

RECEIVED
DEC 11 1997 11:05

RECEIVED
DEC 11 1997 10:27

OFFICIAL
FILE COPY

DO NOT SEND OUT

(Xerox necessary
copies from this
copy and PLACE
BACK in FILE)

99101184
6002
17

EXCELTH, INC.

AUDIT REPORT

DECEMBER 31, 1997

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

Release Date DEC 16 1998

EXCELTH, INC.

TABLE OF CONTENTS

	<u>PAGE NO.</u>
Independent Auditor's Report	1
<u>FINANCIAL</u>	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Functional Expenses: State and Local Grants	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
<u>OTHER</u>	
Schedule of Governmental Financial Assistance	9
Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	10
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance In Accordance with OMB Circular A-133	16
Schedule of Findings and Questioned Costs	17

SHEPPARD-HARRIS & ASSOCIATES, P.C.

Certified Public Accountants

3499 Independence Drive, Suite A • Birmingham, Alabama 35209 • (205) 871-0313

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Excelth, Inc.
New Orleans, LA**

We have audited the statement of financial position of **Excelth, Inc.**, (a non-profit organization) as of December 31, 1997 and the related statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management and Board of Directors. Our responsibility is to express our 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 provision's of Office of Management and Budget Circular A-133; "Audits of State, 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 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 **Excelth, Inc.**, as of December 31, 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 September 11, 1998, on our consideration of **Excelth, Inc.** internal control structure and a report dated September 11, 1998, on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the financial statements of **Excelth, Inc.**, taken as a whole. The accompanying schedule of Federal financial assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in this 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 financial statements taken as a whole.

Sheppard-Harris & Associates

**Sheppard-Harris & Associates, P.C.
Birmingham, Alabama
September 11, 1998**

EXCELTH, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 1997

<u>ASSETS</u>	<u>TOTAL</u>	<u>PUBLIC HEALTH FUND</u>	<u>STATE & LOCAL FUND</u>	<u>FIXED ASSETS FUND</u>
<u>Current</u>				
Cash	\$ 33,124	\$ 21,550	\$ 11,574	\$ -
Grants Receivable	363,888	36,504	327,384	-
Due From Other Funds	327,383	327,383	-	-
Accounts Receivable	193,212	193,212	-	-
Total Current Assets	<u>917,607</u>	<u>578,649</u>	<u>338,958</u>	<u>-</u>
<u>Property (NET)</u>				
Property Plant & Equipment	<u>395,227</u>	-	-	<u>395,227</u>
Total Property Plant & Equipment	<u>395,227</u>	-	-	<u>395,227</u>
<u>Other</u>				
Expenses Prepaid	<u>28,637</u>	28,637	-	-
Total Assets	<u>\$1,341,471</u>	<u>607,286</u>	<u>338,958</u>	<u>\$ 395,227</u>
<u>LIABILITIES AND NET ASSETS</u>				
<u>Liabilities (All Current)</u>				
Accounts Payable	\$ 298,400	298,400	-	-
Accrued Payroll and Related Taxes	560	560	-	-
Due To Other Funds	<u>327,383</u>	-	<u>327,383</u>	-
Total Liabilities	<u>626,343</u>	<u>298,960</u>	<u>327,383</u>	<u>-</u>
<u>Net Assets</u>				
Unrestricted	<u>715,128</u>	<u>308,326</u>	<u>11,575</u>	<u>395,227</u>
Total Liabilities and Net Assets	<u>\$1,341,471</u>	<u>607,286</u>	<u>338,958</u>	<u>\$ 395,227</u>

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

EXCELTH, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 1997

<u>Unrestricted</u>	<u>TOTAL</u>	<u>PUBLIC HEALTH FUND</u>	<u>STATE & LOCAL FUND</u>	<u>FIXED ASSETS FUND</u>
<u>SUPPORT AND REVENUES</u>				
Current Year Award				
Recognized	\$ 2,969,502	\$ 1,534,538	\$ 1,434,964	\$ -
Patient Services (Net)	3,390,488	3,390,488	-	-
Interest	543	543	-	-
Other	23,143	23,143	-	-
	6,383,676	4,948,712	1,434,964	-
Total Support and Revenues				
	6,282,520	4,889,903	1,434,964	-
	83,514	-	-	83,514
	6,366,034	4,889,903	1,434,964	83,514
	17,642	58,809	-	(83,514)
Increase (Decrease) in Net Assets				
Acquisition of Furniture and Equipment	-	-	(42,347)	42,347
Adjustment	148,025	249,517	(104,116)	2,624
	549,461	-	115,691	433,770
Net Assets, December 31, 1996				
	\$ 715,128	308,326	11,575	\$ 395,227
Net Assets, December 31, 1997				

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

EXCELTH, INC.
STATEMENT OF FUNCTIONAL EXPENSES
STATE AND LOCAL FUND
FOR THE YEAR ENDED DECEMBER 31, 1997

	Total	City of New Orleans						State	
		Other Supporting Projects and Administration	Great Expectation Project	Infinity Program	Pharmacy (Homeless)	Ryan White	Medical Services		New Orleans Health Depart
Support and Revenues									
Current Year Awards Recognized	\$1,434,964	9,332	468,461	242,657	34,192	19,754	344,372	249,942	\$ 66,254
Patient Service (Net)	-	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	1,434,964	9,332	468,461	242,657	34,192	19,754	344,372	249,942	66,254
Expenses									
Personal Services	679,378	-	370,061	127,072	-	14,957	47,458	76,189	43,641
Fringe Benefits	171,631	-	98,038	29,650	-	3,732	9,441	20,823	9,947
Travel	9,619	-	-	8,377	-	-	-	-	1,242
Supplies	3,863	-	-	3,863	-	-	-	-	-
Contractual	447,725	-	362	6,960	-	-	287,473	152,930	-
Other	80,401	9,332	-	24,388	34,192	1,065	-	-	11,424
Total Expenses	1,392,617	9,332	468,461	200,310	34,192	19,754	344,372	249,942	66,254
Increase (Decrease) in Net Assets	42,347	-	-	42,347	-	-	-	-	-
Purchase of Equipment	(42,347)	-	-	(42,347)	-	-	-	-	-
Net Assets	\$ -	-	-	-	-	-	-	-	\$ -

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

EXCELTH, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1997

Cash Flows From Operating Activities:

Change in Net Assets	\$ 17,642
Adjustments to Reconcile Change in Net Assets to Net Cash Used for Operating Activities:	
Depreciation	83,514
Decrease in Grants Receivable	280,706
Increase in Due From Other Funds	(134,815)
Decrease in Prepaid Insurance	11,363
Increase in Accounts Payable	48,150
Decrease in Payroll Taxes Payable	(362,105)
Increase in Due To Other Funds	134,815
Decrease in Deferred Revenue	<u>(192,568)</u>
Net Cash Provided By Operating Activities	<u>(113,298)</u>

Cash Flows From Investing Activities

Purchase of Equipment	(42,347)
Adjustment to Accumulated Depreciation	<u>(47,811)</u>
Net Cash Used By Investing Activities	<u>(90,158)</u>

Net Decrease In Cash	(203,456)
Cash - December 31, 1996	<u>236,580</u>
Cash - December 31, 1997	<u>\$ 33,124</u>

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

EXCELTH, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1997

NOTE 1 - Summary of Significant Accounting Policies:

Excelth, Inc., is a non-profit organization whose purpose is to distribute funding to member organizations who provide primary health care services in a neighborhood or a special population in Orleans Parish; coordinate, plan, and secure funds for the provision of quality health care services, particularly to the medically indigent, within the context of a comprehensive system of care; improve efficiency of management operations within the component member organizations; and engage in educational activities and pursue other opportunities related to quality health care services.

A. Financial Statement Presentation:

In 1997, Excelth, Inc. adopted Statement of Financial Accounting Standard (SFAS) No. 117, "Financial Statement of Not-for-Profit Organizations." Under SFAS No. 117, Excelth, Inc. is required to report information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions. As permitted by this new standard, Excelth, Inc. has discontinued its use of fund accounting and has, accordingly, reclassified its financial statements to present classes of net assets. The reclassification had no cumulative effect on the change in net assets for the year ended December 31, 1997.

Excelth, Inc. also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made," in 1997. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The adoption had no cumulative effect on net assets at the date of the adoption. In addition, Excelth, Inc. has not received any contributions with donor-imposed restrictions that would result in temporarily or permanently restricted net assets.

B. The Corporation requests funds from the Department of Health and Human Services (HHS) in accordance with the Grant Agreement. According to HHS policies, all funds disbursed should be in compliance with the specific terms of the Grant, as defined. HHS may, at its discretion, request reimbursement for expenses or return of unexpended funds, or both, as a result of noncompliance by the Corporation with the terms of the Grant. In addition, if the Corporation terminated its HHS Grant activities, all unexpended funds are to be returned to HHS.

C. Property and equipment acquired with HHS funds are considered to be owned by the Corporation while used in the program or in future authorized programs. However, HHS retains a reversionary interest in these assets as well as the right to determine the use of any proceeds from the sale of such assets.

EXCELTH, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 1997

NOTE 1 - Summary of Significant Accounting Policies (Continued):

Financial Statement Presentation (Continued):

Accordingly, the Corporation may not transfer, mortgage, assign, lease or in any other manner encumber the property and equipment without the prior approval of HHS.

- D. These financial statements are presented on the accrual basis of accounting. Therefore, revenues are recorded when earned and expenses are recorded when incurred.
- E. The Corporation is exempt from Federal income taxes pursuant to Section 501 (c) (3) of the Internal Revenue Code, as amended.
- F. The normal year end for the Corporation is December 31, 1997. However, the Federal grant covered the period from December 1, 1997 through November 30, 1997. These financial statements contain the results of operation for those twelve months.
- G. The Corporation has three major funds - Public Health, State and Local Grants and Property. The Public Health fund is used to record activities related to the grant with Public Health Service. The State and Local Grants fund is used to account for funds received from the state of Louisiana and local sources. The *Property Fund accounts for transactions involving non-expendable furniture, equipment and property.*

NOTE 2 - NETWORK MEMBERSHIP

The Organization provides funding to network member organizations who provide primary health care services in neighborhoods and to special populations in Orleans Parish. In order to receive funding, the network member organizations must report revenues earned and expenses incurred. The funding levels are based upon the data reported to the Excelth, Inc. Excelth, Inc. uses the financial statements as part of its matching level of effort.

NOTE 3 - PROPERTY

In accordance with Federal Regulation 45 CFR, Part 74, Appendix C, Part II.B.11, depreciation expense on property purchased with Federal funds can not be charged as an expense to the Federal program. Therefore, the reduction for the usage is presented *as an expense in the property fund and is not charged as a current Federal expense.* The method for determining the estimated reduction for usage was based on standard depreciation guidelines. The straight - line method was used. Consequently, the value of property is recorded at cost less and allowance for usage.

EXCELTH, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 1997

NOTE 3 - PROPERTY (Continued):

A summary of net property is presented below:

<u>Item</u>	<u>Cost</u>	<u>Allowance</u>	<u>Net</u>
Building	\$ 121,306	\$ 18,196	\$ 103,110
Land	100,000	-	100,000
Furniture & Equipment	<u>544,645</u>	<u>352,528</u>	<u>192,117</u>
Total	<u>\$ 765,951</u>	<u>370,724</u>	<u>\$ 395,227</u>

NOTE 4 - CONTINGENCY

As of December 31, 1997, accrued annual leave is calculated to be \$72,632. The corporation's personnel policies allow each employee to accrue up to two hundred forty (240) hours of annual leave.

NOTE 5 - ADJUSTMENT

An adjustment was made to prior year net assets to correct the accumulated depreciation balance.

EXCELTH, INC.
SCHEDULE OF GOVERNMENTAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 1997

<u>GRANTOR</u>	<u>CFDA NUMBER</u>	<u>GRANT NUMBER</u>	<u>FEDERAL REVENUES</u>	<u>FEDERAL EXPENSES</u>
<u>MAJOR</u>				
U.S. Department of Health and Human Services				
<u>Direct</u>				
Community/Migrant Health Center	93.224	CSE601073-07-0	139,643*	139,643
Community/Migrant Health Center	93.224	CSE601073-06-0	1,252,536*	1,252,536
Junior National Health Service Corp./HCOF	93.221	CSDJ0004-03-3	142,359	142,359
Passed Through City of New Orleans			<u>1,534,538</u>	<u>1,534,538</u>
Great Expectations - P.S. Infinity Program			468,461	468,461
Great Expectations - M.S.			242,657	242,657
Homeless Program - Pharmacy			344,372	344,372
Consortium Development			34,192	34,192
Ryan White			9,332	9,332
New Orleans Health Department			19,754	19,754
			<u>249,942</u>	<u>249,942</u>
Total DHHS			<u>1,368,710</u>	<u>1,368,710</u>
State of Louisiana-Office of Public Health			<u>2,903,248</u>	<u>2,903,248</u>
Total Governmental Financial Assistance			<u>66,254</u>	<u>66,254</u>
			<u>\$2,969,502</u>	<u>\$2,969,502</u>

Note: The accompanying schedule of expenditures of governmental financial assistance is prepared on the accrual basis of accounting.

*Major program as indicated by OMB Circular A-133.

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

SHEPPARD-HARRIS & ASSOCIATES, P.C.

Certified Public Accountants

3499 Independence Drive, Suite A • Birmingham, Alabama 35209 • (205) 871-0313

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

**Board of Directors
Excelth, Inc.
New Orleans, LA**

We have audited the financial statements of **Excelth, Inc.** as of and for the year ended December 31, 1997 and have issued our report thereon dated September 11, 1998. 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.

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*. However, we noted certain immaterial instances of noncompliance, which we have reported to the management of **Excelth, Inc.** in a separate letter dated September 11, 1998.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted

Board of Directors
Excelth, Inc.
Page 2

no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses. However, we noted certain immaterial instances of noncompliance, which we have reported to the management of Excelth, Inc. in a separate letter dated September 11, 1998.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Sheppard-Harris & Associates

Sheppard-Harris & Associates, P.C.
Birmingham, Alabama
September 11, 1998

SHEPPARD-HARRIS & ASSOCIATES, P.C.

Certified Public Accountants

3499 Independence Drive, Suite A • Birmingham, Alabama 35209 • (205) 871-0313

**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, LA**

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 each of its major federal programs for the year ended December 31, 1997. Excelth, Inc.'s major federal programs are identified in the summary of auditor's result section of the accompanying schedule 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 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. 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 each of its major federal programs for the year ended December 31, 1997.

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 Excelth, 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 matter involving the internal control over compliance and its operations that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Excelth, Inc. as of and for the year ended December 31, 1997, and have issued our report thereon dated September 11, 1998. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


**Sheppard-Harris & Associates, P.C.
Birmingham, Alabama
September 11, 1998**

EXCELTH, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 1997

SECTION I SUMMARY OF AUDITOR'S RESULTS

Auditor's Report on the Financial Statements

We audited the financial statements of Excelth, Inc. as of December 31, 1997 and for the year then ended. We issued an unqualified opinion of the financial statements.

Noncompliance Which is Material to the Financial Statements

We performed tests of compliance with certain provisions of laws, regulations, contracts and grants and did not note any instances of noncompliance which are material to the financial statements.

Reportable Conditions in Internal Controls Related to the Audit of Financial Statements

We considered the internal control over financial reporting and did not note any reportable conditions.

Auditor's Report on Compliance for Major Programs

We audited the compliance of the Center 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 December 31, 1997. We issued an unqualified opinion on compliance.

Reportable Conditions in Internal Controls Over Major Programs

We considered the internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and did not note any reportable conditions.

Audit Findings

We did not note any audit findings.

Major Program

Community/Migrant Health Center

Threshold for Type A and Type B Programs

The threshold for determining Types A and B programs was \$300,000.

Low-Risk Auditee

The Center qualified as a low-risk auditee.

SECTION II FINDINGS-FINANCIAL STATEMENTS AUDIT

None

SECTION III FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

OCT 26 1998

RECEIVED
11/10/98
9010010 11/10/98

SHEPPARD-HARRIS & ASSOCIATES, P.C.

Certified Public Accountants

3499 Independence Drive, Suite A • Birmingham, Alabama 35209 • (205) 871-0313

September 11, 1998

**Board of Directors
Excelth, Inc.
New Orleans, LA**

In connection with our audit of the financial statements of **Excelth, Inc.** for the year ended December 31, 1997, we have made a thorough study of your accounting procedures and system of internal control. In addition, we observed your company's organization, policies, and operating methods.

As a result of this examination, we would like to present this recommendation for consideration by management. This suggestion is based primarily on the work done during our audit engagement, and we do not wish to imply that it covers every possible weakness. Nevertheless, we do think that this deserve your careful evaluation.

Excelth, Inc. has increased its monitoring of the network members, however, there are still some internal control problems which have not been resolved by network members. These problems could have a detrimental effect on safeguarding network members' asset. We recommend that network members comply with BPHC PIN98-23 requiring them to maintain financial systems which provide for internal controls, safeguarding assets, ensure stewardship of federal funds, maintain adequate cash flow to support operations, assure access to care, and maximize revenue from non-federal sources.

If you or other members of your management team have any questions concerning these recommendations, we would welcome the opportunity to discuss them with you.

Sincerely,

Sheppard-Harris & Associates

Sheppard-Harris & Associates, P.C.