

4276

Madison Parish Hospital Service District

Tallulah, Louisiana

Annual Financial Report

As of and for the Year Ended December 31, 2011

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 **SEP 26 2012**

**Madison Parish Hospital Service District
Tallulah, Louisiana
December 31, 2011**

TABLE OF CONTENTS

	<u>Page(s)</u>
Basic Financial Statements	
Balance Sheet	1
Statement of Revenues, Expenses, and Changes in Net Assets	2
Statement of Cash Flows	3 - 4
Notes to the Financial Statements	5 - 13
Supplementary Information	
Schedule of Compensation Paid to Board of Commissioners	14
Independent Auditor's Report	15
Other Reports Required by <i>Government Auditing Standards</i>	
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>	16 - 17
Schedule of Findings	18 - 33
Summary Schedule of Prior Year Findings	34

BASIC FINANCIAL STATEMENTS

Madison Parish Hospital Service District
Tallulah, Louisiana
Balance Sheet
December 31, 2011

Assets

Current assets	
Cash and cash equivalents	\$ 2,769,760
Cash - restricted	510,485
Patient accounts receivable, net	1,331,134
Other receivables	261,986
Taxes receivable	1,395,734
Estimated third-party payor settlements	180,437
Inventory	289,365
Prepaid expenses	163,105
Total current assets	<u>6,882,008</u>
 Property and equipment, net	 2,767,204
 Other assets	
Software licensing agreement	454,483
Cash value of life insurance	182,099
Other non current assets	4,939
Total other assets	<u>641,521</u>
 Total assets	 <u>\$ 10,290,731</u>

Liabilities and Net Assets

Current liabilities	
Current maturities of long-term debt	\$ 1,169,475
Current maturities of capital lease obligations	115,310
Accounts payable	1,258,905
Accrued expenses and other liabilities	460,082
Deferred revenue	1,174,126
Total current liabilities	<u>4,177,898</u>
 Long-term debt, net of current maturities	 619,890
Long-term capital lease obligations, net of current maturities	<u>116,669</u>
 Total liabilities	 <u>4,914,457</u>
 Net Assets	
Invested in capital assets, net of related debt	2,256,344
Restricted for debt service	510,485
Unrestricted net assets	2,609,445
Total net assets	<u>5,376,274</u>
 Total liabilities and net assets	 <u>\$ 10,290,731</u>

See accompanying notes to financial statements.

Madison Parish Hospital Service District
Tallulah, Louisiana
Statement of Revenues, Expenses, and Changes in Net Assets
for the Year Ended December 31, 2011

Revenue	
Net patient service revenue (net of provision for bad debts of \$1,822,879)	\$ 11,053,866
Uncompensated care reimbursement	2,143,017
Electronic health record revenue	563,953
Rural Hospital Coalition UPL payments	1,348,918
Other operating revenues	48,371
Total revenue	<u>15,158,125</u>
Operating expenses	
Salaries and benefits	9,386,712
Travel and training expenses	93,613
Medical supplies and drugs	726,119
Professional fees	1,943,569
Contract services	531,357
Operating supplies	408,217
Equipment rental	127,566
Non-capital equipment	29,270
Insurance	316,879
Repairs and maintenance	752,456
Depreciation	340,202
Amortization	41,317
Utilities	322,658
Advertising	47,914
Dues and subscriptions	74,701
Food	142,395
Legal and accounting	72,332
Transportation and auto expenses	126,918
Other expenses	114,927
Total operating expenses	<u>15,597,122</u>
Loss from operations	(438,997)
Non operating revenues (expenses)	
Interest income	9,630
Ad valorem taxes	1,389,624
Sales tax revenue	598,133
State revenue sharing	32,749
Interest expense	(77,429)
Total non operating revenues (expenses)	<u>1,952,707</u>
Change in net assets	1,513,710
Net assets, beginning of year, as previously reported	3,649,820
Prior-period adjustment - Cash	375,400
Prior-period adjustment - Deposits	255,244
Prior-period adjustment - Fixed assets	(119,566)
Prior-period adjustment - Accounts payable	180,823
Prior-period adjustment - Accrued expenses	27,892
Prior-period adjustment - Long-term debt	(507,049)
	<u>212,744</u>
Net assets, beginning of year, as restated	<u>3,862,564</u>
Net assets, end of year	<u>\$ 5,376,274</u>

See accompanying notes to financial statements.

Madison Parish Hospital Service District
Tallulah, Louisiana
Statement of Cash Flows
for the Year Ended December 31, 2011

Cash flows from operating activities	
Cash receipts from patients and third party payors	\$ 12,388,875
Other receipts from operations	1,790,408
Cash payments to employees for salaries and benefits	(9,317,623)
Cash payments to vendors for operating expenses	(6,149,392)
Net cash used in operating activities	<u>(1,287,732)</u>
Cash flows from noncapital financing activities	
Ad valorem and sales tax	1,892,830
State revenue sharing	37,795
Net cash provided by noncapital financing activities	<u>1,930,625</u>
Cash flows from capital and related financing activities:	
Proceeds from borrowings	1,000,000
Acquisition of property and equipment	(322,575)
Acquisition of licensing agreement	(240,554)
Principal payments on long-term debt	(48,672)
Principal payments on capital leases	(138,690)
Interest payments on long-term debt	(57,925)
Net cash provided by capital and related financing activities	<u>191,584</u>
Cash flows from investing activities	
Interest income	9,630
Increase in restricted cash	(510,485)
Increase in cash surrender value of life insurance	(67,843)
Net cash used in investing activities	<u>(568,698)</u>
 Net increase in cash and cash equivalents	 <u>265,779</u>
 Total cash and cash equivalents, beginning of year, as previously reported	 2,128,581
 Prior period adjustment	 <u>375,400</u>
 Total cash and cash equivalents, beginning of year, as restated	 <u>2,503,981</u>
 Total cash and cash equivalents, end of year	 <u><u>\$ 2,769,760</u></u>

See accompanying notes to financial statements.

Madison Parish Hospital Service District
Tallulah, Louisiana
Statement of Cash Flows - Continued
for the Year Ended December 31, 2011

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	(\$ 438,997)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation and amortization expense	381,519
Decrease (increase) in	
Patient accounts receivable, net	(261,248)
Prepaid expenses	6,501
Inventory	46,992
Other receivables	(170,834)
Third party payor settlements	(751,995)
Other assets	(4,939)
Increase (decrease) in	
Accounts payable	(369,055)
Accrued expenses and other liabilities	69,089
Deferred revenue	205,235
Net cash used in operating activities	<u>(\$ 1,287,732)</u>
 Supplemental schedule of noncash capital and related financing activities	
 Property acquired under capital lease	 <u>\$ 110,500</u>

See accompanying notes to financial statements

**Madison Parish Hospital Service District
Tallulah, Louisiana**

Notes to the Financial Statements
December 31, 2011

Note 1 - Organization and Operation

The Madison Parish Hospital Service District, Tallulah, Louisiana (the District) was created by the Police Jury of Madison Parish, Louisiana of which it is a component unit. It was created pursuant to Chapter 10, title 46 of the Louisiana Revised Statutes of 1950, as amended (R.S. 46:1051, *et seq.*). The District provides hospital facilities for the public primarily located in Madison Parish, Louisiana.

The District is a political subdivision of the Madison Parish Police Jury whose jurors are elected officials. Its commissioners are appointed by the Madison Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Madison Parish Police Jury is the financial reporting entity for the District. Accordingly, the District was determined to be a component unit of the Madison Parish Police Jury based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the police jury, the general governmental services provided by that government unit, or the other governmental units that comprise the financial reporting entity.

Nature of Business

The hospital operated by the District, Madison Parish Hospital, is considered a critical access rural hospital. The District provides outpatient emergency and inpatient hospital services as well as outpatient services through its hospital based rural health care clinic adjacent to the hospital. In 2011, a hospital based rural health clinic was constructed on the campus of the hospital and other rural health clinic operations were consolidated and moved to this site.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Basis of Accounting

The District utilizes enterprise accounting, whereby revenues and expenses are recognized on the accrual basis. Under the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America for proprietary fund types, substantially all revenues and expenses are subject to accrual. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514, and to the guide, *Health Care Entities*, published by the American Institute of Certified Public Accountants.

Cash and Cash Equivalents

Cash consists of interest and noninterest bearing demand deposits. Cash equivalents include amounts in time deposits with original maturities of 90 days or less. These deposits are stated at cost, which approximates market. Under state law, the District may deposit funds in demand deposits, interest bearing

deposits, money market accounts, or time deposits with state banks organized under Louisiana law or any state of the United States, or under the laws of the United States. All amounts in excess of FDIC insured amounts are required to be secured by securities invested in the U.S Government by Louisiana Statute.

Restricted Cash

Restricted cash is subject to a financial covenant, which requires that all incentive payments received by the District for the Electronic Health Record implementation segment of the ARRA will be applied toward principal reductions when received or deposited into a Capital One account with a hold to be maintained upon the funds with releases allowed for the principal portions of the payments or full loan balance retirement.

Patient Accounts Receivable

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party agreements. Patient accounts receivables are stated net of the allowance for estimated uncollectible amounts and third-party contractual adjustments. The allowance for uncollectible accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, and decreased by write-offs of accounts determined by management to be uncollectible. The District does not charge interest on past due accounts.

Inventory

Inventories represent medical and dietary supplies to be used in the future and are valued at the latest invoice price, which approximates the lower of cost (first-in, first-out method) or market.

Prepaid Expenses

Prepaid expenses are amortized on a straight-line basis over the period of the respective items and consist primarily of insurance premiums.

Property and Equipment

Fixed assets of the District are recorded at cost. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over their estimated useful lives. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized.

The following estimated useful lives are generally used:

Buildings and improvements	25 to 40 years
Machinery and equipment	5 to 20 years
Medical equipment	5 to 15 years

Intangible Assets

Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. Assets not subject to amortization are tested for impairment at least annually.

Deferred Revenue

The District received disproportionate share funds (Senate Bill 500) from the State of Louisiana which are amortized on a straight line basis into income based on the State's fiscal year of July through June. \$1,174,126 of the funds received in the last quarter of 2011 are shown as deferred revenue at December 31, 2011, and will be amortized into revenue monthly January through June of 2012.

Net Patient Service Revenue

The District has agreements with third-party payors that provide for payments to the hospital at 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 is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated 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 following is a summary of net revenue by payor type for the year ended December 31, 2011.

Commercial	0.66	%
Medicaid	23.97	%
Medicare	64.96	%
Patient pay	10.41	%
	<u>100.00</u>	<u>%</u>

Charity Care

The District provides medical care to patients who meet certain criteria established under its charity care policy without charge, or at rates substantially lower than its prevailing rates. The District does not pursue collection of amounts determined to qualify as charity care. Estimated direct and indirect costs incurred to provide charity care services, as calculated and reported on the District's 2011 Medicare cost report were approximately \$3,450,000. Funds received to offset or subsidize charity care services provided totaled \$2,143,017.

Operating Revenues and Expenses

The District's statement of revenues, expenses and changes in net assets 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 incentive payments received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Compensated Absences

Employees of the District are entitled to paid vacation and sick days depending on length of service and other factors. Vested or accumulated vacation leave is recorded as an expense and a liability as the benefits accrue to employees for service already rendered and is payable upon termination of employment.

Use of Estimates

The preparation of the 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. Accordingly, actual results could differ from those estimates.

Property Taxes

The District is permitted by state statute to levy taxes up to 13.11 mills per \$1,000 of assessed valuation. Property taxes are levied each November 1 on the assessed value listed as of the prior January 1 for property located within the District. The assessed value for 2011, upon which the levy was based, netted the District \$1,389,624 of tax revenue. Taxes become delinquent December 31 of each year. Delinquent property tax certificates are sold to the public beginning April 1, at which time a lien attaches to the property. By fiscal year end, substantially all property taxes have been collected, either directly or through tax certificate sales.

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illness; natural disasters; medical malpractice claims and judgments. Commercial insurance coverage is purchased for claims arising from such matters. The District is a member of the Louisiana Patient's Compensation Fund for the purpose of malpractice insurance. All participating hospitals share proportionately in the expense of the fund.

Net Assets

Net assets of the District are classified in three components. *Net assets invested in capital assets, net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the authority, including amounts deposited with trustees as required by bond indentures. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*

Note 3 – Cash Deposits

The District had the following deposits reflected on the accompanying balance sheet:

Cash and cash equivalents	\$	2,769,760
Cash restricted for debt service		<u>510,485</u>
	\$	<u>3,280,245</u>

Under Louisiana Revised Statutes 39:1271 and 33:2955, the District may deposit funds in demand deposit accounts, interest-bearing demand deposit accounts, money market accounts, and time certificates of deposit with state banks organized under Louisiana Law and National Banks having principal offices in Louisiana. Additionally, Louisiana statutes allow the District to invest in direct obligations of the U.S. Government, federally insured instruments, guaranteed investment contracts issued by certain financial institutions, and mutual or trust funds registered with the Securities and Exchange Commission.

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. The District's uninsured balances in the amount of \$3,218,661 were entirely collateralized by securities with a market value of \$4,409,307, which are held by the pledging bank's trust department in the District's name.

Note 4 - Patient Accounts Receivable, net

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of December 31, 2011 was as follows:

Commercial	\$	98,390	2.02	%
Medicaid		684,854	14.03	%
Medicare		30,291	.62	%
Patient pay		<u>4,067,672</u>	<u>83.33</u>	<u>%</u>
	\$	<u>4,881,207</u>	<u>100.00</u>	<u>%</u>

The following is a summary of patient accounts receivable as of December 31, 2011:

Patient accounts receivable	\$	4,881,207
Less: Allowance for doubtful accounts	(<u>3,550,073</u>)
Net patient accounts receivable	\$	<u>1,331,134</u>

Note 5 – Intangible Assets, net

Intangible assets consist of software licensing. Costs of \$495,800 were incurred in 2011, and are being amortized over the life of the agreement, five years, on a straight-line basis. As of December 31, 2011, accumulated amortization totaled \$41,317. Intangible assets, net of accumulated amortization, at December 31, 2011, totaled \$454,483.

Estimated amortization expense remaining for each year and in the aggregate is as follows:

2012	\$	99,160
2013		99,160
2014		99,160
2015		99,160
2016		57,843
	\$	<u>454,483</u>

Note 6 - Property and Equipment, net

Property and equipment at December 31, 2011, consisted of the following.

	Balance December 31, 2010, as restated	Additions	Deletions	Balance December 31, 2011
Land	\$ 152,094	\$ -	\$ -	\$ 152,094
Buildings and Improvements	4,941,638	748,565	-	5,690,203
Medical equipment	2,896,550	320,738	-	3,217,288
Construction in progress	626,223	-	626,223	-
Total at cost	8,616,505	1,069,303	626,223	9,059,585
Less Accumulated depreciation	(5,952,179)	X 340,202	X -	X 6,292,381)
Property and equipment, net	\$ <u>2,664,326</u>	\$ <u>729,101</u>	\$ <u>626,223</u>	\$ <u>2,767,204</u>

Depreciation expense, which includes amortization of capital lease assets, incurred for the year ended December 31, 2011, was \$340,202. Included in the cost of assets above are capital lease assets with a cost of \$1,008,937 and accumulated amortization of \$783,423 as of December 31, 2011.

Note 7 - Long-term Debt

The District had the following long-term debt activity for the year ended December 31, 2011:

Governmental Activities	Balance December 31, 2010, as restated	Additions	Deletions	Balance December 31, 2011	Due Within One Year
Revenue anticipation notes	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 1,000,000
Certificate of indebtedness	301,000	-	37,000	264,000	38,000
Notes payable	537,037	-	11,672	525,365	131,475
	\$ <u>838,037</u>	\$ <u>1,000,000</u>	\$ <u>48,672</u>	\$ <u>1,789,365</u>	\$ <u>1,169,475</u>

Long-term debt at December 31, 2011, is comprised of the following issues:

Revenue anticipation note - \$2,000,000 Revenue Anticipation Note, Series 2011, principal and accrued interest at 4.72% due upon maturity date of March 1, 2012.

Certificates of indebtedness - \$400,000 Certificates of Indebtedness, Series 2007, due in annual installments of \$31,000 to \$50,000 through September 1, 2017; interest at 5.16% per annum, payable semi-annually.

Note payable - GE Capital note payable in the original amount of \$54,187 dated April 1, 2008, with 59 monthly principal and interest payments of \$1,111; interest at a rate of 8% per annum, collateralized by leased equipment.

Note payable - Capital One financing in the original amount of \$510,485 dated November 17, 2010, with 12 interest only payment of \$2,080 through December 31, 2011, and 48 monthly principal and interest payments of \$11,761; interest at a rate of 4.89% per annum, collateralized by software licensing rights.

The annual requirements to amortize all debt outstanding as of December 31, 2011, are as follows.

Year ending December 31:	Governmental Activities		
	Principal	Interest	Total
2012	\$ 1,169,475	\$ 43,983	\$ 1,213,458
2013	167,963	27,522	195,485
2014	173,987	19,134	193,121
2015	180,940	10,339	191,279
2016	47,000	4,399	51,399
2017	50,000	1,935	51,935
	<u>\$ 1,789,365</u>	<u>\$ 107,312</u>	<u>\$ 1,896,677</u>

Principal payments of \$0 plus interest of \$24,960 were made on the revenue anticipation notes during the year ended December 31, 2011. Principal payments of \$37,000 plus interest of \$15,532 on the certificates of indebtedness were paid from the General Fund during the year ending December 31, 2011.

The certificates of indebtedness were issued for the purpose of acquiring and renovating a medical office building for use as a health clinic, and paying costs of issuance. The certificates are secured by and payable solely from the annual excess revenues of the District above statutory, necessary and usual charges in each of the years in which the certificates are outstanding.

The revenue anticipation note was issued for the purposes of paying current operating expenses for the fiscal year ending December 31, 2011, and paying the costs of issuance, and was secured by and payable from the revenues of the District for the fiscal year ending December 31, 2011.

Note 8 - Leases

Capital Leases - The District had the following capital leases payable as of December 31, 2011:

Lessor	Balance December 31, 2010, as restated	Additions	Reductions	Balance December 31, 2011	Due Within One Year
Phillips Medical Capital	\$ 58,190	\$ -	\$ 40,431	\$ 17,759	\$ 17,759
GE Healthcare	189,585	-	82,470	107,115	82,470
AVAYA Financial	12,356	-	8,504	3,852	3,852
Med One Capital	-	110,500	7,247	103,253	11,229
	<u>\$ 260,131</u>	<u>\$ 110,500</u>	<u>\$ 138,652</u>	<u>\$ 231,979</u>	<u>\$ 115,310</u>

The terms and due dates of the District's capital lease obligations as of December 31, 2011, are as follows

Medical equipment financing arrangement in the original amount of \$168,354, with an imputed interest rate of 7.5% per annum, payable to Philips Medical Capital in sixty monthly installments, as follows: twelve payments of \$2,557 beginning June 1, 2007, through May 1, 2008, and forty-eight payments of \$3,619 from June 1, 2008, through the maturity date of May 1, 2012. The lease is secured by the equipment financed under the agreement.

Medical equipment financing arrangement in the original amount of \$416,377, payable to GE Healthcare Financial Services in sixty monthly installments of \$6,872, beginning March 27, 2008, through the maturity date of February 28, 2013. The lease is secured by the equipment financed under the agreement.

Office equipment financing arrangement in the original amount of \$35,279, payable to Avaya Financial Services in sixty monthly installments of \$794, which includes principal and interest at the annual rate of 11.96%, beginning June 6, 2007, through the maturity date of May 6, 2012. The lease is secured by the equipment financed under the agreement.

Medical equipment financing arrangement in the original amount of \$110,500, with an interest rate of 14.48% per annum, payable to Med One Capital Funding LLC in eighty-four monthly installments of \$2,100, beginning February 28, 2011, through the maturity date of January 28, 2018. The lease is secured by the equipment financed under the agreement.

Minimum futures lease payments under capital leases as of December 31, 2011, for each of the next five years and in the aggregate are:

2012	\$	133,932
2013		49,844
2014		25,200
2015		25,200
2016		25,200
Thereafter		27,300
Total minimum lease payments under capital leases		286,676
Less: amount representing interest	(54,697)
Present value of net minimum lease payments	\$	<u>231,979</u>

Commitments Under Noncancelable Operating Leases – The District is committed under various noncancelable operating leases, all of which are for equipment. These leases expire in various years through 2015. Future minimum operating lease payments are as follows:

2012	\$	23,891
2013		14,008
2014		9,167
2015		3,877
	\$	<u>50,943</u>

Total lease expense under noncancelable operating leases for the year ended December 31, 2011, was \$21,240.

Note 9 - Related Party Transactions

Effective January 1, 2010, the District entered into a contract with an employee for the provision of services to administer the hospital's intensive outpatient services. Compensation paid under the contract for the year ended December 31, 2011, was \$96,000.

The District entered into a contract with one of its doctors for the provision of services as quality and infection control medical director of the Madison Parish Hospital. As a physician working for the hospital based rural health clinic, the doctor is a related party of the District. Compensation paid under the contract for the year ended December 31, 2011, was \$36,000.

The District has a contract with a company owned by one of its employees for patient transportation services. The monthly contracted amount is \$4,200, and a total of \$50,400 was billed by the company during 2011. At December 31, 2011, accounts payable to the company were \$4,200.

The District also purchased key man life insurance policies from the hospital administrator's son-in-law who was the agent of record during 2011. The amount paid for these policies was approximately \$174,000 in 2011.

The Hospital has an agreement with a computerized imaging company, in which the physician employees of the Hospital own a part along with other local physicians. The company provided the Hospital with CT scan services ordered by the physicians and performed by seven (7) hospital employees who were paid on a per CT scan basis by the company during 2011. Purchased services from the company for 2011 totaled \$339,500 with a total of 998 scans being performed during 2011. Accounts payable to the company amounted to \$109,000 at December 31, 2011.

Note 10 - Contingencies

The District evaluates contingencies based upon the best available evidence. The District believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the District's estimates, future earnings will be charged or credited.

Governmental Third-Party Reimbursement Programs

The District is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as a result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments, if any, cannot be determined. In addition the amount of any adjustments that may be required if amended cost reports are filed due to audit adjustments or questioned costs cannot be determined.

Healthcare Industry

The 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, privacy, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigation and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers.

Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. 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.

Litigation and Other Matters

Various claims in the ordinary course of business are pending against the District. In the opinion of management and counsel, insurance is sufficient to cover adverse legal determination in these cases.

Compliance Audit

The Louisiana Legislative Auditor's Office is currently performing a compliance audit/investigation of the District. The audit/investigation was not complete as of the date of these financial statements. The effect on the financial statements is not known at this time.

Note 11 - Employee Medical Benefit Plan

The District is self-insured to provide group medical coverage. A third-party administers the group medical coverage for the District. The District funds its losses based on actual claims. A stop-loss insurance contract executed with an insurance carrier covers individual claims in excess of \$40,000 per plan year. There were no significant changes in insurance coverage from the prior year.

The liability for unpaid claims, if any, is estimated based on actual claims paid subsequent to year end and is included in accounts payable in the accompanying balance sheet. Changes in the District's claims liability during the year ended December 31, 2011, is reflected below:

<u>Claims Liability January 1, 2011</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Claims Liability, December 31, 2011</u>
\$ <u>313,617</u>	\$ <u>822,979</u>	\$ <u>960,254</u>	\$ <u>176,342</u>

Note 12 - Prior Period Adjustments

Net assets at the beginning of 2011 has been adjusted to correct errors in cash, deposits, fixed assets, accounts payable, accrued expenses and long-term debt. Had the errors not been made, the change in net assets for the year ended December 31, 2010, would have been increased by \$212,744.

Note 13 - Subsequent Events

The Madison Parish Board of Commissioners terminated the previous CEO on July 13, 2012 and hired an Interim CEO on the same day.

The Madison Parish Police Jury requested the current Madison Parish Hospital Board of Commissioners to resign by August 10, 2012. The Police Jury seated four new board members, and one remained on the board by vote. One new board member resigned. The Police Jury seated the fifth board member on August 27, 2012. Four board members were sworn in at the Madison Parish Hospital Board meeting on August 27, 2012. Copies of the Louisiana Board of Ethics, State Hospital Regulations and the CMS Conditions of Participation were presented to each member for review and compliance education. The fifth board member was sworn in at the Madison Parish Hospital Board Meeting on August 31, 2012. Copies of the Louisiana Board of Ethics, State Hospital Regulations and the CMS Conditions of Participation were presented to the fifth member for review and compliance education.

The District has evaluated subsequent events through September 4, 2012, the date which the financial statements were available to be issued, concluding there were no other events requiring disclosure.

SUPPLEMENTARY INFORMATION

**Madison Parish Hospital Service District
Tallulah, Louisiana**

**Schedule of Compensation Paid to Board of Commissioners
for the Year Ended December 31, 2011**

<u>Commissioner</u>	<u>Number of Meetings Attended</u>	<u>Per Diem</u>
Marjorie Day	18	\$ 1,350
Hayward Fair	19	1,425
Johnny Ford	19	1,425
Charles Weeks	17	1,275
John Wilkins	18	<u>1,350</u>
Total		<u>\$ 6,825</u>

Benefits received other than board meeting per diem are not included in this schedule.

See Independent Auditor's Report.

OTHER REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

To the Board of Commissioners
Madison Parish Hospital Service District
Tallulah, Louisiana

We were engaged to audit the accompanying balance sheet of the Madison Parish Hospital Service District (the District), a component unit of Madison Parish Police Jury, State of Louisiana, as of December 31, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management.

Because of the pervasiveness of the findings reported on pages 18-33; the fact that management has resigned and cannot accept responsibility for the financial statements or provide us with management representations; the uncertainties created by the potential impact from the ongoing compliance audit by the Louisiana Legislative Auditor's office; any sanctions that may be imposed by funding sources as a result of amended cost reports that might be filed as a result of these findings and investigations, we are unable to determine the impact of these items to these financial statements as of December 31, 2011.

Because of the significance of the matters described in the preceding paragraph, we are unable to express, and we do not express, an opinion or any other form of assurance on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2012, 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* and should be considered in assessing the results of our audit.

We were engaged for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The schedule of compensation paid to board of commissioners is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. We do not express an opinion or provide any assurance on the information because benefit information that should be included was not available, and the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States have determined to be necessary to supplement, although not required to be part of, the basic financial statements.

ROBERTS, CHERRY AND COMPANY
ROBERTS, CHERRY AND COMPANY

A Corporation of
Certified Public Accountants
Shreveport, Louisiana
September 4, 2012

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
In Accordance With Government Auditing Standards**

To the Board of Commissioners
Madison Parish Hospital Service District
Tallulah, Louisiana

We were engaged to audit the financial statements of Madison Parish Hospital Service District (the District) of Tallulah, Louisiana, a component unit of Madison Parish Police Jury, State of Louisiana, as of and for the year ended December 31, 2011. We disclaimed an opinion on the basic financial statements, and have issued our report thereon dated September 4, 2012.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of findings to be material weaknesses: 2011-1, 2011-2, 2011-3, 2011-4, 2011-5, 2011-6, 2011-7, 2011-8, 2011-9, 2011-10, 2011-11, and 2011-12.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule

of findings responses as items 2011-10, 2011-13, 2011-14, 2011-15, 2011-16, 2011-17, 2011-18, 2011-19, 2011-20, 2011-21, 2011-22, 2011-23, 2011-24, 2011-25, 2011-26, 2011-27, 2011-28, and 2011-29.

The District's response to the findings identified in our audit in the accompanying schedule of findings was sent to the Louisiana Legislative Auditor's office under separate cover. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, 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. Although it's intended use of these reports may be limited, under Louisiana Revised Statute 24:513, this report is distributed by the Office of the Louisiana Legislative Auditor as a public document.

ROBERTS, CHERRY AND COMPANY

ROBERTS, CHERRY AND COMPANY

A Corporation of
Certified Public Accountants
Shreveport, Louisiana
September 4, 2012

**Madison Parish Hospital Service District
Tallulah, Louisiana**

**Schedule of Findings
For the Year Ended December 31, 2011**

Section I - Summary of Auditor's Results

Financial Statement Audit

Type of auditor's report issued on the basic financial statements: **Disclaimer of Opinion**

Internal control over financial reporting:

Material weaknesses identified? **Yes**

Significant deficiencies identified that are not considered to be material weaknesses? **No**

Noncompliance material to the basic financial statements noted? **Yes**

Section II – Financial Statement Findings Reported in Accordance with *Government Auditing Standards*

Current Year Findings

2011-1 Unrecorded bank accounts

Criteria or Specific Requirement: In order to maintain good controls over cash and present an accurate representation of the entity's financial position, all bank accounts and related activity should be recorded to the general ledger.

Condition: Upon review of the bank statements and the general ledger we noted that two bank accounts were not recorded in the accounts and records of the Madison Parish Hospital Service District (the District). Beginning of the year cash was understated by \$375,400 and a prior period adjustment was proposed to correctly state the cash balances as of January 1, 2011. Cash at the end of the year was understated by \$128,350.

Effect: The District's cash balances were understated and the activity related to these cash accounts was not recorded, resulting in an incomplete representation of the District's financial position. Material audit adjustments were required.

Cause: Due to its limited accounting staff, management has always relied on the District's outside Certified Public Accountant ("CPA") to ensure that all bank accounts are properly recorded in the accounts and records of the District.

Recommendation: We recommend the District record all bank accounts and related activity on the general ledger and seek qualified personnel to assist in the future to ensure this is done.

2011-2 Bank accounts not reconciled

Criteria or Specific Requirement: Timely reconciliation of all bank accounts is a key component of good controls over cash. Reconciling the bank balance with the book balance (general ledger) is necessary to ensure that all receipts and disbursements are recorded, checks are clearing the bank timely, reconciling items are appropriate and being recorded and the reconciled cash balance agrees to the general ledger cash balance reported.

Condition: The District did not perform monthly bank reconciliations timely. The District has historically outsourced its bank reconciliations to the District's outside CPA who prepares the bank reconciliations for the entire year subsequent to year-end, before the start of audit fieldwork.

Effect: Controls over cash are inadequate. Bank account transactions are not reviewed for accuracy in a timely manner to ensure that all cash transactions have been recorded properly and that unusual or unauthorized transaction are discovered and investigated. Cash balances reported to the governing body were misstated the entire year.

Cause: The District does not have a policy requiring timely reconciliation of bank accounts. Due to its limited accounting staff, management has always relied on the District's outside CPA to ensure that all bank accounts are reconciled and properly recorded in the accounts and records of the District.

Recommendation: We recommend the District implement and enforce a bank reconciliation policy using the best practice samples found on the Legislative Auditor's website.

2011-3 Failure to reconcile accounts receivable

Criteria or Specific Requirement: A reconciliation of detail accounts receivable from the general ledger to the accounts receivable detail sub-ledger should be prepared to check that the recording of transactions is accurate and proper and that any adjustments or write-offs of accounts receivable have been properly approved.

Condition: Upon review of the accounts receivable detail and inquiry of management we noted that the subsidiary detail ledger for accounts receivable is not being reconciled to the general ledger monthly.

Effect: The District is not ensuring accuracy of accounts receivable balances recorded in the general ledger and reflected in the financial statements. Audit adjustments were required to properly state the balances. The District is not taking advantage of an opportunity to prevent and detect errors or fraud in accounts receivable.

Cause: The District does not have policies and procedures in place over accounts receivable to ensure the detail balances are accurate and appropriately settled or collected.

Recommendation: We recommend the District implement a policy to require that a reconciliation of the accounts receivable detail to the accounts receivable control account be performed at the end of each month and that any reconciling items be investigated and cleared promptly. We also recommend review of the reconciliation by someone with adequate accounting knowledge who is not directly involved with the accounts receivable process to ensure it is proper.

2011-4 Failure to review allowance for doubtful accounts

Criteria or Specific Requirement: In order to ensure that the estimated loss from uncollectible accounts receivable is properly reflected on the financial statements, the allowance for doubtful accounts should be adjusted after reviewing the analysis of accounts and making appropriate collection efforts in order to collect as much as possible and determining those amounts potentially uncollectible.

Condition: Upon review of the allowance for doubtful accounts and inquiry of management we noted that the allowance is not being analyzed periodically and appropriate adjustments are not being made to the general ledger balance.

Effect: The District is not ensuring the allowance for doubtful accounts reflected in the financial statements is the best estimate of uncollectible accounts based on all available evidence. Material audit adjustments were required

Cause: The District does not have policies and procedures in place requiring doubtful accounts be analyzed periodically with appropriate adjustments made to keep the balances properly stated.

Recommendation: We recommend the District implement a policy requiring accounts receivable be analyzed at least quarterly to determine which accounts are uncollectible and updating the allowance for doubtful accounts as needed. The analysis should consider prior charge-off experience and indications of financial difficulty as well as other known circumstances.

2011-5 Clinic accounts receivable do not interface with general ledger

Criteria or Specific Requirement: To ensure accuracy and operating efficiency, all software should interface with the central software system.

Condition: Upon review of the Clinic receivables and inquiry of management, we noted that the Rural Health Care Clinic accounts receivable software does not interface with the hospital software system. The District does not reconcile the Clinic receivable control account in the general ledger to the subsidiary accounts receivable ledger to mitigate deficiencies in the software.

Effect: Amounts collected by the Clinic are being recorded on the District's books as receipts and revenue on the cash basis. The Clinic's accounts receivable balance on the general ledger is not being reconciled to the subsidiary ledger, possibly allowing misappropriations to go undetected.

Cause: The District purchased software which does not interface with the general ledger and the patch to correct this problem has not been completed yet. The District does not have policies and procedures in place over accounts receivable to ensure they are accurate and appropriately settled or collected.

Recommendation: We recommend the District modify existing software, or purchase new software to allow the Clinic's accounts receivable software to interface with the hospital software. Clinic receivables should be reconciled with the subsidiary ledger and receivables and revenues should be recorded on accrual basis.

2011-6 Failure to reconcile accounts payable

Criteria or Specific Requirement: The accounts payable detail subsidiary ledger should be reconciled to the general ledger balance periodically to determine that all additions to, and payments of, accounts payable are correctly recorded, to determine whether there are any disputed items and to ensure that the general ledger balance and the financial statements reflect the proper amounts.

Condition: Upon review of the accounts payable detail and comparison to the general ledger, it was noted that the accounts payable detail is not reconciled to the general ledger on a monthly basis. The beginning of the year accounts payable detail differed from the general ledger control account by \$180,823, a prior period adjustment was proposed to correct this. The unadjusted end of the year accounts payable detail differed from the general ledger control account by \$598,458.

Effect: The District is not ensuring the accuracy of accounts payable balances recorded in the general ledger and reflected in the financial statements. Material audit adjustments were required to correctly state these balances.

Cause: The District does not have a policy in place requiring timely reconciliation of the accounts payable subsidiary ledger to the general ledger control account.

Recommendation: We recommend the District implement a policy requiring the monthly reconciliation of the accounts payable detail to the general ledger as well as subsequent review by management to ensure the reconciliation is accurate.

2011-7 Payroll registers are not reconciled to the payroll accounts per the general ledger in an accurate and timely manner

Criteria or Specific Requirement: Controls require timely reconciliation of payroll registers to the amounts recorded in the general ledger and should be properly designed and implemented to ensure payroll expenses are accurately recorded.

Condition: The District did not have properly designed controls in place to ensure payroll and payroll tax related expenses per the payroll register were recorded at the appropriate amounts and in the correct accounts.

Effect: Payroll tax payments were routinely recorded to incorrect accounts and duplicate payroll expenses were recorded, resulting in significant misstatements and requiring material audit adjustments.

Cause: The employee responsible for recording the payroll entries to the general ledger had never been properly trained and did not realize that the entries were not properly recorded. The District does not have a policy in place requiring timely reconciliation of the payroll register to the general ledger, nor one to ensure that proper supervision of this function was performed.

Recommendation: We recommend the District properly design and implement controls requiring timely reconciliation of payroll registers to the amounts recorded for payroll and payroll related taxes per the general ledger as well as subsequent review by management to ensure the reconciliation is accurate. Reconciliations should include accrued compensation, vacation and other benefits. Employees involved in the payroll function should be properly supervised and trained in their job functions.

2011-8 Capital leases not recorded properly

Criteria or Specific Requirement Accounting standards dictate that capital lease assets and the related liability be recorded and separately identified in the balance sheet or disclosed in the notes.

Condition: In the review of capital leases it was noted that the District has not properly identified and recorded capital leases. We identified one capital lease in the amount of \$110,500 which was entered into in the current year but not properly recorded in the general ledger.

Effect: Capital assets and liabilities were understated. Material adjustments were required to properly record capital leases.

Cause: The District does not have policies and procedures in place regarding proper recording and disclosure of capital leases. Due to the limited accounting knowledge of its employees, the District has always relied on its outside CPA to perform this service at the time of audit.

Recommendation: We recommend the District record all capital lease assets and related liabilities on the books and either identify them separately in the balance sheet or disclose the required information in the notes to the financial statements.

2011-9 Inadequate controls over cash disbursements

Criteria or Specific Requirement. Good controls over cash disbursements include maintaining adequate, appropriate supporting documentation for purchases, making payments only from original invoices, ensuring invoices are canceled to prevent duplicate payment of amounts, proper coding and recordation of expenses in the correct period and adhering to the procurement policy.

Condition: During testing of the District's cash disbursement transactions it was noted that many expenditures were charged to the company credit card rather than paid by check, allowing the procurement system and controls to be bypassed. Several disbursements were paid from statements rather than invoices. We also noted that specific types of transactions were repeatedly recorded to incorrect ledger accounts. One transaction tested was noted as being recorded on the cash basis rather than the accrual basis resulting in the transaction being recorded in the incorrect period. Most of the invoices for transactions tested were not stamped paid, initialed or otherwise canceled to prevent duplicate payment. Supporting documentation could not be located for four transactions selected.

Effect: The District does not practice good controls over cash disbursements allowing for possible misappropriation of the District assets. Also the propriety of the four transactions mentioned in the preceding paragraph could not be determined.

Cause: The District does not have policies and procedures in place to exercise adequate controls over cash disbursements, and controls that are in place are being overridden.

Recommendation: We recommend the District revise policies and procedures over cash disbursements to require disbursements be paid by check whenever possible and be paid from original invoices only, adequate supporting documentation be maintained, preferably scanned in PDF format, for all disbursements and invoices be canceled to aid in prevention of duplicate payments. In addition, it is

recommended that the District provide adequate cross training of employees to prevent coding and posting errors when the usual accounts payable staff is unavailable

2011-10 Inappropriate payments to insurance vendor

Criteria or Specific Requirement Good business practices dictate that all disbursements be supported by adequate documentation and that there be a centralized review and oversight of all contracts to ensure that services received comply with the terms and conditions of the contracts

Condition: The District entered into contracts for life insurance policies that were never put in place. Insurance policies paid for by the District were not received and maintained on file at the District. It was also noted during our review of current and prior year healthcare claims that the District's health insurance agent included himself in the District's employee healthcare benefit plan and incurred claims which were paid for by the District

Effect: The District paid premiums for insurance policies which were not put into force by the District's insurance agent and were thus not legally binding or in force. Healthcare claims were improperly paid on behalf of the insurance agent who is not a District employee and should not be enrolled in the District healthcare benefit plan

Cause: The District does not have a policy in place requiring adequate documentation for all insurance policies purchased or centralized review and oversight procedures to ensure policies purchased comply with the terms and conditions of the contract or purchase agreement. Healthcare claims are not adequately reviewed prior to payment to ensure claims are for employees properly enrolled in the healthcare benefit plan. Also, there is no reconciliation of employees covered in the employee health benefit plan to current employees to identify inappropriate coverage. Also the District does not have a "no conflict of interest policy" in place to alert employees about potential inappropriate relationships

Recommendation: We recommend the District implement additional or revise existing purchasing policies and procedures using examples on the Louisiana Legislative Auditor's website of best practices which should at a minimum require purchases to be supported by adequate documentation. We recommend District management oversee all insurance policies and contracts to ensure they are valid and policies reflect the terms of the agreements reached with insurance vendors. In addition we recommend the District pursue actions, legal or otherwise, to recover funds paid to the insurance agent for policies that were never put into place, for healthcare claims paid on his behalf and for fees, if any that were not billed in accordance with policy terms. We recommend also that all healthcare claims be reviewed and approved prior to payment and that claims for individuals not covered by the employee healthcare benefit plan be denied payment

2011-11 Violations of contract terms

Criteria or Specific Requirement Good business practices dictate that contractors and the contracting officials both have a clear understanding of their specific responsibilities and restrictions in administering a contract. Basic contract law principles require parties to a contract to act in good faith. Having a valid contract for every business arrangement is good practice

Condition: During review and testing of the District's contracts, several apparent violations of contract provisions were noted in existing contracts. It was also noted that several contracts for professional services rendered in both the current year and prior year were expired and seemingly invalid

Effect: The District is not in compliance with the terms and conditions of contracts to which it is a party exposing the District to possible breach of contract and related liability. In other instances it appears that the District may have paid for more services than the contract called for. Operating with expired contracts exposes the District to risks it might otherwise be protected from should the terms of the contract be valid and legally enforceable.

Cause: The District does not have policies and procedures in place for monitoring contracts and ensuring the District and the vendor are complying with the terms and conditions of all contracts and that all contracts in operation are valid and in date.

Recommendation: We recommend the District centralize contract monitoring and oversight to ensure that all services received comply with the terms and conditions of the contract and that all contracts are up to date.

2011-12 Inadequate monitoring of financial information by management

Criteria or Specific Requirement: A strong system of internal controls requires that management monitor the income and expenditures and make decisions based on financial information produced by the entity.

Condition: We noted numerous material accounting errors in the current year unaudited financial statements and in the prior year audited financial statements which went undetected. Basic monthly checks and balances were not being performed which are normally found in an adequate accounting and reporting system including appropriate review and approval of the monthly journal entries and financial statements and of the adjusting audit journal entries and audited financial statements.

Effect: The monthly financial statement information being presented to Board of Commissioners was materially incorrect. The annual financial statements submitted to the Louisiana Legislative Auditor were materially incorrect. Material instances of noncompliance with laws and regulations were not detected by management.

Cause: Due to the lack of a qualified Controller being employed by the Hospital on a full or part-time basis, normal checks and balances found in basic accounting and reporting systems were not present.

Recommendation: We recommend that a controller be hired who would report to the Chief Executive Officer. The Controller's duties should be structured so that no one person in the Hospital has total control over any major portion of the accounting system, (i.e. Accounts Payable, Accounts Receivable, Payroll, etc.)

2011-13 Failure to prepare and submit quarterly payroll reports timely

Criteria or Specific Requirement: In accordance with Internal Revenue Service regulations, Form 941 Employer's Quarterly Federal Tax Return is generally due by the last day of the month following the end of each quarter.

Condition: The District failed to submit Form 941 for all four quarters of 2011 to the Internal Revenue Service within the general deadline specified.

Effect: The District is not in compliance with the general filing deadlines for Form 941 specified by the Internal Revenue Service. The District could incur penalties for late filing.

Cause: The District was unable to reconcile payroll per the system to the totals generated by the system in the quarterly 941 reports as they did not factor into their calculations the change in the employee social security withholding rates or social security salary caps met in quarters 2, 3 and 4 of 2011. As they were unsure whether the reports were correct, the quarterly reports were not filed timely.

Recommendation: We recommend that the District personnel responsible for preparation of the quarterly Form 941s receive annual training on changes in Social Security and Medicare withholding rates and salary caps so that they can properly investigate and reconcile discrepancies between payroll per the system and the quarterly 941 reports. This will enable them to prepare and submit Form 941 within the general filing deadline specified by the Internal Revenue Service. We also recommend that management review the quarterly 941 filings and ensure that they are accurate and filed timely.

2011-14 Compliance with IRS required reporting

Criteria or Specific Requirement: Employer provided life insurance benefits in excess of \$50,000 must be reported as compensation on the employees' W-2 for federal income tax purposes.

Condition: During testing of payroll and related benefits it was noted that the District provided life insurance benefits in excess of \$50,000 to employees without properly reporting a portion of it as compensation on the employees' W-2s. The District relied on the prior CPA to ensure compliance with this requirement.

Effect: The District was not in compliance with the Internal Revenue Code's required reporting. The individual employees' Federal income tax liability could be understated due to the omitted compensation.

Cause: The District does not have policies and procedures in place for preparation of W-2s which include calculating the benefit and ensuring it is included. Per inquiry of management, the District arranged for the prior CPA to prepare W-2s and ensure all required compensation was properly included, however, this service was not performed by the prior CPA.

Recommendation: We recommend the District obtain sufficient training for the accounting staff to ensure proper preparation of W-2s or contract with outside professionals or a payroll service provider for the preparation of W-2s.

2011-15 Improper Form 1099 reporting

Criteria or Specific Requirement: When an employer has the ability to exercise sufficient control over what work is done and how it is done, an employee-employer relationship exists. Unlike with an employee, an employer cannot dictate when, where and how an independent contractor works. Per the U.S. tax code U.S.C. Title 26 Subtitle C Chapter 24 Section 3401 withholding of income tax by an employer is required on all employees' wage payments.

Condition: Upon review of contracts it was noted that the District misclassified several employees as independent contractors. Payments to these employees were incorrectly reported as 1099 income instead of W-2 income. Taxes were not withheld and employer taxes were not paid for those individuals.

A member of management was paid a car allowance which was improperly included in a 1099 rather than included in wages on a W-2 resulting in taxes not being paid on these wages

Effect: The District is in violation of the U S tax code Per the Internal Revenue Service if you classify an employee as an independent contractor and you have no reasonable basis for doing so, you may be held liable for employment taxes for that worker Taxes are not being withheld and paid on taxable fringe benefits which are subject to withholding

Cause: The District does not have policies and procedures in place for accurately determining the status of personnel as employees or independent contractors The District does not have adequate controls in place to ensure all compensation is properly included in wages and reported on a W-2

Recommendation: We recommend the District use the 20-factor test available from the Internal Revenue Service (20-Factor Test) to assist in making the determination as employee or independent contractor If it is still unclear whether a worker is an employee or an independent contractor, Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding, should be filed with the IRS who will review and officially determine the worker's status. We also recommend the District review the status of all independent contractors and ensure they are classified correctly In addition, we recommend all taxable fringe benefits paid to employees be identified and included in the employee's W-2.

2011-16 Possible violation of Louisiana dual employment statute

Criteria or Specific Requirement Louisiana revised statute 42 61 E states that no person holding a full-time appointive office or full-time employment in the government of this state or of a political subdivision thereof shall at the same time hold another full-time appointive office or full-time employment in the government of the State of Louisiana, in the government of a political subdivision thereof, or in a combination of these.

Condition: Upon review of the hospital administrator's employment contract with the Madison Parish Hospital District it was noted that the administrator is compensated with a base salary as the hospital administrator as well as paid a monthly fee for administering the hospital's Intensive Outpatient Program It was also noted in the contract that the administrator provided all pharmacy services required by the Madison Parish Hospital and Intensive Outpatient Program as a volunteer

Effect: The District appears to be in violation of Louisiana revised statute 42 63 prohibiting dual employment It appears the administrator was paid two full time salaries for two full-time and one part time position As a result of dividing time between three positions the administrator may have been paid for work not performed or for services significantly inadequate for the compensation received

Cause: The District does not have a policy in place or guidelines in the employee handbook prohibiting one employee from holding multiple positions in the agency

Recommendation: The District should terminate all existing and preclude any additional employment arrangements allowing a single employee to hold more than one full time position simultaneously

2011-17 Prohibited payments received by employees

Criteria or Specific Requirement Louisiana revised statute 42 1111A(1) states, in part, that no public servant shall receive anything of economic value, other than compensation and benefits from the governmental entity to which he is duly entitled, for the performance of the duties and responsibilities of his office or position. This is also a violation of the Louisiana code of governmental ethics.

Condition: Upon inquiry of hospital personnel, it was noted that technicians employed by the hospital, who perform CT scans in the normal course of their job duties, are additionally being paid on a per scan basis by the vendor providing the CT scan equipment and services. It was also noted that a member of management admitted to the Board of Commissioners that he had accepted inappropriate payments from a vendor.

Effect: The District may be in violation of the Louisiana code of governmental ethics and specifically Louisiana revised statute 42 1111A.

Cause: The District does not have adequate ethics policies in place or sufficient restrictions in employee handbooks to deter employees from accepting payments from outside sources for work performed in the normal course of employment with the District.

Recommendation: We recommend the District implement additional or revise existing ethics policies and employee handbooks communicating that employees are prohibited from accepting payment from outside sources for work performed in the course of their normal job duties. We also recommend that all employees complete ethics training.

2011-18 Personal use of government property

Criteria or Specific Requirement Louisiana revised statute 42 1461 states elected or appointed officials assume a personal obligation not to misappropriate, misapply, convert, misuse or otherwise wrongfully take any funds, property, or other thing of value belonging to or under the custody or control of the public entity in which they hold office.

Condition: Upon inquiry of personnel and collaborated by management, we noted that during the current year and prior year a tractor belonging to the District was used by a District Commissioner for personal use.

Effect: The District is in violation of Louisiana revised statute 42 1461 prohibiting the personal use of public property.

Cause: The District does not have a policy in place prohibiting personal use of District property.

Recommendation: We recommend the District comply with all applicable laws and regulations and implement a policy prohibiting the personal use of District property by commissioners or employees.

2011-19 Improper use of government credit cards

Criteria or Specific Requirement Louisiana revised statute 42 1461 states officials and employees of any "public entity" assume a personal obligation not to misappropriate, misapply, convert, misuse or

otherwise wrongfully take any funds, property or other thing of value belonging to or under the custody or control of the public entity in which they are employed

Condition: We noted personal charges on District credit cards during the year

Effect: The District is in violation of Louisiana revised statute 42 1461 as well as exposing itself to risk of liability for personal charges

Cause: The District does not have a credit card policy in place to prevent misuse of District credit cards

Recommendation: We recommend the District implement new policies and procedures in accordance with best practice samples that can be found on the Louisiana Legislative Auditor's website

2011-20 Inappropriate use of public funds

Criteria or Specific Requirement Article 7, Section 14(A) of the Louisiana Constitution prohibits funds, credit, property, or things of value of the state to be loaned, pledged, or donated to or for any person, association, or corporation, public or private.

Condition: During review of expenditures and inquiry of management and employees it was noted that District funds were used to pay for a baby shower for an employee and to purchase gifts for employees and vendors

Effect: The District is in violation of Article 7, Section 14(A) of the Louisiana Constitution.

Cause: The District does not have policies and procedures in place to ensure all expenditures are in compliance with the state constitution and law

Recommendation: We recommend the District develop new or update existing policies and procedures over purchasing and cash disbursements to prohibit expenditures of public funds for inappropriate uses

2011-21 Abuse of travel policy

Criteria or Specific Requirement The Louisiana Attorney General has consistently stated that the state's constitution prohibits the use of public funds to pay for the travel of spouses of public employees. The Louisiana Constitution Article VII, Section 14(A) states the funds, credit, property or things of value of the state or of any political subdivision shall not be loaned, pledged or donated to or for any person, association or corporation, public or private. Attorney General opinion 90-0519 reads that "the hospital District has no legal obligation to pay the travel expenses of spouses of commission members who attend conferences or seminars on District business". Louisiana revised statute 42 1461(A) states officials, whether elected or appointed and whether compensated or not, and employees of any "public entity" by the act of accepting such office or employment assume a personal obligation not to misappropriate, misapply, convert, misuse or otherwise wrongfully take any funds, property or other thing of value belonging to or under the custody or control of the public entity in which they hold office or are employed

Condition: Upon inquiry of management and review of travel expenditures several instances were noted in which spousal accompaniment for out-of-state travel to conventions was paid for by the District

Effect: The District may have been in violation of Article 7, Section 14 of the Louisiana Constitution for donation of public assets and Louisiana revised statute 42 1461(A) for misuse of public funds

Cause: The District does not have adequate travel policies in place to prevent District payment for spousal accompaniment during business travel of commissioners and employees. The travel policies for Madison Parish Hospital District Board of Commissioners' and Madison Parish Hospital administrator and Madison Parish Hospital employees does not place any restrictions on spousal travel or state that spousal travel will not be paid for or reimbursed by the District.

Recommendation: We recommend the District revise existing travel policies using best practice samples that can be found on the Louisiana Legislative Auditor's website and that all employees and commissioners are educated on the new policies and procedures.

2011-22 Improper loans to employees and vendors

Criteria or Specific Requirement Article 7, Section 14 of the Louisiana Constitution states that except otherwise provided by this constitution, the funds, credit, property or things of value of the state or of any political subdivision shall not be loaned, pledged or donated to or for any person, association or corporation, public or private.

Condition: The District allowed officers, employees and commissioners to use company credit cards for personal purchases. The District was overcharged by a vendor and allowed the vendor to repay the overpayment to the District over a period of twelve months.

Effect: The District is in violation of Article 7, Section 14 of the Louisiana Constitution, "Donation of Public Assets". In addition the District is exposed to risk of loss resulting from refusal or inability of employees and vendors to repay loaned funds.

Cause: The District does not have a policy in place prohibiting personal use of credit cards. Also, the District does not have policies and procedures in place requiring immediate repayment of overages paid to vendors.

Recommendation: We recommend the District implement a credit card policy which prohibits personal or unauthorized use of credit cards. We also recommend the District recover overpayments to vendors immediately upon their discovery, since a loan of any public asset is in violation of Article 7, Section 14 of the Louisiana Constitution.

2011-23 Violation of state code of governmental ethics

Criteria or Specific Requirement The Louisiana code of governmental ethics, based on Louisiana revised statute 42 1112, states that participation by a public servant in a transaction involving the governmental entity in which any of the following persons have a substantial economic interest: (1) the public servant (2) any member of his immediate family (3) any person in which he has an ownership interest that is greater than the interest of a general class (4) any person of which he is an officer, director, trustee, partner or employee (5) any person with whom he is negotiating or has an arrangement concerning prospective employment (6) any person who is indebted to him or is a party to an existing contract with him and by reason thereof is in a position to affect directly his economic interests, is prohibited. The Louisiana code of governmental ethics based on Louisiana revised statute 42 1113 states that bidding on, entering into or being in any way interested in any contract, subcontract or other

transaction under the supervision or jurisdiction of the public servant's agency is prohibited. This restriction also applies to the immediate family members of the public servant and to legal entities in which the public servant and/or his family members own an interest in excess of 25%.

Condition: Upon review of insurance contracts and policies it was noted that the District entered into contracts for key man insurance policies for which the administrator's son-in-law is the agent of record. Per inquiry of the administrator, the policies were underwritten by New York Life Insurance Company which was a well-established, sound financial company.

Effect: The District may be in violation of the Louisiana code of governmental ethics and specifically Louisiana revised statutes 42:1112 and 42:1113.

Cause: The District does not have policies and procedures in place prohibiting related party transactions that could be considered nepotism.

Recommendation: We recommend the District implement additional or revise existing purchasing policies and procedures and ethics policies to restrict related party transactions (i.e., transactions with any individuals or businesses that are "related" to a District officer or employee). We also recommend that management ensure that contracts with related parties are strictly monitored to prohibit possible abuse.

2011-24 Self-funded medical benefit plan not funded timely

Criteria or Specific Requirement: Entities offering self-funded healthcare plans have a responsibility to fund the plan timely to ensure claims are paid timely. Premiums withheld from employees' wages should be remitted to the plan as soon as they can be reasonably segregated.

Condition: Upon review of outstanding healthcare claims, it was noted that a material amount of claims were outstanding. Upon further review, it was noted that in the prior year and the current year premiums withheld from employees' wages were not segregated from the general assets of the District and transferred into the employee benefit plan bank account on a timely basis. Funds were not available to pay claims timely.

Effect: Healthcare premiums are being withheld from employee paychecks, but healthcare claims are not being paid timely in accordance with plan provisions.

Cause: Payment of healthcare claims were delayed due to the cash flow constraints of the District.

Recommendation: We recommend the District comply with all self-funded healthcare plan provisions and fund the plan timely. Premiums withheld from employee wages should be transferred into the plan bank account at the same time that payroll taxes and other withholdings are remitted.

2011-25 Non-compliance with the Louisiana Local Government Budget Act

Criteria or Specific Requirement: Louisiana revised statute 39:1307 requires that political subdivisions with total expenditures of five hundred thousand dollars or more give notice via publication that the budget is available for inspection, give notice via publication at least ten days prior that a public hearing on the proposed budget shall be held, publish notifications in the official journal, have at least one public hearing, and after the public hearing certify completion of all action.

Condition: During testing of the District's current year and prior year budgets it was noted that the proposed budgets were not advertised as being available for public inspection and completion of the budget adoption process was not certified via publication

Effect: The District is not in compliance with the Louisiana Local Government Budget Act and consequently is not in compliance with Louisiana revised statute 39 1307

Cause: The District does not have policies and procedures in place for budget preparation and adoption to ensure they are in compliance with the Louisiana Local Government Budget Act The District was not aware the proposed budget must be advertised prior to adoption and that certification of the adopted budget must be published

Recommendation: We recommend the District become familiar with the Louisiana Local Government Budget Act and adopt policies and procedures similar to the samples that can be found on the Legislative Auditor's website under the best practices tab

2011-26 Noncompliance with the Louisiana Public Bid Law

Criteria or Specific Requirement Louisiana revised statutes 38.2211-2296 require that public works contracts \$150,000 and over and materials and supplies totaling \$30,000 or more shall be advertised and let by contract to the lowest responsible bidder

Condition: During testing of the District's expenditures it was noted that items requiring bids were not bid in accordance with the Public Bid Law and Louisiana revised statutes 38 2211-2296.

Effect: The District is not in compliance with the Louisiana Public Bid Law and consequently is not in compliance with Louisiana revised statute 38 2211-2296.

Cause: The District does not have policies and procedures in place for bidding required items in compliance with the Louisiana Public Bid Law

Recommendation: We recommend the District become familiar with the Louisiana Public Bid Law and adopt policies and procedures to ensure they are in compliance with all aspects of the Bid Law

2011-27 Capital assets inventory not maintained

Criteria or Specific Requirement Louisiana Revised Statute 24.515.B.1 requires the District to maintain records of its capital assets Each inventory record should include description, year of acquisition, method of acquisition, funding source, cost or estimated cost, salvage value, and estimated useful life The inventory record should also identify the functions that use the asset

Condition: A complete and accurate inventory listing of capital assets for current year and prior year was not maintained

Effect: The District is not maintaining an inventory listing and updating it as needed in accordance with Louisiana Revised Statute 24 515 B 1 In addition, without all assets reported, the amount of insurance coverage the District has obtained may not be adequate

Cause: The District does not have procedures in place to ensure all capital assets are properly inventoried and accounted for

Recommendation: We recommend the District develop and implement policies and procedures according to the best practice samples found on the Legislative Auditor's website

2011-28 Noncompliance with the Open Meetings Law

Criteria or Specific Requirement The Open Meetings Law is meant to ensure that decisions by the government are made in an open forum. Louisiana revised statute 42:12 requires public business be performed in an open and public manner and that citizens be advised of and aware of the performance of public officials and the deliberations and decisions that go into the making of public policy. According to the Open Meetings Law, public bodies such as the Board of the Madison Parish Service District may not close their meetings to the public, excluding specific exceptions defined in Louisiana revised statutes 42:16, 17 and 18.

Condition: During review of board minutes it was noted that most items, not just those listed in the statutes as exceptions to the Open Meeting Law, were covered in executive session. It appears as if an excessive amount of items was covered in executive session, in possible violation of the Open Meeting Law.

Effect: The District is not in compliance with the Open Meetings Law and consequently is not in compliance with Louisiana revised statutes 42:12-18.

Cause: The cause could not be determined.

Recommendation: We recommend the District become familiar with the Open Meetings Law and adopt practices to ensure they are in compliance with all aspects of the Open Meetings Law. All items other than those specified in the statutes as exceptions should be addressed in meetings open to the public.

2011-29 Late submission of audit report to the Louisiana Legislative Auditor

Criteria or Specific Requirement Louisiana revised statute 24:513 A (5)(a)(i) requires that audits of government agencies shall be completed within six months of the close of the entity's fiscal year. Audit reports are required to be filed with the Louisiana Legislative Auditor within this time restriction.

Condition: The District's audit for the year ended December 31, 2011 was not completed and the audit report was not submitted to the Louisiana Legislative Auditor within six months of year end.

Effect: The District is not in compliance with Louisiana revised statute 24:513 A (5)(a)(i).

Cause: The audit was not completed timely due to external and internal investigations related to potential misuse of funds. The simultaneous compliance audit/investigation being conducted by the Louisiana Legislative Auditor's office caused some key employees as well as information and documents to be unavailable as expected and created significant delays. Also the accounting records were not being maintained in a manner to facilitate timely audit fieldwork. This in turn caused the delay of the preparation of the cost report by a third party CPA firm which had to be reviewed and any adjustments associated with it made to the financial statements. In addition, significant additional time was incurred.

due to the research into accounting errors resulting in prior period adjustments and the reporting of numerous audit and compliance findings

Recommendation: We recommend the District prepare the accounting records and ensure they are complete and free of errors timely after year end and prior to the commencement of fieldwork. We recommend that District management monitor activities during the year to ensure that the District is in compliance with all applicable laws and regulations.

**Madison Parish Hospital Service District
Tallulah, Louisiana**

**Summary Schedule of Prior Year Findings
For the Year Ended December 31, 2011**

2010-1 Compliance with IRS reporting required (Year of Origination – 2010)

Condition – Madison Parish Hospital provided life insurance benefits to its employees in excess of \$50,000 which requires reporting on the employees' W-2 form. This benefit was not reported as compensation to the IRS.

Current Status – This is a repeat finding. See current year finding 2011-14.

**Madison Parish Hospital Service District
Tallulah, Louisiana**

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2011**

Section I - Summary of Auditor's Results

Financial Statement Audit

Type of auditor's report issued on the basic financial statements **Disclaimer of Opinion**

Internal control over financial reporting

Material weaknesses identified? **Yes**

Significant deficiencies identified that are not considered to be material weaknesses? **No**

Noncompliance material to the basic financial statements noted? **Yes**

Section II – Financial Statement Findings Reported in Accordance with *Government Auditing Standards*

Be it noted:

These findings are from the Annual Audit of 2012. The Madison Parish Hospital Board of Commissioners terminated the previous CEO on July 13, 2012, and hired an Interim CEO, Paula H. Walker, RT, BSN, RN. Thereafter, the Madison Parish Police Jury requested that the former Madison Parish Hospital Board of Commissioners members resign by August 10, 2012. Four of the five members did so. Subsequently, the Police Jury appointed four new board members. All of the new members have been sworn in and have accepted their Oath of Office. They have received copies of the Louisiana Code of Governmental Ethics, State Hospital Regulations and the CMS Conditions of Participation for review and compliance education.

Current Year Findings and Questioned Costs

2011-1 Unrecorded bank accounts in current year and prior years

Criteria or Specific Requirement In order to maintain good controls over cash and an accurate representation of the entity's financial position, all bank accounts and related activity should be recorded on the general ledger

Condition: Upon review of the bank statements and the general ledger it was noted that two bank accounts were not recorded in the accounts and records of the Service District Beginning of the year cash was understated by \$375,400 and a prior period adjustment was proposed to correctly state the cash balances as of January 1, 2011 Unadjusted end of the year cash was understated by \$128,350

Effect: The District understated its cash balances and the activity related to these cash accounts is not being recorded, resulting in a less than complete representation of the District's financial position Material audit adjustments were required

Cause: Due to its limited accounting staff, management has always relied on the Service District's outside CPA to ensure that all bank accounts are properly recorded in the accounts and records of the District

Recommendation: We recommend the District record all accounts and related activity on the general ledger and seek qualified personnel to assist in the future if needed

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions
 - a Establish a policy which requires the approval of the Board (or finance / audit committee) to establish or change financial accounts on behalf of the entity In addition to the establishment of the policy, a workflow for communicating the action taken by the Board and establishment or adjustment of the account in the general ledger and accompanying financial reporting will be developed This will ensure all appropriate parties are notified of the change The on-going monitoring of the financial statements by the executive management team and board will ensure the newly approved accounts are being reflected in the subsequent financial statements
 - b Date for Completion October 31, 2012

- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN, RN/ Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-2 Bank accounts not reconciled

Criteria or Specific Requirement Timely reconciliation of all bank accounts is a key component of good controls over cash. Reconciling the bank balance with the book balance (general ledger) is necessary to ensure that all receipts and disbursements are recorded, checks are clearing the bank in a reasonable time, reconciling items are appropriate and being recorded and the reconciled cash balance agrees to the general ledger cash balance reported.

Condition: The District did not perform monthly bank reconciliations timely, within ten days after receiving the bank statement, which is a best practice. The District has historically outsourced its bank reconciliations to the District's outside CPA who prepares the bank reconciliations for the entire year subsequent to year-end before the start of audit fieldwork.

Effect: Controls over cash are inadequate. Bank account transactions are not reviewed for accuracy in a timely manner ensuring that all cash transactions have been recorded properly and that unusual or unauthorized transaction are discovered and investigated.

Cause: The District does not have a policy in place requiring timely reconciliation of bank accounts. Due to its limited accounting staff, management has always relied on the Service District's outside CPA to ensure that all bank accounts are reconciled and properly recorded in the accounts and records of the District.

Recommendation: We recommend the District implement and enforce a bank reconciliation policy using the best practice samples found on the Legislative Auditors website.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions
 - a The District will adopt a bank reconciliation policy which sets forth the timing and steps associated with the reconciliation and independent review of all bank accounts. Additionally, the policy will include steps for review of

cleared checks and other disbursements by appropriate personnel independent of the reconciliation process to ensure a proper level of oversight on adherence to signature and approval policies over the respective bank accounts

b Date for Completion October 31, 2012

- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-3 Failure to reconcile accounts receivable

Criteria or Specific Requirement A reconciliation of detail accounts receivable from the general ledger to the accounts receivable detail sub-ledger should be prepared to check that the recording of transactions is accurate and proper and that any adjustments to or write-offs of accounts receivable have been approved

Condition: Upon review of the accounts receivable detail and inquiry of management it was noted that the *subsidiary detail ledger of accounts receivable* is not being reconciled to the general ledger monthly

Effect: The District is not ensuring accuracy of accounts receivable balances recorded in the general ledger and reflected in the financial statements Audit adjustments were required The District is not taking advantage of an opportunity to prevent and detect an error or fraud in accounts receivable

Cause: The District does not have policies and procedures in place over accounts receivable ensuring they are accurate and appropriately settled or collected

Recommendation: We recommend the District implement a policy requiring that a reconciliation of the accounts receivable detail to the accounts receivable control account be performed at the end of each month and that any reconciling items be investigated and cleared promptly We also recommend review of the reconciliation by someone with adequate accounting knowledge not involved with accounts receivable to ensure it is proper

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**

- 1 Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions
 - The District will adopt an “accounts receivable” policy (including clinic receivables) which sets forth the timing and steps associated with reconciliation and independent review of the accounts receivable sub-ledger to the general ledger. Additionally, the policy will include steps for review of the accounts receivable aging and a sequence of action steps on accounts aging beyond a pre-determined period
 - Date for Completion: October 31, 2012
- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H. Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr. Thomas Joe Williams, Chairman of the Board

2011-4 Failure to review allowance for doubtful accounts

Criteria or Specific Requirement: In order to ensure that the estimated loss from uncollectible accounts receivable is properly reflected on the financial statements, the allowance for doubtful accounts should be adjusted after reviewing the analysis of uncollectible accounts and making appropriate collection efforts in order to collect as much as possible.

Condition: Upon review of the allowance for doubtful accounts and inquiry of management it was noted that the allowance is not being analyzed periodically and appropriate adjustments are not being made to the general ledger.

Effect: The District is not ensuring the allowance for doubtful accounts reflected in the financial statements is the best estimate of uncollectible accounts based on all available evidence.

Cause: The District does not have policies and procedures in place requiring doubtful accounts be analyzed periodically with appropriate adjustments.

Recommendation: We recommend the District implement a policy requiring that accounts receivable be analyzed at least quarterly to determine which accounts are uncollectible and that the allowance for doubtful accounts be updated accordingly. The analysis should consider prior charge-off experience and indications of financial difficulty as well as other known circumstances.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions
 - a In conjunction with the policy developed for finding 2011-3, the District will adopt an allowance for accounts receivable policy (including clinic receivables) which sets forth the method for determining the allowance and review and approval of the allowance. Additionally, the policy will set forth a consistent model for evaluating the amount of allowance. The allowance calculation model will be reviewed no less than quarterly by appropriate personnel to ensure operational changes affecting the allowance calculation have been properly considered, this review will also include a "look back" to verify that subsequent collections are consistent with the collections estimated using the model. If the model is not adequately estimating subsequent collections, the model will be modified accordingly.
 - b Date for Completion: October 31, 2012
- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H. Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr. Thomas Joe Williams, Chairman of the Board

2011-5 Clinic accounts receivable do not interface with general ledger

Criteria or Specific Requirement: To ensure accuracy and operating efficiency all software should interface with the central software system.

Condition: Upon review of the clinic receivables and inquiry of management it was noted that the Rural Health Care Clinic accounts receivable software does not interface with the hospital software system.

Effect: Amounts collected by the clinic are being recorded on the District's books as receipts and revenue on the cash basis. The clinic's accounts receivable balance on the general ledger is not being reconciled to the subsidiary ledger possibly, allowing misappropriations to go undetected.

Cause: The District does not have appropriate software in place to allow all necessary software to interface. The District is not reconciling clinic receivable control account to the subsidiary accounts receivable ledger to mitigate the deficiencies in the software.

Recommendation: We recommend the District modify existing software or purchase new software to allow the Rural Health Care Clinic accounts receivable software to interface with the hospital software. Clinic receivables should be reconciled with the subsidiary ledger and receivables and revenues should be recorded on accrual basis.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions
 - a We have engaged Postlethwaite & Netterville (P&N) to assist the District in developing and implementing aspects of this corrective action plan. P&N will review the respective systems to determine if creating such an interface is cost effective as it is not uncommon for entities of this size to have disparate systems that do not automatically interface due to the cost of developing and maintaining such an interface. Regardless of the ultimate recommendation, a procedure will be put in place to ensure that the clinic receivables are reconciled to the general ledger no less than on a monthly basis. Responsibility for review and approval of the reconciliation will also be documented in the process.
 - b Date for Completion: October 31, 2012
- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H. Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr. Thomas Joe Williams, Chairman of the Board

2011-6 Failure to reconcile accounts payable

Criteria or Specific Requirement The accounts payable detail subsidiary ledger should be reconciled to the general ledger balance periodically to determine that all additions to, and payments of, accounts payable are correctly recorded, to determine whether there are any disputed items and to ensure that the general ledger balance and the financial statements reflect the proper amounts

Condition: Upon review of the accounts payable detail and comparison to the general ledger, it was noted that the accounts payable detail is not reconciled to the general ledger on a monthly basis. The beginning of the year accounts payable detail differed from the general ledger control account by \$289,322 and a prior period adjustment was proposed to correct this. The unadjusted end of the year accounts payable detail differed from the general ledger control account by \$598,458.

Effect: The District is not ensuring accuracy of accounts payable balances recorded in the general ledger and reflected in the financial statements. Material audit adjustments were required.

Cause: The District does not have a policy in place requiring timely reconciliation of the accounts payable subsidiary ledger to the general ledger control account.

Recommendation: We recommend the District implement a policy requiring the monthly reconciliation of the accounts payable detail to the general ledger as well as subsequent review by management to ensure the reconciliation is accurate.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions
 - a The District will adopt a process for reconciling the accounts payable sub-ledger to the general ledger which sets forth the timing and steps associated with independent review of the reconciliation. Additionally, the process and accompanying policy will include steps for review of the accounts payable aging, as well as, a process for determining any potentially unrecorded liabilities.
 - b Date for Completion: October 31, 2012
- **Person/Persons Responsible for Implementing Corrective Action Plan:**

Paula H Walker, RT, BSN, RN/Interim CEO, CEO

- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-7 Payroll registers are not reconciled to the payroll accounts per the general ledger in an accurate and timely manner

Criteria or Specific Requirement Controls requiring timely reconciliation of payroll registers to the amounts recorded per the general ledger should be properly designed and implemented to ensure payroll expenses are accurately recorded

Condition: The District did not have properly designed controls in place and enforced to ensure payroll and payroll tax related expenses per the payroll register were recorded at the appropriate amounts and in the correct accounts

Effect: Payroll tax payments were routinely recorded to incorrect accounts and duplicate payroll expenses were recorded, resulting in significant misstatements and requiring material audit adjustments

Cause: The employee responsible for recording the payroll entries to the general ledger had never been properly trained and did not realize that the entries were not properly recorded. The District does not have a policy in place requiring timely reconciliation of the payroll register to the general ledger. There was no one in place to properly supervise the payroll function.

Recommendation: We recommend the District properly design and implement controls requiring timely reconciliation of payroll registers to the amounts recorded for payroll and payroll related taxes per the general ledger as well as subsequent review by management to ensure the reconciliation is accurate. Reconciliations should include accrued compensation, vacation and other benefits. Employees should be properly supervised and trained in their job functions.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**

- 1 Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions
 - a P&N has been retained to review the payroll process and duties of the responsible personnel to determine the best approach to implementing the controls necessary to ensure timely recording, reconciliation and subsequent reporting and filing with the appropriate tax authorities Considerations for implementation will likely include policy adoption, process development and monitoring, training of employees, and evaluation of the potential outsourcing the payroll function
 - b Additionally, P&N will assist the District in developing additional analytical review procedures for each pay period which includes comparison of pay to the subsequent pay period to investigate significant variances and comparison to new hire and termination reports from the Human Resources Department
 - c Date for Completion November 30, 2012
- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN, RN/Interim CEO, CEO
 - **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-8 Capital leases not recorded properly in current year as well as prior years

Criteria or Specific Requirement Accounting standards dictate that capital lease assets and the related liability be recorded and separately identified in the balance sheet or disclosed in the notes

Condition: In the review of capital leases it was noted that the District has not properly identified and recorded capital leases The beginning of the year capital lease liability was understated by \$510,485 and a prior period adjustment was proposed There was one additional capital lease in the amount of \$110,500 which was entered into in the current year but not properly recorded in the general ledger

Effect: Capital assets and liabilities were understated. Material adjustments were required to properly record capital leases.

Cause: The District does not have policies and procedures in place regarding proper recording and disclosure of capital leases. Due to the limited accounting knowledge of its employees, the District has always relied on its outside CPA to perform this service at the time of audit.

Recommendation: We recommend the District record all capital lease assets and related liabilities on the books and either identify them separately in the balance sheet or disclose the required information in the notes to the financial statements.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 Postlethwaite and Netteville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions
 - a The District plans to put into place a policy whereby all leases follow a review process through both legal and accounting. Part of the accounting review will include a decision tree for determining if a lease should be recorded as capital or operating. If it is determined that the current staff do not have adequate educational background or training to make this determination, utilization of an outside CPA will be recommended.
 - b Additionally, the District will review all existing leases with P&N to determine if they should be recorded as capital or operating.
 - c Date for Completion: November 30, 2012
- **Person/Persons Responsible for Implementing Corrective Action Plan:**

Paula H. Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**

Mr. Thomas Joe Williams, Chairman of the Board

2011-9 Inadequate controls over cash disbursements

Criteria or Specific Requirement: Good controls over cash disbursements include maintaining adequate, appropriate supporting documentation for purchases, making payments only from

original invoices, ensuring invoices are canceled to prevent duplicate payment of amounts, proper coding and recordation of expenses in the correct period and adhering to the procurement policy

Condition: During testing of the District's cash disbursement transactions it was noted that many expenditures were charged to the company credit card rather than paid by check allowing the procurement system and controls to be bypassed. Several disbursements were paid from statements rather than invoices. It was also noted that specific types of transactions were repeatedly recorded to the incorrect account. One transaction tested was noted as being recorded on cash basis rather than accrual basis resulting in the transaction being recorded in the incorrect period. Most of the invoices for transactions tested were not stamped paid, initialed or otherwise canceled to prevent duplicate payment. Supporting documentation could not be located for four transactions selected.

Effect: The District does not practice good controls over cash disbursements allowing for possible misappropriation of District assets.

Cause: The District does not have policies and procedures in place to exercise adequate controls over cash disbursements.

Recommendation: We recommend the District revise policies and procedures over cash disbursements to require disbursements be paid by check whenever possible and be paid from original invoices only, adequate supporting documentation be maintained, preferably scanned in PDF format, for all disbursements and invoices be canceled to aid in prevention of duplicate payments. In addition, it is recommended that the District provide adequate cross training of employees to prevent coding and posting errors when the usual accounts payable staff is unavailable.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions
 - a The District will revise existing policies over accounts payable and general disbursements to ensure adequate controls over this function and determine training requirements for primary and secondary staff to ensure a good working knowledge of how to handle common transactions and define a process to properly evaluate less common transactions. It will also evaluate the need for use of an organizational credit card and limit use to individuals

and situations that offer no other reasonable means of payments It shall also implement a policy to adequately administer the use of credit any cards

b Date for Completion October 31, 2012

- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-10 Inappropriate payments to insurance vendor in current and prior years

Criteria or Specific Requirement Good business practices dictate that all disbursements be supported by adequate documentation and that there be a centralized review and oversight of all contracts to ensure that services received comply with the terms and conditions of the contracts

Condition: The District entered into contracts for life insurance policies that were never put in place Insurance policies paid for by the district were not received and maintained on file at the District It was also noted during our review of current and prior year healthcare claims that the Service District's health insurance agent included himself in the Service District's employee healthcare benefit plan and incurred claims which were paid for by the District

Effect: The District paid premiums for insurance policies which were not put into force by the District's insurance agent and were thus not legally binding or in force Healthcare claims were improperly paid on behalf of the insurance agent who is not a District employee and should not be enrolled in the District healthcare benefit plan

Cause: The District does not have a policy in place requiring adequate documentation for all insurance policies purchased or centralized review and oversight procedures to ensure policies purchased comply with the terms and conditions of the contract or purchase agreement Healthcare claims should be adequately reviewed prior to payment to ensure claims are for employees properly enrolled in the healthcare benefit plan Also no conflict of interest policy that is understood by all employees to alert when inappropriate relationships is in place Also, no reconciliation of employees covered in the health plan to current employees to identify inappropriate coverage

Recommendation: We recommend the District implement additional or revise existing purchasing policies and procedures using examples on the Louisiana Legislative Auditor's

website of best practices which should at a minimum require purchases to be supported by adequate documentation. We recommend District management oversee all insurance policies and contracts to ensure they are valid and policies reflect the terms of the agreements reached with insurance vendors. In addition we recommend the District pursue actions, legal or otherwise, in an attempt to recover funds paid to the insurance agent for policies that were never put into place, for healthcare claims paid on his behalf and for fees, if any, that were not billed in accordance with policy terms. We recommend also that all healthcare claims be reviewed and approved prior to payment and that claims for individuals not covered by the employee healthcare benefit plan be denied payment.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 1. Madison Parish Hospital (MPH) filed a Fraud Report with the Louisiana Department of Insurance on August 20, 2012 against the Insurance Agent (attached)
 - a. The insurance agent/broker was allowed to participate in the Madison Parish Hospital health insurance. Madison Parish Hospital intends to pursue actions legal to recover funds paid to the Madison Parish Hospital.
 - b. The Madison Parish Hospital Board of Commissioners has authorized legal action to recover misappropriated funds.
 2. Madison Parish Hospital had numerous items (23), insurance, personal bank savings, uniforms, cafeteria meals, etc) that had been payroll deducted. The payroll deductions have ceased as of August 31, 2012, except for one employee "group" life insurance policy that has three years remaining on the current contract. This insurance policy has been reviewed for annual compliance, and will be reviewed annually in January of each year to maintain compliance.
 3. An insurance disbursement and documentation policy written and approved on August 31, 2012 by Board of Commissioners. Policy in effect August 31, 2012.
 - a. Madison Parish Hospital will perform an annual review with vendors, maintaining a list of all purchased insurance plans, date purchased, agent of record, and a list of the number of qualified employees at Madison Parish Hospital on each plan.
 - b. Healthcare claims will be reviewed and approved prior to payment of claims to assure compliance that the individual is "covered" by

the healthcare benefit plan, or otherwise Madison Parish Hospital will deny those claims

- c Madison Parish Hospital will maintain reconciliation of employees covered in the benefits plan to current employees to identify inappropriate coverage
- d Communication with employees/policy review a conflict of interest clause that is understood by all employees to alert administration when inappropriate relationships are in place

- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-11 Violations of contract terms

Criteria or Specific Requirement Good business practices dictate that the contractor and the contracting officials both have a clear understanding of their specific responsibilities and restrictions in administering a contract Basic contract law principles require parties to a contract to act in good faith Having a valid contract for every business arrangement is good practice

Condition: During review and testing of the District's contracts, several apparent violations of contract provisions were noted in existing contracts It was also noted that several contracts for professional services rendered in both the current year and prior year were expired and seemingly invalid

Effect: The District is not in compliance with the terms and conditions of contracts to which it is a party exposing the District to possible breach of contract and related liability In other instances it appears that the District may have paid for more services than the contract called for Operating with expired contracts exposes the District to risks it might otherwise be protected from should the terms of the contract be valid and legally enforceable

Cause: The District does not have policies and procedures in place for monitoring contracts and ensuring the District and the vendor are complying with the terms and conditions of all contracts and that all contracts in operation are valid and in date

Recommendation: We recommend the District centralize contract monitoring and oversight to ensure that all services received comply with the terms and conditions of the contract and that all contracts are up to date

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 Madison Parish Hospital Board of Commissioners approved on July 17, 2012, the hiring of Bill Bourgeois, Attorney to review all contracts for compliance and validity prior to Interim CEO signing payables in an ongoing process
 - 2 Madison Parish Hospital has three employee physicians. Upon review on July 16, 2012, two of the three contracts were found expired. Madison Parish Hospital Board of Commissioners approved hiring an attorney (Bill Bourgeois) to review all contracts of the hospital on July 19, 2012. Physician contracts written, sent to CPA for "fair market value" validation and will be presented to the Board of Commissioners on September 18, 2012 for approval
 - 3 Although the public bid law does not require services (professional or otherwise) to be bid, a competitive atmosphere would ensure that fees paid for services are cost-effective. The traditional public bid process may be used where lawful. Where practical, MPH will consider using *Requests for Qualifications* (RFQs) and *Requests for Proposals* (RFPs) effectively in contracting for services, allowing the use of evaluation factors other than price in making the award
 - 4 The dollar thresholds contained in the public bid law will be used as a guide in contracting for services. At least three telephone or facsimile quotations should be obtained for services costing between \$10,000 and \$30,000, and bids should be solicited/obtained for the purchase of services exceeding \$30,000
 - 5 Madison Parish Hospital will maintain a centralized list for review and oversight of all contracts to ensure the services received comply with the terms and conditions of the contracts. A policy has been written for procedures to monitor contracts and ensuring the District and the vendor are complying with the terms and conditions of contracts, and contracts in operation are legal and compliant with rules, regulations and law. The Board

of Commissioners approved this on August 31, 2012 And, a comprehensive listing of all contracts will be completed by September 28, 2012

6. Madison Parish Hospital will provide in-services for all purchasing employees pertaining to the Public Bid law by September 30, 2012. All future acquisitions shall be made in accordance with the Public Bid law

- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Boar

2011-12 Inadequate monitoring of financial information by management

Criteria or Specific Requirement: Generally accepted accounting standards and generally accepted government auditing standards require that management monitor the income and expenditures and make decisions based on financial information produced by the entity

Condition: We noted numerous material accounting errors in the current year unaudited financial statements and in the prior year audited financial statements which went undetected Basic monthly checks and balances were not being performed which are normally found in an adequate accounting and reporting system including appropriate review and approval of the monthly journal entries and financial statements and of the adjusting audit journal entries and audited financial statements

Effect: The monthly financial statement information being presented to Commissioners was materially incorrect The annual financial statements submitted to the Louisiana Legislative Auditor were materially incorrect Material instances of noncompliance with laws and regulations were not detected by management

Cause Due to the lack of a qualified Controller being employed by the Hospital on a full or part-time, basis normal checks and balances found in basic accounting and reporting systems were not present

Recommendation: We recommend that a controller be hired who would report to the CEO We believe this person would need to work at least twenty-four (24) hours per week until all deficiencies in the accounting and reporting system have been addressed and corrected The

Controller's duties should be structured so that no one person in the Hospital has total control over any major portion of the accounting system i.e (Accounts Payable, Accounts Receivable, Payroll, etc)

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions
 - a The District has contracted with P&N to evaluate the hiring of a Controller or equally qualified accountant to serve as the leader of the accounting and finance function. Once this position is filled, a policy will be implemented in accordance with *Governmental Auditing Standards*, whereby journal entries, account reconciliations and financial statements are performed on a monthly basis. Additionally, monthly comparisons of actual to budget variances, current to prior period variances, key ratios and operating metrics will be recommended. Documentation of this review and analysis will be shared with the executive leadership team and board through a monthly financial package for review and discussion at board meetings.
 - b Date for Completion: October 31, 2012
- **Person/Persons Responsible for Implementing Corrective Action Plan:**

Paula H. Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**

Mr. Thomas Joe Williams, Chairman of the Board

2011-13 Failure to prepare and submit quarterly payroll reports timely

Criteria or Specific Requirement: In accordance with Internal Revenue Service regulations, Form 941 Employer's Quarterly Federal Tax Return is generally due by the last day of the month following the end of the quarter.

Condition: The District failed to submit Form 941 for all four quarters of 2011 to the Internal Revenue Service within the general deadline specified.

Effect: The District is not in compliance with the general filing deadlines for Form 941 specified by the Internal Revenue Service. The District could incur penalties for untimely filing.

Cause: The district was unable to reconcile payroll per the system to the totals generated by the system in the quarterly 941 reports as they did not factor into their calculations the change in the employee social security withholding rates or social security salary caps met in quarters 2, 3 and 4 of 2011. As they were unsure whether the reports were correct, the quarterly reports were not filed timely.

Recommendation: We recommend that the District personnel responsible for preparation of the quarterly Form 941s receive annual training on changes in the current social security and Medicare withholding rates and social security salary caps so that they can properly investigate and reconcile discrepancies between payroll per the system and the quarterly 941 reports. This will enable them to prepare and submit Form 941 within the general filing deadline specified by the Internal Revenue Service. We also recommend that management review the quarterly 941 filings and ensure that they are accurate and filed timely.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1. Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions.
 - a. P&N has been retained to review the payroll process and duties of the responsible personnel to determine the best approach to implementing the controls necessary to ensure timely recording, reconciliation and subsequent reporting and filing with the appropriate tax authorities. Considerations for implementation will likely include policy adoption, process development and monitoring, training of employees, and evaluation of the potential outsourcing the payroll function.
 - b. Date for Completion: November 30, 2012
- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H. Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr. Thomas Joe Williams, Chairman of the Board

2011-14 Compliance with IRS required reporting

Criteria or Specific Requirement Employer provided life insurance benefits in excess of \$50,000 must be reported as compensation on the employees' W-2 for federal income tax purposes

Condition: During testing of payroll and related benefits it was noted that the District provided life insurance benefits in excess of \$50,000 to employees without properly reporting a portion of it as compensation on the employees' W-2s

Effect: The District was not in compliance with the Internal Revenue Code's required reporting. The individual employees' Federal income tax liability was understated due to the omitted compensation.

Cause: The District does not have policies and procedures in place for preparation of W-2s which includes calculating the benefit and ensuring it is included. Per inquiry of management, the District arranged for the prior CPA to prepare W-2s and ensure all required compensation was properly included, however, this service was not performed by the prior CPA. The District relied on the prior CPA to ensure compliance with this requirement.

Recommendation: We recommend the District obtain sufficient training for the accounting staff to ensure proper preparation of W-2s or contract with outside professionals or a payroll service provider for the preparation of W-2s.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions
 - a P&N has been retained to review the payroll process and duties of the responsible personnel to determine the best approach to implementing the controls necessary to ensure timely recording, reconciliation and subsequent reporting and filing with the appropriate tax authorities. Considerations for implementation will likely include policy adoption, process development and monitoring, training of employees, and evaluation of the potential outsourcing the payroll function.
 - b Date for Completion November 30, 2012

- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-15 Improper 1099 reporting

Criteria or Specific Requirement U S common law states when an employer has the ability to exercise sufficient control over what work is done and how it is done, an employee-employer relationship exists Unlike with an employee, an employer cannot dictate when, where and how an independent contractor works Per the U S tax code U S C Title 26 Subtitle C Chapter 24 Section 3401 withholding of income tax by an employer is required on each of an employee's wage payments

Condition: Upon review of contracts it was noted that the District misclassified several employees as independent contractors Payments to these employees were incorrectly reported as 1099 income instead of W-2 income Taxes were not withheld and employer taxes were not paid for those individuals The hospital administrator was paid a car allowance which was improperly included in a 1099 rather than included in wages on a W-2 resulting in taxes not being paid on these wages

Effect: The District is in violation of the U S tax code Per the Internal Revenue Service if you classify an employee as an independent contractor and you have no reasonable basis for doing so, you may be held liable for employment taxes for that worker Taxes are not being withheld and paid on taxable fringe benefits which are subject to withholding

Cause: The District does not have policies and procedures in place for accurately determining the status of personnel as employees or independent contractors The District does not have adequate controls in place to ensure all compensation is properly included in wages and reported on a W-2

Recommendation: We recommend the District use the 20-factor test available from the Internal Revenue Service (20-Factor Test) to assist in making the determination as employee or independent contractor If it is still unclear whether a worker is an employee or an independent contractor, Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding, should be filed with the IRS who will review and officially determine the worker's status We recommend the District review the status of all independent

contractors and ensure they are classified correctly We recommend all taxable fringe benefits paid to employees be identified and included in the employee's W-2

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions
 - a P&N has been retained to assist the District in the determination of current independent contractors Additionally, P&N will assist the District in evaluating the need to amend prior period tax filings to correct previous misstatements
 - b Date for Completion November 30, 2012
- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN, RN, Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-16 Possible violation of Louisiana dual employment statute

Criteria or Specific Requirement Louisiana revised statute 42 61 E No person holding a full-time appointive office or full-time employment in the government of this state or of a political subdivision thereof shall at the same time hold another full-time appointive office or full-time employment in the government of the state of Louisiana, in the government of a political subdivision thereof, or in a combination of these

Condition: Upon review of the hospital administrator's employment contract with the Madison Parish Hospital Service District it was noted that the administrator is compensated with a base salary as the hospital administrator as well as paid a monthly fee for administering the hospital's Intensive Outpatient Program It was also noted in the contract that the administrator provided all pharmacy services required by the Madison Parish Hospital and Intensive Outpatient Program as a volunteer

Effect: The District appears to be in violation of Louisiana revised statute 42 63 prohibiting dual employment It appears the administrator was paid two full time salaries for two full-time and one part time position As a result of dividing time between three positions the administrator

may have been paid for work not performed or for services significantly inadequate for the compensation received

Cause: The District does not have a policy in place or guidelines in the employee handbook prohibiting one employee from holding multiple positions in the agency

Recommendation: The District should terminate all existing and preclude any additional employment arrangements allowing a single employee to hold more than one full time position simultaneously

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 The previous Administrator was terminated on July 13, 2012 by the Board of Commissioners. He had been paid the Administrator salary, and then paid as an independent contractor (via 1099s) for the other positions. Those employment arrangements ceased with his termination.
 - 2 On August 31, 2012, the Board of Commissioners approved a policy prohibiting dual employment. It took immediate effect on August 31, 2012 and has been added to the Madison Parish Hospital Employee Handbook.
 - a This policy prohibits a single employee of Madison Parish Hospital to be paid for more than one salary or hold dual/multiple full time positions simultaneously. The employee cannot be paid for work not performed or for services inadequate for the compensation received.
 - 3 Madison Parish Hospital has a policy on Outside Employment, page 8 of the Employee Personnel Manual.

If you are employed at Madison Parish Hospital you must meet the performance standards established for your job here. Your employment with Madison Parish Hospital is considered as your primary job and responsibility. If your outside job interferes with your attendance and/or the full and effective performance of your job here, then you will be asked to discontinue the outside employment, or failing that, be subject to disciplinary action, including dismissal. In no event shall any employee utilize time spent at work at Madison Parish Hospital for furtherance of the outside employment, including but not limited to solicitation, discussions or telephone conversations, copying, faxing or utilizing any of Madison's property.
- **Person/Persons Responsible for Implementing Corrective Action Plan:**

Paula H Walker, RT, BSN, RN/Interim CEO

- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-17 Prohibited payments received by employees

Criteria or Specific Requirement Louisiana revised statute 42 1111A(1) states, in part, that no public servant shall receive anything of economic value, other than compensation and benefits from the governmental entity to which he is duly entitled, for the performance of the duties and responsibilities of his office or position. Consequently, this is also a violation of the Louisiana code of governmental ethics.

Condition: Upon inquiry of management, it was noted that technicians employed by the hospital, who perform CT scans in the normal course of their job duties, are additionally being paid on a per scan basis by the vendor providing the CT scan equipment and services. It was also noted that the hospital is billed on a per scan basis by this vendor. It was also noted that a member of management admitted to the Board of Commissioners that he had accepted inappropriate payments from a vendor.

Effect: The District may be in violation of the Louisiana code of governmental ethics and specifically Louisiana revised statute 42 1111A.

Cause: The District does not have adequate ethics policies in place or sufficient restrictions in employee handbooks to deter employees from accepting payments from outside sources for work performed in the normal course of employment with the District.

Recommendation: We recommend the District implement additional or revise existing ethics policies and employee handbooks communicating that employees are prohibited from accepting payment from outside sources for work performed in the course of their normal job duties.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 The Interim CEO, on July 16, 2012, reviewed the salaries of the current employees. Several employees were clocked in for their full-time job, but were also being paid via 1099s for the same time period of time. All payments via 1099s were stopped on July 19, 2012.

- a **Radiology Technologists-** 3 full-time employees clocked in, and also being paid for CTs performed per scan, 4 weekend technologists- also being paid their salary, and being paid via 1099s by another entity for CTs performed per scan. Per discussions with each employee, they were not aware that this process was a "non-compliance issue" with Board of Ethics or law. They stated that this process was implemented by previous CEO. Interim CEO requested their 1099 payments from when this process began. And, they were all compliant in giving this information to Administration.
- b **IOP Employee:** RN Supervisor full-time employee, personal transportation company clocked in for her fulltime position, and also transported patients to and from the hospital IOP department for services. After discussions, employee stopped her transportation company at the hospital. Employee stated that the previous CEO asked her to start this transportation company/LLC. Employee stated that she was not aware of the non-compliance issues related to this process.
- c **Administrative Employee:** Service District and Madison Parish Hospital were set up as two separate entities with two separate books. The Administrative employee's duties of the Service District Board were recording and typing of the board minutes and payables that were designated from these accounts. Interim CEO stopped the 1099 payment of the administrative employee on July 19, 2012. Postlethwaite and Netterville, CPA firm hired by the Board of Commissioners on August 27, 2012 will combine the Service District accounts and Madison Parish Hospital accounts to properly treat it as a single entity.
- d. **RN/fulltime employee:** BLS, ACLS, PALS certifications. RN teaching on Saturdays, clocked in (time and ½), plus being paid \$20.00 per employee by a separate hospital check. Interim CEO has stopped this payment arrangement since the employee had been already paid per her salary (time and ½) for the service being provided.
- e **Madison Parish Hospital Board of Commissioners approved, on August 31, 2012, an employee policy adopting the pertinent Ethics Code for employees of the hospital. It took immediate effect on August 31, 2012 and added to the following to the Madison Parish Hospital Employee Handbook**
 - i Louisiana revised statute 42:1111A(1) states, in part, that no public servant shall receive anything of economic value, other than compensation and benefits from the governmental entity to which he is duly entitled, for the performance of the duties and

responsibilities of his office or position. This is also a violation of the Louisiana Code of Governmental Ethics.

- ii. The entity's local code cannot interfere with the enforcement of the Code of Government Ethics, R S 42 1101 et seq., nor preclude the Board of Ethics from having exclusive jurisdiction over the enforcement of the Code of Governmental Ethics. The entity's code also cannot abridge or abrogate any requirements of R S 42 1161 related to self-reporting to the Board of Ethics of suspected violations of the Ethics Code by agency heads.
 - iii. Employees will not accept payments for other work performed in the normal course of employment with the District. Employees are prohibited from accepting payment from outside sources for work performed in the course of their normal job duties.
 - iv. Louisiana State Board of Ethics. Mike Dupree, General Counsel for the Board of Ethics has been contacted to provide Board education. Per discussions at board meeting on August 27, 2012, the police jury will be invited to attend this educational meeting once scheduled. The date of the ethics training has not been set but planning is underway for ASAP scheduling.
 - v. This policy is included in the Madison Parish Hospital employee handbook, and Ethics regulations will be included in the annual hospital in-service for employees and new hires.
- f. The previous CEO that was terminated on July 13, 2012 admitted to the Board of Commissioners at the July 11, 2012 board meeting that he had accepted inappropriate payments from a vendor.

- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H. Walker, RT, BSN, RN/Interim CEO, CEO

- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr. Thomas Joe Williams, Chairman of the Board

2011-18 Personal use of government property

Criteria or Specific Requirement Louisiana revised statute 42 1461 states elected or appointed officials assume a personal obligation not to misappropriate, misapply, convert, misuse or otherwise wrongfully take any funds, property, or other thing of value belonging to or under the custody or control of the public entity in which they hold office

Condition: Upon inquiry of management, it was noted that during the current year and prior year a tractor belonging to the District was used by a Service District Commissioner for personal use

Effect: The District is in violation of Louisiana revised statute 42 1461 prohibiting the personal use of public property

Cause: The District does not have a policy in place prohibiting personal use of District property

Recommendation: We recommend the District comply with all applicable laws and regulations and implement a policy prohibiting the personal use of District property by commissioners and or employees

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 Interim CEO was hired on July 13, 2012 At the regular Madison Parish Hospital board meeting on Tuesday, July 17, 2012 a copy of the Louisiana State Board of Ethics, LA State Regulations for Hospitals and the CMS Conditions of Participations were given to each board member for their review and education
 - 2 Four Board Members sworn in on August 27, 2012, and one on August 31, 2012 All have been given a copy of the Louisiana Code of Governmental Ethics, LA State Regulations for Hospitals and the CMS Conditions of Participations for their review and education
 - 3 On July 23, 2012, Interim CEO informed the prior board member that it was a violation (of the Louisiana Revised Statute 42 1461) for him to use the hospital tractor after being made aware of this action This was a practice that was allowed for several years at Madison Parish Hospital A Massey Ferguson tractor was purchased by the hospital for \$3,000 00 on August 11, 2008 The tractor at the hospital now is a Kubota And, we are gathering information on the location of the Massey Ferguson tractor Tractors were taken off campus by this former board

member for his personal use. The hospital rented a trailer to pick up the inoperable tractor to return it to our campus. The board member in question has resigned.

4. Madison Parish Hospital's new policy prohibits the personal use of District property by employees and commissioners. The new Board of Commissioners approved this policy on August 31, 2012. It took immediate effect and has been added to the Madison Parish Hospital Employee Handbook for employee annual in-service.
 - a. Louisiana revised statute 42:1461 states elected or appointed officials assume a personal obligation not to misappropriate, misapply, convert, misuse or otherwise wrongfully take any funds, property, or other thing of value belonging to or under the custody or control of the public entity in which they hold office.

- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H. Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr. Thomas Joe Williams, Chairman of the Board

2011-19 Improper use of government credit cards

Criteria or Specific Requirement: Louisiana revised statute 42:1461 states officials and employees of any "public entity" assume a personal obligation not to misappropriate, misapply, convert, misuse or otherwise wrongfully take any funds, property or other thing of value belonging to or under the custody or control of the public entity in which they are employed.

Condition: We noted personal charges on District credit cards during the year.

Effect: The District is in violation of Louisiana revised statute 42:1461 as well as exposing itself to risk of liability for personal charges.

Cause: The District does not have a credit card policy in place to prevent misuse of District credit cards.

Recommendation: We recommend the District implement new policies and procedures in accordance with best practice samples that can be found on the Louisiana Legislative Auditor's website.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 On July 17, 2012, Interim CEO presented a plan to collect all credit cards with the Board of Commissioners at a board meeting On July 19, 2012, the Interim CEO requested all credit cards be returned to Administration during a department head meeting Twelve credit cards were returned to administration One Commissioner had a credit card and was requested to return it to administration on July 20, 2012 Interim CEO requested on July 23 that the Commissioner bring the card to Administration The card was returned on this date The Commissioner has since resigned and has been replaced
 - 2 Procedure implemented for credit card usage on July 19, 2012 (same day usage)
 - a Locked in administration
 - b Form implemented for usage (documentation of usage)
 - 1 Check out with Date, time and signature of the person using card
 - 2 Check in/same day with time and receipts of usage
 - 3 Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over purchasing and disbursement functions
 - 5 Policy Written for Credit Card Compliance Approved by the Board of Commissioners on August 31, 2012 Implementation August 31, 2012
 - a Best practice for approved educational seminars employee will pay with a personal credit card, then upon returning will submit appropriate documentation and all itemized receipts for approved reimbursement
 - b Credit card charge tickets for meals do not allow for verification of the number of meals purchased and the propriety of the charges Therefore, the detailed meal receipt should be submitted for supporting documentation
 - c The business purpose must be clearly documented for all charges appearing on the credit card statements, including names of persons participating
- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-20 Inappropriate use of public funds

Criteria or Specific Requirement Article 7, Section 14(A) of the Louisiana Constitution prohibits funds, credit, property, or things of value of the state to be loaned, pledged, or donated to or for any person, association, or corporation, public or private

Condition: During review of expenditures and inquiry of management and employees it was noted that District funds were used to pay for a baby shower for an employee and to purchase gifts for employees and vendors

Effect: The District is in violation of Article 7, Section 14(A) of the Louisiana Constitution

Cause: The District does not have policies and procedures in place to ensure all expenditures are in compliance with the state constitution and law

Recommendation: We recommend the District develop new or update existing policies and procedures over purchasing and cash disbursements to prohibit expenditures of public funds for inappropriate uses

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 1. Madison Parish Hospital will comply with Article 7, Section 14(A) of the Louisiana Constitution which prohibits funds, credit, property, or things of value of the state from being loaned, pledged, or donated to or for any person, association, or corporation, public or private
 2. The Annual audit review and findings presented by Roberts, Cherry and Company to the Madison Parish Board of Commissioners on August 31, 2012 The Board reviewed and approved remedial policies
 - 3 Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over purchasing and disbursement functions
 - 4 Interim CEO (board approval of final Annual Audit on August 31, 2012) will present a copy of the approved written policy to the department managers on September 5, 2013 The policy added to the Madison Parish Hospital handbook and will be reviewed in the annual in-service and the new hire in-service
 - 5 Policy Written for Inappropriate Use of public funds Approved by the Board of Commissioners on August 31, 2012 Implementation August 31, 2012

- a Madison Parish Hospital will comply with Article 7, Section 14(A) of the Louisiana Constitution which prohibits funds, credit, property, or things of value of the state from being loaned, pledged, or donated to or for any person, association, or corporation, public or private
- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-21 Abuse of travel policy

Criteria or Specific Requirement The Louisiana Attorney General has consistently stated that the state's constitution prohibits the use of public funds to pay for the travel of spouses of public employees. The Louisiana Constitution Article VII, Section 14(A) states the funds, credit, property or things of value of the state or of any political subdivision shall not be loaned, pledged or donated to or for any person, association or corporation, public or private. Attorney General opinion 90-0519 reads that "the hospital service district has no legal obligation to pay the travel expenses of spouses of commission members who attend conferences or seminars on district business" Louisiana revised statute 42 1461(A) states officials, whether elected or appointed and whether compensated or not, and employees of any "public entity" by the act of accepting such office or employment assume a personal obligation not to misappropriate, misapply, convert, misuse or otherwise wrongfully take any funds, property or other thing of value belonging to or under the custody or control of the public entity in which they hold office or are employed

Condition: Upon inquiry of management and review of travel expenditures several instances were noted in which spousal accompaniment for out-of-state travel to RHC conventions was paid for by the District

Effect: The District may have been in violation of Article 7, Section 14 of the Louisiana Constitution for donation of public assets and Louisiana revised statute 42 1461(A) for misuse of public funds

Cause: The District does not have adequate travel policies in place to prevent District payment for spousal accompaniment during business travel of commissioners and employees. The travel policies for Madison Parish Hospital Service District Board of Commissioners' and Madison Parish Hospital Administrator and Madison Parish Hospital Employees does not place any

restrictions on spousal travel or state that spousal travel will not be paid for or reimbursed by the District

Recommendation: We recommend the District revise existing travel policies using best practice samples that can be found on the Louisiana Legislative Auditor's website and that all employees and commissioners be educated on the new policies and procedures

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 Upon review of the credit card invoices, travel expenses were paid by Madison Parish Hospital for travel expenditures for spousal accompaniment for out-of-state travel to conventions and seminars for previous CEO and two former Board of Commissioner members
 - 2 Upon review, cash advances were made for some of the travel also, and all necessary receipts were not given to administration to provide reconciliation of the credit card invoices
 - 3 Madison Parish Hospital will request reimbursement based on the violation of Article 7, Section 14 of the Louisiana Constitution for donation of public assets and Louisiana revised statute 42 1461(A) for misuse of public funds This request will be made after the completion of the ongoing Legislative Auditor's investigation
 - 4 Policy Written for Travel by Employee, Commissioner Approved by the Board of Commissioners on August 31, 2012 Implementation August 31, 2012
 - 5 Madison Parish Hospital will use the travel policy using the State of Louisiana travel policies as our guidelines
- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-22 Improper loans to employees and vendors

Criteria or Specific Requirement Article 7, Section 14 of the Louisiana Constitution states that except otherwise provided by this constitution, the funds, credit, property or things of value of the state or of any political subdivision shall not be loaned, pledged or donated to or for any person, association or corporation, public or private

Condition: The District allowed officers, employees and commissioners to use company credit cards for personal purchases. The District was overcharged by a vendor and allowed the vendor to repay the overpayment to the District over a period of twelve months.

Effect: The District is in violation of Article 7, Section 14 of the Louisiana Constitution, "Donation of Public Assets". In addition, the District is exposed to risk of loss resulting from refusal or inability of employees and vendors to repay loaned funds.

Cause: The District does not have a policy in place prohibiting personal use of credit cards. Also, the district does not have policies and procedures in place requiring immediate repayment of overages paid to vendors.

Recommendation: We recommend the District implement a credit card policy which prohibits personal or unauthorized use of credit cards. We recommend the District recover overpayments to vendors immediately upon their discovery, since a loan of any public asset is in violation of Article 7, Section 14 of the Louisiana Constitution.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 1. Upon review of credit cards, Madison Parish Hospital allowed misuse of credit cards allowing a prohibited use of public funds.
 - a. Credit cards collected by Interim CEO on July 19, 2012 and cancelled per letter to Capital One and Sam's/Wal-Mart.
 - b. Credit card usage procedure implemented on July 19, 2012.
 1. Credit card policy: Policy Written for Credit Card Compliance. Approved by the Board of Commissioners on August 31, 2012. Implementation August 31, 2012.
 2. Best practice for approved educational seminars: employee will pay with a personal credit card, then upon returning will submit appropriate documentation and all itemized receipts for approved reimbursement.
 3. Credit card charge tickets for meals do not allow for verification of the number of meals purchased and the propriety of the charges. Therefore, the detailed meal receipt should be submitted for supporting documentation.
 4. The business purpose must be clearly documented for all charges appearing on the credit card statements, including names of persons participating.
 2. The District was overcharged by a vendor and allowed the vendor to repay the overpayment to the District over a period of twelve months. This vendor was

the insurance broker/agent for the health insurance and other life insurances The District allowed him to make monthly payments The district had not received the last three payments, but after the period of twelve months the district did bill him for the last three monthly payments

- a July 16, 2012 Interim CEO implemented procedure Checks were signed previously without invoices attached for review All checks will have invoices attached and will be reviewed by the CEO and the Board of Commissioners before signing any and all District checks
 - b Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over purchasing and disbursement functions with implementation of policies for Madison Parish Hospital Policies will be presented and approved by the Board of Commissioners during and after their assessment for financial compliance
 - c On recommendation of the Interim CEO, the Board of Commissioners approved the hiring of Bill Bourgeois, Attorney on July 17, 2012 to review all contracts for compliance at Madison Parish Hospital "prior" to payables being paid for services.
 - d Policy Written signing of District checks Approved by the Board of Commissioners on August 31, 2012 Implementation August 31, 2012
- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN, RN/Interim CEO, CEO
 - **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Action to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-23 Violation of state code of governmental ethics

Criteria or Specific Requirement The Louisiana Code of Governmental Ethics, based on Louisiana revised statute 42 1112, states that participation by a public servant in a transaction involving the governmental entity in which any of the following persons have a substantial economic interest (1) the public servant (2) any member of his immediate family (3) any person in which he has an ownership interest that is greater than the interest of a general class (4) any person of which he is an officer, director, trustee, partner or employee (5) any person with whom he is negotiating or has an arrangement concerning prospective employment (6) any person who is indebted to him or is a party to an existing contract with him and by reason thereof is in a position to affect directly his economic interests, is prohibited The Louisiana

Code of Governmental Ethics based on Louisiana revised statute 42 1113 states that bidding on, entering into or being in any way interested in any contract, subcontract or other transaction under the supervision or jurisdiction of the public servant's agency is prohibited. This restriction also applies to the immediate family members of the public servant and to legal entities in which the public servant and/or his family members own an interest in excess of 25%.

Condition: Upon review of insurance contracts and policies it was noted that the District entered into contracts for key man insurance policies for which the administrator's son-in-law is the agent of record.

Effect: The District may be in violation of the Louisiana code of governmental ethics and specifically Louisiana revised statutes 42 1112 and 42 1113.

Cause: Per inquiry of the administrator, the policies were underwritten by New York Life Insurance Company which was a well-established, sound financial company. He was unaware of the prohibitions cited above.

Recommendation: We recommend the District refrain from contracting with and purchasing from family members of officers and employees. We recommend the District implement additional or revise existing purchasing policies and procedures and ethics policies to prohibit related party transactions (i.e., transactions with any individuals or businesses that are "related" to a District officer or employee) and that management ensures that contracts with related parties are strictly prohibited.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 1. Three Key man policies were purchased in 2008 (2) and 2010 (1). The key man policies were cancelled on June 4, 2012. The premiums annually for the three policies were \$31,050.00, \$78,540.00 and \$54,880.00. All were \$1,000,000.00 policies. The hospital was reimbursed \$229,369.84 after cancellation of the policies.
 2. The New York Life agent of record was the previous CEO's son-in-law. The former CEO has been terminated.
 3. Policies for purchasing procedures and ethics. Reviewed and approved by the Board on August 31, 2012. Policies will be added to employee handbook under Administration.
- **Person/Persons Responsible for Implementing Corrective Action Plan:**

Paula H. Walker, RT, BSN, RN/Interim CEO, CEO

- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr. Thomas Joe Williams, Chairman of the Board

2011-24 Self-funded medical benefit plan not funded timely

Criteria or Specific Requirement Entities offering self-funded healthcare plans have a responsibility to fund the plan timely to ensure claims are paid timely. Premiums withheld from employees' wages should be remitted to the plan as soon as they can be reasonably segregated.

Condition: Upon review of outstanding healthcare claims, it was noted that a material amount of claims were outstanding. Upon further review, it was noted that in the prior year and the current year premiums withheld from employees' wages were not segregated from the general assets of the District and transferred into the employee benefit plan bank account on a timely basis. Funds were not available to pay claims timely.

Effect: Healthcare premiums are being withheld from employee paychecks, but healthcare claims are not being paid timely in accordance with plan provisions.

Cause: Payment of healthcare claims were delayed due to the cash flow constraints of the District.

Recommendation: We recommend the District comply with all self-funded healthcare plan provisions and fund the plan timely. Premiums withheld from employee wages should be transferred into the plan bank account at the same time that payroll taxes and other withholdings are remitted.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 1. Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions.
 - a. P&N has been retained to evaluate the provisions of the plan and recommend steps necessary to maintain qualification of the plan. Additionally, consideration will be given to the viability of the District remaining in a self-funded plan versus moving to an insured plan.

b Date for Completion November 30, 2012

- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H. Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr. Thomas Joe Williams, Chairman of the Board

2011-25 Non-compliance with the Louisiana Local Government Budget Act

Criteria or Specific Requirement Louisiana revised statute 39 1307 requires that political subdivisions with total expenditures of five hundred thousand dollars or more give notice via publication that the budget is available for inspection, give notice via publication at least ten days prior that a public hearing on the proposed budget shall be held, publish notifications in the official journal, must have at least one public hearing and after public hearing certify completion of all action required by publication

Condition: During testing of the District's current year and prior year budgets it was noted that the proposed budgets were not advertised as being available for public inspection and completion of the budget adoption process was not certified via publication

Effect: The District is not in compliance with the Louisiana Local Government Budget Act and consequently is not in compliance with Louisiana revised statute 39 1307

Cause: The District does not have policies and procedures in place for budget preparation and adoption to ensure they are in compliance with the Louisiana Local Government Budget Act. The District was not aware the proposed budget must be advertised prior to adoption and that certification of the adopted budget must be published

Recommendation: We recommend the District become familiar with the Louisiana Local Government Budget Act and adopt policies and procedures similar to the samples that can be found on the Legislative Auditors website under the best practices tab

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 1. Madison Parish Hospital will follow La R S 39 1307, that requires that political subdivisions with total expenditures of five hundred thousand dollars or more give notice via publication that the budget is available for inspection, give notice via publication at least ten days prior that a public hearing on the proposed

budget shall be held, publish notifications in the official journal, must have at least one public hearing and after public hearing certify completion of all action required by publication

2. Madison Parish Hospital will follow the flowchart of Statutory Mandates concerning the Local Government Budget Act also
 - 3 Madison Parish Hospital did have a budget for 2011, but did not follow the statute that requires public notice and allows inspection
 - a. Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over purchasing and disbursement functions and assessment of the budget for financial accuracy and compliance
 - b Policy Written Procedure for Annual Budget Approved by the Board of Commissioners on August 31, 2012
- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN,RN/Interim CEO, CEO
 - **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-26 Noncompliance with the Louisiana Public Bid Law

Criteria or Specific Requirement Louisiana revised statutes 38 2211-2296 require that public works contracts \$150,000 and over and materials and supplies totaling \$30,000 or more shall be advertised and let by contract to the lowest responsible bidder

Condition: During testing of the District's expenditures it was noted that items requiring bids were not bid in accordance with the Public Bid Law and Louisiana revised statutes 38 2211-2296

Effect: The District is not in compliance with the Louisiana Public Bid Law and consequently is not in compliance with Louisiana revised statute 38 2211-2296

Cause: The District does not have policies and procedures in place for bidding required items in compliance with the Louisiana Public Bid Law

Recommendation: We recommend the District become familiar with the Louisiana Public Bid Law and adopt policies and procedures to ensure they are in compliance with all aspects of the Bid Law

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 1. The Board of Commissioners approved the hiring of Bill Bourgeois, Attorney on July 17, 2012 to review all contracts for compliance at Madison Parish Hospital "prior" to payables being paid for services.
 2. Upon review, a contract for the IV pumps of the hospital was not in compliance, did not follow the bid law. Interim CEO notified the company by letter on August 10, 2012. Mr. Bourgeois contacted the company to resolve this issue for needed compliance of this contract.
 3. Policy Written: Compliance of Contracts/Bid Law. Approved by the Board of Commissioners on August 31, 2012. Implemented on August 31, 2012.
- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H. Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr. Thomas Joe Williams, Chairman of the Board

2011-27 Capital assets inventory not maintained

Criteria or Specific Requirement: Louisiana Revised Statute 24:515 B 1 requires the District to maintain records of its capital assets. Each inventory record should include description, year of acquisition, method of acquisition, funding source, cost or estimated cost, salvage value, and estimated useful life. The inventory record should also identify the functions that use the asset.

Condition: A complete and accurate inventory listing of capital assets for current year and prior year was unavailable.

Effect: The District is not maintaining an inventory listing and updating it as needed in accordance with Louisiana Revised Statute 24:515 B 1. In addition, without all assets reported, the amount of insurance coverage the District has obtained may not be adequate.

Cause: The District does not have procedures in place to ensure all capital assets are properly inventoried and accounted for

Recommendation: We recommend the District develop and implement policies and procedures according the best practice samples found on the Legislative Auditor's website

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 - 1 Upon review, the Interim CEO could not locate an accurate inventory listing of capital assets for the current year
 2. Madison Parish Hospital will begin a capital asset inventory list on September 3, 2012 to have completed for our year end cost reporting
 - 3 Policy Written Annual Capital Asset List Approved by the Board of Commissioners on August 31, 2012 Implemented on August 31, 2012
 - a Louisiana Revised Statute 24 515 B 1 requires the District to maintain records of its capital assets Each inventory record should include description, year of acquisition, method of acquisition, funding source, cost or estimated cost, salvage value, and estimated useful life The inventory record should also identify the functions that use the asset
- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report**
Mr Thomas Joe Williams, Chairman of the Board

2011-28 Noncompliance with the Open Meetings Law

Criteria or Specific Requirement The Open Meetings Law is meant to ensure that decisions by the government are made in an open forum Louisiana revised statute 42 12 requires public business be performed in an open and public manner and that citizens be advised of and aware of the performance of public officials and the deliberations and decisions that go into the making of public policy According to the Open Meetings Law, public bodies such as the Board of the Madison Parish Service District, may not close their meetings to the public, excluding specific exceptions defined in Louisiana revised statutes 42 16, 17 and 18

Condition: During review of board minutes it was noted that most items, not just those listed in the statutes as exceptions to the Open Meeting Law, were covered in executive session It appears as if an excessive amount of items was covered in executive session

Effect: The District is not in compliance with the Open Meetings Law and consequently is not in compliance with Louisiana revised statutes 42 12-18

Cause: The cause could not be determined

Recommendation: We recommend the District become familiar with the Open Meetings Law and adopt practices to ensure they are in compliance with all aspects of the Open Meetings Law All items other than those specified in the statutes as exceptions should be addressed in meetings open to the public

Management's Corrective Action Plan:

Date Corrective Actions Performed or Put into Practice:

1. During review of board minutes it was noted that most items, not just those listed in the statutes as exceptions to the Open Meeting Law, were covered in executive session It appears as if an excessive amount of items was covered in executive session as well as voting in the executive sessions
 2. Interim CEO provided the Board of Commissioners a copy of the Open Meeting Law for Louisiana at the meeting on August 27, 2012 (4 members) and August 31, 2012 (1 member) for review and education
 3. Madison Parish Hospital will follow the Open Meetings Law for compliance with the Louisiana Revised Statutes 42 12-18, Louisiana's Constitution provides in Art XII, Section 3, LSA-R S 42 11 through LSA-R S 42 28
 4. Madison Parish Hospital Board of Commissioners will have an annual in-service on the Open Meeting Laws
 5. A new written policy covering the Open Meeting Laws was approved by the Board of Commissioners on August 31, 2012 and implemented on August 31, 2012
- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN, RN/Interim CEO, CEO
 - **Name of Board Member to Take Responsibility for Monitoring Progress of Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board

2011-29 Late submission of audit report to the Louisiana Legislative Auditor

Criteria or Specific Requirement Louisiana revised statute 24 513 A (5)(a)(i) requires that audits of government agencies shall be completed within six months of the close of the entity's fiscal year. Audit reports are required to be filed with the Louisiana Legislative Auditor within this time restriction.

Condition: The District's audit for the year ended December 31, 2011 was not completed and the audit report was not submitted to the Louisiana Legislative Auditor within six months of year end.

Effect: The District is not in compliance with Louisiana revised statute 24 513 A (5)(a)(i).

Cause: The audit was not completed timely due to external and internal investigations related to the potential or alleged misappropriation of funds, and the accounting records were not being maintained to provide for timely prepared documentation available for the audit fieldwork. The simultaneous compliance audit/investigation being conducted by the Louisiana Legislative Auditor's office caused some key employees as well as information and documents to be unavailable as expected and created significant delays. The delay in the completion of the fieldwork in turn caused the delay of the preparation of the cost report by a third party CPA firm which must be reviewed and necessary adjustments associated with it made to the financial statements. In addition, significant additional time was incurred due to the research into accounting errors resulting in prior period adjustments reflected in these audited financial statements, in addition to numerous audit/compliance findings.

Recommendation: We recommend the District prepare the accounting records and ensure they are complete and free of errors prior to the commencement of fieldwork. We recommend that District management monitor activities during the year to ensure that the District is in compliance with all applicable laws and regulations.

Management's Corrective Action Plan:

- **Date Corrective Actions Performed or Put into Practice:**
 1. Postlethwaite and Netterville CPA firm hired by the Board of Commissioners on August 27, 2012 to provide a plan for financial compliance at Madison Parish Hospital that will include a system for checks and balance over financial functions.
 - a. Implementation of the various corrective action plans listed throughout this document should help to ensure the financial records of the District are better prepared for external audit at the conclusion of the fiscal year. A CPA will be retained before the end of the year with an agreement reached which will provide for adequate time for completion of the

audit and review of any findings prior to the June
30, 2013 submission deadline

b Date for Completion November 30, 2012

- **Person/Persons Responsible for Implementing Corrective Action Plan:**
Paula H Walker, RT, BSN, RN/Interim CEO, CEO
- **Name of Board Member to Take Responsibility for Monitoring Progress of
Corrective Actions to Correct the Deficiencies in 2011 Audit Report:**
Mr Thomas Joe Williams, Chairman of the Board