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ST. THOMAS HEALTH SERVICES, INC.
FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

Release Date 9-15-04

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American Institute of
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Michael B. Bruno, CPA
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Paul K. Andoh, Sr., CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
St. Thomas Health Services, Inc.

We have audited the accompanying statements of financial position of **St. Thomas Health Services, Inc.** (a non-profit corporation) as of December 31, 2003 and 2002 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the management of **St. Thomas Health Services, Inc.** 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **St. Thomas Health Services, Inc.** as of December 31, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors
St. Thomas Health Services, Inc.
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In accordance with Government Auditing Standards, we have also issued our report dated May 17, 2004 on our consideration of **St. Thomas Health Services, Inc.**'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants as of and for the year ended December 31, 2003. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements of **St. Thomas Health Services, Inc.** taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

May 17, 2004

ST. THOMAS HEALTH SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
<u>ASSETS</u>		
Cash and cash equivalents (NOTE 13)	\$ 10,762	\$ 46,779
Grants receivable	85,972	130,995
Other assets	15,921	20,937
Investments	2,486	2,018
Furniture, equipment and building improvements, net of accumulated depreciation of \$681,033 and \$646,992 in 2003 and 2002 (NOTE 2)	<u>77,491</u>	<u>93,894</u>
Total assets	<u>\$192,632</u>	<u>\$294,623</u>
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities	\$114,180	\$128,120
Notes payable (NOTE 10)	26,188	20,000
Deferred revenue	<u>5,789</u>	<u>40,789</u>
Total liabilities	<u>146,157</u>	<u>188,909</u>
CONTINGENCY (NOTE 11)		
<u>NET ASSETS (DEFICIT) (NOTE 2)</u>		
Unrestricted	(55,966)	(13,130)
Unrestricted - fixed assets	77,491	93,894
Permanently restricted	<u>24,950</u>	<u>24,950</u>
Total net assets	<u>46,475</u>	<u>105,714</u>
Total liabilities and net assets	<u>\$192,632</u>	<u>\$294,623</u>

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

ST. THOMAS HEALTH SERVICES, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003		2002		
	Unrestricted	Permanently Restricted	Unrestricted	Permanently Restricted	Total
<u>OPERATING REVENUES</u>					
Contributions (NOTE 4)	\$ 293,563	\$ -0-	\$ 309,235	\$ -0-	\$ 309,235
Special event, net of direct benefit cost of \$20,958 and \$-0- for the years ended December 31, 2003 and 2002	18,239	-0-	-0-	-0-	-0-
Grant revenues	877,209	-0-	905,362	-0-	905,362
Patient revenues (NOTE 6)	209,982	-0-	251,166	-0-	251,166
Other revenues	<u>7,807</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total operating revenues	1,406,800	-0-	1,465,763	-0-	1,465,763
<u>OPERATING EXPENSES</u>					
Health care	1,068,431	-0-	1,003,243	-0-	1,003,243
Management and general	<u>397,608</u>	<u>-0-</u>	<u>595,988</u>	<u>50</u>	<u>596,038</u>
Total operating expenses	1,466,039	-0-	1,599,231	50	1,599,281
Change in net assets	(59,239)	-0-	(133,468)	(50)	(133,518)
Net assets at beginning of year	<u>80,764</u>	<u>24,950</u>	<u>214,232</u>	<u>25,000</u>	<u>239,232</u>
Net assets at end of year	\$ <u>21,525</u>	\$ <u>24,950</u>	\$ <u>80,764</u>	\$ <u>24,950</u>	\$ <u>105,714</u>

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

ST. THOMAS HEALTH SERVICES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003			2002		
	Health Care	Management and General	Total Expenses	Health Care	Management and General	Total Expenses
Salaries, related payroll taxes and benefits	\$ 698,369	\$256,694	\$ 955,063	\$ 511,890	\$383,889	\$ 895,779
Insurance	6,767	17,597	24,364	3,735	8,291	12,026
Other	5,391	19,768	25,159	17,839	19,960	37,799
Professional fees and contract services	175,902	3,386	179,288	228,138	79,817	307,955
Repairs and maintenance	2,405	7,082	9,487	3,418	8,206	11,624
Supplies	137,718	15,953	153,671	171,205	13,398	184,603
Interest	-0-	8,913	8,913	-0-	2,084	2,084
Postage	-0-	2,596	2,596	-0-	1,677	1,677
Travel	4,635	1,782	6,417	6,528	2,488	9,016
Lab testing and diagnostics	25,726	-0-	25,726	50,411	-0-	50,411
Depreciation	-0-	35,104	35,104	-0-	47,078	47,078
Utilities	9,905	24,335	34,240	8,847	25,127	33,974
Meetings and conferences	1,613	4,398	6,011	1,232	4,023	5,255
Total expenses	<u>\$1,068,431</u>	<u>\$397,608</u>	<u>\$1,466,039</u>	<u>\$1,003,243</u>	<u>\$596,038</u>	<u>\$1,599,281</u>

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

ST. THOMAS HEALTH SERVICES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
<u>Cash Flows from Operating Activities</u>		
Change in net assets	\$(59,239)	\$(133,518)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	35,104	47,078
Changes in operating assets and liabilities:		
Decrease in other assets and grants receivable	50,039	60,287
Increase (decrease) in accounts payable and accrued liabilities	(13,940)	4,350
Increase (decrease) in deferred revenue	<u>(35,000)</u>	<u>36,898</u>
Net cash (used in) provided by operating activities	<u>(23,036)</u>	<u>15,095</u>
<u>Cash Flows from Investing Activities</u>		
Purchase of equipment	(18,701)	-0-
(Purchase) sale of investments	<u>(468)</u>	<u>1,137</u>
Net cash (used in) provided by investing activities	<u>(19,169)</u>	<u>1,137</u>
<u>Cash Flows from Financing Activities</u>		
Repayment of notes payable	(28,812)	(19,356)
Proceeds from notes payable	<u>35,000</u>	<u>20,000</u>
Net cash provided by financing activities	<u>6,188</u>	<u>644</u>
Net (decrease) increase in cash	(36,017)	16,876
Cash at the beginning of the year	<u>46,779</u>	<u>29,903</u>
Cash at the end of the year	<u>\$ 10,762</u>	<u>\$ 46,779</u>
Supplemental Disclosure for Cash Flow Purposes:		
Interest paid	<u>\$ 8,913</u>	<u>\$ 2,084</u>

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

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - Organization:

St. Thomas Health Services, Inc. (St. Thomas) is a community-based, nonprofit, primary health care clinic that provides ambulatory health care services, including diagnostic testing and medications, to the medically indigent of the St. Thomas Housing Development and surrounding area.

St. Thomas was founded in 1987 to improve the health status in the service area with major emphasis being placed on disease prevention.

Start-up funds, equipment, as well as on-going financial support for the operation of *St. Thomas* in a neighborhood where 70-80% of residents are uninsured and where 25% of the patients are homeless, have been obtained primarily from private sources and various grants. *St. Thomas* also makes use of support services offered by neighboring social service agencies and hospitals such as Hope House, Kingsley House, Bridge House and the New Orleans medical community. *St. Thomas* also lends its support through the provision of specialized laboratory testing, diagnostic services and hospitalization services at low or no cost.

St. Thomas is governed by a fifteen (15) member Board of Directors all of whom serve until their resignation or removal from the Board.

In order to assist in meeting its goals and mission of providing services as a primary health care clinic, *St. Thomas* has applied for and been awarded several government grants. During the years ended December 31, 2003 and 2002, *St. Thomas* received and administered the following governmental grants and programs:

- **Maternal and Child Health Care Program**

This program, funded by a grant from the State of Louisiana, Department of Health and Hospitals, provides services as follows:

- Comprehensive pediatric care to a defined number of children;

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - Organization, Continued:

- **Maternal and Child Health Care Program, Continued**
 - Comprehensive health care to a defined number of adult women and adolescents of child bearing age;
 - Social work and nutritionist services;
 - Coordination of maternal and child health services offered at *St. Thomas* with WIC and Medicaid; and
 - Development of outreach programs to increase access to primary health care.

- **Community Development Block Grant**

This program funded by the City of New Orleans:

- Provides medical services;
- Identifies adolescents and their families for recruitment/ outreach services;
- Provides health education; and
- Provides counseling and referrals.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - Organization, Continued:

- **Teen Pregnancy Prevention Program**

This program funded by U.S. Department of Health and Human Services passed through the State of Louisiana Department of Social Services provides health education, screening and counseling in the Clinic, schools and other community settings serving a city-wide constituency.

- **Family Planning**

This program funded by the State of Louisiana, Department of Health and Hospitals provides family planning service to persons requesting them. The services also include pregnancy testing and referrals.

NOTE 2 - Summary of Significant Accounting Policies:

Principles of Accounting

St. Thomas is a non-profit, community based health clinic whose financial statements are prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America. 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 disclosure 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.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued:

Basis of Reporting

In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 117 which establishes standards for external financial reporting by not-for-profit organizations, *St. Thomas* classifies resources for accounting and reporting purposes into three net asset categories which are unrestricted, temporarily restricted and permanently restricted net assets according to externally (donor) imposed restrictions.

A description of the three net asset categories is as follows:

- o Unrestricted net assets include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the mission of *St. Thomas* are included in this category. *St. Thomas* has determined that any donor-imposed restrictions for current or developing programs and activities are generally met within the operating cycle of *St. Thomas* and, therefore, *St. Thomas'* policy is to record these net assets as unrestricted.
- o Temporarily restricted net assets include realized gains and losses, investment income and gifts and contributions for which donor imposed restrictions have not been met.
- o Permanently restricted net assets are contributions which are required by the donor-imposed restriction to be invested in perpetuity and only the income be made available for program operations in accordance with the donor restrictions. Such income is reflected in temporarily restricted net assets until utilized for donor-imposed restrictions.

At December 31, 2003 and 2002, *St. Thomas* did not have any temporarily restricted net assets.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued:

Furniture, Equipment and Building Improvements

Furniture, equipment and building improvements of *St. Thomas* are recorded as assets and are stated at historical costs, if purchased, or at fair market value at the date of the gift, if donated. Additions, improvements and expenditures that significantly extend the useful life of an asset are capitalized.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Furniture and equipment	5 years
Building improvements	15 years

Such assets and related accumulated depreciation consist of the following:

	<u>2003</u>	<u>2002</u>
Furniture and fixtures	\$ 164,041	\$ 164,041
Leasehold improvements	425,677	425,677
Machinery and equipment	168,806	151,168
Accumulated depreciation	<u>(681,033)</u>	<u>(646,992)</u>
Net fixed assets	<u>\$ 77,491</u>	<u>\$ 93,894</u>

Support and Revenues

Revenues received under government grant programs are recognized when earned.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued:

Functional Allocation of Expenses

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

Cash Equivalents

For purposes of the Statements of Cash Flows, *St. Thomas* considers all investments purchased with a maturity of three months or less to be cash equivalents. *St. Thomas* had no cash equivalents at December 31, 2003 and 2002.

Reclassifications

Certain prior year amounts have been reclassified in these financial statements to conform to the current year's presentation.

NOTE 3 - Economic Dependency:

The primary source of revenue for *St. Thomas* is federal, state and local grants provided through various funding agencies. The continued success of *St. Thomas* is dependent upon the renewal of contracts from current funding sources as well as obtaining new funding.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 4 - Unrestricted Contributions:

Contributions consist of donations made to *St. Thomas* to provide support to the operation of *St. Thomas* as well as to fund specific projects as designated by the donor or the Board of Directors.

NOTE 5 - Government Grants:

St. Thomas is the recipient of several federal awards as disclosed in the Schedule of Expenditures of Federal Awards. Included in government grant revenues are funds disbursed from several funding sources to provide funds for the implementation of various community programs as well as to support the operations of *St. Thomas*. The method of payment on the grants is cost reimbursement.

NOTE 6 - Patient Revenues:

St. Thomas provides medical assistance to eligible medicaid and medicare recipients and receives reimbursements from the State of Louisiana's Department of Health and Human Services for claims submitted in conjunction with those services provided. Reimbursements for medicaid and medicare claims submitted for the years ended December 31, 2003 and 2002 totaled \$125,292 and \$125,101, respectively and are included in patient revenues.

NOTE 7 - Building Lease:

On January 30, 1991, *St. Thomas* executed a fifteen (15) year lease agreement with the Society of Redemptorists Order for the use of a building located at 1020 St. Andrew Street. The terms of the lease require *St. Thomas* to be responsible for the complete renovation of the building, upkeep and maintenance of the property, utilities and insurance coverage for the building and its contents.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 7 - Building Lease, Continued:

Additionally, *St. Thomas* will not be required to pay any monthly rental expense. The amount of the related fair value of such arrangement has not been determined at this time, therefore no amounts have been recognized in the statements of activities for donated facilities.

The building is to be used solely for the purpose of a neighborhood primary health care facility.

NOTE 8 - Pension Plan:

Certain employees of *St. Thomas* participate in a 401(k) Pension Plan which was established during January 2003. The plan is funded by employee deductions which are not required to be matched by *St. Thomas*.

NOTE 9 - Income Taxes:

St. Thomas is exempt from federal income taxes through Section 501(c)(3) of the Internal Revenue Code.

NOTE 10 - Notes Payable:

The following is a summary of the notes payable at December 31, 2003:

Note payable to a bank, secured by the Executive Director with an interest rate of 8.5% paid at maturity on October 31, 2004	\$11,233
Note payable to a bank, secured by certificate of deposit with an interest rate of 7.12% paid at maturity on April 4, 2004	<u>14,955</u>
Total	<u>\$26,188</u>

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 11 - Contingency:

St. Thomas is a recipient of several grants and awards of Federal and State funds. These grants and awards are governed by various Federal and State guidelines, regulations, and contractual agreements.

The administration of the program and activities funded by these grants and awards is under the control and administration of *St. Thomas* and is subject to audit and/or review by the applicable funding sources. Any grant or award funds found to be not properly spent in accordance with the terms, conditions, and regulations of the funding sources may be subject to recapture.

NOTE 12 - Fair Value of Financial Instruments:

The estimated fair value of all significant financial statement amounts have been determined by *St. Thomas* using available market information and appropriate valuation methodologies.

St. Thomas considers the carrying amounts of cash and restricted cash, grant receivable, and notes payable to be fair value.

NOTE 13 - Restricted Cash:

On June 28, 1996, *St. Thomas* received a \$25,000 contribution from the Fannie Mae Foundation in which the interest income is to be utilized to establish a revolving loan fund for expectant mothers who are uninsured and not eligible for federal or local government assistance with their health care. Such funds are recorded as permanently restricted net assets. The funds are maintained in the certificate of deposit. During the year ended December 31, 2002, \$50 was used to fund the operations of *St. Thomas*.

SUPPLEMENTARY INFORMATION

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003

<u>FEDERAL GRANTOR/PROGRAM NAME</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity's Number</u>	<u>Activity</u>
U.S. Department of Health and Human Services:			
Passed through the State of Louisiana - Office of Public Health			
Maternal Child Health Program	93.994	552031/556727	\$150,533
Family Planning Program	93.217	N/A	48,595
Passed through the State of Louisiana - Department of Social Service, Office of Family Support- Teen Pregnancy Prevention Program			
	93.558	588890/590123	<u>63,627</u>
Total U.S. Department of Health and Human Services			<u>262,755</u>
U.S. Department of Housing and Urban Development			
Passed through the City of New Orleans			
Community Development Block Grant	14.218	CD#50-080	<u>100,000</u>
Total U.S. Department of Housing and Urban Development			<u>100,000</u>
Total Expenditures of Federal Awards			<u>\$362,755</u>

NOTE: Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of **St. Thomas Health Services, Inc.** and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations.

See Independent Auditors' Report on Supplementary Information.



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

To the Board of Directors
St. Thomas Health Services, Inc.

We have audited the financial statements of **St. Thomas Health Services, Inc. (St. Thomas)** as of and for the year ended December 31, 2003, and have issued our report thereon dated May 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether **St. Thomas'** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(CONTINUED)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **St. Thomas'** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting which we have reported to management of **St. Thomas** in a separate letter dated May 17, 2004.

This report is intended solely for the information and use of the Board of Directors, management, the Legislative Auditor of the State of Louisiana, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP

**BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS**

May 17, 2004



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
St. Thomas Health Services, Inc.

Compliance

We have audited the compliance of **St. Thomas Health Services, Inc. (St. Thomas)** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2003. **St. Thomas'** major federal programs are identified in the summary of independent auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of **St. Thomas'** management. Our responsibility is to express an opinion on **St. Thomas'** compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(CONTINUED)

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 **St. Thomas'** 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. Our audit does not provide a legal determination on **St. Thomas'** compliance with those requirements.

In our opinion, **St. Thomas** complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2003.

Internal Control Over Compliance

The management of **St. Thomas** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered **St. Thomas'** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(CONTINUED)

This report is intended solely for the information and use of the Board of Directors, management, the Legislative Auditor of the State of Louisiana and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

May 17, 2004

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2003

Section I - Summary of Auditors' Results

1. Type of report issued on the financial statements: **Unqualified**.
2. Did the audit disclose any reportable conditions in internal control: **None Reported**.
3. Were any of the reportable conditions material weaknesses: **No**.
4. Did the audit disclose any noncompliance which is material to the financial statements of the organization: **No**.
5. Did the audit disclose any reportable conditions in internal control over major programs: **None Reported**.
6. Were any of the reportable conditions in internal control over major programs material weaknesses: **No**.
7. Type of report issued on compliance for major programs: **Unqualified**.
8. Did the audit disclose any audit findings which the independent auditors are required to report under OMB Circular A-133, Section 510(a): **No**.
9. The following is an identification of major programs:

<u>CFDA</u> <u>Number</u>	<u>Federal Program</u>
93.994	Maternal Child Health
14.218	Community Development Block Grant

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003

Section I - Summary of Auditors' Results, Continued

1. The dollar threshold used to distinguish between Type A and Type B Programs, as described in OMB Circular A-133, Section 520(b) is as follows:

<u>Program</u>	<u>Amount</u>
Type A	\$300,000

2. Did the auditee qualify as a low-risk auditee under OMB Circular A-133, Section 530:
No.

Section II - Financial Statement Findings

No matters reported.

Section III - Federal Award Findings and Questioned Costs

No matters reported.

ST. THOMAS HEALTH SERVICES, INC.
STATUS OF PRIOR YEAR AUDIT FINDINGS

Resolved Unresolved

Financial Statement Findings

None reported

**Federal Awards Findings and
Questioned Costs**

None reported

Management Letter Comments

01-MLC-01 Operating Deficits

X

ST. THOMAS HEALTH SERVICES, INC.

EXIT CONFERENCE

An exit conference was held on June 24, 2004 with the following in attendance:

ST. THOMAS HEALTH SERVICES, INC.

Ms. Barbara Major	-- Executive Director
Mr. Meredith McElroy	-- Grants Manager

BRUNO & TERVALON LLP, CERTIFIED PUBLIC ACCOUNTANTS

Mr. Alcide J. Tervalon, Jr., CPA	-- Partner
Mr. Armand E. Pinkney	-- Manager
Mr. Gerald Burton	-- Senior Accountant

The audit report was discussed. This report is intended solely for the information and use of the Board of Directors, management, the Legislative Auditor of the State of Louisiana and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



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Michael B. Bruno, CPA
Bride J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Board of Directors
St. Thomas Health Services, Inc.

In planning and performing our audit of the financial statements of **St. Thomas Health Services, Inc. (St. Thomas)** for the year ended December 31, 2003, we considered **St. Thomas'** internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of two matters that are opportunities for strengthening internal controls and improving operating efficiency. The following summarizes our comments and recommendations regarding those matters.

OPERATING DEFICITS

St. Thomas has incurred changes in net assets (operating deficits) of (\$59,239), (\$133,518) and (\$91,218) for the year's ended December 31, 2003, 2002 and 2001, respectively. Continuation of this trend of recurring operating deficits severely impacts to financial stability of **St. Thomas** and many give rise to issues regarding **St. Thomas'** ability to continue a going concern should these operating deficits continue.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

OPERATING DEFICITS, CONTINUED

Recommendation

We recommend that management continue to strengthen budgetary controls to reduce and/or prevent these recurring operating deficits to improve **St. Thomas'** financial stability and the viability of its continued operations.

EMPLOYEE ADVANCES

During our fieldwork, we noted that **St. Thomas** did not maintain records that properly reconciled employee advances to general ledger. Also, considering the recurring operating deficits, **St. Thomas** should evaluate it's practice of advancing current operating funds to employees.

Recommendation

We recommend that **St. Thomas** reconcile the detail of outstanding advances to general ledger and discontinue the current policy of advancing funds to employees.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with appropriate personnel and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

May 17, 2004

St. Thomas Health Services, Inc.

Response to Independent Auditors' Comments to Management For the Year Ended December 31, 2003

Corrective Action Plan

OPERATING DEFICITS –

In the past St. Thomas Health Services has spent money (mostly percentages of some salaries) before we received it, based on the assumption that we would receive certain grant funds. In the cases in which these grants did not come through, we had to reallocate these expenses to the General Fund (unrestricted funds from various sources). The problem with this course of action is that the General Fund, although unrestricted, is not unlimited. There are a number of salaries and fringe benefits, as well as other major expense items, which are in whole or in part funded, according to our budget, through the General Fund. The budget for General Fund cannot carry the additional burden of other salaries that had been fully allocated to come from other dedicated/restricted funds for programs. There are several corrective measures which we are taking to remedy this problem.

- We routinely and actively seek additional grant funds for salaries or portions of salaries and expenses which are now budgeted under General Fund, in order to free up unrestricted funds for other purposes, including creating a cushion for contingencies.
- We will not expend funds, especially for salaries, based on proposed grants for which we have not received reasonable confirmation. As we did in 2003, if this means that cutbacks of fringe benefits or personnel time (and thus salaries) or employee layoffs, we will do what we have to do to avoid having programs, staff and benefits that we cannot afford to pay for.
- We will have a budget based on confirmed funding sources and conservative projections (validly conceived) of patient payments, and we will monitor actual activity and adjust actual expenses based on comparison of actual to budget.
- Last year we initiated cost-cutting measures in some of the larger line items in our budget, such as Medical Supplies and Contractual Services.
- In 2004 we have requested assistance from a larger medical facility in a number of areas including covering some or all of our costs for Lab Tests, X-rays & Diagnostics, Medical Supplies, and Office/Medical Equipment.
- We work consistently to increase collections of patient payments, the income of which supports the General Fund.
- We have placed a strong mandate upon staff to obtain proper documentation (such as addresses, Medicaid eligibility, proof of income, etc.) and record such information accurately and timely in the patients charts and on all applicable reporting forms; this action should lead to the Clinic's recovery of payment for patient visits and the diversion of billing/charges which should be the responsibility of another payor (such as Medicaid, Medicare or an insurance company).

- Through a growing relationship with and the support of the Louisiana Bureau of Primary Care and Rural Health, we are pursuing the possibility of applying to become a FQHC-look-alike (Federally Qualified Health Center). BPCRH want to fund the community assessment and application development process. If the application submitted to the federal government is approved, STHS would have access to additional regular income and other federal funding opportunities.
- We have been asked by a state legislators to lead the process of developing another community clinic in the Lower 9th Ward. This funding would help offset some of our expenses around grantseeking, community assessment, evaluation, technology, administration, because some of the work in the development process would be performed by our existing St. Thomas Health Services staff.
- We intend to make our fundraising campaign, initiated in 2003, an annual event/fund drive through which we anticipate over time to increase our funding base as well as our relationships and potential support from major donors on an ongoing basis.

EMPLOYEE ADVANCES

St. Thomas will work with our accountant to resolve the discrepancy between the general ledger and our payroll records as regards employee advances. We will consider some adjustment of our activity in advancing funds to employees in the light of recurring operating deficits; however, it is the policy of the Clinic to provide such employee assistance as an informal benefit or incentive in lieu of better salaries. Thus we cannot say that we will discontinue the policy of employee advances because this policy is directly in line with the mission of the Clinic and the philosophy and values by which we operate.