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EXCELth, INC.

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Release Date AUG 25 1999

**FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 1998**

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CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
STATEMENT OF FINANCIAL POSITION-DECEMBER 31, 1998	3
STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 1998	4
STATEMENT OF CASHFLOWS FOR THE YEAR ENDED DECEMBER 31, 1998	5
STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 1998	6
NOTES TO THE FINANCIAL STATEMENTS	7
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	13
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	14
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	18
SCHEDULES OF FINDINGS AND QUESTIONED COSTS Schedule I - Summary of the Independent Auditors' Results.....	21
Schedule II - Financial Statement Findings for the Year Ended December 31, 1998.....	22
Schedule III - Federal Award Findings and Questioned Cost for the Year ended December 31, 1998.....	23
EXIT CONFERENCE	24

& Tervalon

MICHAEL B. BRUNO, CPA
ALCIDE J. TERVALON, JR., CPA
WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors
EXCELth, Inc.
New Orleans, Louisiana

We have audited the statement of financial position of **EXCELth, Inc.** (a non-profit organization) as of December 31, 1998 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of Excelth Inc. Our responsibility is to express our opinion on these financial statements based on our audit.

Except as noted in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the 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.

We did not observe the taking of the physical inventory at December 31, 1998, since that date was prior to the time that we were initially engaged as auditors for the organization. We were unable to satisfy ourselves about inventory quantities by means of other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the physical inventories taken as of December 31, 1998, the financial statements referred to above present fairly, in all material respects, the financial position of **EXCELth, Inc.** as of December 31, 1998 and the changes in its net assets and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

Board of Directors
EXCELth, Inc.
New Orleans, Louisiana
Page -2-

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 1999, on our consideration of EXCELth, Inc. internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the basic financial statements of EXCELth, Inc. taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements. The information in the schedule 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.

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 25, 1999

EXCELth, Inc.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 1998

ASSETS

Cash	\$ 65,032
Grants receivable (NOTE 5)	216,681
Accounts receivable	22,424
Property, plant, and equipment, net of accumulated depreciation \$461,695(NOTES 2 and 6)	306,533
Inventory (NOTE 7)	70,064
Deposits	<u>20,881</u>
 Total assets	 \$ <u>701,615</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 374,407
Accrued payroll and related taxes	<u>117,957</u>
 Total liabilities	 <u>492,364</u>
 Commitments and Contingencies (NOTE 8)	
Net Assets (NOTE 2):	
Unrestricted	<u>209,251</u>
 Total net assets	 <u>209,251</u>
 Total liabilities and net assets	 \$ <u>701,615</u>

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

EXCELth, Inc.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 1998

	<u>Unrestricted</u>
Support and Revenues:	
Grants	\$ 2,016,250
Patient services	396,733
Interest	772
Other	<u>4,977</u>
 Total support and revenues	 <u>2,418,732</u>
 Expenses:	
Primary healthcare	2,333,329
HIV prevention and care	61,442
Substance abuse	479,626
Social services	<u>50,212</u>
 Total expenses	 <u>2,924,609</u>
 Change in net assets	 (505,877)
 Net Assets:	
 Beginning of year	 <u>715,128</u>
 End of year	 \$ <u>209,251</u>

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

EXCELth, Inc.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31,1998

Cash Flows from Operating Activities:

Change in net assets:	\$ (505,877)
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Depreciation	90,970
Bad debts	315,274
Increase/Decrease in:	
Decrease in grants receivable	33,754
Increase in accounts receivable	(31,033)
Increase in inventory	(70,064)
Decrease in prepaid insurance	28,532
Increase in deposits	(20,776)
Increase in accounts payable	76,007
Increase in accrued payroll and related taxes	<u>117,396</u>
Net cash provided by operating activities	<u>34,183</u>

Cash Flows from Investing Activities

Purchase of equipment	<u>(2,275)</u>
Net cash used for investing activities	<u>(2,275)</u>
Net increase in cash	31,908
Cash, Beginning of year	<u>33,124</u>
Cash, End of year	\$ <u><u>65,032</u></u>

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

EXCELth, Inc.
Statement of Functional Expenses
For The Year Ended December 31, 1998

	Primary Healthcare	HIV Prevention and Care	Substance- Abuse	Social Services	Total
Personal services	\$852,915	\$45,666	\$335,682	\$36,080	\$1,270,343
Fringe benefits	187,242	10,261	77,333	9,016	283,852
Travel	38,447	2,500	6,647	3,231	50,825
Supplies	29,325	586	5,733	405	36,049
Professional fees	353,744	1,283	17,691	899	373,617
Other	57,939	471	6,649	111	65,170
Bad debts	315,274	0	0	0	315,274
Insurance	19,136	96	7,391	67	26,690
Rent	53,710	270	12,472	189	66,641
Utilities	1,130	0	0	0	1,130
Repair and maintenance	5,931	30	1,138	21	7,120
Telephone	51,730	260	8,765	182	60,937
Pharmaceutical supplies	272,688	0	0	0	272,688
Depreciation	90,970	0	0	0	90,970
Public Relations	3,148	19	125	11	3,303
Total	\$2,333,329	\$61,442	\$479,626	\$50,212	\$2,924,609

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

EXCELth, Inc.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - Organization:

EXCELth, Inc., was organized to bring together a variety of resources and services which are directed towards building local capacity to provide basic primary care services for the community. Through the administration of city, state, federal and private resources, **EXCELth, Inc.** is responsible for providing direction, leadership and resource development. These resources are utilized to ensure that primary care services such as prenatal care, pediatric, adolescent, adult and geriatric care, case management, HIV prevention, transportation, laboratory, X-ray, pharmacy and dental care are available and accessible through the network of health providers.

NOTE 2 - Summary of Significant Accounting Policies:

Principles of Accounting

EXCELth, Inc. is a non-profit community based organization whose financial statements are prepared on the accrual basis. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Reporting

EXCELth, Inc. has adopted the provisions of Statement of Financial Accounting Standards NO. 117, "Financial Statements of Not-for-Profit Organizations," which establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net assets categories according to external (donor) imposed restrictions.

EXCELth, Inc.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued:

Basis of Reporting, Continued

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

Unrestricted net assets include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the missions of **EXCELth, Inc.** are included in this category.

Temporarily restricted net assets include realized gains and losses, investment income and gifts and contributions for which donor imposed restrictions (capital improvements, etc.) have not been met.

Permanently restricted net assets are contributions which are required by the donor-imposed restriction to be invested in perpetuity and only the income be made available for program operations in accordance with the donor restrictions. Such income is reflected in temporarily restricted net assets until utilized for donor imposed restrictions.

At December 31, 1998, **EXCELth, Inc.** did not have any temporarily or permanently restricted net assets.

Property, Plant, and Equipment

Property, plant, and equipment is recorded at historical cost if purchased, or at fair market value at the date of the gift, if donated. Additions, improvements and expenditures that significantly extend the useful life of an asset are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets which is 3, 5, and 20 years.

EXCELth, Inc.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued:

Basis of Reporting, Continued

Support and Revenues

Revenues received under governmental grant programs are recognized when earned.

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

Cash Equivalents

For purposes of the statements of cash flows, **EXCELth, Inc.** considers all short-term, highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Functional Allocation of Expenses

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

Allowance for Losses

Allowances for estimated losses on receivables are provided when, in the opinion of management, such losses are expected to be incurred. Management evaluates the carrying value of these assets at least annually and the allowances are adjusted accordingly.

EXCELth, Inc.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 3 - Economic Dependency:

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

NOTE 4 - Income Taxes:

EXCELth, Inc. is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

NOTE 5 - Grants Receivable:

Grants receivable consists of the following as of December 31, 1998:

City of New Orleans:

Ryan White	\$ 17,215
Infinity	107,845
New Orleans Health Department	121,374
Homeless Program - Pharmacy	<u>20,546</u>
	<u>266,980</u>

State of Louisiana:

Office of Public Health	<u>6,701</u>
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Other:

Great Expectations	<u>36,000</u>
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Sub-Total	309,681
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Allowance for doubtful accounts	<u>(93,000)</u>
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Grants receivable	<u>\$ 216,681</u>
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EXCELth, Inc.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 6 - Property, Plant, and Equipment:

	<u>Balance at</u> <u>01/01/98</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance at</u> <u>12/31/98</u>
Land	\$ 100,000	\$ -0-	\$ 100,000
Building	121,306	-0-	121,306
Furniture, fixtures and equipment	479,763	2,275	482,038
Vehicles	64,884	-0-	64,884
Accumulated depreciation	<u>(370,725)</u>	<u>(90,970)</u>	<u>(461,695)</u>
Net property, plant, and equipment	<u>\$ 395,228</u>	<u>\$ (88,695)</u>	<u>\$ 306,533</u>

Depreciation expense for the year ended December 31, 1998 totaled \$90,970.

NOTE 7- Inventory

The management of **EXCELth, Inc.** did not engage an independent auditor to observe the taking of the physical inventory of pharmaceutical supplies at December 31, 1998. The amount of such supplies that is recorded in the financial statements at December 31, 1998 totaled \$70,064.

NOTE 8 - Commitments and Contingencies:

Participation in Grant Programs:

EXCELth, Inc. is a recipient of grant funds from certain funding sources. These grants are governed by various federal, state and local guidelines, regulations, and contractual agreements.

The administration of the program and activities funded by the grants are under the control and administration of **EXCELth, Inc.** and are subject to audit and/or review by the applicable funding source. Any grant funds found not to be properly spent in accordance with the terms, conditions, and regulations of the funding source may be subject to recapture.

EXCELth, Inc.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 8 - Commitments and Contingencies, (Continued):

EXCELth, Inc. leases office space under operating lease expiring October 31, 2002. Minimum future rental payments under these operating lease having remaining terms in excess of one year as of December 31, 1998 and for the subsequent years are as follows:

<u>Year Ended December 31,</u>	
1999	\$ 55,625
2000	\$ 55,625
2001	\$ 55,625
2002	\$ <u>46,354</u>
Total	\$ <u>213,229</u>

Rental expense for the year ended December 31, 1998 under these leases was \$66,641.

NOTE 9 - Year 2000

The management of **EXCELth, Inc.** is assessing its computer systems and business processes and intends to initiate actions to address the Year 2000 (Y2K) issue. At this time management is not able to determine the impact, including the costs of remediation, of the "Year 2000 issue" on **EXCELth, Inc.**

SUPPLEMENTAL INFORMATION

EXCELTH, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 1998

<u>FEDERAL GRANTOR</u>	<u>CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY NUMBER</u>	<u>ACTIVITY</u>
U. S. Department of Health and Human Services			
<u>Direct Awards</u>			
Community Health Center	93.224	-----	\$ 1,063,789
Community Health Center	93.224	-----	95,000
Junior National Health Service Corp./HCOP	93.221	-----	11,397
Awards from a Pass-Through Entity <u>Through the City of New Orleans</u>			
Grants for Residential Treatment Programs for Pregnant and Post-Partum Women-Infinity Program	93.101	72-1193464B	462,886
Healthy Start Initiative-Great Expectations Program	93.926	72-1193464	36,000
Health Center Grants for Homeless Population	93.151	72-1193464A	69,252
HIV Emergency Relief Project Grant-Ryan White Program	93.914/93.915	98-MYR-048	<u>58,904</u>
Total Expenditures of Federal Awards			<u>\$ 1,797,228</u>

See the Independent Auditors' Report on Supplementary Information.

EXCELth, Inc.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 1998

NOTE 1 -- Basis of Accounting:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of **EXCELth, Inc.** and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profits Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented, or used in the preparation of, the basic financial statements.

NOTE 2 -- Subrecipients:

Of the federal expenditures presented in the Schedule, **EXCELTH, Inc.** provided \$160,000 of awards to subrecipients under the Community Health Centers Grant (CFDA #93.224).

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

Board of Directors
EXCELth, Inc.
New Orleans, Louisiana

We have audited the financial statements of **EXCELth, Inc.** as of and for the year ended December 31, 1998 and have issued our report thereon dated June 25, 1999. We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not observe the taking of the physical inventory at December 31, 1998, since that date was prior to the time we were initially engaged as auditors for the Organization. We were unable to satisfy ourselves about inventory quantities by means of other auditing procedures.

Compliance

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

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

(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered EXCELth, Inc.'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 control over financial reporting that, in our judgment, could adversely affect EXCELth, Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-01 and 98-02.

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

(Continued)

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 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 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, of the reportable conditions described above we consider audit findings 98-01 and 98-02 to be material weaknesses.

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

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 25, 1999

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

Board of Directors
EXCELth, Inc.
New Orleans, Louisiana

Compliance

We have audited the compliance of **EXCELth, Inc.** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 1998. **EXCELth, Inc.**'s major federal program is identified in the summary of independent auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of **EXCELth, Inc.**'s management. Our responsibility is to express an opinion on **EXCELth, Inc.** 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 **EXCELth, Inc.**'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.

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

(CONTINUED)

Our audit does not provide a legal determination on EXCELth Inc.'s compliance with those requirements.

In our opinion, EXCELth, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 1998.

Internal Control Over Compliance

The management of EXCELth, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered EXCLEth, Inc.'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.*

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

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

(CONTINUED)

This report is intended solely for the information and use of the Board of Directors, management 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. However, this report is a matter of public record and its distribution is not limited.

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 25, 1999

SCHEDULE I

EXCELth, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS
FOR THE YEAR ENDED DECEMBER 31, 1998

1. Type of report issued on the financial statements. Qualified opinion
2. Did the audit disclose any reportable conditions in internal control. Yes
3. Were any of the reportable conditions material weaknesses. Yes
4. Did the audit disclose any noncompliance which is material to the financial statements of the organization. No
5. Did the audit disclose any reportable conditions in internal control over major programs. No
6. Were any of the reportable conditions in internal control over major programs material weaknesses. No
7. Type of report issued on compliance for major programs. Unqualified
8. Did the audit disclose any audit findings which the independent auditors are required to report under OMB Circular A-133, Section 510(a). No
9. The following is an identification of major programs:

<u>CFDA or Contract Number</u>	<u>Name of Federal Program</u>
93.224	Community Health Center
10. The dollar threshold used to distinguish between Type A and Type B Programs, as described in OMB Circular A-133, Section 520(b) was \$300,000.
11. Did the auditee qualify as a low risk auditee under OMB Circular A-133, Section 530. No

EXCELth, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FINANCIAL STATEMENT FINDINGS

98-01 - Accounts Receivable:

We noted during our audit that the management of **EXCELth, Inc.** had failed to collect on a timely basis, certain funds (\$315,274) that had been advanced to certain individuals during the prior years. The management of **EXCELth, Inc.** has indicated that every attempt will be made to collect such funds prior to the end of the next fiscal year.

However, as provided by generally accepted accounting principles, an allowance for doubtful accounts was established.

We recommend that management take the necessary steps to collect the noted funds and to ensure that future advances are collected on a timely basis.

98-02 - Inventory

We noted during our audit that management of **EXCELth, Inc.** had failed to engage an independent auditor to observe the taking of the physical inventory at December 31, 1998. Additionally, management failed to maintain a perpetual inventory system of pharmaceutical supplies during the year.

This condition resulted in management being unable to ensure pharmaceutical supplies were properly accounted for.

We recommend that management of **EXCELth, Inc.** ensure that the annual physical inventory is observed by an independent auditor and the perpetual inventory system is maintained.

SCHEDULE III

**EXCELth, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no reportable conditions, material weaknesses and no instances of noncompliance that were required to be reported in accordance with Section 510 (a) of OMB Circular A-133.

EXCELth, Inc.

EXIT CONFERENCE

The audit report was discussed at an exit conference with the following individuals:

EXCELth, INC.

Mr. Michael Andry	–	Executive Director
Mr. Byron Tregre	–	Director of Finance

BRUNO & TERVALON, CERTIFIED PUBLIC ACCOUNTANTS

Mr. Michael B. Bruno, CPA	–	Managing Partner
Mr. Edward J. Phillips	–	Senior Manager
Mr. Sean M. Bruno, CPA	–	Audit Senior

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 25, 1999

EXCELTH, INC.
CORRECTIVE ACTION PLAN-AUDIT FINDINGS
DECEMBER 31, 1998

<u>MANAGEMENT LETTER COMMENTS</u>	<u>PROPOSED CORRECTIVE ACTION</u>	<u>ANTICIPATED COMPLETION DATE</u>	<u>CONTACT PERSON</u>	<u>FEDERAL/ PASS-THROUGH AGENCY CONTACTED</u>
<p>98-01 <u>Accounts Receivable</u></p> <p>We noted during our audit that the management of EXCELTH had failed to collect on a timely basis, certain funds (\$315,274) that had been advanced to certain individuals during the prior years. The management of EXCELTH has indicated that every attempt will be made to collect such funds prior to the end of the next fiscal year.</p>	<p>The management of EXCELTH, Inc. will immediately attempt to collect the noted funds and will ensure future advances are timely collected.</p>	<p>December 31, 1999</p>	<p>Byron Tregre Director of Finance</p>	<p>No</p>

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

Board of Directors of
Excelth, Inc.
New Orleans, Louisiana

We have audited the financial statements of EXCELTH, Inc. for the year ended December 31, 1998 and have issued our report thereon dated June 25, 1999. In planning and performing our audit of the financial statements, we considered EXCELTH, Inc.'s internal control over financial reporting and compliance.

During our audit, we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our report dated June 25, 1999 on the financial statements of EXCELTH, Inc. This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities, such as the City of New Orleans.

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

Bruno & Tervalon

**BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS**

June 25, 1999

EXCELTH, INC.

COMMENTS TO MANAGEMENT

1. Equipment

We noted during our audit that management of EXCELTH, Inc. failed to properly record certain fixed asset purchases to the fixed asset subsidiary ledger.

We recommend that management of EXCELTH, Inc. adhere to established policies and procedures.

2. Pharmacy Sales

We noted during our audit that management of EXCELTH, Inc. did not reconcile pharmacy orders that were not picked up by customers to the related receivable control account.

We recommend that management of EXCELTH, Inc. establish procedures to ensure that pharmacy orders returned to stock are reconciled to the related receivable control account on a timely basis.

3. Personnel Action Forms

We noted the following conditions during our audit of payroll expense:

- Personnel action forms had not been updated for current changes; and
- The total salary expense amount per the four quarterly 941's did not reconcile to salary expense as recorded in the general ledger.

We recommend that management of EXCELTH, Inc. take immediate steps to correct the noted conditions.

4. Cash Disbursements

We noted during our audit that management of EXCELTH, Inc. was unable to locate three (3) vendor invoices out of forty (40) tested.

We recommend that management of EXCELTH, Inc. adhere to established record retention procedures.

EXCELTH, INC.
COMMENTS TO MANAGEMENT, CONTINUED

5. Pharmacy Receivable

We noted during our audit that management of EXCELTH, Inc. had failed to bill certain third parties for pharmaceutical supplies in the amount of \$3,500.

We recommend that management adhere to established procedures.

EXCELTH, INC.
CORRECTIVE ACTION PLAN-MANAGEMENT LETTER COMMENTS
DECEMBER 31, 1998

<u>MANAGEMENT LETTER COMMENTS</u>	<u>PROPOSED CORRECTIVE ACTION</u>	<u>ANTICIPATED COMPLETION DATE</u>	<u>CONTACT PERSON</u>	<u>FEDERAL/ PASS- THROUGH AGENCY CONTACTED</u>
<p>1. <u>Equipment</u></p> <p>We noted during our audit that management of EXCELTH, Inc. failed to properly record certain fixed asset purchases to the fixed asset subsidiary ledger.</p>	<p>The management of EXCELTH, Inc. will adhere to established procedures. Immediate steps will be taken to record the fixed assets to the subsidiary ledger.</p>	<p>September, 1999</p>	<p>Byron Tregre Director of Finance</p>	<p>No</p>
<p>2. <u>Pharmacy Sales</u></p> <p>We noted during our audit that management of EXCELTH, Inc. did not reconcile pharmacy orders that were not picked up by customers to the related receivable control account.</p>	<p>The management of EXCELTH, Inc. will establish procedures to ensure the noted condition is corrected.</p>	<p>September, 1999</p>	<p>Byron Tregre, Director of Finance</p>	<p>No</p>

EXCELTH, INC.
CORRECTIVE ACTION PLAN-MANAGEMENT LETTER COMMENT, CONTINUED
DECEMBER 31, 1998

<u>MANAGEMENT LETTER COMMENTS</u>	<u>PROPOSED CORRECTIVE ACTION</u>	<u>ANTICIPATED COMPLETION DATE</u>	<u>CONTACT PERSON</u>	<u>FEDERAL/ PASS-THROUGH AGENCY CONTACTED</u>
<p>3. <u>Personnel Action Forms</u></p> <p>We noted the following conditions during our audit of payroll expense:</p> <ul style="list-style-type: none"> • Personnel action forms had not been updated for current changes; and • The total salary expense amount per the four quarterly 941's did not reconcile to salary expense as recorded in the general ledger. 	<p>The management of EXCELTH, Inc. will take immediate steps to update personnel action forms and to ensure form 941 salaries are reconciled to the general ledger.</p>	<p>July, 1999</p>	<p>Byron Tregre Director of Finance</p>	<p>No</p>

EXCELTH, INC.
CORRECTIVE ACTION PLAN-MANAGEMENT LETTER COMMENT, CONTINUED
DECEMBER 31, 1998

<u>MANAGEMENT LETTER COMMENTS</u>	<u>PROPOSED CORRECTIVE ACTION</u>	<u>ANTICIPATED COMPLETION DATE</u>	<u>CONTACT PERSON</u>	<u>FEDERAL/ PASS- THROUGH AGENCY CONTACTED</u>
<p>4. <u>Cash Disbursements</u></p> <p>We noted during our audit that management of EXCELTH, Inc. was unable to locate three (3) vendor invoices out of forty (40) tested.</p>	<p>The management of EXCELTH, Inc. will obtain original copies from the vendors involved.</p>	<p>August, 1999</p>	<p>Byron Tregre Director of Finance</p>	<p>No</p>
<p>5. <u>Pharmacy Receivable</u></p> <p>We noted during our audit that management of EXCELTH, Inc. had failed to bill certain third parties for pharmaceutical supplies in the amount of \$3,500.</p>	<p>The management of EXCELTH, Inc. has billed the third parties for the noted supplies and management will adhere to established procedures.</p>	<p>August, 1999</p>	<p>Byron Tregre Director of Finance</p>	<p>No</p>