON

ANTICIPATED DATE  
COMPLETED

PROPOSED CORRECTIVE ACTION

AUDIT FINDING

98-01 - Financial Records

We noted during our audit that the management of St. Thomas did not properly record accounting information to the financial records on a timely basis. Also, we noted that management of St. Thomas failed to ensure bank reconciliations were performed during the year ended December 31, 1998. These conditions resulted in management failing to obtain current and accurate financial statements and delayed the issuance of the audit report past the statutory state requirement.

St. Thomas will revise its current procedures to ensure accounting information is properly recorded on a timely basis, bank reconciliations are performed and that audits are completed within the prescribed timeframe.

December 1999

Barbara Major

No

ST. THOMAS HEALTH SERVICES, INC.  
CORRECTIVE ACTION PLAN-AUDIT FINDINGS  
DECEMBER 31, 1998

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FEDERAL/PASS  
THROUGH AGENCY  
CONTACTED

ANTICIPATED DATE  
COMPLETED

PROPOSED CORRECTIVE ACTION

AUDIT FINDING

CONTACT PERSON

98-02 - Employee Advances

We noted during our audit that management of St. Thomas had recorded \$11,443 in employee advances, which represented a \$9,594 increase during the year. However, repayment agreements were not maintained nor a mechanism to ensure timely repayment of such advances was implemented. The source of such advances was not federal dollars.

St. Thomas will adhere to established policies and procedures and ensure that employee advances are properly documented and repaid timely.

September 1999

Barbara Major

No

98-03 - Earmarking

We noted during our audit that management of St. Thomas, in requesting reimbursement from the funding source, did not consider the related percentages, but instead requested and received reimbursement up to the individual employee's salary cap. This was performed without regard to what was actually paid to the grant personnel.

St. Thomas will establish procedures to ensure reimbursement requests are properly calculated.

August 1999

Barbara Major

No

ST. THOMAS HEALTH SERVICES, INC.  
 CORRECTIVE ACTION PLAN-MANAGEMENT LETTER COMMENTS  
 DECEMBER 31, 1998

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<u>MANAGEMENT LETTER COMMENTS</u>	<u>PROPOSED CORRECTIVE ACTION</u>	<u>ANTICIPATED DATE COMPLETED</u>	<u>CONTACT PERSON</u>	<u>FEDERAL/PASS THROUGH AGENCY CONTACTED</u>
Grant Reimbursement	A new system will be implemented to monitor grant reimbursements.	September 1999	Barbara Majors	No
Fannie Mae Foundation Grant	The funds will be transferred to an interest bearing account.	September 1999	Barbara Majors	Not Applicable
Record Retention	St. Thomas will revise its current procedures to ensure such conditions do not reoccur in the future.	October 1999	Barbara Majors	No

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

St. Thomas Health Services, Inc.

For the Year Ended December 31, 1997

Finding Title: Grant Reimbursement

Reference Number (from attached schedule of findings): Management Letter Comment - 1

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved N/A Unresolved:

Initial Year of Finding: 1997

Page Number Management Letter-Page 1

Program Name(s): Great Expectations

Federal Grantor Agency: Department of Health and Human Services

CFDA Number(s): 93.926

Status of Finding (check one):

Fully Corrected

Partially Corrected

Change of Corrective Action

Not Corrected X

No Further Action Needed

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

St. Thomas is continuing in its efforts to strengthen its procedures to ensure that requests for reimbursements are for actual cash disbursements instead of accrued expenditures.

Preparer's Signature: Barbara Major

Phone Number: 504-529-5558



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

St. Thomas Health Services, Inc.

For the Year Ended December 31, 1997

Finding Title: Fannie Mae Foundation Grant

Reference Number (from attached schedule of findings): Management Letter Comment-2

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved N/A Unresolved: \_\_\_\_\_

Initial Year of Finding: 1997

Page Number Management Letter-Page 1

Program Name(s): Fannie Mae Foundation

Federal Grantor Agency: N/A

CFDA Number(s): N/A

Status of Finding (check one):

Fully Corrected \_\_\_\_\_  
Partially Corrected \_\_\_\_\_  
Change of Corrective Action \_\_\_\_\_

Not Corrected X  
No Further Action Needed \_\_\_\_\_  
(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The mangement of St. Thomas is continuing in its efforts to segregate and invest the \$25,000 in an interest bearing account.

Preparer's Signature: Barbara Mayr

Phone Number: 504-529-5558

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

St. Thomas Health Services, Inc.

For the Year Ended December 31, 1997

Finding Title: Record Retention

Reference Number (from attached schedule of findings): Management Letter Comment-3

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved N/A Unresolved: \_\_\_\_\_

Initial Year of Finding: 1997

Page Number, Management Letter-Page 1

Program Name(s): N/A

Federal Grantor Agency: N/A

CFDA Number(s): N/A

Status of Finding (check one):

Fully Corrected \_\_\_\_\_

Not Corrected \_\_\_\_\_ X

Partially Corrected \_\_\_\_\_

No Further Action Needed \_\_\_\_\_

Change of Corrective Action \_\_\_\_\_

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of St. Thomas is continuing in its efforts to ensure financial records are properly retained.

Preparer's Signature: Barbara Major

Phone Number: 504-529-5558

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

St. Thomas Health Services, Inc.

For the Year Ended December 31, 1997

Finding Title: Grant Billing Request

Reference Number (from attached schedule of findings): Management Letter Comment-4

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved N/A Unresolved:

Initial Year of Finding: 1997

Page Number Management Letter-Page 2

Program Name(s): N/A

Federal Grantor Agency: N/A

CFDA Number(s): N/A

Status of Finding (check one):

Fully Corrected X

Not Corrected

Partially Corrected

No Further Action Needed

Change of Corrective Action

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of St. Thomas has established procedures to ensure grant billing requests are prepared on a timely basis.

Preparer's Signature: Barbara Mayo

Phone Number: 504-529-5558

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

St. Thomas Health Services, Inc.

For the Year Ended December 31, 1997

Finding Title: Timely Completion of Audit

Reference Number (from attached schedule of findings): Management Letter Comment-5

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved N/A Unresolved: \_\_\_\_\_

Initial Year of Finding: 1995

Page Number Management Letter-Page 2

Program Name(s): N/A

Federal Grantor Agency: N/A

CFDA Number(s): N/A

Status of Finding (check one):

Fully Corrected \_\_\_\_\_

Partially Corrected \_\_\_\_\_

Change of Corrective Action \_\_\_\_\_

Not Corrected \_\_\_\_\_ X

No Further Action Needed \_\_\_\_\_

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The mangement of St. Thomas is continuing in its efforts to strengthen its procedures to ensure financial records are maintained accurately and timely to expedite the timely completion of the audit.

Preparer's Signature: Barbara Mayri

Phone Number: 504-529-5558

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

St. Thomas Health Services, Inc.

For the Year Ended December 31, 1997

Finding Title: Payroll Costs - Great Expectations

1996 Audit Report

Reference Number (from attached schedule of findings): Schedule of Prior Findings and Recommendations

Amount of Questioned Costs in Finding: \$ 2,500

Status of Questioned Costs (check one): Resolved X Unresolved:

Initial Year of Finding: 1994

Page Number 1996 Audit Report-Page 37

Program Name(s): Great Expectations Program

Federal Grantor Agency: Department of Health and Human Services

CFDA Number(s): 93.926

Status of Finding (check one):

Fully Corrected X

Partially Corrected

Change of Corrective Action

Not Corrected  
No Further Action Needed

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

During 1998, St. Thomas has repaid the funding source the amounts in question.

Preparer's Signature:

Barbara May

Phone Number:

504-529-5558