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DESIRE NARCOTICS REHABILITATION CENTER, INC.

INDEPENDENT AUDITOR'S REPORT AND REPORTS ON FEDERAL AWARDS INTERNAL CONTROL AND COMPLIANCE

NEW ORLEANS, LOUISIANA

For the Year Ended June 30, 1997

MMD

MALCOLM M. DIENES AND COMPANY
Certified Public Accountants

Malcolm M. Dienes, C.P.A. (Deceased)
Jack D. Dienes, C.P.A.*

Donald J. Fonteuberta, C.P.A.
John W. Thenot, C.P.A.

* A Professional Corporation

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Desire Narcotics Rehabilitation Center, Inc.
4116 Old Gentilly Road
New Orleans, Louisiana 70126

We have audited the accompanying statement of financial position of Desire Narcotics Rehabilitation Center, Inc. (a nonprofit organization) as of June 30, 1997, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, U. S. Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and the Circular require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Desire Narcotics Rehabilitation Center as of June 30, 1997, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 1998 on our consideration of Desire Narcotics Rehabilitation Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

As discussed in Note 8 to the financial statements, the Center also suffered recurring significant reductions in grant revenues and has a net deficiency in net assets which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Malcolm M. Dienes and Company

Malcolm Dienes

January 29, 1998

DESIRE NARCOTICS REHABILITATION CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 1997

ASSETS

Current Assets	
Cash-operating	$ 118,369
Grants Receivable	138,909
Other Receivables	56,670
Current Assets	313,948
Furniture and Fixtures (net of accumulated depreciation of $84,609)	45,090
Total Assets	$ 359,038

LIABILITIES & NET ASSETS

Current Liabilites	
Accounts Payable	$ 96,429
Wages and Withholding Payable	250,680
Line of Credit	267,320
Advances from Executive Staff	611,997
Total Liabilities	1,226,426
Net Assets	(867,388)
Total Unrestricted Net Assets	(867,388)
Total Unrestricted Net Assets and Liabilities	$ 359,038

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

DESIRE NARCOTICS REHABILITATION CENTER, INC.
STATEMENT OF ACTIVITIES
June 30, 1997

CHANGES IN UNRESTRICTED NET ASSETS :

Revenues:	
Grant Revenue	$ 1,145,259
Contractual Revenue	401,651
Contributions	109,941
Other	816
Total Unrestricted Revenue	1,657,667
Program Expenses	
Drug Rehabilitation	1,003,825
Housing Assistance	234,113
Total Program Expenses	1,237,938
Support Expenses	
Management and Administrative	390,661
Contributions Expense	46,250
Contractual	233,740
Depreciation	43,390
Total Support Expenses	714,041
Total Expenses	1,951,979
Net increase (decrease) in net assets	(294,312)
Unrestricted Net Assets 6/30/96	(868,710)
Prior Period Adjustment	295,634
Net Assets at 6/30/97	$ (867,388)

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

DESIRE NARCOTICS REHABILITATION CENTER, INC.
STATEMENT OF CASH FLOWS

For the Year Ended June 30, 1997

Cash flows from Operating Activiites:	
Change in Net Assets	$ (294,312)
Adjustments to Reconcile Change in Net Assets to	
Net Cash Used by Operating Activities:	
Depreciation	43,390
Prior Period Adjustment	295,634
(Increase) Decrease in:	
Accounts Receivable	134,671
Other Receivables	(13,721)
Accounts Payable	(283,260)
Wages Payable	164,594
Advances from Officers	(22,498)
Due to Employees	(20,880)
Net Cash Provided (used) by Operating Activities	3,618
Cash Flows from Investing Activities	
Purchase of Equipment	(12,258)
Net Cash Used in Investing Activities	(12,258)
Cash Flows from Other Financing Activities	
Amount received on Line of Credit	117,320
Net Cash Used by Financing Activities	117,320
Net Increase in Cash and Cash Equivalents	108,680
Cash and Cash Equivalents at June 30, 1996	9,689
Cash Equivalents at June 30, 1997	$ 118,369

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

DESIRE NARCOTICS REHABILITATION CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS

June 30, 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Center is a nonprofit community based organization created for the purpose combating substance abuse in the Desire Community. The organization was incorporated in 1970. The Center's philosophy is:

> " to implement a comprehensive program that concentrates on the treatment and rehabilitation of the substance abuser, through focusing on assisting the individual to develop new living patterns for coping with the forces contributing to his/her usage, as well as, bringing about positive alteration of the community environment in which incidence of substance abuse along with its resultant problems thrives."

B. The Center operates the following programs to accomplish its objective as noted above:

The Infinity program provides counseling and rehabilitation to substance abusing pregnant women and their children.

The Target Cities program provides administrative costs for staff needed to run the various programs

The Cooperative Agreement Project was a project sponsored by the National Institute on Drug Abuse to assess drug and HIV risk behaviors among intravenous drug users and "crack" users. This project was a five year project which ended in 1996 of this audit period.

The Drug Free program provides diagnostic, therapeutic, and social support services to ex-addicts and potential addicts. The Court Liaison sub-phase provides advocacy through interfacing with the courts for clients, their families and the community.

The Homeless program provides comprehensive social and medical services for the homeless. The Center provides treatment and counseling to meet the needs of homeless substance abusers.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Programs (continued)

The Chemotherapy program recruits addicts to assist in eliminating their heroin and/ or morphine drug dependency and provides methadone maintenance. Comprehensive services are delivered to clients from program entry through treatment.

The Aids Outreach/Ryan White program provides for condom distribution, street and community outreach, HIV prevention, counseling and testing.

C. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets- Net Assets subject to donor-imposed stipulation that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net Assets subject to donor-imposed stipulations that must be maintained. These restrictions do not expire with the passage of time.

Presently, all of the Center's funds are considered unrestricted because they are on a reimbursement basis.

D. Property and Equipment

The Center's furniture and equipment are recorded at cost. Depreciation is computed annually over the estimated useful life of the asset. All of the Center's fixed assets are being depreciated over a three year period.

E. Tax Exempt Status

Desire Narcotics Rehabilitation Center is a nonprofit organization under Internal Revenue Code Sections 501(3) (c); therefore, no provision has been made for federal or state income taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

F. Cash Equivalents

For purposes of the statement of cash flows, the Center considers all unrestricted cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affects certain reported amounts and disclosures. Accordingly, actual amounts may differ from those estimates.

NOTE 2 - ACCOUNTS RECEIVABLE

The Center had the following amounts due from their grantors at June 30, 1997:

Chemotherapy	$ 35,978
Aids Outreach	5,530
Infinity	41,813
Homeless	20,271
Drug Free	18,633
Ryan White	2,799
Target Cities	13,885
Total	$138,909

These amounts result from grant expenditures incurred which had not been reimbursed at June 30, 1997.

NOTE 3- FURNITURE AN FIXTURES

The Center's furniture and fixtures consist of the following:

	Beginning Balance	Additions	Ending Balance
Equipment and furnishings	$ 91,289	$12,258	$103,548
Vehicles	26,151		26,151
Total	$117,440	$12,258	$129,699
Less: Accumulated Depreciation			(84,609)
Net Fixed Assets			$ 45,090

Total depreciation expense totals $43,390 at June 30, 1997.

NOTE 4 - DUE TO OFFICERS

The amount due to officers represent advances made to the Center in the form of cash or unpaid salary amounts. These amounts are non interest bearing and are payable upon demand.

NOTE 5- LINE OF CREDIT

The Center has a line of Credit with a local lending institution totaling approximately $267,000 bearing interest at a rate of 6.75% payable on demand and secured by personal property of the Executive Director.

NOTE 6- RELATED PARTY TRANSACTIONS

The Executive Director and the Assistant Executive Director have contributed financial support to the Center for several years. These amounts are reflected in advances from executive staff. The executive director has also pledged personal assets to secure the line of credit established by the Center.

NOTE 7 - CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government and the City of New Orleans. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Center expects such amounts, if any, to be immaterial.

NOTE 8 - GOING CONCERN

The Center has suffered recurring significant reductions in grant revenues and has incurred a net deficiency in net assets for the past three years.

Management plans to secure additional funding which will help alleviate the financial hardship the agency is suffering from.

NOTE 9 - PRIOR PERIOD ADJUSTMENT

The adjustment on the statement of activities reflects amounts which could not be reconciled in the reversing entries of the predecessor auditor work papers. This adjustment has the effect of increasing opening net assets by approximately $295,000.

NOTE 10 - LITIGATION

The Center is still a party to litigation whereby the Center's operating account was levied in error for approximately $43,000. The Center is in the process of asserting their rights for return of their funds because the levy was illegal and inappropriate. The outcome of this litigation is unknown at June 30, 1997.

MMD
MALCOLM M. DIENES AND COMPANY
Certified Public Accountants

Malcolm M. Dienes, C.P.A. (Deceased)
Jack D. Dienes, C.P.A.*

Donald J. Fontcaberta, C.P.A.
John W. Theriot, C.P.A.

* A Professional Corporation

INDEPENDENT AUDITOR'S REPORT ON
SCHEDULE OF FEDERAL EXPENDITURES

To the Board of Directors of
Desire Narcotics Rehabilitation Center
4116 Old Gentilly Road
New Orleans, Louisiana 70126

We have audited the financial statements of Desire Narcotics Rehabilitation Center (a nonprofit organization) as of an for the year ended June 30, 1997, and have issued our report thereon dated January 29,1998. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Desire Narcotics Rehabilitation Center, Inc. taken as a whole. The accompanying Schedule of Federal Expenditures is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Malcolm M. Dienes and Company

January 29,1998

DESIRE NARCOTICS REHABILITATION CENTER, INC.
SCHEDULE OF FEDERAL EXPENDITURES

For the Year Ended June 30, 1997

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Expenditures
U. S. Department of Health and Human Services, Substance Abuse and Mental Health - National Institute on Drug Abuse		
* Cooperative Agreement	13.99	$ 80,950
Pass through From the State Department of Human Services, Division of Alcohol and Drug Abuse		
Target Cities	13.99	266,055
Passed through the State of Louisiana Department of Health and Hospitals Office of Public Health		
Aids Outreach	13.99	32,077
Passed through the City of New Orleans Mayor's Office of Health Policy		
Ryan White	13.99	13,306
Passed though the City of New Orleans Office of Public Health		
Homeless	13.99	35,459
Passed through the City of New Orleans Office of Public Health - Infinity Network		
*Infinity	13.99	271,350
Total U. S. Department of Health and Human Services, Substance Abuse and Mental Health - National Institute on Drug Abuse Federal Financial Expenditures		$ 699,197

*Denotes Major program

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

MMD

MALCOLM M. DIENES AND COMPANY

Certified Public Accountants

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* A Professional Corporation

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

Board of Directors
Desire Narcotics Rehabilitation Center, Inc.
4116 Old Gentilly Road
New Orleans, Louisiana 70126

We have audited the financial statements of Desire Narcotics Rehabilitation Center (a nonprofit organization) as of and for the year ended June 30, 1997, and have issued our report thereon dated January 29,1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issues by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether Desire Narcotics Rehabilitation Center's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The result of our test disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items numbered 97-1 and 97-2.

In planning and performing our audit, we considered Desire Narcotics Rehabilitation Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls over financial reporting that, in our judgement, could adversely affect Desire Narcotics Rehabilitation Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in the accompanying schedule of findings and questioned costs as items numbered 97-1 and 97-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would no necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe one of the reportable conditions described above is a material weakness.

This report is intended for the information of management, the board of directors, state and federal awarding agencies, pass-through entities and the Legislative Auditor of the State of Louisiana. However, this report is a matter if public record and its distribution is not limited.

Malcolm M. Dienes and Company

Malcolm M. Dienes Co

January 29,1998

MMD
MALCOLM M. DIENES AND COMPANY
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Desire Narcotics Rehabilitation Center, Inc.
4116 Old Gentilly Road
New Orleans, Louisiana 70126

We have audited the compliance of Desire Narcotics Rehabilitation Center, Inc (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 1998. Desire Narcotics Rehabilitation Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Desire Narcotics Rehabilitation Center's management. Our responsibility is to express an opinion on Desire Narcotics Rehabilitation Center's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Desire Narcotics Rehabilitation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Desire Narcotics Rehabilitation's compliance with those requirements.

301 Magazine St., 2nd Floor, New Orleans, LA 70130 * (504) 588-9288 * Fax (504) 588-9323
Member BKR International
Representative in Major Cities Worldwide

In our opinion, except for the noncompliance described in the schedule of findings and questioned costs Desire Narcotics Rehabilitation Center, Inc. complied, in all material aspects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1997.

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that in our judgment, could adversely affect Desire Narcotics Rehabilitation Center's ability to administer a major federal program in accordance with applicable laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item number 97-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, the board of directors, state and federal awarding agencies, pass-through entities and Legislative Auditor of the State of Louisiana. However, this report if a matter of public record and its distribution is not limited.

Malcolm M. Dienes and Company

Malcolm M. Dienes & Co.

January 29, 1998

DESIRE NARCOTICS REHABILITATION CENTER, INC.
SCHEDULE OF FINDINGS

For the year ended June 30, 1997

#97-1 Payroll tax liabilities

Condition: During the course of our testing we noted that when the Center prepared payroll manually, the payroll was not being called into the payroll processing service for inclusion on the quarterly payroll tax returns.

Cause: This condition is caused by oversight on the Center's part.

Effect: This condition has the effect of understating gross salaries and withholding amounts on the Center's's quarterly payroll tax forms.

Criteria: Federal law requires that the quarterly tax returns be accurately prepared and the withholding taxes remitted in accordance with statute.

Recommendation: We recommend that the Center amend the quarterly returns affected by those periods in which manual payroll was prepared.

Management's Comments: The management of Desire Narcotics Rehabilitation Center, Inc. recognizes this payable and will amend the quarterly payroll taxes and W-2's for 1997 to alleviate this situation. In the future, we will discourage the practice of manual checks.

#97-2 Timely submission of audit report

Condition: We noted during our testing that the Center did not complete their June 30, 1997 audit within the six- month statutory deadline mandated by the State of Louisiana.

Cause: This condition is caused by the predecessor auditor discovering a conflict of interest in his duties with his present employer in performing the audit of the Center.

Effect: The condition has the effect of putting the Center in noncompliance with the state statutes and certain grant documents.

Recommendation: We recommend that the Center engage auditors that specify a completion date that will comply with the State's six month deadline.

Management's Comments: This problem has been alleviated by contacting Malcolm M. Dienes and Company to request their services for our audit in the upcoming year.

MMD

MALCOLM M. DIENES AND COMPANY
Certified Public Accountants

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January 29, 1998

To the Senior Management
and The Board of Directors of
Desire Narcotics Rehabilitation Center, Inc.
4116 Old Gentilly Road
New Orleans, Louisiana 70126

In planning and performing our audit of the financial statements of Desire Narcotics Rehabilitation Center for the year ended June 30, 1997, we considered the Center's internal control structure1 to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. (We previously reported on the Center's internal control structure in our report dated January 29, 1998.) This letter does not affect our report dated January 29, 1998, on the financial statements of Desire Narcotics Rehabilitation Center.

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

1. Contract Compliance

Three out of twenty-five patient files tested in the Infinity program were over the limit listed in the Desire Narcotics Rehabilitation Center's procedural manual for the program. The City's manual does not set the same limits as the Center's manual. We recommend that the Center's manual be amended to include/exclude the same limits as the City of New Orleans.

Management's Comments:
The Desire Narcotics Center, Inc., procedural manual will be changed to include "at the discretion of the Executive Director." This inclusion would be in line with the funding agency.

2. Contributed Professional Services

We noted during our testing that the Center does not keep records of the amount of donated professional services (i.e. services that the Center would have paid for had the person(s) not volunteered and the person performing the service possesses the ability to provide the professional service. We recommend that the Center establish procedures to record the donation of professional services.

Management's Comments
The agency will begin this practice immediately.

3. Federal Financial Reimbursement

We noted during our testing that the Center often writes checks and signs them before the expense is paid or reimbursed. This practice has been accepted by the grantor, but technically, is not proper. We recommend that additional sources of funding be obtained either thru larger advances or service fees to properly have the Center in compliance with the request for reimbursement. We further recommend that indirect cost allocations be reimbursed by the grantors as not to cause undue hardship on the organization as a whole. Also, the return of the amounts levied (See Note 10-Litigation) will help this situation. This practice also results in excessive outstanding checks on a monthly basis, as well as, at year-end.

4. General Operation Budget Monitoring

We noted during our testing that the Center does not have a budget for the operational expenses of the Center. This condition results in overspending in the area of general operations. We recommend that the Center adopt and monitor the expenses flowing through the general operations fund, obtain reimbursement from the various programs for indirect costs and adjust spending habits accordingly.

Management's Comment:
We will attempt to alleviate these practices once funds are secured for all expenditures to include indirect costs.

We wish to thank the Controller and her department for her support and assistance during our audit.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Center.

Malcolm M. Dienes, CPA

January 29, 1998