

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

Audits of Financial Statements

December 31, 2017 and 2016



## Contents

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<b>Independent Auditor's Report</b>	1 - 2
<hr/>	
<b>Basic Financial Statements</b>	
Statements of Net Position	3 - 4
Statements of Revenues, Expenses, and Changes in Net Position	5
Statements of Cash Flows	6 - 7
Notes to Financial Statements	8 - 23
<hr/>	
<b>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></b>	24 - 25
<hr/>	
<b>Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance</b>	26 - 27
<hr/>	
<b>Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major HUD Program and on Internal Control Over Compliance Based on an Audit in Accordance with the HUD Consolidated Audit Guide</b>	28 - 29
<hr/>	
<b>Schedule of Expenditures of Federal Awards</b>	30
<hr/>	
<b>Notes to Schedule of Expenditures of Federal Awards</b>	31
<hr/>	
<b>Schedule of Findings, Questioned Costs, and Recommendations</b>	32 - 33
<hr/>	
<b>Summary Schedule of Prior Year Audit Findings</b>	34
<hr/>	
<b>Independent Auditor's Report on the Supplementary Information</b>	35
Schedule of Compensation, Benefits, and Other Payments to Agency Head	36

## **Independent Auditor's Report**

To the Board of Commissioners  
Parish Hospital Service District  
For the Parish of Orleans - District A  
(A Component Unit of the City of New Orleans)  
New Orleans, Louisiana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Parish Hospital Service District for the Parish of Orleans - District A (the District), a component unit of the City of New Orleans, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **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**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from 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 basic 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2017 and 2016, and the changes in its financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Other 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 (CFR) 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.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2018 on our consideration of the District's 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 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 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 the District's internal control over financial reporting and compliance.



A Professional Accounting Corporation

Metairie, LA  
April 30, 2018

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)  
Statements of Net Position  
December 31, 2017 and 2016**

	2017	2016
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,136,053	\$ 77,357
Receivables		
Patient accounts receivable, less allowance for uncollectible accounts of \$9,299,109 in 2017 and \$7,859,257 in 2016	8,580,404	3,351,386
Grant receivable	53,772	-
Estimated third-party payor settlements	-	3,918,671
Inventory	707,175	760,367
Prepaid expenses	1,040,860	1,117,369
	<hr/>	<hr/>
<b>Total current assets</b>	<b>11,518,264</b>	<b>9,225,150</b>
<b>Assets whose use is limited or restricted</b>		
Under mortgage agreement for insurance	855,129	965,168
Under mortgage agreement for mortgage reserve fund	2,581,349	1,972,616
Under mortgage agreement - escrow for capital	-	1,758,398
	<hr/>	<hr/>
<b>Total assets whose use is limited or restricted</b>	<b>3,436,478</b>	<b>4,696,182</b>
<b>Capital assets, net</b>	<b>117,251,164</b>	<b>121,624,003</b>
<b>Other assets</b>	<b>26,500</b>	<b>1,500</b>
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 132,232,406</b>	<b>\$ 135,546,835</b>

The accompanying notes are an integral part of these financial statements.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)  
Statements of Net Position (Continued)  
December 31, 2017 and 2016**

	2017	2016
<b>Liabilities and net position</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 2,931,616	\$ 2,836,887
Accrued expenses	297,259	297,259
Other current liabilities	16,999,078	17,546,606
Estimated third-party payor liability	7,706,335	-
Unearned revenue	35,000	-
<b>Total current liabilities</b>	<b>27,969,288</b>	<b>20,680,752</b>
Security deposits	74,000	74,000
Long-term debt	93,379,889	93,379,889
<b>Total long-term liabilities</b>	<b>93,453,889</b>	<b>93,453,889</b>
<b>Total liabilities</b>	<b>121,423,177</b>	<b>114,134,641</b>
<b>Net position</b>		
Net investment in capital assets	23,871,275	28,244,114
Restricted for debt service	3,436,478	4,696,182
Unrestricted	(16,498,524)	(11,528,102)
<b>Total net position</b>	<b>10,809,229</b>	<b>21,412,194</b>
<b>Total liabilities and net position</b>	<b>\$ 132,232,406</b>	<b>\$ 135,546,835</b>

The accompanying notes are an integral part of these financial statements.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)  
Statements of Revenues, Expenses, and Changes in Net Position  
For the Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Operating revenues</b>		
Net patient service revenue	\$ 52,319,397	\$ 33,642,264
Operating grants	96,567	4,549,579
Other operating revenue	517,253	297,617
	<hr/>	<hr/>
<b>Total operating revenues</b>	<b>52,933,217</b>	<b>38,489,460</b>
<b>Operating expenses</b>		
Salaries and benefits	16,667,576	13,441,213
Supplies and other	5,173,975	3,983,636
Other direct expenses	19,603,969	11,495,023
Professional fees	7,401,066	5,854,014
Purchased services	4,625,539	4,420,495
Depreciation and amortization	6,510,565	6,464,242
	<hr/>	<hr/>
<b>Total operating expenses</b>	<b>59,982,690</b>	<b>45,658,623</b>
<b>Operating loss</b>	<b>(7,049,473)</b>	<b>(7,169,163)</b>
<b>Non-operating revenues (expenses)</b>		
Interest expense	(3,567,112)	(3,569,092)
Interest income	13,620	1,657
	<hr/>	<hr/>
<b>Total non-operating expenses, net</b>	<b>(3,553,492)</b>	<b>(3,567,435)</b>
<b>Change in net position</b>	<b>(10,602,965)</b>	<b>(10,736,598)</b>
<b>Net position, beginning of year</b>	<b>21,412,194</b>	<b>32,148,792</b>
	<hr/>	<hr/>
<b>Net position, end of year</b>	<b>\$ 10,809,229</b>	<b>\$ 21,412,194</b>
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The accompanying notes are an integral part of these financial statements.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)  
Statements of Cash Flows  
For the Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Cash flows from operating activities</b>		
Receipts from patients and third-party payors	\$ 59,232,638	\$ 25,947,475
Receipts from grants	150,339	6,848,189
Payments for operating expenses	(37,432,092)	(17,092,817)
Payments to employees and for employee-related costs	(16,460,673)	(13,392,904)
<b>Net cash provided by operating activities</b>	<b>5,490,212</b>	<b>2,309,943</b>
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	(2,137,728)	(1,244,520)
Escrow deposits	1,259,704	(509,670)
Security deposits	-	74,000
Principal payments on long-term debt	-	(620,886)
Interest payments	(3,567,112)	(3,571,069)
<b>Net cash used in capital and related financing activities</b>	<b>(4,445,136)</b>	<b>(5,872,145)</b>
<b>Cash flows from investing activities</b>		
Interest income	13,620	1,657
<b>Net cash provided by investing activities</b>	<b>13,620</b>	<b>1,657</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,058,696</b>	<b>(3,560,545)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>77,357</b>	<b>3,637,902</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,136,053</b>	<b>\$ 77,357</b>

The accompanying notes are an integral part of these financial statements.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)  
Statements of Cash Flows (Continued)  
For the Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Reconciliation of operating loss to net cash provided by operating activities</b>		
Operating loss	\$ (7,049,473)	\$ (7,169,163)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	6,510,565	6,464,242
Provision for bad debts	1,439,852	4,531,433
Changes in:		
Patient accounts receivable	(6,668,868)	(5,393,628)
Grant receivable	(53,772)	2,298,610
Estimated third-party payor settlements	11,625,006	(2,995,827)
Inventory	53,192	90,392
Prepaid expenses and other assets	51,509	(13,050)
Accounts payable	94,729	1,003,619
Other payable	-	(245,272)
Accrued expenses	-	(252,058)
Unearned revenue - grants	35,000	-
Other current liabilities	(547,528)	8,123,052
Unearned revenue - DSH	-	(4,132,407)
<b>Net cash provided by operating activities</b>	<b>\$ 5,490,212</b>	<b>\$ 2,309,943</b>

The accompanying notes are an integral part of these financial statements.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 1. Description of Reporting Entity**

**Organization**

The Parish Hospital Service District for the Parish of Orleans - District A (the District) is a Louisiana hospital service district established by Act 830 of the 2006 regular session of the Louisiana Legislature, as amended, which has been codified as Louisiana Revised Statutes 46:1094 through 1097. The District is divided into two areas as follows: (a) Orleans Parish east of the Industrial Canal and (b) all of Orleans Parish except the geographical areas of the Industrial Canal and the area of Orleans Parish bounded by Earhart Boulevard, Carrollton Avenue, Loyola Avenue, and Iberville Street. The District was created to study the feasibility of building or acquiring and operating hospital facilities within the District. Currently, the mission of the District is to operate a state-of-the-art hospital at the site of the former Pendleton Memorial Methodist Hospital in New Orleans, Louisiana and to provide emergency and other essential hospital services to the residents of New Orleans East. The District opened the New Orleans East Hospital (NOEH) on July 12, 2014. The District operated a 24-hour urgent care facility on the hospital campus that remained operational until the opening of NOEH in 2014.

The two areas of the District are governed by separate governing Boards consisting of thirteen (13) commissioners each, who are qualified voters and residents of Orleans Parish and who reflect the ethnic, cultural, and gender diversity of the Parish, seven (7) of whom are appointed by the Chief Executive Officer of the Parish.

**Reporting Entity**

The District is a component unit of the City of New Orleans, the reporting entity, as defined by the Governmental Accounting Standards Board pronouncement. The accompanying financial statements present information only on the fund maintained by the District and do not present information on the City of New Orleans, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

**Cooperative Endeavor Agreement**

On April 1, 2014, a Cooperative Endeavor Agreement (CEA) was entered into between the District, Louisiana Children's Medical Center, and Touro Infirmary. Louisiana Children's Medical Center and Touro Infirmary are collectively referred to as the Joint Parties throughout the CEA.

The CEA provides that the Joint Parties will manage and be responsible for the day-to-day operations of the 80 bed public hospital and emergency department doing business as NOEH. Touro Infirmary will serve in the primary role of managing and being responsible for the day-to-day operations of NOEH and to provide supplemental operational support for NOEH to support and enhance the continuity and viability of NOEH's operations for the citizens of eastern New Orleans.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 1. Description of Reporting Entity (Continued)**

**Cooperative Endeavor Agreement (Continued)**

Under the CEA, the Joint Parties are obligated for: (i) employing or contracting with those required to operate NOEH; (ii) providing comprehensive administrative, professional, operational, revenue cycle, and financial management of NOEH; (iii) obtaining and maintaining the appropriate licenses, software, and hardware and corresponding support services related to those technology systems; and (iv) assisting NOEH in recruiting medical staff. The agreement commenced on the Effective Date, as defined, and will expire June 30, 2029, with an option to renew for up to 10 years.

See Note 10 for further details.

**Note 2. Summary of Significant Accounting Policies**

**Basis of Accounting**

The basic financial statements provide information about the District's activities. The books and records must be kept in accordance with the requirements of the Secretary of the U.S. Department of Housing and Urban Development. The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated non-exchange transactions (principally, government grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated non-exchange transactions. Income from operations that are not part of the District but deposited in the District's account are to be classified as non-operating income to the extent that the revenue is not directly associated with a related expense. Income from investments and contributions must be classified as non-operating income. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Use of 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 of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the allowance for uncollectible accounts receivable and amounts estimated to be recovered from and/or due to third-party payors are particularly sensitive estimates and are subject to change.

**Cash and Cash Equivalents**

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

Cash includes amounts in noninterest and interest-bearing demand deposits and time deposits. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

**Assets Whose Use is Limited or Restricted**

Assets whose use is limited or restricted consists of cash balances held in escrow.

**Inventories**

Inventories, which consist primarily of drugs and supplies, are valued at the lower of cost (first-in, first-out method) or market.

**Cost of Borrowing**

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The District did not capitalize any interest costs allocated to building and construction in progress for the years ended December 31, 2017 and 2016, respectively.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Grants and Contributions**

From time to time, the District receives grants from the State of Louisiana, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

**Net Patient Service Revenue and Related Receivables**

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

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

The District provides care to patients even though they may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges. As a result, the District is exposed to certain credit risks. The District manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances. Provisions for bad debts are reported as offsets to net patient service revenues consistent with reporting practices for governmental entities. See Note 5.

**Medicare and Medicaid Reimbursement Programs**

The District is reimbursed under the Medicare Prospective Payment System for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. In addition, the District is paid prospectively for Medicare inpatient capital costs based on the federal specific rate.

As a reform initiative, Louisiana Medicaid introduced Bayou Health, a state-wide managed care Medicaid initiative. Medicaid recipients enroll in one of five available Bayou health plans. The plans are accountable to the Louisiana Department of Health (LDH) and to the State of Louisiana (State). There are differences between these plans, including their provider networks, referral policies, health management programs, services and incentives offered to participants. Medicaid recipients can choose which Bayou Health plan to enroll in.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Medicare and Medicaid Reimbursement Programs (Continued)**

The District's reimbursements from the Bayou Health plans follow the same methodology as Louisiana Medicaid; that is, LDH's objective to continue collecting all Medicaid hospital program service costs through the annual cost report uniformly, whether the service is covered by traditional Medicaid fee for service or a Prepaid Plan.

The District qualifies as a disproportionate share provider under the Medicare regulations. As such, the District receives an additional payment for Medicare inpatients served. Through June 30, 2016, the District was paid as a disproportionate share provider for Medicaid inpatients. See Note 11 for further discussion on the Medicaid program.

Through December 31, 2016, the District was considered a new hospital, as defined. As such, the District was paid upon filing its cost report for inpatient and outpatient capital costs, at an expected rate of eighty-five percent (85%). For the year ended December 31, 2017, the District is paid prospectively for Medicare inpatient capital costs at the federal specific rate.

Except for Medicare disproportionate share and Medicare bad debts, there is no retroactive settlement for inpatient costs under the Medicare inpatient prospective payment methodology.

Outpatient services rendered to Medicare outpatient services are reimbursed by the Outpatient Prospective System (OPPS), which establishes a number of Ambulatory Payment Classifications (APC) for outpatient procedures in which the District is paid a predetermined amount per procedure. Medicaid outpatient services (excluding ambulatory surgery, therapy and clinical lab) are reimbursed at a percentage of the lower of cost or charges. Medicare and Medicaid outpatient clinical lab and Medicaid ambulatory surgery and outpatient therapy services are reimbursed based upon the respective fee schedules.

Retroactive cost settlements, based upon actual cost reports, are estimated for those programs subject to retroactive settlement and recorded in the financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives. The difference between an estimated settlement and a final settlement in any year is reported as an adjustment of net patient service revenue in the year the final settlement is made. The District's Medicare cost for its 2015 period has been audited by the Medicare fiscal intermediary.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Medicare and Medicaid Reimbursement Programs (Continued)**

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount in the near term.

Net patient service revenue decreased by approximately \$3,160,000 and \$370,000, in the years ended December 31, 2017 and 2016, respectively, due to changes in estimates resulting in the removal of allowances previously estimated that are no longer necessary as a result of final settlements; years that are no longer subject to audits, reviews and investigations; revision of allowance estimates recorded in prior years relating to expected retroactive adjustments; and revisions based on updated information from the fiscal intermediary.

**Financial Assistance**

Financial assistance and discounted care is offered to those low-income patients who meet certain financial guidelines. The District uses a sliding scale method to determine the dollar amount to be considered as financial assistance for eligible patients. The minimum financial assistance approval begins with incomes at 400% of the Federal Poverty Level and continues to increase discounts as the individual or family income reaches 200% of the Federal Poverty Level. Any guarantor at or below 200% of the Federal Poverty Level, as adjusted for family size, will be entitled to financial assistance sponsorship for the full amount (100%) of patient responsibility related to appropriate hospital-based medical services that are not covered by private or public third-party sponsorship.

**Statements of Revenues, Expenses, and Changes in Net Position**

The District's statement of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the District's principal activity.

Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues, when present. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Net Position**

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as Amended*, net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

*Net Investment in Capital Assets* - This component of net position consists of the historical cost of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

*Restricted* - This component of net position consists of assets that have constraints that are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* - All other net position is reported in this category.

**Restricted Resources**

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

**Capital Assets**

The District's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Costs associated with capital asset acquisitions under \$2,500 are generally expensed as incurred. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Buildings and Improvements	30 Years
Furniture and Equipment	3 to 10 Years

**Impairment of Long-Lived Assets**

The District reviews its long-lived assets, including property and equipment and other intangibles, for impairment when an event or change in facts and circumstances indicates that their carrying amount may not be recoverable, but at least annually.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Impairment of Long-Lived Assets (Continued)**

The District determines recoverability of the assets by comparing the carrying amount of the asset to net future undiscounted cash flows that the asset is expected to generate or estimated fair values in the case of nonrevenue generating assets. When the carrying value of an asset exceeds the estimated recoverability, an asset impairment charge is recognized. There was no such charge in 2017 nor in 2016.

**Board of Commissioners**

Members of the District's Board of Commissioners receive no compensation or per diem.

**Compensated Absences**

As mentioned in Note 1, the District entered into a CEA with Louisiana Children's Medical Center and Touro Infirmary. Through the CEA the personnel of the District are employees of Touro Infirmary. Compensated absences and payroll liabilities associated with Touro Infirmary providing their employees are included in the amount owed to Touro Infirmary as detailed further in Note 9.

**Risk Management**

The District 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; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. See Note 8 for further details.

**Recently Issued Accounting Principles**

In March 2017, the Government Accounting Standards Board (GASB) issued Statement No. 85. The objective of GASB Statement No. 85, Omnibus 2017, is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Management is still evaluating the potential impact of adoption on the District's financial statements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Recently Issued Accounting Principles (Continued)**

In June 2017, the GASB issued Statement No. 87 (GASB 87). The objective of GASB Statement No. 87, Leases, is to better meet the information needs of the financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Management is still evaluating the potential impact of adoption on the District's financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

**Reclassifications**

Certain reclassifications have been made to the 2016 financial statement presentation to correspond to the current year's format.

**Note 3. Cash and Cash Equivalents**

**Custodial Credit Risk - Deposits**

Statutes authorize the District to invest in direct obligations of the U.S. Government, certificates of deposit of state banks and national banks having their principal office in the State of Louisiana, and any other federally insured investments, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories published by Standard & Poor's or Moody's, and mutual or trust fund institutions registered with the Securities and Exchange Commission (provided the underlying investments of these funds meet certain restrictions).

The District's cash deposits and money market accounts included in cash and cash equivalents on its statements of net position, as of December 31, 2017 and 2016, were entirely covered by federal depository insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

**Concentration of Credit Risk**

As required under GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB further defines an at-risk investment to be one that represents more than five percent (5%) of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At December 31, 2017 and 2016, the District had no investments requiring concentration of credit risk disclosure.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

**Note 4. Capital Assets**

Capital assets activity as of and for the year ended December 31, 2017, is as follows:

	December 31, 2016	Additions	Disposals	December 31, 2017
Capital assets, not being depreciated				
Land	\$ 3,400,000	\$ -	\$ -	\$ 3,400,000
Capital assets, being depreciated				
Building	110,735,291	1,939,492	-	112,674,783
Furniture and equipment	23,847,214	198,234	-	24,045,448
Total capital assets being depreciated	<u>134,582,505</u>	<u>2,137,726</u>	<u>-</u>	<u>136,720,231</u>
<b>Total capital assets</b>	137,982,505	2,137,726	-	140,120,231
Less: accumulated depreciation	<u>(16,358,502)</u>	<u>(6,510,565)</u>	<u>-</u>	<u>(22,869,067)</u>
<b>Capital assets, net</b>	<u>\$ 121,624,003</u>	<u>\$ (4,372,839)</u>	<u>\$ -</u>	<u>\$ 117,251,164</u>

Capital assets activity as of and for the year ended December 31, 2016, is as follows:

	December 31, 2015	Additions	Disposals	December 31, 2016
Capital assets, not being depreciated				
Land	\$ 3,400,000	\$ -	\$ -	\$ 3,400,000
Capital assets, being depreciated				
Buildings	110,631,860	103,431	-	110,735,291
Furniture and equipment	22,706,125	1,141,089	-	23,847,214
Total capital assets being depreciated	<u>133,337,985</u>	<u>1,244,520</u>	<u>-</u>	<u>134,582,505</u>
Total capital assets	136,737,985	1,244,520	-	137,982,505
Less: accumulated depreciation	<u>(9,894,260)</u>	<u>(6,464,242)</u>	<u>-</u>	<u>(16,358,502)</u>
<b>Capital assets, net</b>	<u>\$ 126,843,725</u>	<u>\$ (5,219,722)</u>	<u>\$ -</u>	<u>\$ 121,624,003</u>

Depreciation expense totaled \$6,510,565 and \$5,219,722 for the years ended December 31, 2017 and 2016, respectively.

**Note 5. Net Patient Service Revenue**

Net patient service revenue for the years ended December 31, 2017 and 2016 is earned under agreements with third-party payors and self-paying patients. These agreements with third-party payors provide for payments to the District at amounts different from its established rates. These third-party payors include: the Medicare and Medicaid programs, health maintenance organizations, and various commercial insurance and preferred provider organizations.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 5. Net Patient Service Revenue (Continued)**

The District provides care to patients who meet certain criteria under its charity care policy at amounts less than its established rates.

A summary of the District's net patient revenue for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Gross patient service revenue	\$ 129,851,786	\$ 104,080,698
Contractual adjustments	(75,005,100)	(63,920,713)
Financial assistance	(1,087,437)	(1,986,288)
Provision for bad debts	(1,439,852)	(4,531,433)
<b>Total</b>	<b>\$ 52,319,397</b>	<b>\$ 33,642,264</b>

**Note 6. Mortgage Loan Advances**

On December 21, 2012, the District entered into a Federal Housing Administration (FHA) 242-insured mortgage loan not to exceed \$97,604,300, which was a significant source of funding the construction, demolition and remediation costs; design, project management, legal and organizational fees; equipment and furnishings; and financing charges of the Methodist Hospital Acquisition and Development Project (the Project). The District has undergone a cost certification audit that has certified \$97,604,300 as project costs. The interest rate from the date of the mortgage loan is 3.82% per annum on the unpaid balance until paid. The principal and interest is payable in monthly installments as follows:

Interest alone on such amount of principal as may be advanced from the time to time, computed from the date of each such advance, became due and payable monthly on January 1, 2013, and on the first day of each month thereafter up to and including June 1, 2014.

Commencing on July 1, 2014, installments of principal and interest became due and payable in the amount of \$505,540 each. Such payments continued monthly thereafter on the first day of each succeeding month through March 1, 2016.

Commencing on April 1, 2016, installments of "interest only" shall be due and payable in the amount of \$297,259 each. Such payments are to continue monthly thereafter on the first day of each succeeding month through March 1, 2021.

Commencing on April 1, 2021, installments of principal and interest shall be due and payable in the amount of \$592,805 each. Such payments are to continue monthly thereafter on the first day of each succeeding month through June 1, 2039 until the entire indebtedness has been paid in full. In any event, the balance of principal (if any) remaining unpaid, plus accrued interest shall be due and payable on June 1, 2039.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 6. Mortgage Loan Advances (Continued)**

The note is secured by a mortgage upon real estate and guaranteed by the U.S. Department of Housing and Urban Development (HUD). At December 31, 2017 and 2016, the District had an outstanding principal balance of \$93,379,889 and \$93,379,889, respectively, on this mortgage loan (see Note 9). At December 31, 2017 and 2016, the District had interest of \$297,259 and \$297,259, respectively, accrued on the outstanding mortgage, which is included within accrued expenses on the statements of net position. The District incurred interest expense of \$3,567,112 and \$3,569,092 for the years ended December 31, 2017 and 2016, respectively.

**Note 7. Long-Term Debt**

The following is a summary of long-term debt for the year ended December 31, 2017:

	<b>Mortgage Loan Advances</b>
Long-term debt at January 1, 2017	\$ 93,379,889
Additional borrowings	-
Principal payments	-
	<hr/>
Long-term debt at December 31, 2017	<u>\$ 93,379,889</u>

The following is a summary of long-term debt for the year ended December 31, 2016:

	<b>Mortgage Loan Advances</b>
Long-term debt at January 1, 2016	\$ 94,000,775
Additional borrowings	-
Principal payments	(620,886)
	<hr/>
Long-term debt at December 31, 2016	<u>\$ 93,379,889</u>

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 7. Long-Term Debt (Continued)**

Principal and interest payments due on mortgage loan advances as of December 31, 2017, are as follows:

<b>Years Ended December 31,</b>	<b>Principal</b>	<b>Interest</b>
2018	\$ -	\$ 3,567,111
2019	-	3,567,111
2020	-	3,567,111
2021	2,694,030	3,532,898
2022	3,714,034	3,399,621
2023-2027	20,851,560	14,716,717
2028-2032	25,232,312	10,335,965
2033-2037	30,533,427	5,034,851
2038-2039	10,354,526	314,958
<b>Total</b>	<b>\$ 93,379,889</b>	<b>\$ 48,036,343</b>

**Note 8. Risk Management and Regulatory Matters**

**Professional and General Liability Insurance**

Professional and general liability claims have been asserted against The District and are in various stages of developing. Events occurring through December 31, 2017 may result in the filing of additional claims. The District has a risk management program that provides professional and general liability coverage up to \$28,000,000 in the aggregate.

Professional liability claims are limited through the District's participation in the Louisiana Patient's Compensation Fund (the Fund). The Fund was established through state legislation and statutorily limits each medical professional liability claim to \$500,000. The District is self-insured for the first \$100,000 of each claim. The remaining \$400,000 of each claim is covered by the Fund. The District has additional coverage that reduces this self-insurance limit to \$10,000 and would cover any claims not covered by the Fund.

**Estimated Employee Health and Workers' Compensation Claims**

As mentioned in Notes 1 and 10, the personnel servicing the District are employed by Touro Infirmary. Touro Infirmary's medical plan is self-insured up to \$750,000 for non-domestic claims and fully self-insured for domestic claims. For workers' compensation, Touro Infirmary is self-insured for claims up to \$800,000. Under its risk management program, Touro Infirmary has excess coverage for non-domestic employee health claims and workers' compensation claims.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 8. Risk Management and Regulatory Matters (Continued)**

**Regulatory Matters**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

**Note 9. Commitments and Contingencies**

**Federal and Private Grants**

The District receives grants from federal and private sources. The District is subject to discretionary audits by the funding sources. There have been no audits by funding sources during the years ended December 31, 2017 and 2016 and management does not anticipate any adjustments as a result of future audits. Any adjustments from an audit performed by the funding source would flow through the financial statements during the year of the audit as a change in accounting estimate.

**Cooperative Endeavor Agreement**

As mentioned in Note 1, the District entered into a CEA with Louisiana Children's Medical Center and Touro Infirmary, collectively referred to as the Joint Parties.

As detailed in Notes 6 and 7, the District is obligated on a mortgage that is insured by HUD. So long as a mortgage on the District's property is insured or held by the Secretary of HUD, the Secretary may make a written request to the District and the Joint Parties to terminate the CEA with or without cause. The terms of the CEA provide that the District shall pay to the Joint Parties a fee that is comprised of annual management, revenue cycle management, and direct and indirect operating components. The District and the Joint Parties have agreed that Operating Revenues of NOEH, as defined, shall be the only source of funds for paying the fee.

The Joint Parties may also terminate the CEA prior to the expiration of its term. Should the accumulated and unpaid fees and operational obligations of the Joint Parties reach \$12,000,000, the Joint Parties are relieved of performing further their operational obligations.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 9. Commitments and Contingencies (Continued)**

**Cooperative Endeavor Agreement (Continued)**

Through the CEA, the District has recognized expense of approximately \$2,184,095 and \$1,795,000 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the District owes the Joint Parties approximately \$17,000,000 and \$17,547,000 for both the costs incurred by Touro Infirmary on behalf of the District as well as expenses recognized by the District and the annual management fee. These amounts are included within other current liabilities on the District's financial statements.

As represented by the Joint Parties, they are not seeking relief from performing their operational obligations.

**Construction Commitments**

In October of 2017, the District entered into a construction contract with an unrelated party, in the amount of \$1,072,000, for the construction of an access ramp for the emergency department. At December 31, 2017, \$972,078 of the contract commitment had not yet been incurred.

**Note 10. Concentrations of Third-Party Payor Credit Risk**

The District grants credit without collateral to its patients, most of who are local residents and are often insured under third-party payor agreements. The mix of receivables from patients and third-party payors, net of contractual allowances and discounts, at December 31, 2017 and 2016, was as follows:

	2017	2016
Medicare/Medicaid	68.2%	64.4%
Managed Care/Commercial	31.0%	34.6%
Self Pay	0.8%	1.0%
	100.0%	100.0%

**Note 11. Upper Payment Limit (UPL)**

The District and other health care providers have collaborated with the State and units of local government in Louisiana, to more fully fund the Medicaid program and ensure the availability of quality healthcare services for the low income and needy residents in the community population.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Financial Statements**

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**Note 11. Upper Payment Limit (UPL) (Continued)**

The provision of this care directly to low income and needy patients will result in the alleviation of the expense of public funds the governmental entities previously expended on such care, thereby allowing the governmental entities to increase support for the state Medicaid program up to federal UPL. Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. For the years ended December 31, 2017 and 2016, the District has recognized approximately \$26,600,000 and \$16,719,000, respectively, under the UPL program classifying it within net patient service revenue on the statement of revenues, expenses and changes in net position.

**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**

Independent Auditor's Report

To the Board of Commissioners  
Parish Hospital Service District  
For the Parish of Orleans - District A  
(A Component Unit of the City of New Orleans)  
New Orleans, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Parish Hospital Service District for the Parish of Orleans - District A (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 30, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 the 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 may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 District'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor of the State of Louisiana as a public document.

A handwritten signature in cursive script that reads "LaForte". The signature is enclosed in a thin black rectangular border.

A Professional Accounting Corporation

Metairie, LA  
April 30, 2018

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

To the Board of Commissioners  
Parish Hospital Service District  
For the Parish of Orleans - District A  
(A Component Unit of the City of New Orleans)  
New Orleans, Louisiana

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

We have audited the Parish Hospital Service District for the Parish of Orleans - District A's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended December 31, 2017. The District'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 program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

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

In our opinion, the District 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, 2017.

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

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District'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, we do not express an opinion on the effectiveness of the District'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.

Our 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. We did not identify any deficiencies in internal control over compliance that we 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 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. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.



A Professional Accounting Corporation

Metairie, LA  
April 30, 2018

**REPORT ON COMPLIANCE FOR EACH MAJOR HUD PROGRAM AND  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE  
CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS**

Independent Auditor's Report

To the Board of Commissioners  
Parish Hospital Service District  
For the Parish of Orleans - District A  
(A Component Unit of the City of New Orleans)  
New Orleans, Louisiana

**Report on Compliance for Each Major HUD Program**

We have audited Parish Hospital Service District for the Parish of Orleans - District A's (the District's) compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the audit guide) that could have a direct and material effect on each of the District's major U.S. Department of Housing and Urban Development (HUD) programs for the year ended December 31, 2017. The District's major HUD 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 the requirements of laws, regulations, contracts, and grants applicable to its HUD programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major HUD programs based on our audit of the compliance requirements referred to above. 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 guide. Those standards and the audit guide require that we 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 HUD program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major HUD program. However, our audit does not provide a legal determination on the District's compliance.

### **Opinion on Each Major HUD Program**

In our opinion, the District 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 HUD programs for the year ended December 31, 2017.

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

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major HUD 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 audit guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District'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 HUD 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 a material noncompliance with a type of compliance requirement of a HUD 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 HUD 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 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. We did not identify any deficiencies in internal control over compliance that we 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 our testing of internal control over compliance and the results of that testing based on the requirements of the audit guide. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



A Professional Accounting Corporation

Metairie, LA  
April 30, 2018

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity No.	Federal Expenditures
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<b><u>Direct Awards</u></b>			
Section 242 - Mortgage Insurance for Hospitals	14.128		\$ 93,379,889
Subtotal - Direct Awards			<u>93,379,889</u>
<b><u>U.S. Department of Health and Human Services</u></b>			
<b><u>Passed - Through Awards</u></b>			
Through: State of Louisiana National Bioterrorism Hospital Preparedness Program	93.889		3,847
Subtotal - Awards from Pass-Through Entities			<u>3,847</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>93,383,736</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 93,383,736</u>

See independent auditor's report.  
See accompanying notes to schedule of expenditures of federal awards.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Notes to Schedule of Expenditures of Federal Awards**

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**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Parish Hospital Service District for the Parish of Orleans - District A (the District) under programs of the federal government for the year ended December 31, 2017. 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*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting and the cost accounting principles contained in the Uniform Guidance. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for loan disbursements are recognized when paid.

**Note 3. Sub-Recipients**

There were no payments to sub-recipients for the fiscal year ended December 31, 2017.

**Note 4. Loan Balance**

In accordance with 2 CFR 200.502, the loan balance reported on the schedule of expenditures of federal awards represents the loan balance at the beginning of the year. As of December 31, 2017, the outstanding balance of this loan program is \$93,379,889.

**Note 5. Indirect Cost Rate**

The District did not apply indirect costs to this program.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2017**

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**I. Summary of Independent Auditor's Results**  
***Financial Statements***

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified?        Yes   X   No
- Significant deficiency identified that is not considered to be a material weakness?        Yes   X   None Reported

Noncompliance material to financial statements noted?        Yes   X   No

***Federal Awards***

Internal control over major programs:

- Material weakness identified?        Yes   X   No
- Significant deficiency identified that is not considered to be a material weakness?        Yes   X   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 section 2 CFR 200.516(a)?        Yes   X   No

Identification of major programs

CFDA Number(s)	Name of Federal Program or Cluster
14.128 (Major HUD program)	Section 242 - Mortgage Insurance for Hospitals

Dollar threshold used to distinguish between Type A and Type B programs        \$   750,000  

Auditee qualified as low-risk auditee?   X   Yes        No

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended December 31, 2017**

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**II. Financial Statement Findings**

None.

**III. Findings and Questioned Costs for Federal Awards**

None.

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)**

**Summary Schedule of Prior Year Findings**

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**Financial Statement Findings**

None.

**Findings and Questioned Costs for Federal Awards**

None.

## Independent Auditor's Report on the Supplementary Information

To the Board of Directors  
Parish Hospital Service District  
For the Parish of Orleans - District A  
(A Component Unit of the City of New Orleans)  
New Orleans, Louisiana

We have audited the financial statements of the Parish Hospital Service District for the Parish of Orleans - District A (the District), a component unit of the City of New Orleans, as of and for the years ended December 31, 2017 and 2016, and our report thereon dated April 30, 2018, which expressed an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to April 30, 2018.

The accompanying schedule of compensation, benefits, and other payments to agency head is presented for purposes of additional analysis, as required by Louisiana Revised Statute 24:513 A(3), 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 audits 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 and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



A Professional Accounting Corporation

Metairie, LA  
April 30, 2018

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
Schedule of Compensation, Benefits, and Other Payments to  
Agency Head  
For the Year Ended December 31, 2017**

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**Agency Head**  
Mr. Ronnie Burns, Board Chairman

<b>Purpose</b>	<b>Amount</b>
Salary	\$0
Benefits - Insurance	\$0
Benefits - Retirement	\$0
Benefits - Other	\$0
Car Allowance	\$0
Vehicle Provided by Government	\$0
Per Diem	\$0
Reimbursements	\$0
Travel	\$0
Registration Fees	\$0
Conference Travel	\$0
Continuing Professional Education Fees	\$0
Housing	\$0
Unvouchered Expenses	\$0
Special Meals	\$0

Note: For the fiscal year ended December 31, 2017, the chief executive officer of the Parish Hospital Service District for the Parish of Orleans - District A (the District) was employed by Louisiana Children's Medical Center and Touro Infirmary, collectively referred to as the Joint Parties under the terms of the Cooperative Endeavor Agreement (CEA), which includes the authority and responsibility for oversight of the day-to-day administration, management, and direction of the operations of the District. Accordingly, the agency head of the District is reflected as its board of commissioners' chairman.

**AGREED-UPON PROCEDURES REPORT**  
Parish Hospital Service District for the Parish of Orleans – District A  
(A Component Unit of the City of New Orleans)

Independent Accountant's Report  
On Applying Agreed-Upon Procedures  
For the Period January 1, 2017 – December 31, 2017

To the Board of Commissioners  
Parish Hospital Service District  
For the Parish of Orleans - District A  
(A Component Unit of the City of New Orleans)  
New Orleans, Louisiana and the  
Louisiana Legislative Auditor

We have performed the procedures enumerated below, which were agreed to by the Parish Hospital Service District for the Parish of Orleans – District A (A Component Unit of the City of New Orleans) (the District) 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 January 1, 2017 through December 31, 2017. The District's management is responsible for those C/C areas identified in the SAUPs.

The procedures and associated findings are as follows:

***Written Policies and Procedures***

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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.
  - c) ***Receipts***, including receiving, recording, and preparing deposits.
  - d) ***Payroll/Personnel***, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
  - e) ***Contracting***, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.

- f) **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.
- g) **Travel and Expense Reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- h) **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.
- i) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

**Results:** As a result of the procedures 1.a. through 1.i., LaPorte noted that the District did not have formal policies and procedures in place over the following areas: Budgeting, Receipts, Contracting, Travel and Expense Reimbursement, Ethics, and Debt Service. LaPorte noted that the District maintained formal written policies that addressed Purchasing, Disbursements, Payroll, and Credit Cards.

#### ***Board (or Finance Committee, if applicable)***

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- 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

**Results:** LaPorte obtained the Board of Commissioners' minutes for the fiscal period and noted that the Board of Commissioners met with a quorum on a bi-monthly basis and reviewed financial data and nonfinancial information such as contracts and disbursements.. We noted per review of the board packet and minutes that budget-to-actual comparisons were reviewed at meetings.

### ***Bank Reconciliations***

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3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.

**Results:** LaPorte obtained a listing of bank accounts from management and management's representation that the listing was 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 five 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.

**Results:** LaPorte selected all of the entity's bank accounts to perform procedures 4.a. through 4.c. We noted bank reconciliations were prepared, including evidence of management review for all accounts for the fiscal period. Reconciling items greater than 6 months were reviewed and tracked. It is management's policy to void items outstanding for longer than 12 months.

### ***Collections***

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5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

**Results:** LaPorte obtained 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 five 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.

**Results:** LaPorte obtained the listing of all of the entity's cash collection locations and performed procedures 6.a. through 6.c. LaPorte noted that the individual responsible for depositing cash is bonded. We also noted that the individual responsible for collecting cash does not make the deposit, nor does he prepare the bank reconciliations. As a result of the procedures performed above, we noted that there are no formal written policies and procedures over cash collections and reconciliations. There were no other exceptions noted over collections. For the highest dollar week of cash collections, we noted that deposits were made within 1 day of collection and all were completely supported by documentation.

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.

**Results:** As a result of the procedures performed above, we noted that there are no formal written policies and procedures over cash collections.

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

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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.

**Results:** LaPorte obtained a listing of disbursements and management's representation that the listing 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; (2) a receiving report showing receipt of goods purchased, or electronic equivalent; and (3) an approved invoice.

**Results:** Using the disbursement population from number 8, LaPorte selected 25 disbursements and performed procedures 9.a. through 9.c. The District does initiate purchases using a requisition/ purchase order system or an equivalent electronic system that separates initiation from approval functions for recurring purchases. Purchases are also made outside the system and approved by management and the board as necessary prior to payment. All purchases were approved prior to payment by a person other than the individual who initiated the transaction, either manually or through the requisition system.

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.

**Results:** LaPorte noted that the person responsible for processing payments is not able to add vendors to the entity's purchasing 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.

**Results:** LaPorte noted that the individuals 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.

**Results:** LaPorte noted that the blank check stock is maintained in a locked location, with access restricted to those persons who do not have signatory authority.

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.

**Results:** LaPorte noted that the District uses a check signing machine for disbursements below a certain dollar threshold, as determined by the District. Manual signatures are required by certain members of management and the board for large purchases, depending on the size of the purchase. Signers give consent to use the signature machine for purchases under a certain dollar threshold. These purchases also require invoice or P.O. approval prior to processing.

#### ***Credit Cards/Debit Cards/Fuel Cards/P-Cards***

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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.

**Results:** LaPorte obtained a listing of active credit cards and management's representation that the listing is complete. The District does not have bank debit cards, fuel cards, or P-cards.

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.
- b) Report whether finance charges and/or late fees were assessed on the selected statements.

**Results:** LaPorte obtained the monthly statements for all credits card and performed procedures 15.a. and 15.b. listed above, as there were less than 10 cards in total. We noted that for the largest month selected for testing, all statements were properly reviewed and approved prior to payment. There were no finance charges or late fees assessed on the statements tested.

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 of 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.

**Results:** LaPorte obtained supporting documentation for all credit cards for the month with the highest charges and performed the procedures 16.a. through 16.c. We noted one transaction that was not properly supported by an original receipt. All purchases were made in compliance with bid law, and for the District's business/ public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution.

### ***Travel and Expense Reimbursement***

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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.

**Results:** LaPorte obtained from management a listing of all travel and related expense reimbursements, by person, during the fiscal period and management's representation that the listing 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.

**Results:** LaPorte noted that the District does not have a formal written policy for travel and expense reimbursements, however, the expense reimbursement form includes requirements, such as the original receipts. The form also states that the employee should use the IRS's approved mileage reimbursement rate.

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.

**Results:** LaPorte selected the three employees with the most travel expense reimbursements and obtained supporting documentation for the amounts reimbursed. Although the District does not have formal policies and procedures in place over this reimbursement process, the reimbursement form requires the IRS mileage rate be used, which is in line with GSA rates. We noted that all expenses contained original receipts, the business purpose was documented for all reimbursements, and all expenses were properly approved in writing by someone other than the person receiving reimbursement. We noted none of the reimbursements were for meal charges.

### **Contracts**

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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.

**Results:** LaPorte obtained a listing of contracts and management's representation that the listing 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).

**Results:** LaPorte obtained the five contracts for vendors with the largest payments during the fiscal period and performed procedures 21.a. through 21.e. We noted that all contracts are approved by the board at regularly scheduled meetings, per review of the board minutes. All contracts were in compliance with bid law, as applicable. We selected the largest payment for each vendor and agreed amounts to the underlying contract and invoice without exception. LaPorte noted that there were no contract amendments during the fiscal period.

### ***Payroll and Personnel***

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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.

**Results:** LaPorte obtained a listing of employees with their related salaries and obtained management's representation that the listing was complete. Compensation was made in accordance with the terms and conditions of the employment contract for all five individuals selected and there were no changes to hourly rates during the fiscal year.

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.

**Results:** LaPorte obtained attendance and leave records for all employees, randomly selected a period in which leave was taken by at least one employee, and performed procedures 23.a. through 23.c. for 25 employees. We noted that attendance and leave are tracked for all employees of the District. For the period selected, we noted that there were two employees that did not have their time approved by supervisory personnel.

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.

**Results:** LaPorte obtained a listing of terminated employees/ officials during the fiscal period and management's representation that the listing is complete. We selected the two largest termination payments during the fiscal period and noted that payments were made in accordance with policy 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.

**Results:** LaPorte noted that there was one pay period for which the employee and employer portions of payroll taxes were not submitted by the required deadline. All retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

### ***Ethics (excluding nonprofits)***

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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.

**Results:** LaPorte obtained ethics compliance documentation from management for all employees randomly selected for testing from procedures #22.

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.

**Results:** Management has received no allegations of ethics violations during the fiscal period.

### ***Debt Service (excluding nonprofits)***

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28. If debt was issued during the fiscal period, obtain supporting documentation from the entity, and report whether State Bond Commission approval was obtained.

**Results:** LaPorte noted that debt was not issued by the District during the fiscal period, therefore, obtaining State Bond Commission approval is not applicable.

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.

**Results:** LaPorte noted that the District made scheduled debt service payments and was in compliance with covenants required by debt agreements for all bonds issued and outstanding during the fiscal period.

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.

**Results:** The District did not have tax millages related to debt service, therefore, this step is not applicable.

**Other**

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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.

**Results:** To management's knowledge, there have been no misappropriations of public funds or assets.

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.la.gov/hotline](http://www.la.gov/hotline)) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

**Results:** LaPorte noted that the District has posted on its premises and website the notice required by R.S. 24:523.1.

33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

**Results:** LaPorte noted no exceptions regarding management's representations in the procedures performed above.

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, we 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.

We were 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, 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.

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.



A Professional Accounting Corporation

New Orleans, LA  
June 29, 2018



June 29, 2018

LaPorte, APAC  
111 Veterans Boulevard, Suite 600  
Metairie, LA 70005

Dear Sirs:

Following are our responses to the exceptions noted in your report on the Louisiana Legislative Auditor's Statewide Agreed Upon Procedures performed for fiscal year ended December 31, 2017.

Written Policies and Procedures:

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) Receipts, including receiving, recording, and preparing deposits.
- c) Contracting, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- d) Travel and Expense Reimbursement, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- e) 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.
- f) Debt Service, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Results: As a result of the procedures 1.a. through 1.i., LaPorte noted that the District did not have formal policies and procedures in place over the following areas: Budgeting, Receipts, Contracting, Travel and Expense Reimbursement, Ethics, and Debt Service. LaPorte noted that the District maintained formal written policies over Purchasing, Disbursements, Payroll, and Credit Cards.

Response: The District will work to put the policies and procedures currently being practiced into formalized written policies for the following processes: Budgeting, Receipts, Contracting, Travel and Expense Reimbursement, Ethics, and Debt Service.

#### Collections:

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.

Results: As a result of the procedures performed above, we noted that there are no formal written policies and procedures over cash collections.

Response: The District will work to put the policies and procedures currently being practiced into formalized written policies for the cash collections process.

#### Credit Cards:

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).

Results: LaPorte obtained supporting documentation for all credit cards for the month with the highest charges and performed the procedures 16.a. through 16.c. We noted one transaction that was not properly supported by an original receipt. All purchases were made in compliance with bid law, and for the District's business/ public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution.

Response: The District will work to ensure that invoices and receipts are maintained with approved statements for all credit card purchases.

#### Travel and Expense Reimbursement:

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.

Results: LaPorte noted that the District does not have a formal written policy for travel and expense reimbursements, however, the expense reimbursement form includes requirements, such as the original receipts. The form also states that the employee should use the IRS's approved mileage reimbursement rate.

Response: The District will work to put a formal written policy in place for travel and reimbursements.

Payroll and Personnel:

Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.

Results: LaPorte obtained attendance and leave records for all employees, randomly selected a period in which leave was taken by at least one employee, and performed procedures 23.a. through 23.c. for 25 employees. We noted that attendance and leave are tracked for all employees of the District. For the period selected, we noted that there were two employees that did not have their time approved by supervisory personnel.

Response: The District will work to communicate to supervisory personnel the need to approve all time worked, even for salaried employees.

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.

Results: LaPorte noted that there was one pay period for which the employee and employer portions of payroll taxes were not submitted by the required deadline. All retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

Response: The District will work to ensure that payroll taxes and necessary forms are submitted to the applicable agencies by the required deadlines.

Sincerely,



Anthony Sabl

Chief Financial Officer

Parish Hospital Service District for the Parish of Orleans – District A