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**JEFFERSON PARISH  
HOSPITAL SERVICE DISTRICT NO. 1  
WEST JEFFERSON MEDICAL CENTER  
  
SPECIFIC PROCEDURES**

**PREPARED FOR:**

**PARISH OF JEFFERSON, LOUISIANA**

**TIMOTHY P. COULON  
PARISH PRESIDENT**

**AARON F. BROUSSARD  
COUNCIL CHAIRMAN**

**Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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.**

**MAR 25 1998**

Release Date



**HANFORD M. HARRISON**  
*Certified Public Accountant*  
GRETN, LOUISIANA

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March 23, 1998

Hon. Aaron F. Broussard  
Council Chairman  
Parish of Jefferson, Louisiana  
Gretna, Louisiana

At the request of the Council, I have performed certain agreed-upon procedures, as enumerated below, to certain records of West Jefferson Medical Center for the years 1995 and 1996 with respect to Jefferson Parish Resolution Number 84855. These procedures, which were agreed to by the Jefferson Parish Council, were performed solely to assist you in your oversight responsibility as it pertains to the West Jefferson Medical Center. This agreed-upon procedure engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is the responsibility of the specified users of the report. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The objectives of this engagement, which were outlined in my engagement letter dated June 11, 1997, were as follows:

- Identify the scope and limitations of authority granted through the enabling act.
- To review the Board of Directors minutes for 1995 and 1996 to determine that actions moved upon were approved and within the parameters of the board's authority.
- Evaluate the cost/benefit of professional service contracts awarded during 1995 and 1996 and determine whether they were properly authorized.
- Identify specific audit areas which merit further consideration or review and perform additional audit procedures.
- Identify expenses reimbursed or paid in behalf of the Board of Directors and examine supporting documentation.

Hon. Aaron F. Broussard  
Council Chairman  
Parish of Jefferson, Louisiana

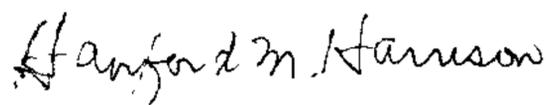
- Review the Executive Staff Fringe Benefit package.

My evaluation was not applied to the medical and technical division of West Jefferson Medical Center's activities. My procedures involved interviews with the Chief Executive Officer and selected personnel. I also evaluated selected documents, files, reports, systems, procedures and policies as I considered appropriate. The financial data consulted in the course of my analyses was not audited or reviewed by me, and accordingly, I do not express an opinion or any other form of assurance on them. *Had I performed additional procedures or had I conducted a financial audit of the information obtained in accordance with generally accepted auditing standards, matters might have come to my attention that would have been reported to you.*

My findings are presented in the accompanying schedule along with the management response from the Medical Center. All significant observations and recommendations are included in this report for your consideration. The recommendations in this report represent, in my judgement, those most likely to bring about beneficial improvements to the administration of the organization.

I am presenting this report to the Parish Council to assist them, the West Jefferson Medical Center and the Chief Executive Officer in bringing about improvements to the administration of the Medical Center. *This report should not be used for any other purpose.*

Sincerely,

  
Hanford M. Harrison, CPA

September 26, 1997  
Gretna, LA

JEFFERSON PARISH  
HOSPITAL SERVICE DISTRICT NO.1  
WEST JEFFERSON MEDICAL CENTER  
SPECIFIC PROCEDURES

**I. SCHEDULE OF FINDINGS**

**BOARD OF DIRECTORS TRAVEL REIMBURSEMENTS**

1. For 1995 and 1996, Board members were not informed of their spouse's travel expenses and, therefore, did not reimburse the Medical Center for those expenses. Upon our inquiring about reimbursement, the Board members were billed for the expenses and some reimbursements have been received, although not all have. Total dollar amount involved is less than \$3,000 for each year.

**Management Response:**

Upon being informed of this oversight, Management immediately billed each Board member and requested reimbursement.

**REAL ESTATE ACQUISITIONS**

There are presently six outlying clinics operating under the name of Family Doctors. The site selection begins by an independent strategic research consultant identifying a target area where a clinic is thought to have the ability to be successful based on population, accessibility, etc. Available sites are identified and discussion is undertaken by the Chief Executive Officer, the Senior Vice-President/Medical Director and the Senior Vice-President/Administration to determine the costs associated with each site. During the course of my review of the real estate acquisitions of these outlying clinics, I noted the following unusual transactions:

1. The location at 128 Wright Avenue was purchased for \$13,000 more than the appraised value.

**Management Response:**

Management believes that the purchase price for the property located at 128 Wright Avenue was reasonable and the acquisition of the property was in the best interests of the Medical Center. This acquisition was approved by the Parish Council Resolution No. 57691 dated 11-5-86

2. The location at 148 Wall Boulevard was purchased for \$10,000 more than the appraised value. This property was purchased from BIO-TECH SERV., INC. on 11/06/95. BIO-TECH SERV., INC. whose registered address was 148 Wall Blvd., bought the property on 4/30/91 from a former Jefferson Parish Councilman and his wife whose mailing address was 148-C Wall Boulevard.

Management Response:

Management believes that the purchase price for the property located at 148 Wall Boulevard was reasonable and the acquisition of the property was in the best interests of the Medical Center. This acquisition was approved by the Parish Council Resolution #80477. The ownership of the property by a former council member four years prior to it's acquisition by the Medical Center was never considered by the Medical Center. It is our understanding BIO-TECH acquired this property from Jack Stumpf. Resolution No. 80477 dated 9-13-95

3. The location at Lapalco and Westwood was purchased on 1/3/97 for \$150,000; \$10,000 more than the appraised value. The sellers of the property had purchased the property approximately two years earlier for \$50,000.

Management Response:

Management believes that the purchase price for the property located on Lapalco Boulevard was reasonable and the acquisition of the property was in the best interests of the Medical Center. This acquisition was approved by the Parish Council Resolution No. 83400 dated 11-20-96

4. The location at Hwy. 90 Washington Place was purchased by the Medical Center for the appraised value of \$46,500 on 9/9/93. The seller had purchased the property eighteen months earlier for \$7,500.

Management Response:

Management believes that the purchase price for the property located at 90 Washington Place was reasonable and the acquisition of the property was in the best interests of the Medical Center. This acquisition was approved by the Parish Council Resolution No. 75018 dated 8-11-93

5. The property purchased at Hwy. 90 Washington Place (same property referred to in item 4) included nine lots. On 3/7/94, WJMC sold lots three through nine to the Department of Community Development of Jefferson Parish for \$46,500. The acquisition file at the Medical Center includes a letter from Mr. David R. Dyer, Assistant Parish Attorney advising Mr. David Smith that the property will be paid for with HUD funds and that federal guidelines dictate that an appraisal on the property followed by a review appraisal be performed unless the Medical Center is willing to waive the appraisals and to sell the lots for no more than the Medical Center had paid for them. Subsequently, there was no additional appraisal performed other than the initial appraisal on the nine lots valued at \$46,500, however, the seven lots were sold to the Department of Community Development for \$46,500. These seven lots were acquired for \$36,167, or 7/9 of \$46,500, giving the Medical Center a profit of \$10,333.

#### Management Response

Management believes the sale of a portion of the property located at 90 Washington Place was in the best interests of the Medical Center. The Medical Center had no use for the land in excess of that needed for our Family Doctor's Avondale Clinic. The net result of these transactions was that the Medical Center obtained its clinic property at no cost to the Medical Center.

In addition to the outlying clinics, the Medical Center owns additional real estate. The following items were noted in the acquisition of these properties:

Resolution No. 75824, dated 12-15-93

6. A medical office building located near the Medical Center at 4413 Wichers Drive was purchased on 7/25/95 from a Doctor who operated a cardiovascular medical practice in the building. The Doctor had purchased the building one month earlier for \$692,000. The property was appraised at \$1,700,000 and the council passed a Resolution #79914 approving the purchase of the building for \$1,700,000. However, in addition to the \$1,700,000, the Doctor was paid an additional \$1,594,085; \$250,000 of which was attributed to Cath Lab Assets and \$1,344,085 attributed to goodwill. The payment of the \$1,594,085 was accomplished through a wire transfer rather than a check. Approximately three months later, the Doctor retired and the \$1,344,085 of goodwill was written off. The official Board of Directors minutes of 6/26/95 indicate that the purchase of the property at that location was approved, but no dollar amount is mentioned.

Management Response:

Management believes that the purchase price for the property and business operations formerly located at 4413 Wichers were reasonable and in the best interests of the Medical Center. This acquisition was approved by the Parish Council Resolution #79914. It is noted the physician/seller acquired the property from a privately held corporation under his control. Thus, his acquisition price did not reflect fair market value. It is also noted that the catherization facilities were performing approximately 600 cases per year prior to the acquisition and subsequent closure of this facility. Much of this business was redirected to the Medical Center's main campus. It is also noted that this facility could easily have been converted to an outpatient surgery facility if it had been acquired by a competitor. The acquisition by the Medical Center eliminated that competitive threat. In addition, two cardiologists associated with the previous cath lab subsequently relocated into the Medical Center's Physician Office Building and now lease 8,000 square feet.

Resolution No. 79914, dated 6-21-95

7. Land in Lafitte was purchased 12/12/87 from Leader Development Corp. for \$322,000. There was no appraisal done on the property. Council approval of this acquisition is recorded in Resolution #60031. Leader Development Corporation had purchased the property two months earlier, on 10/2/87 for \$230,000. The parish is presently leasing this property for \$1.00 a year for a walking tract.

Management Response:

Management believes that the purchase price for the property located on Lafitte-Larose Highway was reasonable and the acquisition of the property was in the best interests of the Medical Center. This acquisition was approved by Parish Council #60031. This property was originally acquired to be a future site of a Family Doctors Clinic. Several years later, a Parish Councilman asked if it could be used as jogging path for the benefit of the community. The Medical Center agreed and the community has certainly utilized the property. Given the goodwill generated within the community, the Medical Center has not recently considered the development of this property as a Family Doctors site. Resolution No. 60031, dated 9-30-87

**PROFESSIONAL SERVICE CONTRACTS:**

A review of the professional service contracts has shown that not all engagements were approved by the Board and that in other cases the Board approved amount was exceeded.

1. May 27, 1996, the Board approved Coopers & Lybrand to perform a study on a regional laboratory at a cost of \$26,339. Expenses totaled \$46,202 for the study; a 75% increase, which was not approved by the Board.

Management Response:

The lab study by Coopers & Lybrand was approved by the Board of Directors. The original estimated cost of the study was discussed with the Board; however, the estimated cost was not considered a maximum amount to be expended for the study. The cost of this study was shared with Ochsner Foundation Hospital and Pendleton Memorial Methodist Hospital.

2. The Board of Directors approved Tribrook Management consultants for Phase II of the Physician Integration Strategy project at an estimated cost of between \$50,000 and \$70,000 which would include a two day retreat to their January 22, 1996 board meeting. Total billings for the contract amounted to \$113,918; a 63% increase over approved amount which was not approved by the Board.

Management Response:

The study by Tribrook was approved by the Board of Directors. The original estimated cost of the study was discussed with the Board; however, the estimated cost was not considered a maximum amount to be expended for the study.

3. Several professional service contracts were performed for the Medical Center for which no prior approval could be identified in the Board of Directors official minutes.

1995

Kaufman Hall	Strategic Plan	\$32,102
Sun Health	Decision Support Serv.	51,876
The Advisory Bd.	Clinical Bench Mark	31,075

<u>1996</u>		
Pitts Management	Strategic Plan	23,656
The Advisory Bd.	Operational Study	34,885
Sun Health	Strategic Plan	60,581
Premier	Strategic Info. Sys.	88,396

Management Response:

The Board of Directors approves the Medical Center's overall budget but does not approve individual expenditures.

**ADMINISTRATIVE MATTERS:**

1. There is no established criteria for which Hospital Administration actions require Board of Directors' approval. The Board approves the annual budget and approves changes to the physical plant, but beyond that, matters brought to the Board's attention are at the Administrator's discretion.

Management Response:

Management acknowledges that matters brought to the Board's attention are at the Administrator's discretion. The Board of Directors and Management follow the guidelines established by the Hospital Service District laws (Revised Statute-Title 46, Chapter 10, Sections 1055,1056,1057) and the Medical Center's bylaws, which have been adopted by the Jefferson Parish Council (Ordinance #11654). The primary responsibilities of the Board of Directors are to establish the Medical Center's mission, develop strategy, approve policy, and to monitor compliance and financial performance. Management's responsibilities include execution of the mission, strategies and policies adopted by the Board of Directors. The Board of directors and Management work together to develop the Medical Center's strategic and operational agenda. Historically, Management has been available to address any issue or concern the Board of directors or other interested parties may have regarding the operation of the Medial Center.

2. Based on our review, it does not appear that West Jefferson Medical Center is using the budgeting process to its fullest managerial gauging potential. Management maintains that the budget is used for planning and deviations from the budget are not considered to be a significant or unusual occurrence. Although the initial budget is approved by the Board and the Jefferson Parish Council, the budget is not

subsequently amended for unforeseen variances. It is our recommendation that large deviations from the budget be incorporated into the criteria used to determine items to be brought to the Board's attention.

Management Response:

Management acknowledges the Medical Center's budget is primarily used as a planning tool. The Medical Center operates as a business and has a relatively volatile revenue stream. There are no true cycles of activity and the Medical Center's success is dependent on its ability to market itself to patients, physicians, employers, health insurance plans and the general public. The Medical Center's expenditures are heavily dependent on patient activity. Thus, we can't simply establish a budget and cut off spending when no budgeted funds remain. Over any extended period of time, the Medical Center's expenditures have easily fell within budgeted amounts. As a general rule, variations in income (flu season, etc.) may necessitate variances in expenditures, which are monitored on a quarterly and annual basis.

The Medical Center's budgeting, planning and managerial techniques have been very successful in the past. Management sees no reason to significantly change these processes. Management will continue to be diligent in its attempts to operate the Medical Center in a prudent, fiscally responsible manner.

3. In 1994, the Medical Center invested in a health maintenance organization. The investment was to be \$2,000,000 for one hundred units of membership with \$1,000,000 being paid in cash and the remaining \$1,000,000 to be paid through withholding of 20% of capitation fees over a three year period. In the event that the 20% capitation was insufficient to satisfy the \$1,000,000 due, the remaining amount was to be paid by December 1997. It is estimated that approximately \$500,000 will be due in December to fulfill this commitment. Only the initial \$1,000,000 investment has been recorded by the Medical Center. The additional capitation withholdings have not been recorded and nor has the liability due in December 1997.

Management Response:

Management does not agree with this finding. Actually, approximately \$1.5 million has been recorded as an asset and the Medical Center was recently invoiced for our remaining obligation approximating \$500,000.

4. 10/23/95 the Board approved an additional investment in Southeast Medical Alliance, L.L.C./HMO of \$5,000,000 by acquiring ½ interest of the Christian Health Ministries' twenty percent. A review of the audit workpaper files for this year shows

that this investment is carried as an other asset rather than as an investment. Generally Accepted Accounting Principals require that investments in which an entity owns more than a twenty percent interest be accounted for under the equity method and that certain disclosures be made in the notes to the financial statements. Although West Jefferson Medial Center possesses a 33.3% interest in the HMO and does account for the investment under the equity method, no disclosures are presented in the financial statements regarding the investment. In a related matter, the additional certificates of membership purchased with the \$5,000,000 investment are treated as being purchased at a premium of \$4,000,000. This premium is being amortized over twenty years.

Management Response:

Management does not agree with this finding. Actually, the Medical Center does account for it's investment in SMA using the equity method and currently owns 25% of SMA/HMO. The Medical Center's accounting and disclosure of these assets are in accordance with generally accepted accounting principles and have been audited by Arthur Andersen, CPA's.

5. Related to the same transaction referred to in item number four above, and recorded in the minutes of the Board of Directors meeting of Southeast Medical Alliance for February 1, 1996, is a discussion in which the hospital director for West Jefferson Medical Center states that it was his understanding that when another hospital was approved for membership in the HMO, that the new hospital would purchase the units originally owned by Christian Health Ministries and now held jointly between East and West Jefferson hospitals. The hospital director of East Jefferson hospital is recorded as saying that it had been RESOLVED that the additional capital flowing in from the admittance of another member would be used to develop a Medicare risk product for the HMO. No such resolution by the Board of Directors could be located in the minutes of previous board meetings. However, no additional discussion is recorded. Any agreement concerning an investment of this size should have been in writing.

Management Response

Management and the Medical Center's Board of Directors were fully aware of the various discussions regarding additional capital infusions from other parties into SMA.

6. Management Ethics Representations were not obtained in relation with the annual financial statement audit for the years ended December 31, 1995 and 1996. Accordingly, no testing was evidenced in the audit work paper files in this particular area. Representations from each of the Board members as well as the management of WJMC should be obtained on an annual basis to ensure that each individual is reminded that it is unethical for them or any member of their family to profit from transactions commenced with the West Jefferson Medical Center as a result of their service with the institution.

Management Response:

Board and Management Ethics Representations were obtained in 1997.

**JEFFERSON PARISH  
HOSPITAL SERVICE DISTRICT NO. 1  
WEST JEFFERSON MEDICAL CENTER  
SPECIFIC PROCEDURES**

**II. RECOMMENDATIONS AND CONSTRUCTIVE COMMENTS**

During the course of my engagement, certain matters came to my attention which give rise to opportunities for improvement and enhanced control of the hospital.

- It is my recommendation that objective criteria be developed to determine what matters should be brought to the attention of the Board of Directors for their consideration. The criteria established should describe the types of issues to be included, such as financial, legal, sale or purchase of fixed assets, etc. There should be a dollar amount established that would require approval by the Board of Directors before being expended, if it is not already included in the budget. There should be emergency provisions which would enable the administration of the hospital to expend an amount over the established dollar value without the board's approval in the case of the emergency. The board should be apprised of the circumstances and the dollar amount at the next regularly scheduled meeting and the action taken by the administration ratified by the board. These proceedings should be adequately described in the monthly board minutes.
- It is my recommendation that signed representations be obtained from each board member and management personnel on an annual basis disclosing any related party with any material interest, direct or indirect, involved in transactions with the Medical Center.
- It is my recommendation that members of the board of directors be informed timely regarding travel expenses incurred for their spouses and that reimbursements be promptly remitted.
- It is my recommendation that investments in which the Medical Center possesses more than twenty per cent interest be recorded in accordance with *generally accepted accounting principals* and that required disclosures be made in the financial statements.