

SOUTHEAST COMMUNITY HEALTH SYSTEMS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Southeast Community Health Systems
Zachary, LA

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Southeast Community Health Systems (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Southeast Community Health Systems as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Southeast Community Health Systems and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Southeast Community Health Systems' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Southeast Community Health Systems' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Southeast Community Health Systems' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The accompanying Schedule of Compensation, Benefits, and Other Payments to the Agency Head, and the Statewide Agreed Upon Procedures are not a required part of the financial statements, but are supplementary information required by Louisiana State Law. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. We have applied certain limited procedures, which are described in the

Independent Accounts' Report on Applying Agreed-Upon Procedures. However, we did not audit this information and, accordingly, express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2023, on our consideration of Southeast Community Health Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Southeast Community Health Systems's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southeast Community Health Systems' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Daigrepoint & Brian APAC". The signature is written in a cursive, flowing style.

Daigrepoint & Brian, APAC
Baton Rouge, LA
June 22, 2023

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022**

ASSETS

Current Assets

Cash	\$ 1,894,897
Patient receivables, net	665,007
Grants receivable	395,155
Inventory	114,217
Prepaid expenses	132,125
Other	26,384
Total Current Assets	<u>3,227,785</u>

Property and Equipment, net	8,907,487
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Other Assets

Goodwill	131,450
ROU asset, operating	458,279
Total Other Assets	<u>589,729</u>

Total Assets	<u><u>\$ 12,725,001</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 408,627
Accrued payroll	346,806
Due to IRS	390,782
Current portion of notes payable	95,354
Operating lease liability, current	47,096
Other current liabilities	25,212
Total Current Liabilities	<u>1,313,877</u>

Long Term Liabilities

Operating lease liability, net of current portion	411,183
Long term debt, net of current portion	1,702,356
Total Long Term Liabilities	<u>2,113,539</u>

Total Liabilities	3,427,416
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Net Assets Without Donor Restrictions	<u>9,297,585</u>
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Total Liabilities and Net Assets	<u><u>\$ 12,725,001</u></u>
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See accompanying notes and independent auditors' report.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2022**

REVENUES

Net patient revenue	\$ 5,979,148
Federal grants	5,417,160
Other grants	320,826
340B drug program	72,613
In-kind contributions	56,860
Other income	119,572
	<hr/>
Total Revenues	11,966,179

EXPENSES

Program services	10,615,858
Management and general	2,521,510
	<hr/>
Total Expenses	13,137,368

CHANGE IN NET ASSETS

	(1,171,189)
Net assets - beginning of year	10,468,774
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Net assets - end of year	\$ 9,297,585
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See accompanying notes and independent auditors' report.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Program Services	Management & General	Total
Salaries and related expenses			
Salaries	\$ 6,240,329	\$ 636,342	\$ 6,876,671
Employee fringe benefits	499,825	190,398	690,223
Payroll taxes	472,385	47,582	519,967
Total salaries and related expenses	7,212,539	874,322	8,086,861
General expenses			
Advertising	-	81,137	81,137
Bad debts	662,934	-	662,934
Bank charges	-	103,770	103,770
Conference and meetings	3,437	12,993	16,430
Depreciation	482,564	198,241	680,805
Dues and subscriptions	-	2,100	2,100
Insurance	89,185	89,185	178,370
Interest	-	84,663	84,663
Miscellaneous	-	7,855	7,855
Postage	-	3,522	3,522
Professional fees	742,630	425,468	1,168,098
Rent	-	129,513	129,513
Repairs and maintenance	98,297	166,688	264,985
Supplies	1,160,375	90,066	1,250,441
Taxes and licenses	-	7,207	7,207
Telephone	41,627	88,858	130,485
Travel	48,560	82,212	130,772
Utilities	73,710	73,710	147,420
Total general expenses	3,403,319	1,647,188	5,050,507
Total expenses	<u>\$ 10,615,858</u>	<u>\$ 2,521,510</u>	<u>\$ 13,137,368</u>

See accompanying notes and independent auditors' report.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (1,171,189)
<u>Adjustments to reconcile net expenses over revenues to net cash provided by operating activities:</u>	
Depreciation	680,804
Bad debt expense	662,934
Write off of loan origination costs	40,781
Decrease in patient receivables, net	3,503
Decrease in grant receivables	84,330
Increase in prepaid expenses	(5,679)
Decrease in inventory	81,190
Increase in accounts payable	157,993
Increase in accrued payroll	77,479
Increase in due to IRS	390,782
Decrease in other current liabilities	(30,491)
Total adjustments	<u>2,143,626</u>
Net cash provided by operating activities	972,437

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of fixed assets	<u>(569,979)</u>
Net cash used in investing activities	(569,979)

CASH FLOWS FROM FINANCING ACTIVITIES

Acquisition of long term debt	1,878,845
Principal payments on long term debt	<u>(1,920,748)</u>
Net cash used in financing activities	<u>(41,903)</u>

INCREASE IN CASH 360,555

CASH, BEGINNING OF YEAR 1,534,342

CASH, END OF YEAR \$ 1,894,897

SUPPLEMENTAL DISCLOSURE

Cash paid for interest during the year \$ 84,663

See accompanying notes and independent auditors' report.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

1. Summary of Significant Accounting Policies

Organization

Southeast Community Health Systems (SCHS) is a Federally Qualified Health Center that is federally and state funded to provide primary and preventative health care in communities across southeast Louisiana. SCHS operates 7 clinics in Zachary, Greensburg, Kentwood, Hammond, Independence, and Baton Rouge that offer medical, dental, OB/GYN, podiatry and behavioral health services, which include mental health counseling and substance abuse treatment and services. SCHS also operates 13 school-based health centers and two mobile medical units that covers the organization's service area of East Baton Rouge, Livingston, St. Helena, and Tangipahoa parishes.

The mission of SCHS is to provide quality, affordable healthcare to all patients in underserved areas, and to improve the health and wellness of the communities we serve.

Basis of Accounting

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

Revenues

Grant and Contracts

SCHS receives a significant portion of its revenue from Federal agencies. SCHS recognizes contract revenue (up to contract ceiling) from its contracts either on a pro-rata basis over the contract life or to the extent of expenses. Revenue recognition depends on the contract. Any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by SCHS with the terms of the grant/contract.

The majority of the Federal funds come from the United States Department of Health and Human Services (DHHS) through the Health Resources and Services Administration as part of the Consolidated Health Centers Program (CHCP). Compliance is required based on the terms and conditions of the grant agreements, and DHHS may, at its discretion, request reimbursement for expense or the return of funds not expended, or both, based on non-compliance with the these terms.

Net Patient Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers (including Medicare and Medicaid), and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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. It is reasonably possible that these estimates could change in the near term.

The Center has a sliding fee plan for patients without any third party payers and whose income level fall within the sliding fee guidelines. The sliding fee plan is based on the federal poverty guidelines. The performance obligations as it relates to the fees for medical and other services are satisfied at the time the services are rendered.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

1. Summary of Significant Accounting Policies (continued)

Revenues (continued)

340B Drug Program

SCHS is registered as an eligible entity in the 340B Drug Pricing Program, administered by HHS/HRSA's Office of Pharmacy Affairs. The medications are available for purchase at a discounted price, resulting in net revenue to the entity based on these savings. Revenues from the 340B drug program are recognized when the performance obligations are met, which are satisfied as the prescriptions are provided to customers.

In-Kind

The value of in-kind contributions to SCHS are recognized at fair market value of the benefit received. SCHS's policy is to utilize in-kind contributions to carry out its mission.

SCHS does not have any activity that would give rise to variable consideration.

Net Assets

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board's (FASB) Accounting Standard Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, SCHS is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and are available for use at the organization's discretion.

Net Assets With Donor Restrictions

Net assets subject to donor-imposed restrictions that may or will be met by either actions of the organization or the passage of time. Once the restrictions are met, they are reclassified to net assets without donor restrictions. SCHS does not have any net assets with donor restrictions for the year ended December 31, 2022.

Cash

Cash consists of bank deposits held with financial institutions.

Subsequent Events

In preparing these financial statements SCHS has evaluated events and transactions for potential recognition or disclosure through the date of the independent auditors' report, which is June 22, 2023.

Goodwill

Goodwill represents the excess of the cost of purchased clinics and physician practices over the fair value of the net assets at the date of acquisition. In accordance with generally accepted accounting principles goodwill having indefinite lives will no longer be amortized. Instead, goodwill is tested annually for impairment. During the year there were no additions to goodwill.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

1. Summary of Significant Accounting Policies (continued)

Inventories of Supplies

Inventories of office supplies, medical supplies, and drugs are stated at the lower of cost or market.

Patient Receivables and Allowance for Uncollectible Accounts

SCHS extends credit to patients, as well as third party intermediaries. Patient receivables are generally carried at the original billed amount less contractual adjustments and the allowance for uncollectible accounts. This allowance is based on management's estimates, historical experience and a review of all outstanding amounts on an ongoing basis. For the year ended December 31, 2022 the allowance for doubtful accounts was \$2,552,331. Patient receivables are written-off when deemed uncollectible and recoveries, if any, are recorded when received.

Functional Expenses

SCHS allocates its expenses on a functional basis between program service or management and general. Expenses that can be identified with a specific program are allocated directly according to their natural expense classification. Other expenses are allocated between programs and supporting services based on management's best estimate of time, percentage, or square footage used.

Use of Estimates

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

Income Taxes

SCHS accounts for income taxes in accordance with FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*. Management believes it has no material uncertain tax positions and, accordingly has not recognized a liability for any unrecognized tax benefits.

SCHS is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization files Form 990 in the U.S. federal jurisdiction. The Organization is no longer subject to federal information return examinations by tax authorities beyond three years from the filing of those returns.

New Accounting Standard

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases* ("Topic 842"), and all subsequent amendments. The ASU is intended to increase transparency and comparability of accounting for lease transactions. For all leases with terms greater than 12 months, the new guidance requires lessees to recognize right-of-use assets (ROU) and corresponding lease liabilities on the balance sheet and to disclose qualitative and quantitative information about lease transactions. The new standard maintains a distinction between finance and operating leases.

SCHS elected to adopt these ASUs effective January 1, 2022 and utilized all of the available practical expedients. The adoption had a material impact on the Organization's statement of financial position but did not have a material impact on the statement of activities. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases in the amount of \$458,279. The adoption of this standard did not result in a restatement of any opening balances.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

1. Summary of Significant Accounting Policies (continued)

Advertising Costs

The Center expenses its advertising costs as they are incurred. Total advertising costs for the year ended December 31, 2022 was \$81,137.

2. Retirement Plan

SCHS sponsors a 403 (b) tax-sheltered annuity plan, which covers substantially all of its employees who meet eligibility requirements. Eligible employees are allowed to contribute, on a tax-deferred basis, a portion of their compensation, up to federally designated limits. SCHS matches 100% of employee contributions up to a maximum of 5% of the employee’s annual salary. Employees are vested in the plan at 25% after one year, 50% after two years, 75% after three years and 100% after four years. The Center’s contributions to the plan for the year ended December 31, 2022 amounted to \$164,801.

3. Concentrations

SCHS receives approximately 45% of its operating revenue from the U.S. Department of Health and Human Services with 74% of the grants receivable being related to this source of revenue.

Net patient revenue represents approximately 50% of total revenue. SCHS grants credit without collateral to its patients, most of whom are local residents that may or may not be insured by a third-party payer. Revenue and receivables related to net patient revenue are as follows.

	<u>Revenue</u>	<u>Receivables</u>
Medicare	15%	32%
Medicaid	64%	28%
Private pay and other	21%	40%

Financial instruments, which potentially subject SCHS to concentrations of credit risk consist of cash deposits held with local banks. Cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. SCHS maintains cash in local and regional financial institutions which often exceed the FDIC limits. Management does not believe that it is exposed to any significant credit risk on uninsured amounts.

4. Economic Dependency

SCHS receives a significant portion of its revenue from funds provided by the U.S. Department of Health and Human Services Community Health Center Program. All funds received under the grant are federal funds and are appropriated each year by the federal government. If significant budget cuts are made at the federal level, the amount of funds received by SCHS could be reduced by an amount that could adversely impact its operations. Management is not aware of any actions that have been taken or are proposed to be taken by the federal government that will adversely impact the SCHS grant for the coming fiscal year.

5. Reclassification

Certain amounts included in the prior year financial statements have been reclassified to confirm to the current year presentation.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

6. Property and Equipment

Property and equipment is presented in the financial statements at cost less allowances for depreciation. Depreciation is computed using the straight-line method and is provided over the estimated useful lives of the assets which ranges from 5 to 39 years.

SCHS receives funding under Section 330 of the Public Health Services Act with various restrictions placed on items obtained with these funds. According to the Public Health Service grants Policy Statement, title to real and tangible property shall rest in the grantee upon acquisition, subject to the accountability requirements and the Public Health Service’s right to transfer title.

The following is a summary of property and equipment at December 31, 2022:

Land	\$ 851,224
Construction in progress	63,981
Buildings	9,345,278
Furniture and fixtures	287,184
Leasehold improvements	13,777
Machinery and equipment	3,118,053
Software	54,637
Vehicles	884,612
	<u>14,618,746</u>
Less: Accumulated depreciation	<u>(5,711,259)</u>
	<u>\$ 8,907,487</u>
Depreciation expense	<u>\$ 680,805</u>

7. Commitments and Contingencies

Funding

SCHS receives federal and state funding for specific purposes that are subject to audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant.

It is the opinion of management that its compliance with the terms of the grant will result in negligible, if any, disallowed costs in the future. No provision has been recorded in the accompanying financial statements for such contingencies.

Risk Management

SCHS is involved in various claims and legal actions in the normal course of business. SCHS has medical malpractice insurance that is covered by the Federal Tort Claims Act. After consultation with legal counsel, management estimates that any pending legal matters will be resolved without material adverse effect on the financial position of SCHS.

8. Compensated Absences

Employees of SCHS had \$115,098 vested in accrued vacation pay at December 31, 2022.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

9. Liquidity and Availability of Financial Assets

The following reflects SCHS's financial assets available within one year of the statement of financial position date.

Financial Assets at Year End:

Cash	\$ 1,894,897
Patient receivables, net	665,007
Grant receivables	395,155
Financial Assets Available for General Expenditures	<u>\$ 2,955,059</u>

As part of SCHS's liquidity management cash is kept in various checking and savings accounts that can be accessed to meet daily needs of the organization.

10. Notes Payable

A note dated December 2010, with a face balance of \$3,650,750 was reported net of an unamortized issuance cost of \$86,193. This note was originally due in 120 monthly installments. Each installment included a principal portion of \$15,212 plus monthly interest at a variable rate. The amortization of the debt issuance cost was also accounted for as interest expense. The note was secured by buildings, land, and all deposit accounts. This note was refinanced on January 7, 2022 in the amount of \$1,878,845 with a fixed interest rate of 4.35%. Payments consist of monthly installments of \$14,302 and will mature on January 15, 2032, at which time a balloon payment of all outstanding amounts will become due. The loan will continue to be secured by the real estate for which the loan was acquired.

Long-term debt obligations mature in years ended December 31 are as follows:

2023	\$ 95,354
2024	99,586
2025	104,005
2026	108,621
2027	113,441
Thereafter	1,276,703
	<u>\$ 1,797,710</u>

Total interest charged to expense for the year ended December 31, 2022 was \$84,663.

11. In-Kind Contributions

The Company receives donated medical supplies from various entities, which is recorded as in-kind contributions on the Statement of Activities. During the year, \$56,860 was recorded to reflect the amount of medical supplies received.

All In-kind contributions received during the year are considered without donor restrictions.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

12. Leases

SCHS entered into an operating lease agreement on August 23, 2021 to operate a women's health clinic for three years with options to renew. \$5,508 payments will be made on a monthly basis until September 1, 2024. Then payments will increase to \$5,784 a month for three years. The final option to renew will be effective on September 1, 2027 and will require monthly payments of \$6,073 for an additional three years. Management has determined that these renewal options will more likely than not be exercised. While the lease agreement does not state an explicit rate, the discount rate was determined using financing arrangements available to SCHS at the time the agreement was entered into which was 4.35%. SCHS recognized \$60,592 as lease expense related to this agreement for the year ended December 31, 2022. The ROU assets and lease liabilities related to this operating lease as of December 31, 2022 were \$458,279. \$47,329 of the operating lease liability will mature within one year.

Future maturities for of the operating lease liability as of the year ended December 31, 2022 is as follows:

2023	\$ 66,100
2024	66,926
2025	69,405
2026	69,405
2027	70,273
Thereafter	200,406
Total lease payments	<u>542,515</u>
Less: present value discount	<u>(84,236)</u>
Total lease liabilities	<u><u>\$ 458,279</u></u>

The following information contains the weighted average remaining lease term in years and the weighted average discount rate for the operating leases of SCHS as of December 31, 2022.

	Discount	
	Rate	Years
Operating	<u>4.35%</u>	<u>7.75</u>

SCHS has elected to apply the short-term lease exception to all leases with a term of one year or less. SCHS's short-term lease costs do not reflect the ongoing short-term lease commitments as SCHS entered into several short-term lease commitments. Short-term and other costs related to leases were approximately \$70,000 for the year ended December 31, 2022.

Total lease expense for the year end December 31, 2022 was \$129,513.

13. Due to IRS

During fiscal year 2022, SCHS received a remittance from the IRS stemming from a duplicate payroll tax return refund. The duplicate payment was received due to SCHS changing payroll providers late in the previous fiscal year and both providers filing a 941 payroll tax return for the same quarter. SCHS is currently in contact with the IRS to determine how the remittance should be paid back. The balance as of December 31, 2022 was \$390,782.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022**

Federal Grantor/Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditure
U.S. Department of Health and Human Services			
Health Center Program	93.224	N/A	\$ 4,141,797
Health Center Program - ARP H8F	93.224	N/A	1,207,586
Provider Relief Fund			
Period 4	93.498	N/A	<u>258,727</u>
Total Provider Relief Fund			<u>258,727</u>
Total U.S. Department of Health and Human Services			<u>5,608,110</u>
Total Expenditures of Federal Awards			<u><u>\$ 5,608,110</u></u>

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022**

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Southeast Community Health Systems (SCHS) under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of SCHS, it is not intended to and does not present the financial position, changes in net assets, or cash flows of SCHS.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

SCHS has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

4. Provider Relief Fund

The amount reported on the Schedule for the Provider Relief Fund is based upon the December 31, 2022 Provider Relief Fund report submitted to the HHS. This reporting method is different than those required by general accepted accounting principles. Therefore, the total amounts reported on the Schedule do not coincide with the amounts reported on the face of the Statement of Activities and Changes in Net Assets.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
SCHEDULE OF COMPENSATION, BENEFITS, AND
OTHER PAYMENTS TO CEO FROM PUBLIC FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022**

Chief Executive Officer: Alecia Cyprian, Ph.D.

No compensation, benefits, or other payments paid from public funds



INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Southeast Community Health Systems
Zachary, LA

We have audited, in accordance with the 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, the financial statements of Southeast Community Health Systems (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 22, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southeast Community Health Systems’ internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southeast Community Health Systems’ internal control. Accordingly, we do not express an opinion on the effectiveness of Southeast Community Health Systems’ internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Community Health Systems’ financial statements are free from material misstatement, we performed tests of its compliance with certain provisions

of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Daigrepont & Brian APAC". The signature is written in a cursive, flowing style.

Daigrepont & Brian, APAC
Baton Rouge, LA
June 22, 2023



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

To the Board of Directors
Southeast Community Health Systems
Zachary, LA

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Southeast Community Health Systems’s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Southeast Community Health Systems’ major federal programs for the year ended December 31, 2022. Southeast Community Health Systems’ major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, Southeast Community Health Systems complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Southeast Community Health Systems and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Southeast Community Health Systems’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Southeast Community Health Systems’ federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Southeast Community Health Systems' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Southeast Community Health Systems' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Southeast Community Health Systems' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Southeast Community Health Systems' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Southeast Community Health Systems's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However,

material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Daigrepoint & Brian APAC

Daigrepoint & Brian, APAC
Baton Rouge, LA
June 22, 2023

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

We have audited the financial statements of Southeast Community Health Systems, as of December 31, 2022, and for the year then ended, and have issued our report thereon dated June 22, 2023. 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 and the provisions of the Uniform Guidance. Our audit of the financial statements as of December 31, 2022 resulted in an unmodified opinion.

Summary of Auditors' Reports

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

Internal Control			
Material Weaknesses	Yes	_____	No <u> X </u>
Significant Deficiencies	Yes	_____	No <u> X </u>
Compliance			
Compliance Material to Financial Statements	Yes	_____	No <u> X </u>

B. Federal Awards

Internal Control			
Material Weaknesses	Yes	_____	No <u> X </u>
Significant Deficiencies	Yes	_____	No <u> X </u>
Type of Opinion on Compliance for Major Programs	<u>Unmodified</u>		
Are there findings required to be reported in accordance with the Uniform Guidance	Yes	_____	No <u> X </u>

C. Identification of Major Programs

CFDA Number(s)	Name of Federal Program or Cluster
93.224	Dept. of Health and Human Services - Health Center Program
Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 750,000</u>
Is the auditee a 'low risk' auditee as defined by the Uniform Guidance	Yes <u> X </u> No _____

Findings - Financial Statement Audit

There are no findings for the year ended December 31, 2022.

Questioned Costs

There are no questioned costs for the year ended December 31, 2022.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Summary of Prior Audit Findings

There were no prior year audit findings or questioned costs.



INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors
Southeast Community Health Systems
and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below on the control and compliance (C/C) areas identified in the Louisiana Legislative Auditor's (LLA's) Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2022 through December 31, 2022. Southeast Community Health Systems's management is responsible for those C/C areas identified in the SAUPs.

Southeast Community Health Systems has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the engagement, which is to perform specified procedures on the C/C areas identified in LLA's SAUPs for the fiscal period January 1, 2022 through December 31, 2022. Additionally, LLA has agreed to and acknowledged that the procedures performed are appropriate for its purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe whether they address each of the following categories and subcategories if applicable to public funds and the entity's operations:
 - a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.
 - b) ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the Public Bid Law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) ***Disbursements***, including processing, reviewing, and approving.
 - d) ***Receipts/Collections***, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

- e) **Payroll/Personnel**, including (1) payroll processing, (2) reviewing and approving time and attendance records, including leave and overtime worked, and (3) approval process for employee(s) rate of pay or approval and maintenance of pay rate schedules.
- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).
- h) **Travel and Expense Reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute (R.S.) 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) a requirement that documentation is maintained to demonstrate that all employees and officials were notified of any changes to the entity's ethics policy.
- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.
- k) **Information Technology Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.
- l) **Sexual Harassment**, including R.S. 42:342-344 requirements for (1) agency responsibilities and prohibitions, (2) annual employee training, and (3) annual reporting.

Results: The organization's policies and procedures address each of the categories noted above as applicable for a nonprofit organization.

Board or Finance Committee

2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:
 - a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.
 - b) For those entities reporting on the governmental accounting model, observe whether the minutes referenced or included monthly budget-to-actual comparisons on the general fund, quarterly budget-to-actual, at a minimum, on proprietary funds, and semi-annual budget-to-actual, at a minimum, on all special revenue funds. *Alternately, for those entities reporting on the nonprofit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.*
 - c) For governmental entities, obtain the prior year audit report and observe the unassigned fund balance in the general fund. If the general fund had a negative ending unassigned fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period

referenced or included a formal plan to eliminate the negative unassigned fund balance in the general fund.

- d) Observe whether the board/finance committee received written updates of the progress of resolving audit finding(s), according to management's corrective action plan at each meeting until the findings are considered fully resolved.

Results: No exceptions noted as a result of applying this procedure.

Bank Reconciliations

3. Obtain a listing of entity bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:
 - a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated or electronically logged);
 - b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and
 - c) Management has documentation reflecting it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Results: No exceptions noted as a result of applying this procedure.

Collections (excluding electronic funds transfers)

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).
5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e., 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:
 - a) Employees responsible for cash collections do not share cash drawers/registers.
 - b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g., pre-numbered receipts) to the deposit.
 - c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.
 - d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, are not responsible for collecting cash, unless another employee/official verifies the reconciliation.

6. Obtain from management a copy of the bond or insurance policy for theft covering all employees who have access to cash. Observe the bond or insurance policy for theft was enforced during the fiscal period.
7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:
 - a) Observe that receipts are sequentially pre-numbered.
 - b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
 - c) Trace the deposit slip total to the actual deposit per the bank statement.
 - d) Observe the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100 and the cash is stored securely in a locked safe or drawer).
 - e) Trace the actual deposit per the bank statement to the general ledger.

Results: No exceptions noted as a result of applying this procedure.

Non-Payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).
9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:
 - a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.
 - b) At least two employees are involved in processing and approving payments to vendors.
 - c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.
 - d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.
 - e) Only employees/officials authorized to sign checks approve the electronic disbursement (release) of funds, whether through automated clearinghouse (ACH), electronic funds transfer (ETF), wire transfer, or some other electronic means.

For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction, and:

- a) Observe whether the disbursement matched the related original itemized invoice and supporting documentation indicates deliverables included on the invoice were received by the entity.

- b) Observe whether the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

Results: No exceptions noted as a result of applying this procedure.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

- 10. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.
- 11. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:
 - a) Observe whether there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) were reviewed and approved, in writing (or electronically approved), by someone other than the authorized card holder.
 - b) Observe that finance charges and late fees were not assessed on the selected statements.
- 12. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e., each card should have 10 transactions subject to testing). For each transaction, observe it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only). For missing receipts, the practitioner should describe the nature of the transaction and note whether management had a compensating control to address missing receipts, such as a "missing receipt statement" that is subject to increased scrutiny.

Results: No exceptions noted as a result of applying this procedure.

Travel and Travel-Related Expense Reimbursements (excluding card transactions)

- 13. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:
 - a) If reimbursed using a per diem, observe the approved reimbursement rate is no more than those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).
 - b) If reimbursed using actual costs, observe the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.
 - c) Observe each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).
 - d) Observe each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Results: No exceptions noted as a result of applying this procedure.

Contracts

14. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:
- a) Observe whether the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.
 - b) Observe whether the contract was approved by the governing body/board, if required by policy or law (e.g., Lawrason Act, Home Rule Charter).
 - c) If the contract was amended (e.g., change order), observe the original contract terms provided for such an amendment and that amendments were made in compliance with the contract terms (e.g., if approval is required for any amendment, was approval documented).
 - d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe the invoice and related payment agreed to the terms and conditions of the contract.

Results: No exceptions noted as a result of applying this procedure.

Payroll and Personnel

15. Obtain a listing of employees and officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees or officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.
16. Randomly select one pay period during the fiscal period. For the 5 employees or officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:
- a) Observe all selected employees or officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). Observe whether supervisors approved the attendance and leave of the selected employees or officials.
 - b) Observe any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.
 - c) Observe the rate paid to the employees or officials agree to the authorized salary/pay rate found within the personnel file.
17. Obtain a listing of those employees or officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees or officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations and the entity's policy on termination payments. Agree the hours to the employee or officials' cumulative leave records, agree the pay rates to the employee or officials' authorized pay rates in the employee or officials' personnel files, and agree the termination payment to entity policy.
18. Obtain management's representation that employer and employee portions of third-party payroll related amounts (e.g., payroll taxes, retirement contributions, health insurance premiums, garnishments, workers' compensation premiums, etc.) have been paid, and any associated forms have been filed, by required deadlines.

Results: No exceptions noted as a result of applying this procedure.

Ethics

19. Using the 5 randomly selected employees/officials from procedure #16 under “Payroll and Personnel” above, obtain ethics documentation from management, and:
 - a. Observe whether the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.
 - b. Observe whether the entity maintains documentation which demonstrates each employee and official were notified of any changes to the entity’s ethics policy during the fiscal period, as applicable.
20. Inquire and/or observe whether the agency has appointed an ethics designee as required by R.S. 42:1170.

Results: Southeast Community Health Systems is a nonprofit organization so this procedure does not apply.

Debt Service

21. Obtain a listing of bonds/notes and other debt instruments issued during the fiscal period and management’s representation that the listing is complete. Select all debt instruments on the listing, obtain supporting documentation, and observe State Bond Commission approval was obtained for each debt instrument issued.
22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management’s representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

Results: Southeast Community Health Systems is a nonprofit organization so this procedure does not apply.

Fraud Notice

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management’s representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.
24. Observe the entity has posted, on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

Results: No exceptions noted as a result of applying this procedure.

Information Technology Disaster Recovery/Business Continuity

25. Perform the following procedures, verbally discuss the results with management, and report “We performed the procedure and discussed the results with management.”
 - a) Obtain and inspect the entity’s most recent documentation that it has backed up its critical data (if no written documentation, inquire of personnel responsible for backing up critical data) and observe evidence that such backup (a) occurred within the past week, (b) was not stored on the government’s local server or network, and (c) was encrypted.

- b) Obtain and inspect the entity's most recent documentation that it has tested/verified that its backups can be restored (if no written documentation, inquire of personnel responsible for testing/verifying backup restoration) and observe evidence that the test/verification was successfully performed within the past 3 months.
 - c) Obtain a listing of the entity's computers currently in use and their related locations, and management's representation that the listing is complete. Randomly select 5 computers and observe while management demonstrates that the selected computers have current and active antivirus software and that the operating system and accounting system software in use are currently supported by the vendor.
26. Randomly select 5 terminated employees (or all terminated employees if less than 5) using the list of terminated employees previously obtained. Observe evidence that the selected terminated employees have been removed or disabled from the network.

Results: We performed the procedures and discussed the results with management.

Sexual Harassment

- 27. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above, obtain sexual harassment training documentation from management, and observe the documentation demonstrates each employee/official completed at least one hour of sexual harassment training during the calendar year.
- 28. Observe the entity has posted its sexual harassment policy and complaint procedure on its website (or in a conspicuous location on the entity's premises if the entity does not have a website).
- 29. Obtain the entity's annual sexual harassment report for the current fiscal period, observe that the report was dated on or before February 1, and observe it includes the applicable requirements of R.S. 42:344:
 - a) Number and percentage of public servants in the agency who have completed the training requirements;
 - b) Number of sexual harassment complaints received by the agency;
 - c) Number of complaints which resulted in a finding that sexual harassment occurred;
 - d) Number of complaints in which the finding of sexual harassment resulted in discipline or corrective action; and
 - e) Amount of time it took to resolve each complaint.

Results: Southeast Community Health Systems is a nonprofit organization so this procedure does not apply.

We were engaged by Southeast Community Health Systems to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of Southeast Community Health Systems and to meet our other ethical

responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

Daigrepoint & Brian APAC

Daigrepoint & Brian, APAC
Baton Rouge, LA
June 22, 2023