

**MOREHOUSE COMMUNITY  
MEDICAL CENTERS, INC.  
Bastrop, Louisiana**

**Financial and Compliance Report  
July 31, 2017**

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Statements of Functional Expenses	6
Notes to Financial Statements	7 - 16
Supplementary Information	
Schedule of Expenditures of Federal Awards	17
Schedule of Compensation, Benefits and Other Payments	18
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 <i>Government Auditing Standards</i>	19 - 20
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	21 - 22
Schedule of Findings and Questioned Cost	23 - 24
Summary Schedule of Prior Year Findings and Questioned Costs	25

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Morehouse Community Medical Centers, Inc.  
Bastrop, Louisiana

### Report on the Financial Statements

I have audited the accompanying statements of Morehouse Community Medical Centers, Inc., (a non-profit organization), which comprise the statement of financial position as of July 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Board of Directors  
Morehouse Community Medical Centers, Inc.  
Bastrop, Louisiana

## Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morehouse Community Medical Centers, Inc. as of July 31, 2017, 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.

## Other Matters

### *Other Information*

My 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the Schedule of Compensation, Benefits and Other Payments, 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 my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 5, 2018, on my consideration of Morehouse Community Medical Centers, Inc.'s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Morehouse Community Medical Centers, Inc.'s internal control over financial reporting and compliance.

Steven M. DeRouen & Associates

Lake Charles, Louisiana  
January 5, 2018

**MOREHOUSE COMMUNITY HEALTH CENTERS, INC.**  
**Bastrop, Louisiana**  
**Statement of Financial Position**  
**As of July 31, 2017**

<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$	4,174,216
Patient accounts receivable, net		1,551,992
Grant receivable		15,686
Other receivable		5,053
Prepaid expenses		101,158
Total Current Assets		<u>5,848,105</u>
<b>Property, Plant and Equipment</b>		
Buildings		1,266,598
Furniture and equipment		421,238
Vehicles		374,064
		<u>2,061,900</u>
Less accumulated depreciation		(694,599)
		<u>1,367,301</u>
Land		116,079
Net Property, Plant and Equipment		<u>1,483,380</u>
<b>Other Assets</b>		
Certificates of deposit investment		903,623
Deposits		5,020
Total Other Assets		<u>908,643</u>
Total Assets	\$	<u>8,240,128</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$	1,803,554
Accrued payroll and related liabilities		288,384
Deferred revenue		15,978
Current portion of notes payable		12,000
Total Current liabilities		<u>2,119,916</u>
<b>Long Term Liabilities</b>		
Notes payable - net of current portion		12,000
Total Long Term Liabilities		<u>12,000</u>
Total Liabilities		<u>2,131,916</u>
<b>Net Assets</b>		
Unrestricted net assets		<u>6,108,212</u>
Total Liabilities and Net Assets	\$	<u>8,240,128</u>

See accompanying notes to the financial statements

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Statement of Activities**  
**For the Year Ended July 31, 2017**

**Revenue and Support**

Revenue:

Gross patient service revenue	\$ 6,337,611
Less: contractual allowances and discounts	(1,896,925)
	4,440,686
Less: provision for uncollectible accounts	(25,743)
Net patient service revenue	4,414,943
340 B Program Income	1,918,628

Total Revenue	6,333,571
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Support:

Grant awards	2,435,537
Interest income	17,474
Unrealized loss on investments	(6,716)
Other income	89,483
	2,535,778

Total Support	2,535,778
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Total Revenue and Support	8,869,349
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**Expenses**

Program services	4,375,924
General and administrative	1,979,130
	6,355,054

Total Expenses	6,355,054
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Change in Net Assets - Unrestricted (Revenues over Expenses)	2,514,295
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Unrestricted Net Assets - Beginning of Year	3,593,917
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Unrestricted Net Assets - End of Year	\$ 6,108,212
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**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Statement of Cash Flows**  
**For the Year Ended July 31, 2017**

**Cash Flows From Operating Activities**

Change in net assets	\$	2,514,295
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		146,309
Changes in operating assets and liabilities:		
Change in allowance for doubtful accounts		(52,185)
(Increase) decrease in accounts receivable		(1,287,357)
(Increase) decrease in grant receivable		637
(Increase) decrease in prepaid expenses		(41,045)
(Increase) decrease in other receivables		(5,053)
Increase (decrease) in accounts payable		1,768,924
Increase (decrease) in accrued payroll and related liabilities		64,590
Increase (decrease) in deferred revenue		15,978

Net Cash Provided (Used) by Operating Activities		3,125,093
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**Cash Flows From Investing Activities**

Proceeds from disposition and maturity of investments		106,716
Purchase of certificate of deposit		(101,203)
Fixed asset acquisitions		(252,366)

Net Cash Provided (Used) by Investing Activities		(246,853)
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**Cash Flows From Financing Activities**

Principal payments on long-term debt		(12,000)
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Net Cash Provided (Used) by Financing Activities		(12,000)
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Net Increase in Cash and Cash Equivalents		2,866,240
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Cash and Cash Equivalents - Beginning of Year		1,307,976
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Cash and Cash Equivalents - End of Year	\$	4,174,216
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**Supplemental Disclosure of Cash Flow Information:**

Interest paid	\$	-
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**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Statement of Functional Expenses**  
**For the Year Ended July 31, 2017**

	<u>Program Services</u>	<u>Supporting Services General and Administrative</u>	<u>Total</u>
Salaries	\$ 2,440,382	\$ 1,256,798	\$ 3,697,180
Fringe benefits	351,785	173,267	525,052
Payroll taxes	171,887	84,661	256,548
Consultants and contractual services	128,472	10,911	139,383
Supplies	277,602	203,775	481,377
Dues and subscriptions	40,154	7,648	47,802
Maintenance and repairs	435,243	82,903	518,146
Telephone	55,041	10,484	65,525
Postage	6,059	1,154	7,213
Printing	5,603	1,067	6,670
Insurance	38,925	7,414	46,339
Travel and seminars	37,010	89,498	126,508
Occupancy	28,526	5,433	33,959
Rent	26,477	5,043	31,520
Legal and professional	68,809	13,106	81,915
Recruitment	4,147	880	5,027
Miscellaneous	8,803	1,677	10,480
Outreach, advertising and sponsorships	128,101	-	128,101
	<u>4,253,024</u>	<u>1,955,721</u>	<u>6,208,745</u>
Total expenses before depreciation			
Depreciation	<u>122,900</u>	<u>23,409</u>	<u>146,309</u>
Total expenses	<u>\$ 4,375,924</u>	<u>\$ 1,979,130</u>	<u>\$ 6,355,054</u>

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2017**

**NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

Morehouse Community Medical Centers, Inc. was organized without capital stock under Louisiana laws on November 15, 2002, as a non-profit corporation for the purpose of operating one or more community health centers for the public and/or providing medical care or medical education for the benefit of the public. The Organization is a federally qualified health center (FQHC) and is principally funded under a grant from the Office of Public Health Services, a component of the U.S. Department of Health and Human Services (DHHS). The Board of Directors of Morehouse Community Medical Centers, Inc. is comprised of eleven members who serve without paid compensation.

**Income Taxes**

The Organization is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code and applicable state codes. Accordingly, no provision for federal and state income taxes is included in the financial statements. The Morehouse Community Medical Centers, Inc. Form 990, Return of Organization Exempt from Income Tax, is subject to examination by the IRS, generally for three (3) years after it was filed.

**Budgetary Planning and Control**

Once Morehouse Community Medical Centers, Inc. determines the activities to undertake for the coming year(s), the budget is prepared to translate those goals, objectives, and plans into revenue and expense figures. The Chief Financial Officer develops the budget in collaboration with the executive staff with input obtained from others such as other senior management. The governing board reviews and approves the operating budget. Once approved, the budgets are submitted to the full board for review and approval. Budgets are reviewed and revised annually. A continuing actual to budget comparison is prepared monthly with year-to-date figures in adequate detail to provide basic comparative data to staff responsible for expenses or revenues.

**Method of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with generally accepted accounting principles.

**Accounting Estimates**

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

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2017**

**NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**Cash and Cash Equivalents**

For purposes of reporting cash flows, the Organization considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

**Accounts Receivable**

The Organization records accounts receivable at the time of service according to fees developed from cost data of this and similar organizations. These amounts are often reduced because of the patients' inability to pay or because of disallowances and reductions from third party payors.

**Allowance for Doubtful Accounts and Bad Debts**

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

**Investments**

The Organization reports its investments in accordance with generally accepted accounting principles for not-for-profit organizations, which establish accounting standards for investments in certain equity securities and for all debt securities. The guidance prescribes that covered investments be reported in the statement of financial position at fair value with any realized or unrealized gains or losses reported in the statement of activities.

**Risk Management**

The Organization is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice claims and judgments. Commercial insurance coverage is purchased for claims arising from such matters. The Organization is deemed under the Federal Torts Claims Act for claims arising from malpractice and commercial insurance (remained of what is there).

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2017**

**NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**Property and Equipment**

Property and equipment is stated at cost. It is the Organization's policy to capitalize expenditures for these items in excess of \$5,000. Property and equipment donated for Morehouse Community Medical Centers, Inc. operations are valued at their fair market value as of the date received. Repairs and maintenance are charged to operations when incurred. Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

	Years
Buildings	15 - 40
Land improvements	10 - 30
Fixed equipment	5 - 20
Equipment, furniture and fixtures	3 - 20

**Compensated Absences**

The following description of the Organization's compensated absences policy provides only general information. Employees should refer to the PTO, Sick and Holiday Pay Policy for a more complete description the policy's provisions.

If an employee terminates employment and has unused accrued PTO and/or sick hours, they will be paid for those hours on their final paycheck. The amount of paid time off (PTO) and sick time accruals or credit (including accrual rollovers) is based on the number of months/years of continuous service as shown in the following schedule:

Length of Service	Maximum PTO Benefit	Maximum PTO Accrual (Rollover Balance)	Maximum Sick Time Benefit	Maximum Sick Time Accrual (Rollover Balance)
0-60 days	80	N/A	48	N/A
1 Year	88	N/A	52	N/A
2 Years	96	192	56	112
3 Years	104	208	60	120
4 Years	112	224	64	128
5 Years	120	240	68	136
6 Years	128	256	72	144
7 Years	136	272	76	152
8 Years	144	288	80	160
9 Years	152	304	-	-
10 Years	160	320	-	-

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2017**

**NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**Compensated Absences (Continued)**

For the year ended July 31, 2017, Morehouse Community Medical Centers, Inc. had \$97,130 and \$99,939 in accrued Paid Time Off – Vacation and accrued Paid Time Off – Sick, respectively.

**HOLIDAYS EARNED**

After 60 days, all full-time employees will be paid their base rate for holidays designated by the Governing Board. Holiday pay is based on the employee's normal scheduled hours for the applicable shift. If an employee is not scheduled to work on a holiday recognized by the clinic, that employee shall receive a flat 8 hours of holiday pay.

**Net Patient Service Revenue**

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

Morehouse Community Medical Centers, Inc. has agreements with third-party payors that provide reimbursement to the Morehouse Community Medical Centers, Inc. at amounts different from its established rates. Contractual adjustment under third-party reimbursement programs represent the difference between the Morehouse Community Medical Centers, Inc.'s rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

Medicare A – All-Inclusive Encounter Rate – Reimbursed on one rate regardless of the services provided.

Medicare B – Fee For Service – Reimbursed per encounter up to the payors allowable amount.

Regular Medicaid and Medicaid Bayou Health – All-Inclusive Encounter Rate – Reimbursed on one rate regardless of the services provided.

All Other Medicaid – Fee For Service – Reimbursed per encounter up to the payors allowable amount.

Blue Cross – Fee For Service – Reimbursed on Blue Cross Fee Schedule.

Commercial – Fee For Service – Reimbursed per contract or per payer's allowable fee schedule.

**Grants and Contributions**

Grants and contributions are recognized as income when received. The Board reports grants as temporarily restricted support if they are received with stipulations that limit the use of the funds. When grantor restrictions expire, temporary restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. All other support is recognized when earned. Grants and contributions that are restricted by the grantor or donor are reported as increases in unrestricted net assets if the restrictions expire in the same fiscal year in which the grants and contributions are recognized.

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2017**

**NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**Major Funding Source**

The Organization receives funds from DHHS, under section 330 of the Public Health Service Act (42 U.S.C. 254c). In accordance with DHHS policies, all funds disbursed should be in compliance with the specific terms of the grant agreements. DHHS may, at its discretion, request reimbursement for expenses or return of unexpended funds, or both, as a result of non-compliance by the Organization with the terms of the grants. In addition, if the Organization terminates its DHHS grant activities, all unexpended federal funds are to be returned to DHHS.

**Rental of Facilities**

Morehouse Community Medical Centers, Inc. entered into a Memorandum of Agreement with Morehouse Parish School Board for the use of space at Morehouse Jr. High School. This space is used for the School Based Health Clinic provided by Morehouse Community Medical Centers, Inc. with both parties providing specific services in a cooperative endeavor agreement. This agreement is for ten years ending October 1, 2019. Morehouse Community Medical Centers, Inc. receives the use of this space rent free from the School Board.

Morehouse Community Medical Centers, Inc. entered into a Memorandum of Agreement with Morehouse Parish School Board for the use of land at Bastrop High School. This land is used for the School Based Health Clinic provided by Morehouse Community Medical Centers, Inc. with both parties providing specific services in a cooperative endeavor agreement. This agreement is for ten years ending April 30, 2023 and receives the use of this land rent free from the School Board.

Effective March 13, 2015, Morehouse Community Medical Centers, Inc. entered into a Memorandum of Agreement with Ouachita Parish School Board for the use of space at Riser Middle School and West Monroe High School. This space is used for the School Based Health Clinics provided by Morehouse Community Medical Centers, Inc. with both parties providing specific services in a cooperative endeavor agreement. This agreement is indefinite and may be terminated by providing a sixty days termination notice. Morehouse Community Medical Centers, Inc. receives the use of this space rent free from the School Board.

Effective February 1, 2014, Morehouse Community Medical Centers, Inc. entered into a building lease to house the Marion site clinic. The lease is for two years and is automatically renewable on an annual basis unless either party gives ninety days written notice. The rent on the Marion site building is \$2,500 per month.

**Functional Expenses**

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

**Outreach and Advertising Expense**

The Organization expenses the cost of outreach and advertising as the expenses are incurred. For the year ended June 31, 2017, the cost totaled \$128,101.

**Performance Indicator**

The Organization utilizes revenues over expenses as its performance indicator.

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2017**

**NOTE 2 - PATIENT ACCOUNTS RECEIVABLE**

Patient accounts receivable are comprised of the following for the year ending July 31, 2017:

Medicare	\$ 45,522
Medicaid	122,912
Private	69,722
340 B Program	<u>1,406,215</u>
	1,644,371
Less allowance for doubtful accounts	<u>(92,379)</u>
	<u>\$ 1,551,992</u>

The Organization's allowance for doubtful accounts for all payor types was calculated using the following estimate of uncollectible accounts receivable based on aging:

0-30 Days	5%
31-60 Days	14%
61-90 Days	58%
Over 90 Days	71%

The allowance for doubtful accounts percentages did not change from the prior year's calculation. The Organization's write-offs, which primarily consisted of self-pay charges, totaled \$25,743 for the fiscal year July 31, 2017. The Organization changed its charity care policy during the fiscal year to automatically update the patient's sliding fee application for changes to the current Federal Poverty Level guidelines. Patients will not need to submit a new application provided the application on file was approved within the last 12 months.

**NOTE 3 - CONCENTRATIONS OF CREDIT RISK**

The Organization maintains several bank accounts at various banks. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution and one bank secures excess deposits over FDIC insurance with pledged securities totaling \$3,143,238. At July 31, 2017, the Organization had cash deposits totaling \$4,755,847 of which \$103,167 were in excess of FDIC insured limits. The Organization deposits its cash with high quality financial institutions and management believes the Organization is not exposed to significant credit risk on those amounts.

The majority of the Organization's patients are located in northeast Louisiana. The Organization grants credit without collateral to its patients. The mix of receivables from patients and third-party payors as of July 31, 2017 was as follows:

Medicare	3 %
Medicaid	7
Other	4
340 B Program	<u>86</u>
	<u>100 %</u>

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2017**

**NOTE 3 - CONCENTRATIONS OF CREDIT RISK (Continued)**

The mix of net patient revenues for the year ended July 31, 2017 was as follows:

Medicare	6 %
Medicaid	69
Other	25
	<u>100 %</u>

**NOTE 4 - ECONOMIC DEPENDENCY**

The Organization receives a substantial portion of its total support and revenues from the federal government. During the fiscal year ended July 31, 2017, Morehouse Community Medical Centers, Inc. recorded \$1,999,628 in grant support from the Department of Health and Human Services. This represents 23% of total support and revenues for the year ended July 31, 2017.

**NOTE 5 - COST REPORT RECEIVABLE**

The Organization participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. The Organization participates in the Medicaid program as a federally qualified health center. Final settlements will be made upon completion of audits by program representatives.

**NOTE 6 - FAIR VALUE OF INSTRUMENTS**

The Organization has a number of financial instruments, none of which is held for trading purposes. The Organization estimates that the fair value of all financial instruments at July 31, 2017, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the agency could realize in a current market exchange. The recorded values of cash and cash equivalents, accounts receivable, grants receivable, prepaid expenses, accounts payable, and accrued expenses approximate their fair values based on their short-term nature. The recorded values of notes payable approximate their fair value, as interest is insignificant.

**NOTE 7 - INVESTMENTS**

The Organization applies GAAP for fair value measurements of financial assets that are recognized at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair market hierarchy are as follows:

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2017**

***NOTE 7 – INVESTMENTS (Continued)***

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access.

Level 2 inputs are inputs (other than quoted prices in Level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 are unobservable inputs for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available).

As of July 31, 2017, the Organization’s investments measured on a recurring basis consisted of certificate of deposit investments with fair market value (Level 2) and cost bases as follows:

	Amortized Cost	Fair Value	Unrealized Gain (Loss)
Certificate of deposit investments (Level 2 Observable Inputs)	\$ 910,339	\$ 903,623	\$ (6,716)

***NOTE 8 – RETIREMENT PLAN***

The Organization has established a 403B defined contribution retirement plan. All employees are eligible to participate after six months of service. The Organization will contribute to each qualifying participant a dollar-per-dollar match up to 5% of the qualifying participant’s monthly wages (including base wages, overtime, incentives and bonuses) which is subjected to a vesting period. The Organization’s contributions to the plan for the year ended July 31, 2017 totaled \$145,415.

***NOTE 9 – FUNCTIONAL ALLOCATION OF EXPENSES***

Expenses were allocated in the accompanying financial statements to program and supporting service functional expense groups. The methods of allocation were based on several factors such as utilization of office space as well as the Organization’s estimates of the relative proportion of various staff members’ time and effort between program and administrative functions.

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2017**

**NOTE 10 - PROPERTY AND EQUIPMENT**

The balances and changes in property, plant, and equipment as of and for the year ended July 31, 2017 are as follows:

	Balance Beginning	Additions	Deletions	Balance Ending
Asset type:				
Non-depreciable assets:				
Land	\$ 103,851	\$ 12,228	\$ -	\$ 116,079
Total non-depreciable assets	103,851	12,228	-	116,079
Depreciable assets:				
Buildings	1,086,341	180,257	-	1,266,598
Furniture and equipment	415,189	6,051	-	421,240
Vehicles	372,393	54,730	(53,059)	374,064
Total depreciable assets	1,873,923	241,038	(53,059)	2,061,902
Accumulated depreciation				
Buildings	227,728	44,331	-	272,059
Furniture and equipment	211,011	42,292	-	253,303
Vehicles	161,712	60,586	(53,059)	169,239
Total	600,451	147,209	(53,059)	694,601
Total depreciable assets	1,273,472	93,829	-	1,367,301
Total Property and Equipment, net	\$ 1,377,323	\$ 106,057	\$ -	\$ 1,483,380

**NOTE 11 - CHARITY CARE**

The Organization provides care to patients who qualify under federal guidelines and other policies of the Organization at fees less than its established rates. The amount of charity care is reduced from the amount of fees for services presented in the statement of activities. The amount of charity care for disclosure purposes should be measured by costs, including direct and indirect costs. Management has calculated the costs associated with providing charity care utilizing the cost to charge ratio obtained from the Medicare cost report data. The amount of costs associated with charity care for the fiscal year ended July 31, 2017 was \$214,949. The Organization receives a Department of Health and Human Services grant to subsidize the charity care medical services provided to qualifying patients.

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2017**

**NOTE 12 – LONG-TERM NOTES PAYABLE**

Notes payable for the year ended July 31, 2017 consisted of the following:

Promissory note dated April 8, 2016, in the amount of \$40,000, due in 40 equal monthly installments of \$1,000 beginning on May 1, 2016, interest equal to 0.00%, collateralized by land and building with a cost basis of \$40,000.	<u>\$ 24,000</u>
Total Debt	<u>24,000</u>
Less current portion	<u>(12,000)</u>
Long-term debt	<u>\$ 12,000</u>

Maturities of debt are as follows:

July 31,	Amount
2018	\$ 12,000
2019	<u>12,000</u>
Total	<u>\$ 24,000</u>

**NOTE 13 – SUBSEQUENT EVENTS**

The Organization evaluated its July 31, 2017 financial statements for subsequent events through the date of the audit report, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.

**Schedule of Expenditures of Federal Awards  
Year Ended July 31, 2017**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Program Year</u>	<u>Program Revenues</u>	<u>Program Expenses</u>
U. S. Department of Health and Human Services Cluster					
Direct Programs:					
Community Health Center Section 330	93.224	H80CS08764	8/1/16 - 7/31/17	<u>\$ 1,999,628</u>	<u>\$ 1,999,628</u>
Total federal assistance				<u>\$ 1,999,628</u>	<u>\$ 1,999,628</u>

**Above program consider major.**

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Morehouse Community Medical Centers, Inc., and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of Title 2 of U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Certain costs have been allocated to the federal program in accordance with OMB Circular A-122, *Cost Principles of Non-Profit Organizations*. The amounts presented in this schedule do not differ from the amounts presented in, or used in the preparation of the financial statements. Morehouse Community Medical Centers, Inc. has elected not to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

**Morehouse Community Medical Centers, Inc.**

**Schedule of Compensation, Benefits and Other Payments to Executive Director**

**July 31, 2017**

NO COMPENSATION PAID FROM PUBLIC FUNDS

Agency Head Name: Katie Parnell, Executive Director

<b>Purpose</b>	<b>Amount</b>
Salary	-
Benefits-health insurance	-
Benefits-retirement	-
Benefits-Life, ADD, LTD	-
Car allowance	-
Vehicle provided by government	-
Per diem	-
Reimbursements – Auto Mileage Reimb	-
Travel	-
Registration fees	-
Conference travel	-
Continuing professional education fees	-
Housing	-
Unvouchered expenses	-
Special meals	-
	-

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## 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

Board of Directors  
Morehouse Community Medical Centers, Inc.  
Bastrop, Louisiana

I 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 Morehouse Community Medical Centers, Inc. (a nonprofit organization), which comprise the statement of financial position as of July 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated January 5, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Morehouse Community Medical Centers, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morehouse Community Medical Centers, Inc.'s internal control. Accordingly, I do not express an opinion on the effectiveness of Morehouse Community Medical Centers, Inc.'s 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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors  
Morehouse Community Medical Centers, Inc.  
Bastrop, Louisiana

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Morehouse Community Medical Centers, Inc.'s financial statements are free of material misstatement, I 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my test 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 my 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. However, this report is a matter of public record and its distribution is not limited.

Steven M. DeRouen & Associates

Lake Charles, Louisiana  
January 5, 2018

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Directors  
Morehouse Community Medical Centers, Inc.  
Bastrop, Louisiana

### **Report on Compliance for Each Major Federal Program**

I have audited Morehouse Community Medical Centers, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Morehouse Community Medical Centers, Inc.'s major federal programs for the year ended July 31, 2017. Morehouse Community Medical Centers, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditor's Responsibility**

My responsibility is to express an opinion on compliance for each of Morehouse Community Medical Centers, Inc.'s major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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). Those standards and Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Morehouse Community Medical Centers, Inc.'s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Morehouse Community Medical Centers, Inc.'s compliance.

Board of Directors  
Morehouse Community Medical Centers, Inc.  
Bastrop, Louisiana

### **Opinion on Each Major Federal Program**

In my opinion, Morehouse Community Medical Centers, Inc. 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 July 31, 2017.

### **Report on Internal Control Over Compliance**

Management of Morehouse Community Medical Centers, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Morehouse Community Medical Centers, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Morehouse Community Medical Centers, Inc.'s 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 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.*

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my 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. However, this report is a matter of public record and its distribution is not limited.

*Steven M. DeRouen & Associates*

Lake Charles, Louisiana  
January 5, 2018

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, LA**  
**Schedule of Findings and Questioned Costs**  
**Year Ended July 31, 2017**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

Financial Statements

Type of auditor’s report issued			Unmodified
Internal control over financial reporting:			
Material weaknesses identified?	___ Yes	<u> x </u> No	
Significant deficiency identified not considered to be material weaknesses?	___ Yes	<u> x </u> None reported	
Noncompliance material to financial statements noted?	___ Yes	<u> x </u> No	

Federal Awards

Internal control over major programs:			
Material weaknesses identified?	___ Yes	<u> x </u> No	
Significant deficiency identified not considered to be material weaknesses?	___ Yes	<u> x </u> None reported	
Type of auditor’s report issued on compliance for major programs:			Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	___ Yes	<u> x </u> No	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.224	U.S. Department of Health and Human Services, Community Health Center Section 330

Dollar threshold used to distinguish between

Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?  x  Yes    \_\_\_ No

**A separate management letter was not issued.**

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended July 31, 2017**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

The results of my tests disclosed no instances of non-compliance with the requirements applicable to each major federal program that are required to be reported in accordance with the Uniform Guidance.

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**  
**Bastrop, Louisiana**  
**Summary Schedule of Prior Year Findings and Questioned Costs**  
**Year Ended July 31, 2017**

**PRIOR YEAR FINDINGS**

None

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**MOREHOUSE COMMUNITY  
MEDICAL CENTERS, INC.  
Bastrop, Louisiana**

**Independent Accountant's Report On Applying  
Agreed-Upon Procedures**

**August 1, 2016 – July 31, 2017**

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## **AGREED-UPON PROCEDURES REPORT**

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD OF AUGUST 1, 2016 THROUGH JULY 31, 2017**

To the Board of Directors of Morehouse Community Medical Centers, Inc. and the Louisiana Legislative Auditor:

I have performed the procedures enumerated below, which were agreed to by Morehouse Community Medical Centers, Inc. and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period August 1, 2016 through July 31, 2017. The Entity's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

## Written Policies and Procedures

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
  - 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**, including receiving, recording, and preparing deposits
  - e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
  - 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, and (5) monitoring card usage
  - 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 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy. Note: Ethics requirements are not applicable to nonprofits.
  - j) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

*No observations per review of applicable policies (Disbursements, Receipts, Payroll/Personnel, Contracting).*

Board (or Finance Committee, if applicable)

2. Obtain and review the board/committee minutes for the fiscal period, and:
  - a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.
  - b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).
    - If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.
  - c) Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

*Not Applicable.*

Bank Reconciliations

3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.
4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three-year rotating basis (if more than 5 accounts). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity fund accounts may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:
  - a) Bank reconciliations have been prepared;
  - b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and
  - c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

*Observation: The bank reconciliations did not include evidence that a member of management with no involvement in transactions associated with the bank accounts has reviewed the bank reconciliations.*

*Management's Response: While management reviews the monthly bank reconciliations, no evidence (ex. board member initials) is made on the bank reconciliation itself. The Board Treasurer will begin initialing the bank reconciliations to provide evidence of review and approval.*

## Collections

5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.
6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity funds may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement. For each cash collection location selected:*
  - a) Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.
  - b) Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.
  - c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:
    - Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.
    - Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.
7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and 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) by a person who is not responsible for collections.

*Observation: Due to the limited number of office personnel, at two of the three locations tested, the receptionist employee takes in cash and deposits in the bank. These cash receipts are summarized on a numbered "End of Day Reconciliation Summary" forms and submitted to the Chief Financial Officer.*

*Management's Response: Management has compensating controls whereby the "End of Day Reconciliation Summary" Forms are accounted for, reviewed and reconciled to the bank deposits by someone other than the person who collected the receipts (Chief Financial Officer).*

Disbursements – General (excluding credit card/debit card/fuel card/P-Card purchases or payments)

8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.
9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:
  - a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.
  - b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.
  - c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.
10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.
11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.
12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.
13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

***Observations:*** *The person responsible for processing payments (Chief Financial Officer) can also add a vendor to the entity's purchasing/disbursement system. The person with signatory authority or who makes the final authorization for disbursements (Chief Executive Officer) occasionally initiates purchases via the Organization's accounts payable process.*

***Management's Response:*** *As a compensating control, all checks (with supporting invoice present for review purposes) are signed by two individuals (two designated board members or CEO and board member). Also, an approved vendor list is reviewed annually by the Chief Executive Officer.*

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

14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), 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.
15. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner.

Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]]
  - b) Report whether finance charges and/or late fees were assessed on the selected statements.
16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).
    - a) For each transaction, report whether the transaction is supported by:
      - An original itemized receipt (i.e., identifies precisely what was purchased)
      - Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
      - Other documentation that may be required by written policy (e.g., purchase order, written authorization.)
    - b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.
    - c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

*Not applicable.*

## Travel and Expense Reimbursement

17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.
18. Obtain the entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration ([www.gsa.gov](http://www.gsa.gov)) and report any amounts that exceed GSA rates.
19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:
  - a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.
  - b) Report whether each expense is supported by:
    - An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]
    - Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
    - Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)
  - c) Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.
  - d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

*Not applicable.*

## Contracts

20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.
21. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:
  - a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.
  - b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:
    - If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder)
    - If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.
  - c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.
  - d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.
  - e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

*No observations.*

## Payroll and Personnel

22. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:
  - a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.
  - b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:
  - a) Report whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)
  - b) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.
  - c) Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.
24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.
25. Obtain supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

*No observations.*

#### Ethics

26. Using the five randomly selected employees/officials from procedure #22 under "Payroll and Personnel" above, obtain ethics compliance documentation from management and report whether the entity maintained documentation to demonstrate that required ethics training was completed.
27. Inquire of management whether any alleged ethics violations were reported to the entity during the fiscal period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied with the entity's ethics policy. Report whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.

*Not applicable.*

### Debt Service

28. If debt was issued during the fiscal period, obtain supporting documentation from the entity, and report whether State Bond Commission approval was obtained.
29. If the entity had outstanding debt during the fiscal period, obtain supporting documentation from the entity and report whether the entity made scheduled debt service payments and maintained debt reserves, as required by debt covenants.
30. If the entity had tax millages relating to debt service, obtain supporting documentation and report whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, report any millages that continue to be received for debt that has been paid off.

*Not applicable.*

### Other

31. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.
32. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at [www.lla.la.gov/hotline](http://www.lla.la.gov/hotline)) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.
33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

*Not applicable.*

I was not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

The purpose of this report is 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.

*Steven M. DeRouen & Associates*

January 5, 2018  
Lake Charles, Louisiana