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ACADIA-ST. LANDRY HOSPITAL
SERVICE DISTRICT
FINANCIAL REPORT
JUNE 30, 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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 2-9-05

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Acadia-St. Landry Hospital Service District
Church Point, Louisiana

We have audited the accompanying basic financial statements of Acadia-St. Landry Hospital Service District as of June 30, 2004 and 2003, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Acadia-St. Landry Hospital Service District as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Acadia-St. Landry Hospital Service District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

The Acadia-St. Landry Hospital Service District has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2004, on our consideration of Acadia-St. Landry Hospital Service District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Broussard, Poché, Lewis & Breaux, L.L.P.

Crowley, Louisiana
December 16, 2004

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

BALANCE SHEETS
June 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,075,999 | \$ 278,159 |
| Certificates of deposit | - | 918,891 |
| Patient accounts receivable, net of estimated uncollectibles of \$516,920 and \$358,715 for 2004 and 2003, respectively | 1,053,768 | 719,493 |
| Inventories | 97,993 | 96,812 |
| Prepaid expenses | 35,565 | 27,510 |
| Estimated third-party payor settlements | 157,627 | 527,103 |
| Other receivables | <u>57,448</u> | <u>38,636</u> |
| Total current assets | \$ 2,478,400 | \$ 2,606,604 |
| CAPITAL ASSETS | | |
| Property, plant, and equipment, at cost, less accumulated depreciation of \$2,911,668 and \$2,723,298, for 2004 and 2003, respectively | 1,670,821 | 1,806,077 |
| OTHER ASSETS | | |
| Investment in joint venture | <u>64,242</u> | <u>80,766</u> |
| Total assets | \$ <u>4,213,463</u> | \$ <u>4,493,447</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 673,630 | \$ 778,081 |
| Accrued expenses | 86,872 | 171,850 |
| Capital lease payable - current | <u>9,238</u> | <u>16,977</u> |
| Total current liabilities | \$ 769,740 | \$ 966,908 |
| LONG-TERM LIABILITIES | | |
| Capital lease payable | <u>13,324</u> | <u>22,972</u> |
| Total liabilities | \$ <u>783,064</u> | \$ <u>989,880</u> |
| NET ASSETS | | |
| Invested in capital assets net of related debt | \$ 1,648,259 | \$ 1,766,128 |
| Unrestricted | <u>1,782,140</u> | <u>1,737,439</u> |
| Total net assets | \$ <u>3,430,399</u> | \$ <u>3,503,567</u> |
| Total liabilities and net assets | \$ <u>4,213,463</u> | \$ <u>4,493,447</u> |

See Notes to Financial Statements.

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years Ended June 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|-----------------------------------------|---------------------|-----------------------|
| Operating revenues: | | |
| Net patient service revenues | \$ 6,576,628 | \$ 6,541,499 |
| Other operating revenues | <u>106,360</u> | <u>97,433</u> |
| Total operating revenues | <u>\$ 6,682,988</u> | <u>\$ 6,638,932</u> |
| Operating expenses: | | |
| Salaries and wages | \$ 1,757,458 | \$ 2,005,013 |
| Professional services | 610,399 | 497,997 |
| Other departmental expenses | 4,190,450 | 4,656,824 |
| Depreciation and amortization | 188,370 | 191,706 |
| Provision for uncollectible accounts | <u>507,784</u> | <u>460,751</u> |
| Total operating expenses | <u>\$ 7,254,461</u> | <u>\$ 7,812,291</u> |
| Operating loss | <u>\$ (571,473)</u> | <u>\$ (1,173,359)</u> |
| Non-operating revenues (expenses): | | |
| Ad valorem taxes | \$ 166,866 | \$ 163,092 |
| Interest expense | (2,528) | (3,859) |
| Investment income | 6,606 | 65,781 |
| Net income from joint venture | 304,661 | 283,420 |
| Noncapital grants and contributions | <u>22,700</u> | <u>14,000</u> |
| Total non-operating revenues (expenses) | <u>\$ 498,305</u> | <u>\$ 522,434</u> |
| Decrease in net assets | \$ (73,168) | \$ (650,925) |
| Net assets beginning of year | <u>3,503,567</u> | <u>4,154,492</u> |
| Net assets end of year | <u>\$ 3,430,399</u> | <u>\$ 3,503,567</u> |

See Notes to Financial Statements.

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|-----------------------------------------------------------------|---------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from and on behalf of patients | \$ 6,104,045 | \$ 6,611,603 |
| Payments to suppliers and contractors | (4,914,537) | (5,640,685) |
| Payments to employees | (1,842,435) | (2,068,323) |
| Other receipts and payments, net | <u>87,548</u> | <u>84,319</u> |
| Net cash used by operating activities | <u>\$ (565,379)</u> | <u>\$ (1,013,086)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Ad valorem taxes | \$ 166,866 | \$ 163,092 |
| Noncapital grants and donations | <u>22,700</u> | <u>14,000</u> |
| Net cash provided by noncapital financing activities | <u>\$ 189,566</u> | <u>\$ 177,092</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Interest paid on capital lease obligations | \$ (2,528) | \$ (3,859) |
| Principal payments under capital lease obligations | (17,387) | (17,220) |
| Payments for the purchase of property and equipment | <u>(53,114)</u> | <u>(125,685)</u> |
| Net cash used by capital and related financing activities | <u>\$ (73,029)</u> | <u>\$ (146,764)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment income | \$ 6,606 | \$ 65,781 |
| Investment in Joint Venture | 321,185 | 287,080 |
| Redemption of certificates of deposit | <u>918,891</u> | <u>477,100</u> |
| Net cash provided by investing activities | <u>\$ 1,246,682</u> | <u>\$ 829,961</u> |
| Net increase (decrease) in cash and cash equivalents | \$ 797,840 | \$ (152,797) |
| Cash and cash equivalents at beginning of year | <u>278,159</u> | <u>430,956</u> |
| Cash and cash equivalents at end of year | <u>\$ 1,075,999</u> | <u>\$ 278,159</u> |

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended June 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|------------------------------------------------------------------------------------------|---------------------|-----------------------|
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating loss | \$ (571,473) | \$ (1,173,359) |
| Adjustments of reconcile operating income to net cash flows used in operating activities | | |
| Depreciation and amortization | 188,370 | 191,706 |
| Provisions for bad debts | 507,784 | 460,751 |
| (Increase) decrease in assets: | | |
| Patient accounts receivable | (842,059) | (314,258) |
| Inventories | (1,181) | 16,099 |
| Prepaid expenses | (8,055) | 7,473 |
| Estimated third-party payor settlements | 369,476 | 384,362 |
| Other receivables | (18,812) | (13,114) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (104,451) | (509,437) |
| Accrued expenses | <u>(84,978)</u> | <u>(63,309)</u> |
| Net cash used in operating activities | <u>\$ (565,379)</u> | <u>\$ (1,013,086)</u> |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES | | |
| Fixed assets purchased with capital leases | <u>\$ -</u> | <u>\$ 16,620</u> |

See Notes to Financial Statements.

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Acadia-St. Landry Hospital Service District (the "Hospital Service District") was established in 1967, by the Acadia and St. Landry Parish Police Juries, by virtue of the authority of Louisiana Revised Statutes (R.S.) 46:1051 et seq. The purpose of the Hospital Service District is to provide health services to Acadia and St. Landry parishes. The Board of Commissioners is appointed by the Acadia and St. Landry Parish Police Juries.

The Hospital Service District is not considered a component unit of the Acadia or St. Landry Parish Police Juries due to the fact that they do not meet the established criteria as provided in GASB Statement No. 14, *The Financial Reporting Entity*. These criteria include financial accountability by the Police Juries or the ability to impose their will on the Hospital Service District by significantly influencing the programs, projects, activities, or level of services performed or provided by the Hospital Service District, and the existence of a financial benefit or burden.

The accompanying basic financial statements of the Hospital Service District have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. GASB 34 established standards for external financial reporting for all state and local governmental entities, which included a balance sheet or statement of net assets, a statement of revenues, expenditures and changes in net assets, and a statement of cash flows utilizing the direct method of presentation. The statement requires the classification of net assets into four components-invested in capital assets, net of related debt; restricted expendable net assets; restricted nonexpendable net assets; and unrestricted net assets. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital Service District. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*. These and other changes are reflected in the accompanying basic financial statements (including the notes to the financial statements).

The more significant accounting policies of the Hospital Service District are described below:

Enterprise fund accounting:

The Hospital Service District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital Service District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of estimates:

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 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.

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Cash and cash equivalents:

For purposes of reporting cash flows, the Hospital Service District considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

Trade receivables and allowance for uncollectible accounts:

Trade receivables are carried at the original billed amount less an estimate made for uncollectible accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for uncollectible accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables are written-off when deemed uncollectible. Recoveries of trade receivables previously written-off are recorded when received.

Inventories:

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

Property, plant, and equipment:

Property, plant, and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of each class of depreciable assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation expense in the financial statements. The following estimated useful lives are generally used:

| | |
|---------------------------|---------------|
| Building and improvements | 15 – 50 years |
| Equipment | 3 – 20 years |

Net patient service revenues:

The Hospital Service District has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Grants and donations:

From time to time, the Hospital Service District receives grants from the Department of Health and Hospitals as well as donations from the Medical Foundation. Revenues from grants and donations (including capital contributions of assets) are recognized when all eligibility requirements, including time requirements are met. Grants and donations may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expense.

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Operating revenues and expenses:

The Hospital Service District's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services-the District's principal activity. Non-exchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Income taxes:

The Hospital Service District is a political subdivision and exempt from taxes.

Advertising:

The Hospital Service District expenses advertising cost as incurred. Advertising expense for the years ended June 30, 2004 and 2003, totaled \$9,448 and \$15,044, respectively.

Risk management:

The Hospital Service District is exposed to various risks of loss from tort; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health. Commercial insurance coverage is purchased for claims arising from such matters.

Restricted resources:

When the Hospital Service District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

Reclassifications:

To be consistent with current year classifications, some items from the previous year have been reclassified with no effect on operating losses.

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Net Patient Service Revenues

The Hospital Service District has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare** – Inpatient acute care services (and related capital costs) and swing bed services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. Acute care service rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient psychiatric services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology subject to certain limits, while other outpatient services are reimbursed on a fee schedule. The Hospital Service District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital Service District's Medicare cost reports have been settled by the Medicare fiscal intermediary through June 30, 2001.
- **Medicaid** – Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per day. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, subject to certain limits, while other outpatient services are reimbursed on a fee schedule. The Hospital Service District is reimbursed for outpatient services at an interim rate with final settlement determined after submission of annual cost reports by the Hospital Service District and audits thereof by the Medicaid fiscal intermediary. The Hospital Service District's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through June 30, 2001.

The Hospital Service District received disproportionate share payments for uncompensated care cost of approximately \$5,453,704, from fiscal year 1996 through 2004. These payments were based on estimated uncompensated care cost and are subject to audit and settlement. As of June 30, 2004, management has estimated no reserve liability for the possible recoupment of these disproportionate share payments. To the extent management's estimate differs from actual results, the differences will be used to adjust income for the period when such differences arise.

During the years ended June 30, 2004 and 2003, approximately 86.84% and 87.61% respectively, of the Hospital Service District's gross patient service revenues were furnished to Medicare and Medicaid beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. As a result of retroactive adjustments of certain prior year cost reports, the Hospital Service District recorded changes in estimates resulting in an increase in net patient service revenues of approximately \$0 and \$28,510 during the years ending June 30, 2004 and 2003 respectively.

The Hospital Service District has entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital Service District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined rates.

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3. Bank Deposits and Investments

At June 30, 2004, the carrying value (book balance) of the Hospital Service District's cash deposits, including demand deposits, totaled \$1,075,999. These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At June 30, 2004, the bank balance of these deposits totaled \$1,123,668. These deposits are secured from risk by \$176,031 of Federal Deposit Insurance Corporation (FDIC) coverage and \$1,874,735 of pledged securities held by the custodial bank in the name of the fiscal agent bank (Category III).

Even though the pledged securities are considered uncollateralized (Category III) under the provisions of GASB Statement 3, R.S. 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the entity that the fiscal agent has failed to pay deposited funds upon demand.

Note 4. Joint Venture

In July 1999, the Hospital Service District entered into a joint venture with Acadian Homecare, Inc., to form Acadia-St. Landry Hospital Home Health, L.L.P. in order to provide home health services to the patients of the Hospital Service District. The agreement provided that the Hospital Service District was to have a 50% participation in the joint venture for the period July 2003 to September 30, 2003. Effective October 1, 2003, the Hospital renegotiated the contract with Acadian Homecare, Inc. whereby the 50% participation was reduced to a 33% participation. The Hospital Service District's equity interest in the joint venture was \$64,242 and \$80,766 at June 30, 2004 and 2003, respectively. The Hospital Service District leased office space, furniture, fixtures, and equipment to the joint venture for \$31,260, in 2004 and 2003. Complete financial statements for the joint venture can be obtained upon request.

Note 5. Accounts Receivable

Patient accounts receivable reported as current assets by the Hospital Service District at June 30, 2004 and 2003 consisted of these amounts:

| <u>Patient Accounts Receivable</u> | <u>2004</u> | <u>2003</u> |
|-------------------------------------------------------|---------------------|-------------------|
| Receivable from patients and their insurance carriers | \$ 489,939 | \$ 411,144 |
| Receivable from Medicare | 660,116 | 427,442 |
| Receivable from Medicaid | <u>420,633</u> | <u>239,622</u> |
| Total patient accounts receivable | \$ 1,570,688 | \$ 1,078,208 |
| Less allowance for uncollectible amounts | <u>(516,920)</u> | <u>(358,715)</u> |
| Patient accounts receivable, net | <u>\$ 1,053,768</u> | <u>\$ 719,493</u> |

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset additions, retirements, and balances for the years ended June 30, 2004 and 2003 were as follows:

| | June 30, 2003 | Additions | Retirements | June 30, 2004 |
|------------------------------------|-----------------------------|---------------------|-------------------|-----------------------------|
| Land | \$ 120,025 | \$ - | \$ - | \$ 120,025 |
| Land improvements | 37,482 | - | - | 37,482 |
| Buildings and improvements | 2,649,892 | - | - | 2,649,892 |
| Equipment | 1,721,976 | 53,114 | - | 1,775,090 |
| Total historical cost | <u>\$ 4,529,375</u> | <u>\$ 53,114</u> | <u>\$ -</u> | <u>\$ 4,582,489</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | \$ (34,609) | \$ (1,735) | \$ - | \$ (36,344) |
| Buildings and improvements | (1,312,371) | (76,729) | - | (1,389,100) |
| Equipment | (1,376,318) | (109,906) | - | (1,486,224) |
| Total accumulated depreciation | <u>\$ (2,723,298)</u> | <u>\$ (188,370)</u> | <u>\$ -</u> | <u>\$ (2,911,668)</u> |
| Capital assets, net | <u>\$ 1,806,077</u> | <u>\$ (135,256)</u> | <u>\$ -</u> | <u>\$ 1,670,821</u> |
| | Balance June 30, 2002 | Additions | Retirements | Balance June 30, 2003 |
| Land | \$ 120,025 | \$ - | \$ - | \$ 120,025 |
| Land improvements | 37,482 | - | - | 37,482 |
| Buildings and improvements | 2,557,512 | 92,380 | - | 2,649,892 |
| Equipment | 1,679,572 | 49,919 | (7,515) | 1,721,976 |
| Total historical cost | <u>\$ 4,394,591</u> | <u>\$ 142,299</u> | <u>\$ (7,515)</u> | <u>\$ 4,529,375</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | \$ (32,798) | \$ (1,811) | \$ - | \$ (34,609) |
| Buildings and improvements | (1,229,064) | (83,307) | - | (1,312,371) |
| Equipment | (1,277,245) | (106,588) | 7,515 | (1,376,318) |
| Total accumulated depreciation | <u>\$ (2,539,107)</u> | <u>\$ (191,706)</u> | <u>\$ 7,515</u> | <u>\$ (2,723,298)</u> |
| Capital assets, net | <u>\$ 1,855,484</u> | <u>\$ (49,407)</u> | <u>\$ -</u> | <u>\$ 1,806,077</u> |

Depreciation expense for the years ended June 30, 2004 and 2003 amounted to \$188,370 and \$191,706, respectively. Accumulated amortization for equipment under capital lease obligations was \$8,201 and \$12,495 at June 30, 2004 and 2003, respectively.

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Ad Valorem Taxes

In April 2002, the tax payers of the Hospital Service District approved a 7.67 mill tax for a ten year period which will end in 2012. The District levied 7.34 mills for the fiscal years ended 2004 and 2003.

The Hospital Service District's property tax is levied by the parish on the taxable real property in the district in late October of each year. Bills are sent out in November of each year, at which time the Hospital Service District records the tax revenue, and become a lien in the following March. The collection period for the Hospital Service District's property taxes is from December (at which time they become delinquent) to the succeeding May.

Note 8. Concentrations of Credit Risk

The Hospital Service District 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 June 30, 2004 and 2003, was as follows:

| | <u>2004</u> | <u>2003</u> |
|--------------------------|----------------|----------------|
| Medicare | 42.0 % | 39.6 % |
| Medicaid | 26.5 % | 22.2 % |
| Other third-party payors | 21.6 % | 26.4 % |
| Patients | <u>9.9 %</u> | <u>11.8 %</u> |
| | <u>100.0 %</u> | <u>100.0 %</u> |

Note 9. Compensated Absences

Full-time employees accrue four (4) hours of paid time off (PTO) per pay period, while part-time employees accrue PTO at a rate of four (4) percent of total hours worked per pay period

Accrued compensated absences at June 30, 2004 and 2003, totaled \$55,471 and \$85,639, respectively.

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Long-term liabilities

A schedule of changes in the Hospital Service District's non-current liabilities for 2004 and 2003 follows:

| | Balance June 30, 2003 | Additions | Reductions | Balance June 30, 2004 | Amounts Due Within One Year |
|------------------------------|-----------------------------|-------------|--------------------|-----------------------------|-----------------------------------|
| Capital lease obligations: | | | | | |
| IBM AS400 Computer System | \$ 16,535 | \$ - | \$ (5,215) | \$ 11,320 | \$ 5,072 |
| Medical Records Copier | 8,733 | - | (1,524) | 7,209 | 1,809 |
| Psychiatric Unit Copier | 6,213 | - | (2,180) | 4,033 | 2,357 |
| Laboratory Clinical Software | 2,507 | - | (2,507) | - | - |
| Stress Test Machine | 5,961 | - | (5,961) | - | - |
| | <u>\$ 39,949</u> | <u>\$ -</u> | <u>\$ (17,387)</u> | <u>\$ 22,562</u> | <u>\$ 9,238</u> |

| | Balance June 30, 2002 | Additions | Reductions | Balance June 30, 2003 | Amounts Due Within One Year |
|------------------------------|-----------------------------|------------------|--------------------|-----------------------------|-----------------------------------|
| Capital lease obligations: | | | | | |
| IBM AS400 Computer System | \$ 20,733 | \$ - | \$ (4,198) | \$ 16,535 | \$ 4,805 |
| Medical Records Copier | - | 9,717 | (984) | 8,733 | 1,524 |
| Psychiatric Unit Copier | - | 6,903 | (690) | 6,213 | 2,180 |
| Laboratory Clinical Software | 8,454 | - | (5,947) | 2,507 | 2,507 |
| Stress Test Machine | 11,362 | - | (5,401) | 5,961 | 5,961 |
| | <u>\$ 40,549</u> | <u>\$ 16,620</u> | <u>\$ (17,220)</u> | <u>\$ 39,949</u> | <u>\$ 16,977</u> |

Capital lease obligations are at varying rates of interest from 5.19% to 17.24% collateralized by leased equipment with cost of \$41,007.

Scheduled principal and interest repayments on capital lease obligations are as follows:

| Years Ending June 30, | Principal | Interest |
|--------------------------|------------------|-----------------|
| 2005 | \$ 9,238 | \$ 1,787 |
| 2006 | 9,154 | 1,008 |
| 2007 | 3,462 | 372 |
| 2008 | 708 | 20 |
| Total | <u>\$ 22,562</u> | <u>\$ 3,187</u> |

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Operating Leases

The Hospital Service District leases various equipment under operating leases expiring at various dates through 2009. Total rental expense for the years ended June 30, 2004 and 2003, for all operating leases was approximately \$234,851 and \$203,911, respectively.

The following is a schedule by year of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year:

| Years Ending <u>June 30,</u> | <u>Amount</u> |
|---------------------------------|-------------------|
| 2005 | \$ 208,618 |
| 2006 | 161,395 |
| 2007 | 145,514 |
| 2008 | 145,514 |
| 2009 | <u>130,934</u> |
| Total | <u>\$ 791,975</u> |

Note 12. Estimated Third-Party Settlements

The following is a schedule of estimated third-party payor settlements (payable) receivable:

June 30, 2004:

| <u>Cost Report Year</u> | <u>Medicare</u> | <u>Medicaid</u> | <u>Total</u> |
|-----------------------------|-------------------|--------------------|-------------------|
| 2003 | \$ 2,621 | \$ - | \$ 2,621 |
| 2004 | <u>201,784</u> | <u>(46,778)</u> | <u>155,006</u> |
| Totals | <u>\$ 204,405</u> | <u>\$ (46,778)</u> | <u>\$ 157,627</u> |

June 30, 2003:

| <u>Cost Report Year</u> | <u>Medicare</u> | <u>Medicaid</u> | <u>Total</u> |
|-----------------------------|-------------------|--------------------|-------------------|
| 2001 | \$ 34,338 | \$ - | \$ 34,338 |
| 2002 | <u>523,050</u> | <u>(30,285)</u> | <u>492,765</u> |
| Totals | <u>\$ 557,388</u> | <u>\$ (30,285)</u> | <u>\$ 527,103</u> |

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Commitments and Contingencies

The Hospital Service District evaluates contingencies based upon the best available evidence. The Hospital Service District believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the Hospital Service District's estimates, future earnings will be charged or credited.

Professional Liability Risk

The Hospital Service District participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 for which the Hospital is at risk. The Hospital Service District belongs to the Louisiana Hospital Association Trust Fund, which covers the majority of this \$100,000 liability. In connection with the establishment of the Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limiting the Patient's Compensation Fund's exposure to \$400,000 per occurrence.

Litigation

The Hospital Service District is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

Note 14. Subsequent Events

On November 1, 2004, the Hospital Service District converted from an Acute Inpatient Prospective Payment System (IPPS) Hospital to a Critical Access Hospital (CAH). This conversion significantly changed the way the Hospital is being reimbursed for Medicare patients. Under the previous Medicare payment methodology, the Hospital was being paid as described in Note 2. Under the CAH Medicare payment methodology, the Hospital is paid 101% of its reasonable costs for Medicare purposes, except for Inpatient Psychiatric services which is paid based on 100% of reasonable cost, subject to various limits and rules.

On August 31, 2004, the Acadia-St. Landry Clinic was closed due to the fact that the Hospital Service District did not renew the contract of its employed physician.

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**INDEPENDENT AUDITORS' REPORT ON
THE SUPPLEMENTARY INFORMATION**

To the Board of Commissioners
Acadia-St. Landry Hospital Service District
Church Point, Louisiana

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis of the basic financial statements rather than to present the financial position, results of operations, and cash flows of the Hospital Service District. The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Broussard, Poché, Lewis & Breau, L.L.P.

Crowley, Louisiana
December 16, 2004

Eugene C. Gilder, CPA*
Donald W. Kelley, CPA*
Herbert Lemoine II, CPA*
Frank A. Stagno, CPA*
Scott J. Broussard, CPA*
L. Charles Abshire, CPA*
Kenneth R. Dugas, CPA*
P. John Blanchet III, CPA*
Stephen L. Lambousy, CPA*
Craig C. Babineaux, CPA*
Peter C. Borrello, CPA*
George J. Trappey III, CPA*
Gregory B. Milton, CPA*
S. Scott Soileau, CPA*
Patrick D. McCarthy, CPA*
Martha B. Wyatt, CPA*
Troy J. Breaux, CPA*
Fayette T. Dupré, CPA*
Mary A. Castille, CPA*
Joey L. Breaux, CPA*
Terrel P. Dressel, CPA*

Retired:

Sidney L. Broussard, CPA 1980
Leon K. Poché, CPA 1984
James H. Breaux, CPA 1987
Erma R. Walton, CPA 1988
George A. Lewis, CPA* 1992
Geraldine J. Wimberley, CPA* 1995
Rodney L. Savoy, CPA* 1996
Larry G. Broussard, CPA* 1996
Lawrence A. Cramer, CPA* 1999
Michael P. Crochet, CPA* 1999
Ralph Friend, CPA 2002

Members of American Institute of Certified Public Accountants
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ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

SCHEDULES OF PATIENT SERVICE REVENUES

Years Ended June 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|--------------------------------------------|-----------------------|-----------------------|
| Gross patient direct services | \$ 9,065,194 | \$ 9,162,699 |
| Less: | | |
| Contractual allowances | \$ (2,251,382) | \$ (2,383,372) |
| Discounts | <u>(237,184)</u> | <u>(237,828)</u> |
| Total contractual allowances and discounts | <u>\$ (2,488,566)</u> | <u>\$ (2,621,200)</u> |
| Net patient service revenues | <u>\$ 6,576,628</u> | <u>\$ 6,541,499</u> |

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

SCHEDULES OF OTHER OPERATING REVENUES

Years Ended June 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|------------------------------------|-----------------------|----------------------|
| Cafeteria | \$ 444 | \$ 11,969 |
| Vending machine commissions | 3,095 | 1,585 |
| Rent income | 55,794 | 56,804 |
| Community care revenues | 38,091 | 5,940 |
| Miscellaneous | <u>8,936</u> | <u>21,135</u> |
| Total other operating revenues | <u>\$ 106,360</u> | <u>\$ 97,433</u> |

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ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT
SCHEDULES OF OPERATING REVENUES AND EXPENSES
Years Ended June 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|------------------------------------------------------------------------|---------------------|-----------------------|
| Direct operating revenues | \$ 9,065,194 | \$ 9,162,699 |
| Direct operating expenses | <u>4,968,463</u> | <u>5,166,868</u> |
| Excess of direct operating revenues over direct operating expenses | \$ 4,096,731 | \$ 3,995,831 |
| Contractual allowances and discounts | <u>2,488,566</u> | <u>2,621,200</u> |
| Net excess of direct operating revenues over direct operating expenses | <u>\$ 1,608,165</u> | <u>\$ 1,374,631</u> |
| General operating expenses: | | |
| General services | \$ 504,751 | \$ 528,074 |
| Fiscal and administration | <u>1,085,093</u> | <u>1,464,892</u> |
| Total general operating expenses | <u>\$ 1,589,844</u> | <u>\$ 1,992,966</u> |
| Other operating revenues: | <u>\$ 106,360</u> | <u>\$ 97,433</u> |
| Other operating expenses: | | |
| Depreciation and amortization | \$ 188,370 | \$ 191,706 |
| Provision for uncollectible accounts | <u>507,784</u> | <u>460,751</u> |
| Total other operating expenses | <u>\$ 696,154</u> | <u>\$ 652,457</u> |
| Deficiency of operating revenues over operating expenses | <u>\$ (571,473)</u> | <u>\$ (1,173,359)</u> |

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

SCHEDULES OF DEPARTMENTAL DIRECT
OPERATING REVENUES AND EXPENSES
Years Ended June 30, 2004 and 2003

| | Inpatient Revenues | | Outpatient Revenues | |
|---------------------------|--------------------|--------------|---------------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| Direct services: | | | | |
| Anesthesiology | \$ 1,300 | \$ 369 | \$ 9,219 | \$ 1,476 |
| Central Supply | 314,966 | 299,465 | 97,244 | 93,591 |
| CT Scan | 113,823 | 79,339 | 337,667 | 235,068 |
| Daily patient services | 620,885 | 546,755 | - | - |
| Electrocardiology | 17,150 | 18,080 | 33,540 | 33,340 |
| Emergency room | 14,925 | 16,469 | 192,325 | 160,759 |
| Emergency room physician | 4,573 | 4,997 | 268,459 | 227,342 |
| Health and fitness center | - | - | - | 26,809 |
| Home health | - | - | - | - |
| Kidmed | - | - | 11,811 | 11,602 |
| Laboratory | 276,207 | 224,513 | 721,909 | 718,478 |
| Nuclear medicine | 1,290 | 7,700 | 3,120 | 18,035 |
| Occupational therapy | 12,582 | 15,358 | 22,979 | 58,407 |
| Operating room & Gastro | 22,424 | 10,700 | 159,900 | 142,350 |
| Other | 213 | 322 | 1,805 | 690 |
| Pharmacy | 966,674 | 779,186 | 138,573 | 118,575 |
| Physical therapy | 33,328 | 26,052 | 162,014 | 149,022 |
| Physician office | - | - | - | - |
| Psychiatric therapy group | 3,270 | 12,295 | 1,302,740 | 1,510,400 |
| Psychiatric unit | 2,371,053 | 2,552,845 | 484 | 1,294 |
| Radiology | 42,650 | 36,427 | 192,823 | 208,045 |
| Respiratory therapy | 78,015 | 76,326 | 8,063 | 13,872 |
| Clinic | 270 | 35,345 | 303,529 | 410,492 |
| Speech therapy | 8,553 | 11,204 | 22,825 | 10,560 |
| Stress test | 400 | 9,200 | 7,120 | 14,800 |
| Ultrasound | 61,247 | 54,989 | 101,247 | 179,756 |
| Total direct services | \$ 4,965,798 | \$ 4,817,936 | \$ 4,099,396 | \$ 4,344,763 |

| <u>Total Direct Revenues</u> | | <u>Direct Operating Expenses</u> | | <u>Excess (Deficiency) of Direct Revenues Over Direct Operating Expenses</u> | |
|------------------------------|---------------------|----------------------------------|---------------------|--------------------------------------------------------------------------------------|---------------------|
| <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| \$ 10,519 | \$ 1,845 | \$ 1,465 | \$ 1,035 | \$ 9,054 | \$ 810 |
| 412,210 | 393,056 | 78,329 | 96,327 | 333,881 | 296,729 |
| 451,490 | 314,407 | 126,398 | 82,309 | 325,092 | 232,098 |
| 620,885 | 546,755 | 690,334 | 612,908 | (69,449) | (66,153) |
| 50,690 | 51,420 | 6,743 | 6,483 | 43,947 | 44,937 |
| 207,250 | 177,228 | 24,494 | 17,093 | 182,756 | 160,135 |
| 273,032 | 232,339 | 528,251 | 492,643 | (255,219) | (260,304) |
| - | 26,809 | 47 | 43,611 | (47) | (16,802) |
| - | - | 10,439 | 11,413 | (10,439) | (11,413) |
| 11,811 | 11,602 | 1,215 | 282 | 10,596 | 11,320 |
| 998,116 | 942,991 | 473,013 | 445,998 | 525,103 | 496,993 |
| 4,410 | 25,735 | - | 18,230 | 4,410 | 7,505 |
| 35,561 | 73,765 | 19,745 | 41,600 | 15,816 | 32,165 |
| 182,324 | 153,050 | 19,185 | 3,503 | 163,139 | 149,547 |
| 2,018 | 1,012 | - | - | 2,018 | 1,012 |
| 1,105,247 | 897,761 | 422,453 | 424,564 | 682,794 | 473,197 |
| 195,342 | 175,074 | 109,890 | 96,850 | 85,452 | 78,224 |
| - | - | - | 186 | - | (186) |
| 1,306,010 | 1,522,695 | 441,219 | 526,466 | 864,791 | 996,229 |
| 2,371,537 | 2,554,139 | 1,464,075 | 1,566,305 | 907,462 | 987,834 |
| 235,473 | 244,472 | 138,043 | 126,146 | 97,430 | 118,326 |
| 86,078 | 90,198 | 80,267 | 73,015 | 5,811 | 17,183 |
| 303,799 | 445,837 | 257,586 | 321,640 | 46,213 | 124,197 |
| 31,378 | 21,764 | 6,940 | 7,530 | 24,438 | 14,234 |
| 7,520 | 24,000 | 605 | 501 | 6,915 | 23,499 |
| 162,494 | 234,745 | 67,727 | 150,230 | 94,767 | 84,515 |
| <u>\$ 9,065,194</u> | <u>\$ 9,162,699</u> | <u>\$ 4,968,463</u> | <u>\$ 5,166,868</u> | <u>\$ 4,096,731</u> | <u>\$ 3,995,831</u> |

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

SCHEDULES OF DEPARTMENTAL DIRECT
AND GENERAL OPERATING EXPENSES
Years Ended June 30, 2004 and 2003

| | Salaries | | Professional Fees | |
|---------------------------|--------------|--------------|-------------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| Direct services: | | | | |
| Anesthesiology | \$ - | \$ - | \$ - | \$ - |
| Central supply | 19,887 | 35,534 | - | - |
| CT Scan | - | - | - | - |
| Daily patient services | 490,563 | 446,216 | 18,000 | 41,325 |
| Electrocardiology | - | - | 424 | 5,160 |
| Emergency room | - | - | - | - |
| Emergency room physicians | - | 93,672 | 528,251 | 398,971 |
| Health and fitness center | - | 42,524 | - | - |
| Home health | - | - | - | - |
| Kidmed | - | - | - | - |
| Laboratory | 172,922 | 175,681 | 21,390 | 22,476 |
| Nuclear medicine | - | - | - | - |
| Occupational therapy | - | - | - | - |
| Operating room & Gastro | - | - | - | 2,400 |
| Pharmacy | 107,739 | 86,166 | - | - |
| Physical therapy | - | - | - | - |
| Physician office | - | - | - | - |
| Psychiatric therapy group | 9,148 | 33,154 | - | - |
| Psychiatric unit | 30,227 | 15,473 | - | 1,400 |
| Radiology | 100,133 | 96,812 | - | 26 |
| Respiratory therapy | 69,499 | 63,556 | - | - |
| Health clinic | 242,005 | 295,195 | - | 3,870 |
| Speech therapy | - | - | - | - |
| Stress test | - | - | - | - |
| Ultrasound | - | - | - | - |
| Total direct services | \$ 1,242,123 | \$ 1,383,983 | \$ 568,065 | \$ 475,628 |
| General services: | | | | |
| Dietary | \$ 56,308 | \$ 67,285 | \$ - | \$ - |
| Housekeeping | 56,756 | 62,050 | - | - |
| Laundry and linen | - | - | - | - |
| Plant engineering | 51,595 | 52,999 | - | - |
| Total general services | \$ 164,659 | \$ 182,334 | \$ - | \$ - |
| Subtotals forward | \$ 1,406,782 | \$ 1,566,317 | \$ 568,065 | \$ 475,628 |

| Other Expenses | | Total | |
|---------------------|---------------------|---------------------|---------------------|
| 2004 | 2003 | 2004 | 2003 |
| \$ 1,465 | \$ 1,035 | \$ 1,465 | \$ 1,035 |
| 58,442 | 60,793 | 78,329 | 96,327 |
| 126,398 | 82,309 | 126,398 | 82,309 |
| 181,771 | 125,367 | 690,334 | 612,908 |
| 6,319 | 1,323 | 6,743 | 6,483 |
| 24,494 | 17,093 | 24,494 | 17,093 |
| - | - | 528,251 | 492,643 |
| 47 | 1,087 | 47 | 43,611 |
| 10,439 | 11,413 | 10,439 | 11,413 |
| 1,215 | 282 | 1,215 | 282 |
| 278,701 | 247,841 | 473,013 | 445,998 |
| - | 18,230 | - | 18,230 |
| 19,745 | 41,600 | 19,745 | 41,600 |
| 19,185 | 1,103 | 19,185 | 3,503 |
| 314,714 | 338,398 | 422,453 | 424,564 |
| 109,890 | 96,850 | 109,890 | 96,850 |
| - | 186 | - | 186 |
| 432,071 | 493,312 | 441,219 | 526,466 |
| 1,433,848 | 1,549,432 | 1,464,075 | 1,566,305 |
| 37,910 | 29,308 | 138,043 | 126,146 |
| 10,768 | 9,459 | 80,267 | 73,015 |
| 15,581 | 22,575 | 257,586 | 321,640 |
| 6,940 | 7,530 | 6,940 | 7,530 |
| 605 | 501 | 605 | 501 |
| 67,727 | 150,230 | 67,727 | 150,230 |
| <u>\$ 3,158,275</u> | <u>\$ 3,307,257</u> | <u>\$ 4,968,463</u> | <u>\$ 5,166,868</u> |
| \$ 78,390 | \$ 97,403 | \$ 134,698 | \$ 164,688 |
| 17,725 | 16,534 | 74,481 | 78,584 |
| 25,460 | 22,093 | 25,460 | 22,093 |
| 218,517 | 209,710 | 270,112 | 262,709 |
| <u>\$ 340,092</u> | <u>\$ 345,740</u> | <u>\$ 504,751</u> | <u>\$ 528,074</u> |
| <u>\$ 3,498,367</u> | <u>\$ 3,652,997</u> | <u>\$ 5,473,214</u> | <u>\$ 5,694,942</u> |

(continued)

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

SCHEDULE OF DEPARTMENTAL DIRECT
AND GENERAL OPERATING EXPENSES
Years Ended June 30, 2004 and 2003

| | Salaries | | Professional Fees | |
|---------------------------------------------|--------------|--------------|-------------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| Subtotals forwarded | \$ 1,406,782 | \$ 1,566,317 | \$ 568,065 | \$ 475,628 |
| Financial and administrative services: | | | | |
| Accounting | \$ 27,762 | \$ 32,559 | \$ - | \$ - |
| Administration | 134,429 | 115,351 | 42,334 | 16,659 |
| Business office | 119,125 | 154,984 | - | - |
| Medical records | 68,379 | 79,543 | - | - |
| Payroll taxes | - | - | - | - |
| Employee benefits | - | - | - | - |
| Other general and administrative expenses | 981 | 56,259 | - | 5,710 |
| Total financial and administrative services | \$ 350,676 | \$ 438,696 | \$ 42,334 | \$ 22,369 |
| Total direct operating expenses | \$ 1,757,458 | \$ 2,005,013 | \$ 610,399 | \$ 497,997 |

| Other Expenses | | Total | |
|----------------|--------------|--------------|--------------|
| 2004 | 2003 | 2004 | 2003 |
| \$ 3,498,367 | \$ 3,652,997 | \$ 5,473,214 | \$ 5,694,942 |
| \$ 1,927 | \$ 3,250 | \$ 29,689 | \$ 35,809 |
| 23,856 | 81,309 | 200,619 | 213,319 |
| 58,435 | 43,544 | 177,560 | 198,528 |
| 6,541 | 6,968 | 74,920 | 86,511 |
| 123,998 | 140,127 | 123,998 | 140,127 |
| 142,362 | 175,866 | 142,362 | 175,866 |
| 334,964 | 552,763 | 335,945 | 614,732 |
| \$ 692,083 | \$ 1,003,827 | \$ 1,085,093 | \$ 1,464,892 |
| \$ 4,190,450 | \$ 4,656,824 | \$ 6,558,307 | \$ 7,159,834 |

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

SCHEDULES OF BOARD FEES
Years Ended June 30, 2004 and 2003

| <u>Board Members</u> | <u>2004</u> | <u>2003</u> |
|----------------------|-------------|-------------|
| Phillip Smith | \$ - | \$ 320 |
| Marilyn Scott | 320 | 400 |
| George Brouillette | 240 | 400 |
| John LeJeune | 120 | 400 |
| Ward Bellard, M.D. | 440 | 400 |
| Paul Matte | 440 | 400 |
| Chad Matte | 400 | - |
| Myra Lewis | 160 | - |
| Francis Mouille | 280 | - |

The schedule of compensation paid to the Board of Commissioners is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Legislature. In accordance with Louisiana Revised Statute 46:1053(C)(2)(a), the Hospital Service District's Board Members receive \$40 for each day of attendance at meetings of the commission, not to exceed twelve meetings per year.



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Retired:

Sidney L. Broussard, CPA 1980
Leon K. Poché, CPA 1984
James H. Breaux, CPA 1987
Erma R. Walton, CPA 1988
George A. Lewis, CPA* 1992
Geraldine J. Wimberley, CPA* 1995
Rodney L. Savoy, CPA* 1996
Larry G. Broussard, CPA* 1996
Lawrence A. Cramer, CPA* 1999
Michael P. Crochet, CPA* 1999
Ralph Friend, CPA 2002

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Acadia-St. Landry Hospital Service District
Church Point, Louisiana

We have audited the basic financial statements of the Acadia-St. Landry Hospital Service District as of and for the year ended June 30, 2004, and have issued our report thereon dated December 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Acadia-St. Landry Hospital Service District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 2004-1, 2004-4, 2004-5, 2004-6 and 2004-7.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Acadia-St. Landry Hospital Service District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Acadia-St. Landry Hospital Service District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-2 and 2004-3.

To the Board of Commissioners
Acadia-St. Landry Hospital Service District

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider 2004-2 to be material weakness.

This report is intended solely for the information and use of the Acadia-St. Landry Hospital Service District's management and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Brussard, Poche, Lewis & Bray, L.L.P.

Crowley, Louisiana
December 16, 2004

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2004

We have audited the basic financial statements of Acadia-St. Landry Hospital Service District as of and for the year ended June 30, 2004, and have issued our report thereon dated December 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the basic financial statements as of June 30, 2004, resulted in an unqualified opinion.

Section I. Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses Yes No Reportable Conditions Yes No

Compliance

Compliance Material to Financial Statements Yes No

Management Report Yes No

b. Federal Awards

The Hospital Service District does not have any federal awards.

Section II. Financial Statement Findings

2004-1 - Fixed Asset Management System

Finding: We noted during the course of the audit that the Hospital Service District did not completely implement a proper fixed asset recordkeeping process as required by R.S. 24:515(B)(1).

Cause: A numbered tag system is not completely in place for fixed assets.

Recommendation: The Hospital Service District must complete its numbered tag system to keep track of where fixed assets are located in the facility in order to have a proper fixed asset record keeping process as required by R.S. 24:515(B)(1).

Response: The Hospital Service District has started a numbered tag system in order to keep track of the Hospital's fixed asset inventory. The Hospital hopes to complete this process by the end of next year's audit.

Questioned Costs: \$ -0-

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

Section II. Financial Statement Findings (continued)

2004-2 – Deposits

Finding: During the course of the audit, it was discovered that a deposit for the clinic, in the amount of \$292, could not be located. It was also noted that an ad valorem tax check in the amount of \$9,573, was not deposited in a timely manner.

Cause: Lack of proper internal controls

Recommendation: The Hospital Service District needs to improve its internal control process over the safeguarding of receipts and deposits. The internal controls associated with the transfer of the clinic daily receipts to the business office should include a signature process whereby an employee of both the clinic and the business verify that the clinic daily receipts were received by the business office for the specified amount. Also, internal controls over checks received through the mail, for various payments, and clinic daily receipts should be deposited in a timely manner.

Response: The Hospital Service District will work to improve the internal control process over the safeguarding of receipts and deposits. Effective August 31, 2004, the clinic operations ceased, thus eliminating daily receipts from the clinic. However, this process will be implemented on any current or future receipts that are collected outside of the business office. The Hospital Service District will also implement internal controls in which checks received through the mail, for various payments, and clinic daily receipts will be deposited in a timely manner.

Questioned Costs: \$ -0-

2004-3 – Approval of Accounts Receivable Discounts

Finding: During the course of the audit, we noted that some accounts receivable discounts written-off did not have proper authorization by the appropriate level of management.

Cause: Oversight

Recommendation: We recommend that accounts receivable discounts be approved by the appropriate level of management on a monthly basis to ensure that only approved amounts are written-off.

Response: The Hospital Service District will ensure that all discounts written-off are properly approved.

Questioned Costs: \$ -0-

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year Ended June 30, 2004

Section II. Financial Statement Findings (continued)

2004-4 – Employee Loan

Finding: During the course of our audit, we noted that the Hospital Service District paid COBRA benefits for a newly hired employee in the amount of \$3,452 which is being repaid by this employee through employee deductions. Article VII, Section 14(A) of the Louisiana Constitution of 1974 provides that the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person.

Cause: Oversight

Recommendation: The Hospital Service District must comply with Article VII, Section 14 of the 1974 Louisiana Constitution. The Hospital Service District cannot loan or advance money to any employee for any reason. The District must request repayment of the loan as soon as possible.

Response: The Hospital Service District will comply with Article VII, Section 14 of the 1974 Louisiana Constitution in the future. The Hospital Service District will also request that the employee pay the remaining amount of the loan as soon as possible.

Questioned Costs: \$ -0-

2004-5 – Medical Office Building Lease

Finding: The Hospital Service District has a lease for the Medical Office Building, with a physician, which includes an adjustment provision to the original lease payment effective October 1, 1997 and annually thereafter. It has been discovered that the District has not billed the physician in accordance with the adjustment provision in the lease from October 1997 to September 2004, which amounted to \$8,197. The District has always billed and the physician has always paid the original lease payment amount.

Cause: Oversight

Recommendation: The Hospital Service District should seek legal counsel as to its rights under provisions of the lease in order to collect in accordance with the lease agreement.

Response: The Hospital Service District will seek legal counsel to identify what avenues are available to the District in collection of this additional lease payment amount.

Questioned Costs: \$ -0-

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004

Section II. Financial Statement Findings (continued)

2004-6 – Medicaid Community Care Monthly Fee, Clinic Office Supplies and Clinic Insurance Payment

Finding: The Hospital Service District began receiving Medicaid Community Care monthly fee payments for patients assigned to the clinic for dates of service March 2003 to May 2003. Effective June 2003, the Department of Health and Hospitals (DHH) changed the payee from the Hospital Service District to the employed clinic physician due to the fact that there was a discontinuance of the Clinic group provider number to a single individual provider number. From June 2003 to August 2004, it is our understanding that, the employed physician received all Medicaid Community Care monthly fee payments that were associated with the clinic. In accordance with the employed physician contract, "Physician agrees to assign to Hospital his right to bill for his services for or on behalf of Hospital and to endorse to Hospital all checks received by Physician in connection with his professional services." The total amount of these payments from June 2003 to August 2004 could not be obtained during the course of the audit because the District was not granted a release of this information from the employed physician. Therefore, only an estimate of the Medicaid Community Care monthly fee payments could be done. The District has estimated these payments to be \$2,700 per month for a total of \$40,500 for the period June 2003 to August 2004.

Effective September 2004, the employed clinic physician left the employment of the District to open a private practice. During the course of the audit, it was discovered that office supplies (patient file folders, dividers and labels) purchased by the Hospital Service District, for the clinic office, could not be located in the clinic. The District has estimated the cost of these office supplies by accumulating the purchases of these supplies from November 2003 to August 2004, which totals \$1,491.

It was also identified during the course of the audit that there was one payment in the amount of \$30.28 from an insurance company for a clinic patient bill that was paid directly to the employed physician. This payment has not been remitted to the District to satisfy this patient's bill.

Cause: Oversight

Recommendation: The Hospital Service District should seek legal counsel as to actions that might be taken in reference to the Medicaid Community Care monthly fee payments. The District should also account for the missing office supplies and an attempt should be made to recover the office supplies or the cost thereof. Controls should be implemented to prevent the likelihood of a reoccurrence in the future. The District should also resolve the unpaid amount on the clinic patient bill with the employed physician.

Response: The Hospital Service District will seek legal counsel, to advise in the matter pertaining to the Medicaid Community Care monthly fee payments. The Hospital Service District will make an accounting for the missing office supplies and will attempt to recover the office supplies or the cost of these missing supplies. Controls over supplies will be reviewed and appropriate changes made to eliminate the likelihood of a reoccurrence. The District will attempt to resolve the matter with the clinic patient bill.

Questioned Costs: \$ -0-

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004

Section II. Financial Statement Findings (continued)

2004-7 – Report Filing

Finding: The financial report for the year ending June 30, 2004, was not filed with the Legislative Auditor's office within six months after the close of the fiscal year as required by law.

Cause: Conversion to Critical Access Hospital and sick leave of Chief Financial Officer.

Recommendation: In the future, the Hospital Service District should submit the audit report within six months after the close of the fiscal year end.

Response: During the fiscal year, the Hospital Service District's Chief Financial Officer was out on sick leave for a month and the Hospital also converted to a Critical Access Hospital. These two circumstances were very time consuming and are not anticipated in the future, therefore, there should be no reason for future reports to be filed late to the Legislative Auditor's office.

Questioned Costs: \$ -0-

Section III. Federal Award Finding and Questioned Costs

The Hospital Service District does not have any federal awards.

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended June 30, 2004

Section I. Internal Control and Compliance Material to the Financial Statements

2003-1 – Fixed Asset Management System

Finding: We noted during the course of the audit that the Hospital Service District did not implement a proper fixed asset recordkeeping process as required by R.S. 24:515(B)(1).

Recommendation: The Hospital Service District must improve on the fixed asset recordkeeping as required by R.S. 24:515(B)(1). This can be accomplished by implementing a threshold for capitalization of fixed assets and starting a numbered tag system to keep track of where fixed assets are located in the facility.

Current Status: PARTIALLY RESOLVED - The Hospital Service District will implement a threshold for capitalization of fixed assets and is in the process of implementing a numbered tag system in order to keep track of the Hospital's fixed asset inventory.

2003-2 – Public Bid Law

Finding: The Hospital Service District did not comply with the public bid law (R.S. 38:2212) when entering into a capital lease in which the lease contained an option to purchase the leased equipment at a nominal price at the end of the lease term.

Recommendation: The Hospital Service District needs to comply with the public bid law (R.S. 38:2212) when entering into capital leases for equipment in the future.

Current Status: RESOLVED - The Hospital Service District has complied with the public bid law (R.S. 38:2212).

2003-3 – Leases

Finding: In accordance with R.S. 39:1410.60, all leases require approval from the State Bond Commission in which debt is incurred. The State Bond Commission does not consider leases of movables or installment purchases to be debt if the lease or installment purchase contains a non-appropriation clause, and does not contain an anti-substitution clause or penalty. The Hospital Service District entered into several capital and operating leases for movable equipment in the prior-year which did not comply with R.S. 39:1410.60, by containing non-appropriation clauses nor did the Hospital Service District receive approval from the State Bond Commission. We noted that all of the capital leases and all but three of the operating leases were amended to include a non-appropriation clause. The three operating leases that did not comply with R.S. 39:1410.60, were, as of this report date, still being reviewed by the lessor before a non-appropriation clause would be added to the contract.

Recommendation: The Hospital Service District needs to comply with R.S. 39:1410.60 when entering into leases or installment purchases for moveable equipment. The Hospital Service District should renegotiate the leases that it entered into in the prior-year, in order to include a non-appropriation clause and remove the penalty clause to comply with R.S. 39:1410.60.

Current Status: RESOLVED - The Hospital Service District has followed R.S. 39:1410.60 in the current year when entering into leases or installment purchases for moveable equipment and has also renegotiated the leases from prior-year in order to be in accordance with R.S. 39:1410.60.

ACADIA-ST. LANDRY HOSPITAL SERVICE DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)

Year Ended June 30, 2004

2003-4 – Prepayment of Paid Time Off (PTO)

Finding: During the course of our audit, we noted that on August 2, 2002, management paid an employed physician forty hours of PTO pay which represented a prepayment of PTO for the period of August 2002 to December 2002, which is a violation of Article VII, Section 14 of the 1974 Louisiana Constitution. Article VII, Section 14(A) of the Louisiana Constitution of 1974 provides that the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person.

Recommendation: The Hospital Service District must comply with Article VII, Section 14 of the 1974 Louisiana Constitution and or R.S. 14:138. The Hospital Service District cannot pay PTO in advance to any employee for any reason.

Current Status: RESOLVED - The Hospital Service District did not have any prepayments of PTO in the current period in compliance with Article VII, Section 14 of the 1974 Louisiana Constitution.

2003-5 – Transactions with Related Party

Finding: The Hospital Service District had transactions with two businesses in which two board members have a personal economic interest. R.S. 42:1112 prohibits transactions with a business in which an appointed member of the board has a personal substantial economic interest.

Recommendation: The Hospital Service District should cease transactions with the two businesses in which the board members have a personal economic interest.

Current Status: RESOLVED - The Hospital Service District has complied with R.S. 42:1112.

Section II. Internal Control and Compliance Material to Federal Awards

The prior year's report did not include any federal awards.

Section III. Management Letter

2003-6 – Approval of Discounts and Accounts Receivable Posting and Reconciliation Process

We noted that some discounts that were sampled did not have adequate authorizations approving such write-offs. We noted instances in which daily postings of cash receipts did not agree with daily deposits. We also noted that there were numerous errors in posting of these receipts.

We recommend that patient discounts be approved by management on a monthly basis to ensure that only approved amounts are written-off. We also recommend that at the end of each processing day, appropriate persons reconcile daily posting amounts to daily deposits. This process is important in determining amounts that were inaccurately posted and find posting errors in a timely manner. The Hospital Service District needs to improve the accuracy of posting of cash receipts..

Current Status: PARTIALLY RESOLVED – There were instances in which discounts did not have adequate authorizations approving such write-offs. The Hospital Service District will implement procedures in order to properly approve discounts. Procedures have been implemented to reconcile daily posting amount to daily deposits.

ACADIA-ST. LANDRY HOSPITAL

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05 JAN 31 AM 11:16

MANAGEMENTS CORRECTIVE ACTION PLAN

Year Ended June 30, 2004

Section I. Internal Control and Compliance Material to the Financial Statements

2004-1 – Fixed Asset Management System

Finding: We noted during the course of the audit that the Hospital Service District did not completely implement a proper fixed asset recordkeeping process as required by R.S. 24:515(B)(1).

Recommendation: The Hospital Service District must complete its numbered tag system to keep track of where fixed assets are located in the facility in order to have a proper fixed asset record keeping process as required by R.S. 24:515(B)(1).

Response: The Hospital Service District has started a numbered tag system in order to keep track of the Hospital's fixed asset inventory. The Hospital hopes to complete this process by the end of next year's audit.

Responsible party: Steven Leger, Maintenance

2004-2 – Deposits

Finding: During the course of the audit, it was discovered that a deposit for the clinic, in the amount of \$292, could not be located. It was also noted that an ad valorem tax check in the amount of \$9,573, was not deposited in a timely manner.

Recommendation: The Hospital Service District needs to improve its internal control process over the safeguarding of receipts and deposits. The internal controls associated with the transfer of the clinic daily receipts to the business office should include a signature process whereby an employee of both the clinic and the business verify that the clinic daily receipts were received by the business office for the specified amount. Also, internal controls over checks received through the mail, for various payments, and clinic daily receipts should be deposited in a timely manner.

Response: The Hospital Service District will work to improve the internal control process over the safeguarding of receipts and deposits. Effective August 31, 2004, the clinic operations ceased, thus eliminating daily receipts from the clinic. However, this process will be implemented on any current or future receipts that are collected outside of the business office. The Hospital Service District will also implement internal controls in which checks received through the mail, for various payments, and clinic daily receipts will be deposited in a timely manner.

Responsible party: Brenda Pourciau, Business Office Manager and Judy Young, Chief Financial Officer

2004-3 – Approval of Accounts Receivable Discounts

Finding: During the course of the audit, we noted that some accounts receivable discounts written-off did not have proper authorization by the appropriate level of management.

Recommendation: We recommend that accounts receivable discounts be approved by the appropriate level of management on a monthly basis to ensure that only approved amounts are written-off.

Response: The Hospital Service District will ensure that all discounts written-off are properly approved.

Responsible party: Brenda Pourciau, Business Office

ACADIA-ST. LANDRY HOSPITAL

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MANAGEMENTS CORRECTIVE ACTION PLAN

Year Ended June 30, 2004
(continued)

Section I. Internal Control and Compliance Material to the Financial Statements (continued)

2004-4 – Employee Loan

Finding: During the course of our audit, we noted that the Hospital Service District paid COBRA benefits for a newly hired employee in the amount of \$3,452 which is being repaid by this employee through employee deductions. Article VII, Section 14(A) of the Louisiana Constitution of 1974 provides that the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person.

Recommendation: The Hospital Service District must comply with Article VII, Section 14 of the 1974 Louisiana Constitution. The Hospital Service District cannot loan or advance money to any employee for any reason. The District must request repayment of the loan as soon as possible.

Response: The Hospital Service District will comply with Article VII, Section 14 of the 1974 Louisiana Constitution in the future. The Hospital Service District will also request that the employee pay the remaining amount of the loan as soon as possible.

Responsible party: Judy Young, Chief Financial Officer

2004-5 – Medical Office Building Lease

Finding: The Hospital Service District has a lease for the Medical Office Building, with a physician, which includes an adjustment provision to the original lease payment effective October 1, 1997 and annually thereafter. It has been discovered that the District has not billed the physician in accordance with the adjustment provision in the lease from October 1997 to September 2004, which amounted to \$8,197. The District has always billed and the physician has always paid the original lease payment amount.

Recommendation: The Hospital Service District should seek legal counsel as to its rights under provisions of the lease in order to collect in accordance with the lease agreement.

Response: The Hospital Service District will seek legal counsel to identify what avenues are available to the District in collection of this additional lease payment amount.

Responsible party: Peter Savoy, Administrator

ACADIA-ST. LANDRY HOSPITAL

810 SOUTH BROADWAY

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MANAGEMENTS CORRECTIVE ACTION PLAN

Year Ended June 30, 2004

(continued)

Section I. Internal Control and Compliance Material to the Financial Statements (continued)

2004-6 – Medicaid Community Care Monthly Fee, Clinic Office Supplies and Clinic Insurance Payment

Finding: The Hospital Service District began receiving Medicaid Community Care monthly fee payments for patients assigned to the clinic for dates of service March 2003 to May 2003. Effective June 2003, the Department of Health and Hospitals (DHH) changed the payee from the Hospital Service District to the employed clinic physician due to the fact that there was a discontinuance of the Clinic group provider number to a single individual provider number. From June 2003 to August 2004, it is our understanding that, the employed physician received all Medicaid Community Care monthly fee payments that were associated with the clinic. In accordance with the employed physician contract, "Physician agrees to assign to Hospital his right to bill for his services for or on behalf of Hospital and to endorse to Hospital all checks received by Physician in connection with his professional services." The total amount of these payments from June 2003 to August 2004 could not be obtained during the course of the audit because the District was not granted a release of this information from the employed physician. Therefore, only an estimate of the Medicaid Community Care monthly fee payments could be done. The District has estimated these payments to be \$2,700 per month for a total of \$40,500 for the period June 2003 to August 2004.

It was also discovered, that office supplies (patient file folders, dividers and labels) purchased by the Hospital Service District, for the clinic office, could not be located in the clinic. Effective September 2004, the employed clinic physician left the employment of the District to open a private practice. It is our understanding, based on discussion with Hospital personnel, that these supplies may be located at the physician's private office. The District has estimated the cost of these office supplies by accumulating purchases of these supplies from November 2003 to August 2004, which totals \$1,491.

It was also identified during the course of the audit that there was one payment in the amount of \$30.28 from an insurance company for a clinic patient bill that was paid directly to the employed physician. This payment has not been remitted to the District to satisfy this patient's bill.

Recommendation: The Hospital Service District should seek legal counsel as to actions that might be taken in reference to the Medicaid Community Care monthly fee payments. The District should also account for the missing office supplies and an attempt should be made to recover the office supplies or the cost thereof. Controls should be implemented to prevent the likelihood of a reoccurrence in the future. The District should also resolve the unpaid amount on the clinic patient bill with the employed physician.

Response: The Hospital Service District will seek legal counsel, to advise in the matter pertaining to the Medicaid Community Care monthly fee payments. The Hospital Service District will make an accounting for the missing office supplies and will attempt to recover the office supplies or the cost of these missing supplies. Controls over supplies will be reviewed and appropriate changes made to eliminate the likelihood of a reoccurrence. The District will attempt to resolve the matter with the clinic patient bill.

Responsible party: Peter Savoy, Administrator

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MANAGEMENTS CORRECTIVE ACTION PLAN

Year Ended June 30, 2004
(continued)

2004-7 – Report Filing

Finding: The financial report for the year ending June 30, 2004, was not filed with the Legislative Auditor's office within six months after the close of the fiscal year as required by law.

Recommendation: In the future, the Hospital Service District should submit the audit report within six months after the close of the fiscal year end.

Response: The Hospital Service District will seek legal counsel, to advise in the matter pertaining to the Medicaid Community Care monthly fee payments. The Hospital Service District will make an accounting for the missing office supplies and will attempt to recover the office supplies or the cost of these missing supplies. Controls over supplies will be reviewed and appropriate changes made to eliminate the likelihood of a reoccurrence. The District will attempt to resolve the matter with the clinic patient bill.

Responsible party: Judy Young, Chief Financial Officer

Section II: Internal Control and Compliance Material to Federal Awards

This year's report does not include any federal awards.

Section III: Management Letter

This year's report does not include a management letter.