# ST. TAMMANY PARISH HOSPITAL

**Consolidated Financial Statements for the Years Ended December 31, 1998 and 1997 and Independent Auditors' Report**

## 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, 1998 and 1997 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 the standards applicable to financial audits contained in *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, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 14 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board, and 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 of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that St. Tammany Parish Hospital is or will become year 2000 compliant, that St. Tammany Parish Hospital's year 2000 remediation efforts will be successful in whole or in part, or that parties with which St. Tammany Parish Hospital does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards,* we have also issued our report dated March 22, 1999 on our consideration of St. Tammany Parish Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.

Deloitte + Touche LLP

March 22, 1999

# ST. TAMMANY PARISH HOSPITAL

## CONSOLIDATED BALANCE SHEETS
## DECEMBER 31, 1998 AND 1997 (IN THOUSANDS)

| ASSETS | 1998 | 1997 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 1,481 | $ 3,626 |
| Investments | 20,540 | 11,365 |
| Assets whose use is limited and required for current liabilities | 718 | 445 |
| Patient accounts receivable | 20,323 | 16,484 |
| Less allowance for doubtful accounts | (5,313) | (4,652) |
| Net patient accounts receivable | 15,010 | 11,832 |
| Inventories | 1,445 | 1,190 |
| Prepaid expenses and other receivables | 1,565 | 998 |
| Total current assets | 40,759 | 29,456 |
| ASSETS WHOSE USE IS LIMITED: | | |
| Under Bond indenture held by trustee for construction | 45,689 | - |
| By board for capital improvements: | | |
| Facility enhancements | 2,911 | 5,761 |
| Routine replacements | 2,000 | 2,000 |
| By board for professional and other liability claims | 575 | 575 |
| Under bond ordinances - held by trustee | 4,189 | 1,570 |
| Total assets whose use is limited | 55,364 | 9,906 |
| Less assets whose use is limited and required for current liabilities | (718) | (445) |
| Total noncurrent assets whose use is limited | 54,646 | 9,461 |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Land and improvements | 2,703 | 2,703 |
| Buildings | 30,455 | 29,957 |
| Equipment | 30,477 | 26,832 |
| Construction in progress | 1,470 | 118 |
| Less accumulated depreciation and amortization | (29,275) | (25,288) |
| Net property, plant and equipment | 35,830 | 34,322 |
| OTHER ASSETS | 1,345 | 318 |
| TOTAL | $ 132,580 | $ 73,557 |

See notes to consolidated financial statements.

| LIABILITIES AND FUND BALANCE | 1998 | 1997 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | $ 3,815 | $ 2,805 |
| Accrued employee compensation | 2,079 | 1,262 |
| Accrued vacation | 994 | 858 |
| Settlements due to Medicare and Medicaid intermediaries | 4,291 | 4,355 |
| Amounts due within one year on long term debt | 1,789 | 350 |
| Amounts due within one year on capital lease obligations | 356 | 338 |
| Total current liabilities | 13,324 | 9,968 |
| ACCRUED PROFESSIONAL LIABILITY CLAIMS | 598 | 536 |
| LONG-TERM DEBT, less unamortized issuance discount (1998 - $374; 1997 - $335) and unamortized loss on advance refunding (1998 - $1,925; 1997 - $-0-), and amounts due within one year | 60,967 | 13,451 |
| CAPITAL LEASE OBLIGATIONS, less amounts due within one year | 579 | 934 |
| FUND BALANCE | 57,112 | 48,668 |
| TOTAL | $ 132,580 | $ 73,557 |

# ST. TAMMANY PARISH HOSPITAL

## CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE YEARS ENDED DECEMBER 31, 1998 AND 1997 (IN THOUSANDS)

| | 1998 | 1997 |
|---|---|---|
| REVENUE: | | |
| Net patient service revenue | $76,900 | $65,147 |
| Other revenue | 3,542 | 2,762 |
| Total revenue | 80,442 | 67,909 |
| EXPENSES: | | |
| Salaries, wages and benefits | 36,442 | 31,642 |
| Supplies and other | 19,044 | 16,150 |
| Provision for bad debts | 4,972 | 4,039 |
| Professional and contractual services | 6,588 | 5,251 |
| Depreciation and amortization | 4,040 | 3,957 |
| Interest | 912 | 1,050 |
| Total expenses | 71,998 | 62,089 |
| REVENUE IN EXCESS OF EXPENSES | 8,444 | 5,820 |
| FUND BALANCE AT BEGINNING OF YEAR | 48,668 | 42,848 |
| FUND BALANCE AT END OF YEAR | $57,112 | $48,668 |

See notes to consolidated financial statements.

# ST. TAMMANY PARISH HOSPITAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## YEARS ENDED DECEMBER 31, 1998 AND 1997 (IN THOUSANDS)

| | 1998 | 1997 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Revenue in excess of expenses | $ 8,444 | $ 5,820 |
| Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities: | | |
| Provision for bad debts | 4,972 | 4,039 |
| Depreciation and amortization | 4,040 | 3,957 |
| Gain on disposal of equipment | - | (48) |
| Interest expense | 912 | 1,050 |
| Interest earned on investments | (1,512) | (1,182) |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable | (8,150) | (5,447) |
| Inventories, prepaid expenses and other receivables | (822) | 150 |
| Accounts payable and accrued expenses | 1,010 | 178 |
| Accrued employee compensation and vacation | 953 | (178) |
| Net settlements due to/from Medicare and Medicaid intermediaries | (64) | 5 |
| Accrued professional liability claims | 62 | (25) |
| Net cash provided by operating activities | 9,845 | 8,319 |
| CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase of property, plant and equipment | (5,505) | (3,053) |
| Net proceeds from issuance of long-term debt | 63,277 | - |
| Early extinguishment of bonds payable | (13,613) | - |
| Payment of bond issuance cost | (1,366) | - |
| Proceeds from sale of property, plant and equipment | - | 295 |
| Principal payments on long-term debt and capital lease obligations | (750) | (1,012) |
| Interest payments | (912) | (1,050) |
| Net cash provided by (used in) capital and related financing activities | 41,131 | (4,820) |
| INVESTING ACTIVITIES: | | |
| Net change in assets whose use is limited | (45,458) | 867 |
| Net change in investments | (9,175) | (3,991) |
| Interest earned on investments | 1,512 | 1,182 |
| Net cash used in investing activities | (53,121) | (1,942) |
| (DECREASE) INCREASE IN CASH | (2,145) | 1,557 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 3,626 | 2,069 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 1,481 | $ 3,626 |

See notes to consolidated financial statements.

# ST. TAMMANY PARISH HOSPITAL

## *NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*
## YEARS ENDED DECEMBER 31, 1998 AND 1997

### 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 (the 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, 1998 and 1997 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.

Effective January 1, 1998, the Hospital adopted the provisions of the Governmental Accounting Standards Board Statement (GASBS) No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* GASBS No. 31 requires that all investments be reported at fair value with gains and losses included in the statements of revenues and expenses. The effect of adopting this statement for the year ended December 31, 1998 was not material to the financial statements.

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 adjustments are accrued on an estmated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or determinable.

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 $992,000 and $920,000 for the years ended December 31, 1998 and 1997, 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 fair market value which approximates 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 $356,000 for the year ended December 31, 1998; 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, 1998 all of the Hospital's bank balances of deposit (including cash, money market accounts and certificates of deposit), were entirely insured or collateralized by investments held by the Hospital's third-party agent in the Hospital's name.

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***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, 1998 were as follows (in thousands):

| Securities Type | Credit Risk Category 1 | 2 | 3 | Carrying Amount |
|---|---|---|---|---|
| U. S. government | $ - | $49,878 | $ - | $49,878 |
| Federal agency | 25,451 | - | - | 25,451 |
| Total investments | $25,451 | $49,878 | $ - | $75,329 |

## 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, 1998 and 1997, approximately 36.5% and 40.1%, respectively, of the Hospital's net patient service 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 through December 31, 1996 have been reviewed by program representatives. Medicaid program representatives have reviewed estimated Medicaid settlements through June 30, 1992 and for the year ended June 30, 1994. Net patient service revenue for the years ended December 31, 1998 and 1997 have been increased by $646,000 and $717,000, respectively, to reflect the favorable appeal of the skilled nursing facility's routine service cost limits for the 1994-1997 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 years ended December 31, 1998 and 1997 by $898,000 and $900,000, respectively. With respect to the settlements for years subsequent to those reviewed by program representatives, 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, 1998 and 1997 are as follows:

| | 1998 (In thousands) | 1997 (In thousands) |
|---|---|---|
| Investments: | | |
| Federal agency securities | $ 20,540 | $ 11,365 |
| Assets whose use is limited: | | |
| For capital improvements: | | |
| Federal agency securities | 4,911 | 7,761 |
| For professional and other liability claims: | | |
| Certificates of deposit | 575 | 575 |
| Debt service and construction funds: | | |
| U.S. government securities | 49,878 | 1,125 |
| Cash | - | 445 |
| | 49,878 | 1,570 |
| Total investments and assets whose use is limited | $ 75,904 | $ 21,271 |

In connection with the issuance of the Series 1998 Hospital Revenue and Refunding 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 are subject to a prior lien in favor of the owners of the bonds. A Construction Fund was also established in connection with the issuance in which funds are held by the Trustee for the financing of capital improvements.

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, 1998 and 1997 are presented below:

| | 1998 | 1997 |
|---|---|---|
| | (In thousands) | |
| Hospital Revenue and Refunding Bonds, Series 1998, net of unamortized original issue discount of $374,000 at December 31, 1998 | $ 64,571 | $ - |
| Hospital Revenue Bonds, Series 1992, net of unamortized original issue discount of $335,000 at December 31, 1997 | - | 13,579 |
| Certificate of Indebtedness, Series 1992, 8.0%, 120 monthly installments of $3,094 including interest ($29,000 due in fiscal year 1999) | 110 | 139 |
| Demand note payable, 9.75%, 84 monthly installments of $8,272 including interest | - | 83 |
| | 64,681 | 13,801 |
| Less amounts due within one year | (1,789) | (350) |
| Unamortized loss on advance refunding | (1,925) | - |
| | $ 60,967 | $ 13,451 |

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): 1999 - $1,789; 2000 - $1,082; 2001 - $1,134; 2002 - $1,165; 2003 - $1,195 and thereafter - $58,690.

*Hospital Revenue and Refunding Bonds, Series 1998* - On October 1, 1998, the Hospital issued $64,945,000 of tax-exempt Hospital Revenue and Refunding Bonds, Series 1998 (the bonds) comprised of $25,840,000 of serial bonds and $39,105,000 of term bonds with a final maturity of July 1, 2028. These bonds have stated interest rates ranging from 4.25% to 5.00% and are secured by a pledge of the Hospital's revenues. The bonds were issued at a discount of $379,000 and the 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 Trust Indenture) of 110%. The bonds maturing on or after July 1, 2009 are subject to optional redemption prior to maturity at the option of the District on or after July 1, 2008, as a whole or in part at anytime. The 1998 bonds were issued to advance refund the outstanding 1992 series bonds and to finance the acquisition and construction of improvements, renovations and extensions to the Hospital. The bond proceeds were utilized as follows:

| | |
|---|---|
| Escrow fund - 1992 series bonds | $14,721,698 |
| Construction fund | 45,288,072 |
| Debt service reserve fund | 3,189,864 |
| Cost of issuance | 1,366,291 |
| Original issue discount | 379,075 |
| | $64,945,000 |

The escrow funds for the 1992 bonds were used to purchase U.S. Government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the serial bonds mature or until the optional redemption date of July 1, 2002. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the Hospital's balance sheet. At December 31, 1998, 1992 refunded bonds outstanding were $13,612,500.

As a result of the advance refunding, the Hospital reduced its total debt service requirements by approximately $1 million, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately $2 million.

*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.

*Hospital Revenue Bonds, Series 1992* - In December 1992, the Hospital issued $14,755,000 of tax exempt Hospital Revenue Bonds. In October 1998, these bonds were advance refunded in conjunction with the issuance of the 1998 bonds as described above. As a result of this advance refunding of debt, the Hospital recorded a deferred loss on advance refunding of debt of $1,925,000 during 1998. This deferral will be amortized over 24 years (the remaining life of the 1992 bonds) using the straight-line method.

## 6. CAPITAL AND OPERATING LEASES

Future minimum lease payments by year at December 31, 1998 under all capital lease obligations are as follows for the years ending December 31 (in thousands):

| | |
|---|---|
| 1999 | $ 396 |
| 2000 | 377 |
| 2001 | 227 |
| | 1,000 |
| Less imputed interest (interest rates range from 6.5% to 7.5%) | (65) |
| Present value of future lease obligations | 935 |
| Less amounts due within one year | (356) |
| Long-term portion of capital lease obligations | $ 579 |

Leased assets included in equipment totaled $1,979,000 at December 31, 1998. Accumulated amortization was $1,025,000 at December 31, 1998. The leased equipment collateralizes the capital lease obligations.

Total rental expense incurred for all operating leases was $427,000 and $315,000 for the years ended December 31, 1998 and 1997, 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, 1998 totaled $30,297,000 and $21,838,000, respectively. Contributions during 1998 required by the Plan document were $1,342,000, which represents approximately 6% of covered payroll. Required contributions paid by the Hospital were $975,000 during the year ended December 31, 1998.

Pension expense included in salaries, wages and benefits related to the Plan described above approximates $1,116,000 and $1,123,000 for the years ended December 31, 1998 and 1997, 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, 1998. 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, 1998 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. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 1998 and 1997 was as follows:

| | 1998 | 1997 |
|---|---|---|
| Medicare | 23 % | 25 % |
| Medicaid | 7 | 8 |
| Insurance/managed care | 57 | 49 |
| Patients | 6 | 10 |
| Other | 7 | 8 |
| | 100 % | 100 % |

* * * * * *

# ST. TAMMANY PARISH HOSPSITAL

## SUPPLEMENTAL SCHEDULE - YEAR 2000 ISSUE (UNAUDITED)
## YEAR ENDED DECEMBER 31, 1998

### YEAR 2000 ISSUE (UNAUDITED)

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the Hospital's operations as early as fiscal 1999.

St. Tammany Parish Hospital has completed an inventory of computer systems and other equipment necessary to conducting Hospital operations. Based upon this inventory, the Hospital has committed resources of approximately $1,500,000 to replacing and upgrading existing systems. As of December 31, 1998 the Hospital is in the remediation stage and anticipates being substantially complete with the validation and testing stage by the third quarter of 1999.

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 the Hospital is or will be Year 2000 ready, that the Hospital's remediation efforts will be successful in whole or in part, or that parties with whom the Hospital does business will be year 2000 ready.

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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, 1998, and have issued our report thereon dated March 22, 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. 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 would 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying appendix as item 98-1.

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 22, 1999.

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

Deloitte + Touche LLP

March 22, 1999

## APPENDIX

### NON-COMPLIANCE UNDER GOVERNMENT AUDITING STANDARDS

98-1 NEPOTISM

Condition: Louisiana statute LSA-RS 42:1119 prohibits any member of the immediate family of a member of a governing authority or the chief executive of a governmental entity from being employed by the governmental entity. The daughter of a member of the Board of Commissioners of St. Tammany Parish Hospital (the Hospital) was employed by the Hospital as an accounts payable clerk from May 9, 1994 to March 1, 1999. This violation was disclosed by the Hospital to the Legislative Auditor in 1997. The Legislative Auditor referred the matter to the Louisiana Board of Ethics in 1998. The employee resigned from the Hospital effective March 1, 1999.

Recommendation: The Hospital should exercise more diligence in adhering to applicable laws.

Management's Response: The Louisiana Board of Ethics met to review this matter and on April 16, 1999 declined to take any enforcement action against the Hospital and closed the file on this matter.

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March 22, 1999

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, 1998 (on which we have issued our report dated March 22, 1999), we developed the following recommendations concerning certain matters related to its internal control 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 internal control, and the objectives and inherent limitations of internal control, 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 solely for the information and use of the Board of Commissioners, management, others within the organization and the State of Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Deloitte + Touche LLP

# ST. TAMMANY PARISH HOSPITAL

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**EXHIBIT I**

## INTERNAL CONTROL

### CORPORATE COMPLIANCE PROGRAM

Observation

A formal healthcare compliance program is currently being developed but has not yet been implemented throughout the organization to address Federal government and industry initiatives related to addressing risk areas such as billing and reporting, human resources, environmental activities and tax reporting.

Business Impact

Over the last few years the Department of Justice has increased its scrutiny over the conduct of healthcare providers to ensure they are complying with applicable laws and regulations. Recently, there have been well-publicized cases in which the government has received landmark settlements because of alleged fraudulent activities and/or lack of control structures at healthcare entities. A corporate compliance program is an integral part of an organization's system of internal controls. Without an appropriate compliance program in place, Hospital management does not have reasonable assurance that risk is being controlled or mitigated to an acceptable level.

Recommendation

Management should continue to develop and implement a compliance program that includes the following minimum requirements:

- Established standards of conduct to be followed by employees designed to reduce the potential for criminal conduct.
- Specify high level individual(s) responsible to oversee compliance with such standards.
- Due care to avoid delegating substantial discretion to individuals who have an incentive to engage in illegal activity.
- Effective communication to all employees by requiring participation in training programs or disseminating publications.
- Reasonable steps to respond appropriately to detected offenses.

Management's Response

St. Tammany Parish Hospital, with the assistance of counsel, is in the final draft stages of a Corporate Compliance Program to include established standards of conduct to be followed by all Hospital employees. In addition, the Administrator/CEO, Assistant Administrator/COO, Assistant Administrator/CFO, and the Risk Manager will oversee implementation of the program.

The compliance program will be communicated to existing employees through mandatory education programs at program inception and annually. All new Hospital employees will receive program instruction within a designated time after employment as well as annually.

The program will clearly outline the expected conduct of all employees and will establish a mechanism for anonymous reporting of potential and actual problems. The program will also establish guidelines for the Hospital's response to any detected problems.

VIRUS PROTECTION

Observation/Background

The Hospital does not have virus protection at the PC level. Currently, the Hospital's key virus prevention control is the server based virus protection. This is only partially effective when user workstations have local disc drives and in some cases Internet access allowing for spreadsheets and documents to be loaded locally. Computer viruses have the potential to disrupt or even destroy computer information resources by spreading from a local PC to the attached network.

Recommendation

The Hospital should consider installing virus protection software that will protect the network in its entirety.

Management's Response

Currently, we have software on the server that will scan any files downloaded or e-mailed to the end users and are implementing procedures to require the end users to scan local computer drives periodically or when portable disks are utilized. The antivirus application will reside on the server and will scan all devices on the local computer.

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 has initiated a departmental physical fixed asset inventory. The inventory will be conducted during fiscal 1999.

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

Management is currently evaluating a hot site for disaster recovery and will test tapes from backup if this option is feasible and approved.

**EXHIBIT II**

## ADMINISTRATIVE AND OTHER MATTERS

### 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 does not specifically have a formal plan labeled as a "Business Resumption Plan" but has considered the risks and exposures in the case of a disaster. The Hospital can develop a formal "Business Resumption Plan" that would outline the plan for continuance and/or prioritization of Hospital services and appropriate EDP recovery to support this plan.

**EXHIBIT III**

## STATUS OF OUR PRIOR YEAR RECOMMENDATIONS

| | Implemented | Partially Implemented | Not Implemented |
|---|---|---|---|
| INTERNAL CONTROL STRUCTURE: | | | |
| Fixed Asset Records | | X | |
| Backup Procedures | | X | |
| Professional Liability Claims | X | | |
| User Termination Procedures | X | | |
| Internet Usage Policy | X | | |
| HBOC VAN (Value Added Network) Service | X | | |
| ADMINISTRATIVE AND OTHER MATTERS: | | | |
| Disaster Recovery Plan | | | X |
| Year 2000 (separate letter provided) | | X | |
| Recent Accounting Pronouncement | X | | |
| Allowance for Doubtful Accounts | X | | |

## APPENDIX

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

The following comments concerning management's responsibility for internal control and the objectives and inherent limitations of internal control 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 internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls.

### Objectives

The objectives of internal control 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, misstatements due to errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.