OFFICIAL FILE COPY
DO NOT SEND OUT
(Xerox necessary copies from this copy and PLACE BACK in FILE)

RECEIVED
... 2 AM 9: 16

ST. TAMMANY PARISH HOSPITAL

Consolidated Financial Statements for the Period from July 1, 1995 to December 31, 1995 and for the Year Ended June 30, 1995 and Independent Auditors' Report

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

Release Date 8-21-96

ST. TAMMANY PARISH HOSPITAL

TABLE OF CONTENTS

ST. TAMMANY PARISH HOSPITAL

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1995 AND JUNE 30, 1995 (IN THOUSANDS)

ASSETS	December 31, 1995	June 30, 1995
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,891	$ 5,507
Investments	8,380	-
Assets whose use is limited - required for current liabilities	457	562
Patient accounts receivable	13,512	15,634
Less allowance for doubtful accounts	(4,697)	(5,583)
Net patient accounts receivable	8,815	10,051
Settlements due from Medicaid intermediary	-	50
Inventories	1,082	1,134
Prepaid expenses and other receivables	966	1,077
Total current assets	23,591	18,381
ASSETS WHOSE USE IS LIMITED:		
By board for capital improvements:		
Facility enhancements	5,879	12,317
Routine replacements	1,251	1,500
By board for professional and other liability claims	575	575
Under bond ordinances - held by trustee	1,583	1,792
Total assets whose use is limited	9,288	16,184
Less assets whose use is limited and required for current liabilities	(457)	(562)
Total noncurrent assets whose use is limited	8,831	15,622
PROPERTY, PLANT AND EQUIPMENT:		
Land and improvements	2,783	2,714
Buildings	17,127	16,846
Equipment	22,286	22,065
Construction in progress	8,516	4,099
Less accumulated depreciation and amortization	(19,830)	(18,431)
Net property, plant and equipment	30,882	27,293
OTHER ASSETS	375	390
TOTAL	$ 63,679	$ 61,686

See notes to consolidated financial statements.

LIABILITIES AND FUND BALANCE	December 31, 1995	June 30, 1995
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 3,072	$ 2,214
Accrued employee compensation	1,106	1,338
Accrued vacation	723	803
Settlements due to Medicare and Medicaid intermediaries	3,259	2,904
Amounts due within one year on long term debt	819	828
Amounts due within one year on capital lease obligations	399	399
Total current liabilities	9,378	8,486
ACCRUED PROFESSIONAL LIABILITY CLAIMS	512	487
LONG-TERM DEBT, less unamortized issuance discount (December 31 - $378; June 30 - $389) and amounts due within one year	14,097	14,479
CAPITAL LEASE OBLIGATIONS, less amounts due within one year	206	470
FUND BALANCE	39,486	37,764
TOTAL	$63,679	$61,686

ST. TAMMANY PARISH HOSPITAL

CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE PERIOD FROM JULY 1, 1995 TO DECEMBER 31, 1995 AND YEAR ENDED JUNE 30, 1995 (IN THOUSANDS)

	Period Ended December 31, 1995	Year Ended June 30, 1995
REVENUE:		
Net patient service revenue	$27,002	$57,984
Other revenue	1,019	1,639
Total revenue	28,021	59,623
EXPENSES:		
Salaries, wages and benefits	14,861	30,943
Supplies and other	6,216	12,478
Provision for bad debts	1,279	4,011
Professional and contractual services	2,171	4,400
Depreciation and amortization	1,391	3,316
Interest	381	1,001
Total expenses	26,299	56,149
REVENUE IN EXCESS OF EXPENSES	1,722	3,474
FUND BALANCE AT BEGINNING OF PERIOD	37,764	34,290
FUND BALANCE AT END OF PERIOD	$39,486	$37,764

See notes to consolidated financial statements.

ST. TAMMANY PARISH HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
PERIOD FROM JULY 1, 1995 TO DECEMBER 31, 1995 AND YEAR ENDED JUNE 30, 1995 (IN THOUSANDS)

	Period Ended December 31, 1995	Year Ended June 30, 1995
OPERATING ACTIVITIES:		
Revenue in excess of expenses	$ 1,722	$ 3,474
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:		
Provision for bad debts	1,279	4,011
Depreciation and amortization	1,391	3,316
Loss on disposal of equipment	-	72
Interest expense	381	1,001
Interest earned on investments	(619)	(1,016)
Changes in operating assets and liabilities:		
Patient accounts receivable	(43)	(1,279)
Inventories, prepaid expenses and other receivables	163	(333)
Accounts payable and accrued expenses	858	69
Accrued employee compensation and vacation	(312)	194
Net settlements due to/from medicare and medicaid intermediaries	405	1,005
Accrued professional liability claims	25	22
Net cash provided by operating activities	5,250	10,536
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property, plant and equipment	(4,954)	(8,268)
Principal payments on long-term debt and capital lease obligation	(666)	(1,066)
Interest payments	(381)	(1,001)
Net cash used in capital and related financing activities	(6,001)	(10,335)
INVESTING ACTIVITIES:		
Net decrease in assets whose use is limited	6,896	1,303
Purchases of investments	(8,380)	-
Interest earned on investments	619	1,016
Net cash (used in) provided by investing activities	(865)	2,319
(DECREASE) INCREASE IN CASH	(1,616)	2,520
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,507	2,987
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,891	$ 5,507

See notes to consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

St. Tammany Parish Hospital (the Hospital) is owned and operated by St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (a nonprofit corporation organized by the St. Tammany Parish Police Jury under provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950). The Hospital is exempt from federal income taxes under Section 115 of the Internal Revenue Code. The governing authority of St. Tammany Parish Hospital Service District No. 1 (District) is the St. Tammany Parish Hospital Board of Commissioners. The Policy Jury appoints members of the Hospital Board of Commissioners. The Hospital has changed its fiscal year end to December 31, effective December 31, 1995.

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 period ended December 31, 1995 and the year ended June 30, 1995 by STMS or STPN. All material intercompany accounts and transactions have been eliminated upon consolidation.

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

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

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides to all of its qualifying patients. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The Hospital provided charity care of $397,000 and $1,260,000 for the period ended December 31, 1995 and the year ended June 30, 1995, respectively, based upon charges foregone using established rates.

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

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

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

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

Interest costs for the construction of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. The Hospital capitalized net interest costs of $122,000 and $85,000 for the period ended December 31, 1995 and the year ended June 30, 1995, respectively.

Certain reclassifications were made to the June 30, 1995 financial statement presentation to conform to the December 31, 1995 presentation.

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, 1995, 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.

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, 1995 were as follows (in thousands):

Securities Type	**Credit Risk Category** 1	2	3	**Carrying Amount**
U. S. government	$ 5,021	$ 1,125	$ -	$ 6,146
Federal agency	9,989	-	-	9,989
Total investments	$ 15,010	$ 1,125	$ -	$ 16,135

The market value of the above securities approximated their carrying amount at December 31, 1995.

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 period ended December 31, 1995 and the year ended June 30, 1995, approximately 38% and 39%, respectively, of the Hospital's net patient service charges (excluding newborn charges) were furnished to medicare and medicaid program beneficiaries. Revenue derived from the medicare program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Human Services before settlement amounts become final. Revenue derived from the medicaid program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the Department of Health and Hospitals of the State of Louisiana before settlement amounts become final. Estimated settlements (medicare and medicaid) for years ended through June 30, 1992 have been reviewed by program representatives. Net patient service revenue for the year ended June 30, 1995 has been increased by $1,171,000 to reflect the favorable appeal of the skilled nursing facility's routine service cost limits for the 1991-1993 medicare cost reports. With respect to the settlements for years subsequent to June 30, 1992, management does not anticipate any adjustments by program representatives that would have a material impact on the recorded medicare and medicaid settlements.

4. ASSETS WHOSE USE IS LIMITED

The details of assets whose use is limited at December 31, 1995 and June 30, 1995 are as follows:

	December 31, 1995	June 30, 1995
	(In thousands)	
For capital improvements:		
Cash and certificates of deposit	$ 500	$ 500
Federal agency securities	6,630	13,317
	7,130	13,817
For professional and other liability claims:		
Certificates of deposit	575	575
Debt Service Fund:		
U.S. government securities	1,125	1,125
Cash	458	667
	1,583	1,792
Total assets whose use is limited	9,288	16,184
Less assets whose use is limited and required for current liabilities	(457)	(562)
Total noncurrent assets whose use is limited	$ 8,831	$ 15,622

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

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

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

5. LONG-TERM DEBT

The details and balances of long-term debt at December 31, 1995 and June 30, 1995 are presented below:

	December 31, 1995	June 30, 1995
	(In thousands)	
Hospital Revenue Bonds Series 1992, net of unamortized original issue discount of $378,000 and $389,000 at December 31, 1995 and June 30, 1995, respectively ($215,000 due in fiscal year 1996)	$ 13,977	$ 14,171
Note payable, 6.5%, 60 monthly installments of $29,192 including interest ($327,000 due in fiscal year 1996)	499	655
Certificate of Indebtedness, Series 1992, 8.0%, 120 monthly installments of $3,094 including interest ($23,000 due in fiscal year 1996)	186	197
Demand note payable, 9.75%, 84 monthly installments of $8,272 including interest ($254,000 subject to demand in fiscal year 1996)	254	284
	14,916	15,307
Less amounts due within one year	(819)	(828)
	$ 14,097	$ 14,479

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): 1996 - $819; 1997 - $422; 1998 - $267; 1999 - $279; 2000 - $297 and thereafter - $13,210.

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

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

Note Payable - During 1993, the Hospital entered into a 6.5% note payable maturing in June 1997. Equipment with a net book value of $674,000 at December 31, 1995 collateralizes the indebtedness.

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

Demand Note - The demand note assumed by STMS during 1992 is collateralized by land and a building with a carrying value of $536,000 at December 31, 1995.

6. CAPITAL AND OPERATING LEASES

Future minimum lease payments by year at December 31, 1995 under all capital lease obligations are as follows for the years ending December 31 (in thousands):

1996	$427
1997	210
	637
Less imputed interest (interest rates range from 6.5% to 7.5%)	(32)
Present value of future lease obligations	605
Less amounts due within one year	(399)
Long-term portion of capital lease obligations	$ 206

Leased assets included in equipment totaled $1,961,000 at December 31, 1995. Accumulated amortization was $851,000 at December 31, 1995. The leased equipment collateralizes the capital lease obligations.

Total rental expense incurred for all operating leases was $171,000 and $406,000 for the period ended December 31, 1995 and the year ended June 30, 1995, 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 period ended December 31, 1995 totaled $12,032,000 and $9,055,000, respectively. Contributions required by the Plan document were $543,300, which represents 6% of covered payroll. Required contributions paid by the Hospital were $805,000 during the period ended December 31, 1995.

Pension expense included in salaries, wages and benefits related to the Plan described above approximates $543,300 and $1,221,600 for the period ended December 31, 1995 and the year ended June 30, 1995, 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, 1995. 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, 1995 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. SUBSEQUENT EVENT

On April 1, 1996, the Hospital issued $2.0 million of Certificates of Indebtedness at 5.9% per annum, to be repaid over 5 years, for the purpose of acquiring certain medical equipment. These certificates are secured by and payable from the Hospital's annual revenues above statutory, necessary and usual charges.

* * * * * *

Deloitte &
Touche LLP

Suite 3700
One Shell Square
701 Poydras Street
New Orleans, Louisiana 70139-3700

Telephone: (504) 581-2727
Facsimile: (504) 561-7293

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE BASED ON THE AUDIT OF THE FINANCIAL STATEMENTS

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) for the period from July 1, 1995 to December 31, 1995, and have issued our report thereon dated April 1, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the St. Tammany Parish Hospital is responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of consolidated financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the consolidated financial statements of the St. Tammany Parish Hospital for the period from July 1, 1995 to December 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the consolidated 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 structure and its operation that we consider to be material weaknesses as defined above.

However, we have communicated other observations involving the internal control structure and its operation to the management of the St. Tammany Parish Hospital in a separate letter dated April 1, 1996.

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

Deloitte + Touche LLP

April 1, 1996

Deloitte &
Touche LLP

Suite 3700
One Shell Square
701 Poydras Street
New Orleans, Louisiana 70139-3700

Telephone: (504) 581-2727
Facsimile: (504) 561-7293

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH BOND RESOLUTION

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

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Parish Hospital) as of December 31, 1995 and the related consolidated statements of revenue, expenses and changes in fund balance, and cash flows for the period from July 1, 1995 to December 31, 1995, and have issued our report thereon dated April 1, 1996.

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

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

Deloitte + Touche LLP

April 1, 1996

Deloitte &
Touche LLP

Suite 3700
One Shell Square
701 Poydras Street
New Orleans, Louisiana 70139-3700

Telephone: (504) 581-2727
Facsimile: (504) 561-7293

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE BASED ON THE AUDIT OF FINANCIAL STATEMENTS

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) for the period from July 1, 1995 to December 31, 1995, and have issued our report thereon dated April 1, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the St. Tammany Parish Hospital is the responsibility of the St. Tammany Parish Hospital's management. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of the St. Tammany Parish Hospital's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

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

Deloitte + Touche LLP

April 1, 1996

Deloitte & Touche LLP

RECEIVED LEGISLATIVE AUDITOR
96 MAY -2 AM 9:16

Suite 3700
One Shell Square
701 Poydras Street
New Orleans, Louisiana 70139-3700

Telephone: (504) 581-2727
Facsimile: (504) 561-7293

April 1, 1996

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

We have audited the consolidated financial statements of St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Parish Hospital) for the period from July 1, 1995 to December 31, 1995, and have issued our report thereon dated April 1, 1996.

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

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

We conducted our audit of the consolidated financial statements for the period July 1, 1995 to December 31, 1995 of St. Tammany Parish Hospital in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. When performing an audit in accordance with those standards, we are required only to obtain an understanding of the Hospital's internal control structure sufficient to enable us to properly plan our audit and not to provide assurance on the internal control structure.

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

We have issued a separate report to you, also dated April 1, 1996, containing our comments on the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The Hospital's significant accounting policies are set forth in Note 1 to the Hospital's consolidated financial statements for the period from July 1, 1995 to December 31, 1995. During the period from July 1, 1995 to December 31, 1995, there were no significant changes in previously adopted accounting policies or their application.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Hospital's consolidated financial statements for the period from July 1, 1995 to December 31, 1995 include an allowance for doubtful accounts receivable and estimates of amounts to be received under government healthcare programs. The basis for our conclusions as to the reasonableness of these estimates, as expressed in our auditors' report, is our review and tests of the process used by management to develop the estimates.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Hospital's consolidated financial statements for the period from July 1, 1995 to December 31, 1995.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

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

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

Yours truly,

Deloitte + Touche LLP

Deloitte &
Touche LLP

Suite 3700
One Shell Square
701 Poydras Street
New Orleans, Louisiana 70139-3700

Telephone: (504) 581-2727
Facsimile: (504) 561-7293

April 1, 1996

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 period from July 1, 1995 to December 31, 1995 (on which we have issued our report dated April 1, 1996), we developed the following recommendations concerning certain matters related to its internal control structure and certain observations and recommendations on other administrative and operating matters. Additionally, we have presented a summary of our prior year recommendations and the status of implementation thereof. A description of the responsibility of management for establishing and maintaining an internal control structure, and the objectives of and inherent limitations in such a structure, is set forth in the attached Appendix, and should be read in conjunction with this letter. Our comments are presented in Exhibits I, II and III and are listed in the table of contents thereto.

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

Yours truly,

Deloitte + Touche LLP

Deloitte Touche
Tohmatsu
International

ST. TAMMANY PARISH HOSPITAL

TABLE OF CONTENTS

INTERNAL CONTROL STRUCTURE

ACCOUNTING FOR INVESTMENTS

Observation

The Hospital has recently begun investing in U.S. Treasury Notes with maturities greater than one year as allowed by state law. The Hospital's accounting for accrued interest purchased between payment dates and amortization/accretion of premiums/discounts could be improved.

Recommendation

Accrued interest which is purchased between interest payment dates should be recorded as accrued interest receivable. Interest earned from the date of purchase through the next interest payment date should be added to accrued interest receivable. When the interest payment is received, accrued interest receivable should be decreased by the amount received.

Additionally, premiums and discounts should be segregated in some manner from the investments to which they relate and amortized from or accreted into, respectively, investment income on a monthly basis.

Management's Response

Accrued interest will be recorded at the time of purchase of investments. Premiums and discounts will be segregated and amortized from or accreted into, as appropriate, investment income.

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.

Recommendation

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

Management's Response

Management agrees with this recommendation and will initiate a departmental physical fixed asset inventory. The inventory will be conducted in phases during fiscal 1996 and fiscal 1997.

PROFESSIONAL LIABILITY CLAIMS

Observation

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

Background

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

Recommendation

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

Management's Response

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

SECURITY VIOLATION LOGS AND REVIEW

Observation

There is no logging and management review of unsuccessful attempts made to the system. This situation increases the risk that unauthorized users will ultimately gain access and remain undetected.

Background

UNIX maintains several log files which can be used to monitor user activity on the system. The ability of the system to log security and access control violations allows management to monitor potential unauthorized user activity.

Recommendation

Management should consider periodically reviewing UNIX system logs and monitor system activity to determine if activity is appropriate.

Management's Response

Our current UNIX operating system does not provide these logging and management features. Management will investigate the possibility of another vendor providing this service.

ADMINISTRATIVE AND OTHER MATTERS

INVESTMENTS

Observation

Currently, the Hospital's Board of Commissioners designates a portion of investments for capital outlay on an annual basis. This designation is based upon currently anticipated capital needs on a short term basis. We understand that management has been reconsidering this situation for several years.

Recommendation

In light of the favorable, available cash position the Hospital is fortunate to have, the Hospital should consider permanently funding its depreciation or a portion thereof. This funded depreciation account would serve as a useful tool in replacing the infrastructure of the Hospital when needed and allow the Hospital to invest these funds for longer maturities, thereby producing greater yields.

Management's Response

Management will establish a separate funded depreciation account. This account will be funded at least partially each month. Capital acquisitions will be made through this account.

CONTINGENCY PLANNING

Observation

Management is aware of the importance of a well planned and tested contingency plan; however, to date, a contingency plan has not been developed for critical business and support functions for the Hospital and related business units. A plan should be formalized to ensure the continuance of computing capability and user responsibilities in the event of an on-site interruption.

Background

A data processing technology recovery plan is only one component of a complete contingency plan. An effective plan should:

- Identify and evaluate business risk.
- Identify critical business functions (those which, if inoperable for a specified period of time, would have a detrimental impact on the Hospital's ability to function).
- Identify specific support requirements which must be available to address the recovery requirements of each of the critical business functions.
- Document the detailed plan and associated responsibilities and procedures to be followed in the event of an outage which impacts any or all of the critical business functions.
- Establish responsibilities and procedures for the implementation, maintenance and periodic testing of the established plan(s).

- Establish responsibilities and procedures for the periodic review of the contingency plan to ensure that testing and maintenance expectations are being followed and that the overall plan continues to address the Hospital's business continuity needs.

Recommendation

Hospital departments which support business functions critical to continued operations should develop and test their own contingency plans. Each business unit recovery plan, along with a technology recovery plan, should then be integrated to form an enterprise-wide contingency plan, which would then be implemented, maintained and periodically tested.

Management's Response

We have a detailed plan for disaster recovery for Information Systems, as well as computer replacement with Data General. This plan also addresses downtime for one to several days. However, we recognize the need to address the loss of a significant number of personal computers and/or network components in parts of the campus. Business recovery plans along with technology recovery plans are issues that will be addressed by management. Management then plans to develop an enterprise-wide plan.

EXHIBIT III

STATUS OF OUR PRIOR YEAR RECOMMENDATIONS

	Implemented	Partially Implemented	Not Implemented
INTERNAL CONTROL STRUCTURE:			
IBM Security Controls	X		
Terminal Time-outs		X	
Security Violation Logs and Review			X
Password Changes	X		
Network Supervisor Privileges		X	

APPENDIX

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

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

Management's Responsibility

Management is responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures.

Objectives

The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Limitations

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.