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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, 1998

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 JAN 13 1999



MALCOLM M. DIENES AND COMPANY
Certified Public Accountants

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

Donald J. Fonteberta, C.P.A.
John W. Theriot, 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 non-profit organization) as of June 30, 1998, and the related statements of activities and cash flows for the years 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.

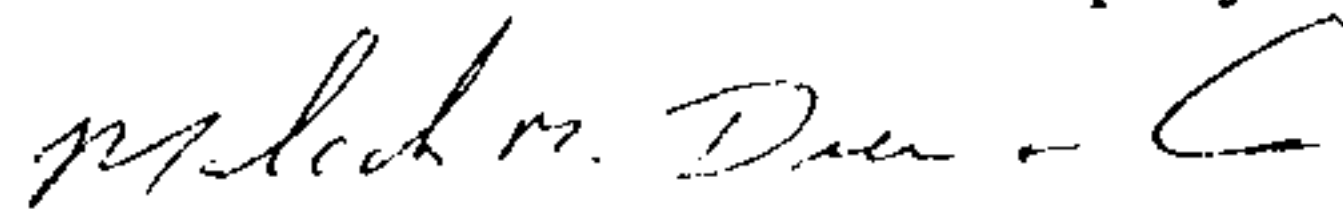
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Desire Narcotics Rehabilitation Center as of June 30, 1998, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 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



September 4, 1998

Desire Narcotics Rehabilitation Center, Inc.

Statements of Financial Position

June 30, 1998

Assets

Current Assets

Cash and Cash Equivalents- Operating	\$	41,615
Grants and Contracts Receivable		<u>264,858</u>

Current Assets		<u>306,473</u>
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Furniture and Fixtures (net of accumulated depreciation of \$129,540)		<u>5,253</u>
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Total Assets	\$	<u>311,726</u>
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Liabilities and Net Assets

Current Liabilities

Accounts Payable	\$	194,622
Wages and Withholding Payable		321,781
Line of Credit		250,000
Advances from Officers		<u>852,361</u>

Total Liabilities		<u>1,618,764</u>
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Net Assets-Unrestricted		<u>(1,307,038)</u>
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Total Net Assets and Liabilities	\$	<u>311,726</u>
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The accompanying notes are an integral part of these financial statements.

Desire Narcotics Rehabilitation Center, Inc.

Statement of Activities

June 30, 1998

Revenues:

Federal Grant Revenue	\$	624,376
State Grant Revenue		499,356
Contractual Revenue		129,114
Contributions Revenue		46,250
Other		<u>100,759</u>
Total Revenue		<u>1,399,857</u>

Program Expenses:

Drug Rehabilitation		1,112,160
Housing Assistance		<u>157,896</u>
Total Program Expenses		<u>1,270,056</u>

Support Expenses:

Management and Administrative		289,985
Contributions Expense		46,250
Contractual		88,316
Depreciation		<u>44,931</u>
Total Support Expenses		<u>469,482</u>

Total Expenses 1,739,538

Decrease in Net Assets (339,681)

Unadjusted Net Assets

Beginning of Year	(867,357)
Prior Period Adjustment	(<u>100,000</u>)
Net Assets, As restated Beginning of Year	(<u>967,357</u>)

Net Assets at
End of Year \$ (1,307,038)

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, 1998

Cash Flows from Operating Activities:	
Decrease in Net Assets	\$ (339,681)
Adjustments to Reconcile Changes in Net Assets to Net Cash Used by Operating Activities:	
Depreciation	44,931
(Increase) Decrease in:	
Accounts Receivable	(84,936)
Other Receivables	(46,002)
Increase (Decrease) in:	
Accounts Payable	84,697
Wages Payable	139,292
Advances from Employers	<u>142,643</u>
Net Cash Used by Operating Activities	<u>(59,056)</u>
Cash Flows from Investing Activities:	
Purchase of Equipment	<u>(5,094)</u>
Net Cash Used in Investing Activities	<u>(5,094)</u>
Cash Flows from Other Financing Activities:	
Amount Paid on Line of Credit	<u>(12,604)</u>
Net Cash Used by Financing Activities	<u>(12,604)</u>
Net Decrease in Cash and Cash Equivalents	(76,754)
Cash and Cash Equivalents at Beginning of Year	<u>118,369</u>
Cash and Cah Equivalents at End of Year	\$ <u>41,615</u>

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

Desire Narcotics Rehabilitation Center, Inc.

Notes To The Financial Statements

June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Center is a nonprofit community based organization created for the purpose of 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 assistance to the Center in the area of administrative costs to run the intake unit and to provide assistance getting patients to and from appointments at the Center.
- 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.

Desire Narcotics Rehabilitation Center, Inc.

Notes To The Financial Statements

June 30, 1998

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

B. 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 and Ryan White programs provide 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 Center 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.

Desire Narcotics Rehabilitation Center, Inc.

Notes To The Financial Statements

June 30, 1998

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

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 Section 501(c)(3); therefore, no provision has been made for federal or state income taxes.

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 affect certain reported amounts and disclosures. Accordingly, actual amounts may differ from those estimates.

Desire Narcotics Rehabilitation Center, Inc.

Notes To The Financial Statements

June 30, 1998

Note 2 - ACCOUNTS RECEIVABLE

The Center had the following amounts due from their grantors and contractors at June 30, 1998:

Drug Free	\$ 82,713
Target Cities	70,234
Infinity	68,991
Shelter Plus	20,634
Chemotherapy	7,896
Homeless	6,780
Aids Outreach	6,135
Ryan White	<u>1,475</u>
Total	<u>\$264,858</u>

These amounts result from grant expenditures incurred which had not been reimbursed at June 30, 1998.

NOTE 3 - FURNITURE AND FIXTURES

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

	Beginning Balance	Additions	Ending Balance
Equipment and furnishings	\$103,548	\$ 5,094	\$108,642
Vehicles	<u>26,151</u>	<u>-</u>	<u>26,151</u>
Total	<u>\$129,699</u>	<u>\$ 5,094</u>	<u>\$134,793</u>
Less: Accumulated Depreciation			<u>(129,540)</u>
Net Fixed Assets			<u>\$ 5,253</u>

The depreciation expense totals \$44,931 at June 30, 1998.

Desire Narcotics Rehabilitation Center, Inc.

Notes To The Financial Statements

June 30, 1998

NOTE 4 - ADVANCES FROM OFFICERS

The amount due to officers represents 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 \$250,000 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 officers. 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, the State of Louisiana 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.

Desire Narcotics Rehabilitation Center, Inc.

Notes To The Financial Statements

June 30, 1998

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 - 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, 1998.

The Center is also seeking punitive damages for other costs incurred as a result of the above mentioned levy. The outcome and amount of this litigation is also unknown at this time.

NOTE 10 - PRIOR PERIOD ADJUSTMENT

The prior period adjustment on the statement of activities reflects amounts loaned to the Center in 1992 by the Executive Director, but never reflected in the audit report for that period.

NOTE 11 - ECONOMIC DEPENDENCE

The Center receives eighty-six percent of its funding from Federal and/or State grants or contractual funding.

SUPPLEMENTARY INFORMATION



MALCOLM M. DIENES AND COMPANY
Certified Public Accountants

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

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

* 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 non-profit organization) as of and for the year ended June 30, 1998, and have issued our report thereon dated September 4, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued 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 #98-1.

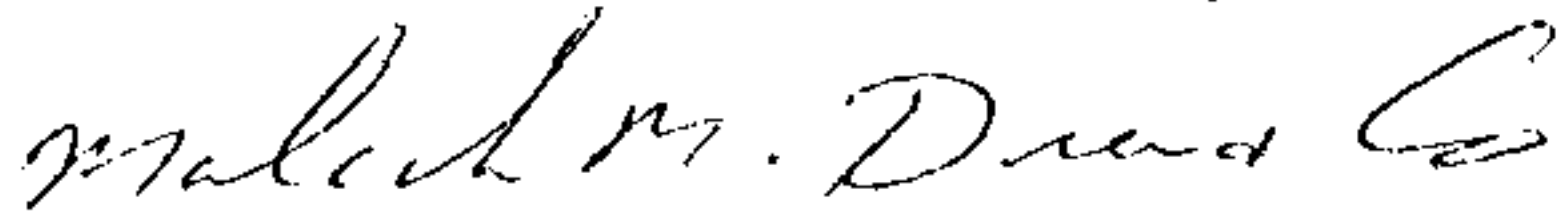
In planning and performing our audit, we considered Desire Narcotics Rehabilitation Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control 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 #98-1.

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 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 not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe both of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control over financial reporting, which we have reported to management of Desire Narcotics in a separate letter dated September 4, 1998.

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 of public record and its distribution is not limited.

Malcolm M. Dienes and Company

A handwritten signature in cursive script that reads "Malcolm M. Dienes" followed by a stylized flourish.

September 4, 1998



MALCOLM M. DIENES AND COMPANY
Certified Public Accountants

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

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

* A Professional Corporation

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 non-profit 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.

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, 1998.

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.

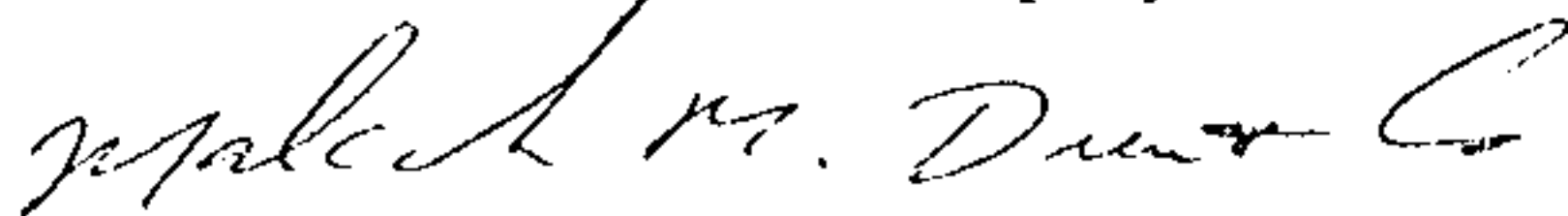
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that in our judgement, 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 items numbered #97-1 and #98-1.

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 structure over compliance would not necessarily disclose all matters in the internal control structure 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 both of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to management of Desire Narcotics in a separate letter dated September 4, 1998.

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 of public record and its distribution is not limited.

Malcolm M. Dienes and Company



September 4, 1998

Desire Narcotics Rehabilitation Center, Inc.

Schedule Of Federal Expenditures of Federal Awards

For The Year Ended June 30, 1998

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	<u>Expenditures</u>
U.S. Department of Health and Human Services, Substance Abuse and Mental Health-National Institute on Drug Abuse		
Passed through From the State Department of Human Services, Division of Alcohol and Drug Abuse		
Cooperative Agreements for Drug Abuse Treatment Improvement Projects in Target Cities (Target Cities)	93.196	\$ <u>257,703</u>
Total U.S. Department of Health and Human Services, Substance Abuse and Mental Health-National Institute on Drug Abuse		<u>257,703</u>
U.S. Department of Health Resources and Services Administration		
Passed through the State of Louisiana Department of Health and Hospitals Office of Public Health		
HIV Emergency Relief Formula Grants (A) (Aids Outreach)	93.915	70,664
Passed through the City of New Orleans Mayor's Office of Health Policy		
HIV Emergency Relief Project Grants (B) (Ryan White)	93.914	26,353
Passed through the City of New Orleans Office of Public Health		
Health Center Grants for Homeless Populations (Homless)	93.151	<u>37,402</u>
Total U.S. Department of Health Resource and Services Administration		\$ <u>134,419</u>

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

Desire Narcotics Rehabilitation Center, Inc.

Schedule of Federal Expenditures

For The Year Ended June 30, 1998

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Expenditures
U.S. Department of Centers for Disease Control		
Passed through the City of New Orleans Office of Public Health-Infinity Network		
Demonstration Grants to States for Community Scholarships (Infinity)	93.931	\$ <u>232,098</u>
Total U.S. Department of Centers for Disease Control		<u>232,098</u>
Total Federal Financial Expenditures		\$ <u>624,220</u>

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

Desire Narcotics Rehabilitation Center, Inc.

Schedule of Findings

For The Year Ended June 30, 1998

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes no

Desire Narcotics Rehabilitation Center, Inc.

Schedule Of Findings

For The Year Ended June 30, 1998

Section I - Summary of Auditor's Results (continued)

Identification of major programs:

<u>CDEA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.196	Cooperative Agreements for Drug Abuse Treatment Improvement Projects in Target Cities (Target Cities)
93.915	HIV Emergency Relief Formula Grants (A) (Aids Outreach)

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes ___X___ no

Section II and III - Financial and Federal Award Findings and Questioned Costs

#97-1 Payroll tax liabilities - Unresolved Finding From 1997

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. This condition continued into 1998.

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 quarterly payroll tax forms and W-2's.

Criteria: Federal law requires that the quarterly tax returns and W-2's be accurately prepared and the withholding taxes remitted in accordance with statute.

Recommendation: We recommend that the Center amend the quarterly returns and W-2's affected by those periods in which manual payroll was prepared.

Desire Narcotics Rehabilitation Center, Inc.

Schedule Of Findings

For The Year Ended June 30, 1998

Section II and III - Financial and Federal Award Findings and Questioned Costs

#98-1 Federal Financial Reimbursement

Condition: During the course of testing cash, we noted that payroll checks for March, April, May and June of 1998 were being held. The checks for June and May of 1998 had not been reimbursed as of June 30, 1998; however most of the grant reimbursements for April and all of the reimbursements for March had been received by the Center at June 3, 1998. Due to the Center processing checks for reimbursement prior to actual payment being made, the Center is in noncompliance with the reimbursement language in their grants and Office of Management and Budget (OMB) Circular A-102.

Criteria: Office of Management and Budget (OMB) Circular A-102 (the Common Rule) requires that all costs be paid prior to reimbursement of the federal funds.

Cause: This condition is caused by the lack of the Center's ability to secure advances on the various grants, as well as, the unwillingness of State and local grantors to fund indirect costs as a part of the grant budget and inconsistent reimbursement practices of their grantors.

Effect: This condition has the effect of causing the Center to be in noncompliance with OMB Circular A-102 and their grant contracts.

Recommendation: We recommend that advances be secured on all grants. We further recommend that all grants should contain indirect cost reimbursements as allowed by the federal government. In the absence of either of these recommendations costs should be cut, if possible, to compensate for the lack of indirect cost reimbursements and advances.

Desire Narcotics Rehabilitation Center, Inc.

Management's Corrective Action Plan

For The Year Ended June 30, 1998

Section I - Internal Control and Compliance Material to the Financial Statements

#97-1 As previously discussed, management of Desire Narcotics Rehabilitation Center, Inc. recognized this payable and amended the quarterly payroll taxes and W-2's for 1997, the remaining was a run over from the prior year and we are in the process of correcting the 1st quarter of 98.

#98-1 Federal financial reimbursement - The lack of obtaining indirect costs by grantors has assisted in the creation of the financial dilemma. We will make all efforts in collecting these funds in the future. Desire Narcotics Rehabilitation Center, Inc. works on a cost incurred basis. Once all funds are secured, the debt will be reduced substantially.

Unclear transactions - These transactions are the result of the financial problems the agency suffers, untimely payment of vouchers, inability to obtain indirect cost as required by federal guidelines, Attachment C, subpart 1-15.2, FPR (41 CFR 1.15.2) Executive order 12372, OMB Circular A-122, no advances for some contracts and inconsistency of reimbursement by grantors.

Section II - Internal Control and Compliance Material To Federal Awards

#97-1 As previously discussed, management of Desire Narcotics Rehabilitation Center, Inc. recognized this payable and amended the quarterly payroll taxes and W-2's for 1997, the remaining was a run over from the prior year and we are in the process of correcting the 1st quarter of 98.

#98-1 Federal financial reimbursement - The lack of obtaining indirect costs by grantors has assisted in the creation of the financial dilemma. We will make all efforts in collecting these funds in the future. Desire Narcotics Rehabilitation Center, Inc. works on a cost incurred basis. Once all funds are secured, the debt will be reduced substantially.

Unclear transactions - These transactions are the result of the financial problems the agency suffers, untimely payment of vouchers, inability to obtain indirect cost as required by federal guidelines, Attachment C, subpart 1-15.2, FPR (41 CFR 1.15.2) Executive order 12372, OMB Circular A-122, no advances for some contracts and inconsistency of reimbursement by grantors.

DESIRE NARCOTICS REHABILITATION CENTER, INC.



4116 OLD GENTILLY RD.
NEW ORLEANS, LOUISIANA 70126
(504) 945-8885
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VERNON J. SHORTY
EXECUTIVE DIRECTOR

SCHEDULE OF PRIOR YEAR FINDINGS AND
QUESTIONED COSTS

Desire Narcotics Rehabilitation Center

For the year ended June 30, 1998

Section I - Internal Control and Compliance Material to the Center's Financial Statements

- 97-1 Payroll Tax Liabilities - As previously discussed, management of Desire Narcotics Rehabilitation recognized this payable and amended the quarterly payroll taxes and W-2's for 1997, the remaining current liabilities were a run over from the prior year and we are in the process of correcting the first quarter of 1998.
- 97-2 Timely Submission of Audit Report - Comment resolved in 1998.

Section II - Internal Control and Compliance Material to Federal Awards

- 97-1 Payroll Tax Liabilities - See Section I
- 97-2 Timely Submission of Audit Report - See Section I

Section III - Management Letter

1. Contract Compliance - The Center is in the process of revising its procedural manual for the Infinity program to match the City's (pass - through entity) guidelines.
2. Contributed Professional Services - The Center had not implemented this suggestion as of June 30, 1998; but we will begin this practice immediately.
3. Federal Financial Reimbursement - The Center still has this problem in the current year. We will attempt to alleviate these practices once funds are secured for all expenditures to include indirect costs.
4. General Operation Budget Monitoring - The Center still has this problem also, we are attempting to alleviate these practice once funds are secured for all expenditures.

Vernon J. Shorty
Executive Director
12/23/98



MALCOLM M. DIENES AND COMPANY
Certified Public Accountants

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

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

* A Professional Corporation

September 4, 1998

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

In planning and performing our audit of the financial statements of Desire Narcotics Rehabilitation Center for the year ended June 30, 1998, we considered the Center's internal control to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. (We previously reported on the Center's internal control in our report dated September 4, 1998.) This letter does not affect our report dated September 4, 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:

Unresolved from 1997 Audit

1. 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 services.) We recommend that the Center establish procedures to record the donation of professional services.

Management's Comments:

The agency will begin this practice immediately.

2. 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. This practice also results in excessive outstanding and held checks on a monthly basis, as well as, at year end. 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 Comments:

We will attempt to alleviate these practices once funds are secured for all expenditures to include indirect costs.

Additional Management Comments from 1998

3. Unsupported Costs

We noted during our testing of cost reports on the Aids Outreach program that approximately \$60 of travel costs were unsupported by underlying invoices. This error projects out to a one percent error rate which equates to likely questioned costs of \$674.

Management's Comments: Unsupported costs - Unsupported cost of \$60.00 resulted because a check was written twice with one not being voided. We will make every effort to ensure that this practice is stopped at once.

4. Physical Inventory

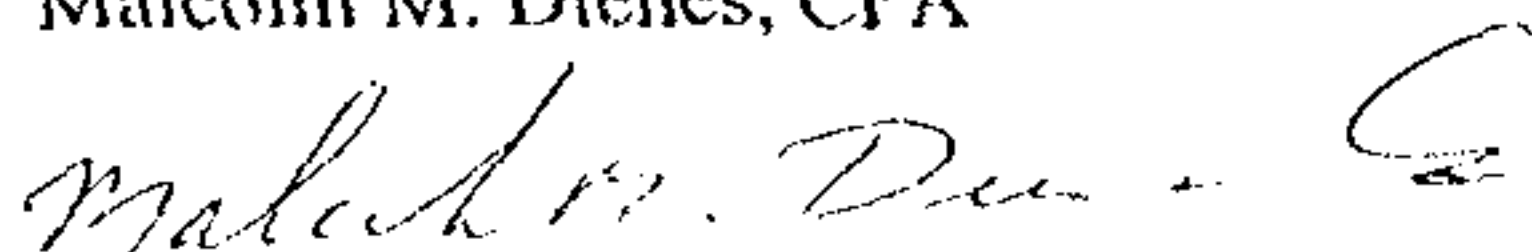
We recommend that you take a physical inventory of all assets in 1998 to ensure that all items recorded are still in existence and are not obsolete.

Management's Comments: A physical inventory will be conducted during the current fiscal year for further determination.

We wish to thank the Controller and her department for their 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



September 4, 1998