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**THE DESIRE NARCOTICS REHABILITATION
CENTER, INC.**

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

For the Year Ended June 30, 2004

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

Release Date 3/30/05

THE DESIRE NARCOTICS REHABILITATION CENTER, INC.

JUNE 30, 2004

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**EILEEN
SHANKLIN
ANDRUS**
CERTIFIED
PUBLIC
ACCOUNTANT
A LIMITED LIABILITY
COMPANY

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American Institute
of Certified Public
Accountants

Member of the
Louisiana Society
of Certified Public
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
The Desire Narcotics Rehabilitation Center, Inc.
4114 Old Gentilly Rd.
New Orleans, LA 70126

I have audited the accompanying statement of financial position of Desire Narcotics Rehabilitation Center, Inc. as of June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of Desire Narcotics Rehabilitation Center, Inc. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Desire Narcotics Rehabilitation Center, Inc. as of June 30, 2004 and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 of these financial statements the Center has suffered recurring losses from prior years resulting in a net deficiency in net assets, which causes substantial doubt about the Center's ability to continue as a going concern.

My audit was performed for the purpose of forming an opinion on the basic financial statements of the Desire Narcotics Rehabilitation Center, Inc. The accompanying schedule of expenditures of federal awards, schedule of findings and other supplementary information is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and *Governmental Auditing Standards* and is not a required part of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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In accordance with *Government Auditing Standards*, I have also issued my report dated December 30, 2004 on my consideration of Desire's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.


Eileen Shanklin Andrus
CERTIFIED PUBLIC ACCOUNTANT
A LIMITED LIABILITY COMPANY

December 30, 2004

DESIRE NARCOTICS REHABILITATION CENTER, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2004

ASSETS

Current Assets

Cash and Cash Equivalents	\$	3,391
Prepaid Expenses		1,603
Accounts Receivable		<u>25,302</u>
Total Current Assets		<u>30,296</u>

Total Net Assets	\$	<u>30,296</u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$	123,209
Due to Executive Director		603,933
Accrued Liabilities		<u>22,500</u>
Total Current Liabilities		<u>749,642</u>

Net Assets

Unrestricted Net Assets (Deficit)		(719,346)
Temporarily Restricted		<u>--</u>
Total Net Assets		<u>(719,346)</u>

Total Liabilities and Net Assets	\$	<u>30,296</u>
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SEE ACCOMPANYING NOTES.

DESIRE NARCOTICS REHABILITATION CENTER, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

June 30, 2004

	Unrestricted	Temporarily Restricted	Total
Increases in Net Assets			
Support & Revenue:			
City of New Orleans - Center for Substance Abuse Treatment	--	\$ 478,705	\$ 478,705
City of New Orleans - Center for Substance Abuse Treatment/Faith Based Initiative	--	15,999	15,999
Housing Opportunities for People With Aids	--	11,957	11,957
Client Donations	87,770	--	87,770
Other Income	<u>83,206</u>	--	<u>83,206</u>
Increase in Net Assets	<u>170,976</u>	<u>506,661</u>	<u>677,637</u>
Assets Released From Restrictions	506,661	(506,661)	--
Total Increase in Net Assets	<u>677,637</u>	--	<u>677,637</u>
Decreases in Net Assets			
Program Expenses:			
Drug Rehabilitation	535,519	--	535,519
Faith Based Initiative	34,351	--	34,351
Housing Opportunities for People With Acquired Immune Disease	15,010	--	15,010
Total Program Expenses	<u>584,880</u>	--	<u>584,880</u>
Support Expenses:			
Management and General	129,951	--	129,951
Total Support Expenses	<u>129,951</u>	--	<u>129,951</u>
Total Decrease in Net Assets	<u>714,831</u>	--	<u>714,831</u>
Net Increase (Decrease) in Net Assets	<u>(37,194)</u>	--	<u>(37,194)</u>
Beginning Net Assets (Deficit) 6/30/03	<u>(682,152)</u>	--	<u>(682,152)</u>
Ending Net Assets (Deficit) at 6/30/04	<u>(719,346)</u>	--	<u>(719,346)</u>

SEE ACCOMPANYING NOTES.

DESIRE NARCOTICS REHABILITATION CENTER, INC

STATEMENT OF CASH FLOWS

JUNE 30, 2004

Cash flows from Operating Activiites:	
Increase (Decrease) in Net Assets	\$ (37,194)
(Increase) Decrease in Assets:	
Grant Receivables	104,105
Employee Loans	19,665
Increase (Decrease) in Liabilities:	
Accounts Payable	(15,641)
Other Liabilities	<u>14,217</u>
Net Cash Provided (Used) in Operating Activities	<u>85,152</u>
Cash Flows from Investing Activities	
NONE	==
Net Cash Provided (Used) in Investing Activities	==
Cash Flows from Other Financing Activities	
Loan Advanced by Officer to Corporation	55,000
Payments on Advances from Officers	<u>(139,881)</u>
Net Cash Provided (Used) in Financing Activities	<u>(84,881)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>271</u>
Cash and Cash Equivalents at June 30, 2003	<u>3,120</u>
Cash Equivalents at June 30, 2004	\$ <u><u>3,391</u></u>

SEE ACCOMPANYING NOTES.

THE DESIRE NARCOTICS REHABILITATION CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Desire Narcotics Rehabilitation Center, Inc. (a not for profit community drug rehabilitation center) (DNRC) was established in 1950. The primary focus of DNRC is to provide quality drug counseling to the addicted abuser. For fifty-five years concerned members of the Desire/Florida community have been working together in an effort to improve living conditions, as well as revitalize the general conditions of the upper ninth ward community.

Desire provides the following programs:

Center for Substance Abuse Treatment (CSAT) – This federal funding is passed through the City of New Orleans' Department of Health from a grant provided by the U.S. Department of Health & Human Services, Substance Abuse and Mental Health Services Administration. The focus of the program is to treat *and counsel addicts abusing heroin. This program also receives funds from the City of New Orleans under **Faith Based Initiatives**.*

Housing Opportunities for People With Aids – This federal program is passed through the Desire Community Housing Corporation, Inc. in New Orleans, LA. The Department of Housing and Urban Development is the federal funding source. The program provides safe and affordable housing for people with AIDS.

B. Principles

The financial statements of the Desire Narcotics Rehabilitation Center, Inc. have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles.

C. Basis of Presentation

The Desire Narcotics Rehabilitation Center, Inc.'s financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SAFS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the organization 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.

THE DESIRE NARCOTICS REHABILITATION CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2004

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

C. Basis of Presentation (continued)

Unrestricted Net Assets - limited only by the broad limits resulting from the nature of the organization, the environment in which it operates, and the purposes specified in its articles of incorporation or bylaws and limits resulting from contractual agreements with suppliers, creditors and others entered into by the organization in the course of its business.

Temporarily Restricted Net Assets - assets whose restrictions lapse with the passage of time.

Permanently Restricted Net Assets - assets whose restrictions do not lapse with the passage of time.

Presently Desire Narcotics has unrestricted and temporarily restricted net assets.

D. Furniture and Equipment

The Center's furniture and equipment is 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 and are *fully depreciated* at June 30, 2004.

E. Income Taxes

Desire Narcotics Rehabilitation Center, Inc. is operating under Section 501 © (3) of the Internal Revenue Code, and is generally exempt from federal, state and local income taxes. Accordingly, no provision for income taxes is included in the financial statements. This nonprofit organization has been classified as an organization that is not a private foundation under Sec 509 (A).

F. Cash and Cash Equivalents

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

The City of New Orleans requires a separate cash account for each of its grants.

THE DESIRE NARCOTICS REHABILITATION CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2004

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

G. Use of 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 results could differ from those estimates.

H. Board Compensation

The board of directors of the DNRC is a voluntary board; therefore, no compensation was paid to any board member during the year ended June 30, 2004.

I. Contributions and Donations

The organization receives donations from clients that use the clinic. These donations vary from year to year depending on the clients' financial status and their willingness to make donations.

NOTE 2- GRANT RECEIVABLE

The corporation has amounts due from grantors at June 30, 2004 for expenses incurred, which have not been reimbursed.

Center for Substance Abuse Treatment - CSAT	\$	<u>25,302</u>
Totals	\$	<u>25,302</u>

NOTE 3 – FURNITURE AND EQUIPMENT

Furniture and equipment at June 30, 2004 consists of the following:

	<u>Beginning</u>	<u>Reclass & Additions</u>	<u>Deletions</u>	<u>Ending</u>
Vehicles	\$ 26,151	--	--	\$ 26,151
Furniture & Equipment	<u>105,071</u>	--	--	<u>105,071</u>
Total	\$ <u>131,222</u>	==	==	\$ <u>131,222</u>
Less: Accumulated Depreciation				<u>(131,222)</u>
Balance at June 30, 2004				==

All furniture and equipment are fully depreciated at June 30, 2004.

THE DESIRE NARCOTICS REHABILITATION CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2004

NOTE 4 – OPERATING LEASES

In 2001, DNRC entered into a lease to house its administrative offices. There are automatic renewal periods-each with a twelve-month term. Monthly rental fees total \$ 2,750 at June 30, 2004. Total annual rental at June 30, 2004 is \$ 33,536.

NOTE 5 - CONCENTRATIONS

The Desire Narcotics Rehabilitation Center receives 81 % of its revenues from federal, state and local governments. The U.S. Department of Health & Human Services, Substance Abuse and Mental Health Services Administration provide 91% of the 81% mentioned.

NOTE 6 - CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the U.S. Department of Health & Human Services, Substance Abuse and Mental Health Services Administration. 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 DNRC expects such amounts, if any, to be immaterial.*

NOTE 7 – RELATED PARTY TRANSACTIONS

During the audit period payments totaling \$ 139,881 were made against the amounts due to the Director which had a balance over \$ 688,000 in 2003. Additional loans by the director totaling \$ 55,000 were also noted. Payment against this liability account was necessitated by payments directly to the Director for prior period operating loans made by him from *his personal assets* to the non-profit corporation. The current balance owed to the director is \$ 603, 933 at June 30, 2004.

NOTE 8 – GOING CONCERN

The net asset balance continues to have a significant negative balance a June 30, 2004 totaling \$ (719,346).The majority of the deficit has been covered by loans made by the Executive Director from his personal assets to DNRC as described in Note 7.

Management continues to secure additional funding, which has helped and will continue to help alleviate the financial hardship the agency has suffered from in the past.

As of this writing the Executive Director has no plans to demand full payment on the loans mentioned in Note 7.

SUPPLEMENTARY INFORMATION

Desire Narcotic Rehabilitation Center, Inc.

Schedule of Federal Expenditures of Federal Awards

June 30, 2004

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Amount Expended</u>
U.S. Department of Health & Human Services		
Passed through the City of New Orleans		
Health Department		
Heroin Reduction Grant (Center for Substance Abuse Treatment)	93.230	\$ 478,705
Faith Based Initiatives	93.230	<u>15,999</u>
Total Passed through the City of New Orleans Health Department		<u>494,704</u>
Total U.S. Department of Health & Human Services		<u>494,704</u>
U.S. Department of Housing and Urban Development		
Passed through the Desire Community Housing Corporation, Inc.		
Housing Opportunities for People With Aids	14.241	<u>11,957</u>
Total U.S. Department of Housing and Urban Development		<u>11,957</u>
Total Federal Expenditures		<u>\$ 506,661</u>

SEE ACCOMPANYING NOTES.



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

The Board of Directors of
The Desire Narcotics Rehabilitation Center, Inc.
4114 Old Gentilly Rd.
New Orleans, LA 70126

I have audited the financial statements of the Desire Narcotics Rehabilitation Center, Inc. (a nonprofit organization) as of and for the year ended June 30, 2004, and have issued my report thereon dated December 30, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the 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 DNRC's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that is required to be reported under *Government Auditing Standards* as noted in the schedule of findings and questioned costs as #04-01, #04-02, #04-03 and # 04-04. I also noted certain immaterial instances of noncompliance, which I have reported to management of DNRC in a separate letter dated December 30, 2004.

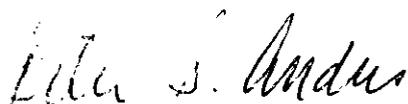
Internal Control Over Financial Reporting

In planning and performing my audit, I considered DNRC's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect DNRC'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 findings # 04-01, #04-02, #04-03 and #04-04.

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. My 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, I do believe that the reportable condition # 04-02 described in the accompanying schedule is a material weakness. I also noted other matters involving internal control over financial reporting, which I have reported to management of DNRC in a separate letter dated December 30, 2004.

This report is intended for the information of the Board and management of the Desire Narcotics Rehabilitation Center, Inc., the Legislative Auditor of the State of Louisiana, federal, state and local awarding agencies and pass-through agencies and is not intended to be used by anyone other these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Eileen Shanklin Andrus
CERTIFIED PUBLIC ACCOUNTANT
A LIMITED LIABILITY COMPANY

December 30, 2004



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

The Board of Directors of
The Desire Narcotics Rehabilitation Center, Inc.
4114 Old Gentilly
New Orleans, LA 70126

Compliance

I have audited the compliance of the Desire Narcotics Rehabilitation Center, Inc. (a nonprofit organization) (DNRC) 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, 2004. DNRC'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 its major federal programs is the responsibility of DNRC's management. My responsibility is to express an opinion on DNRC's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 I 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 DNRC's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of DNRC's compliance with those requirements.

As described in items # 04-01, # 04-02, # 04-03 and # 04-04 in the accompanying schedule of findings and questioned costs, DNRC did not comply with its own internal requirements regarding maintaining payroll tax form copies, accounts payable and receivable maintenance, recording and timely and accurate bank reconciliations and timely submission of the audited financials. Compliance with such requirements is necessary, in my opinion, for DNRC to comply with the requirements applicable to that program.

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In my opinion, except for the noncompliance described in the preceding paragraph, DNRC 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 June 30, 2004.

Internal Control Over Compliance

The management of DNRC 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 my audit, I considered DNRC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect DNRC's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. These reportable conditions are described in the accompanying schedule of findings and questioned costs as items # 04-01, # 04-02, # 04-03 and # 04-04.

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. My 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, I do believe that of the reportable condition described as finding # 04-02 is a material weakness.

This report is intended for the information of the Board and management of the Desire Narcotics Rehabilitation Center, Inc. LA, the Legislative Auditor of the State of Louisiana, federal, state and local awarding agencies and pass-through agencies and is not intended to be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Eileen Shanklin Andrus
CERTIFIED PUBLIC ACCOUNTANT
A LIMITED LIABILITY COMPANY

December 30, 2004

THE DESIRE NARCOTICS REHABILITATION CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2004

Section 1 Summary of Auditor's Reports

Financial Statements

Type of auditor's report issued = Unqualified

Internal Control over financial reporting:

Material Weakness(es) identified X Yes No

Reportable Condition(s) identified
that is not considered to be
material weaknesses X Yes none reported

Noncompliance material to financial
Statements noted? X YES No

Federal Awards Internal Control over major programs:

Material weakness(es) identified? X Yes No

Reportable condition(s) identified
that is not considered to be
material weakness(es) ? X 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? X Yes No

THE DESIRE NARCOTICS REHABILITATION CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2004

Section 1 Summary of Auditor's Reports

Identification of major programs:

CFDA Number(s)

93.230

Name of Federal Program or Cluster

Center for Substance Abuse
Treatment – CSAT
Heroin Reduction Grant

Dollar threshold used to distinguish
Between type A and type B programs:

\$ 500,000

Auditee qualified as low-risk auditee? Yes X No

Section II: Financial Statement Findings and Federal Award Findings & Questioned Costs

04-01 Payroll Tax Forms Record Keeping

Condition: I noted during my test of payroll that the fourth quarter of 2003 and the first quarter of 2004 form 941 could not be located for my review.

Cause: This condition is caused by failure of DNRC to maintain a copy of the completed form.

Effect: This condition has the effect of weakening controls over payroll tax forms record keeping.

Criteria: Payroll related forms and records should be maintained as prescribed by the Internal Revenue Service of the United States of America.

Questioned Costs: None.

Recommendation: I recommend that procedures be strengthened in the area of payroll tax form record keeping.

04-02 Accounts Payable and Accounts Receivable Maintenance – Material Weakness

Condition: During my testing I noted that current receivable and payable balances were not *being reversed and or adjusted on a periodic basis in accordance with full-accrual accounting*. In fact, there was \$ 58,405 of payables dating back more than 90 days with the majority of this amount resulting from payables which were claimed for reimbursement under the CSAT grant. Some of these costs were disallowed by the grantor; yet they remain unpaid and remain coded to the CSAT grant expenses at June 30, 2004. Management has asked that I note that the City of New Orleans is often 60 to 90 days in providing reimbursement for costs incurred under this contract.

THE DESIRE NARCOTICS REHABILITATION CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2004

Section 1 Summary of Auditor's Reports

04-02 Accounts Payable and Accounts Receivable Maintenance (continued)

Cause: This condition is caused by oversight at the DNRC.

Effect: This condition has the effect of causing the interim financial statements to be misleading.

Criteria: A good system of internal control over financial reporting would include the recording, reversing or reclassifying of receivables and payables on a periodic basis (preferably at a minimum monthly) in accordance with Generally Accepted Accounting Principles (GAAP).

Questioned Costs: None.

Recommendation: I recommend that the contractual accountant be advised to book and reverse all receivables and payables as warranted by GAAP on a timely basis.

04-03 Timely and Accurate Bank Reconciliations

Condition: During my testing I noted that bank reconciliations were often done some four or five months after the bank statement date. I further noted that there were checks listed as outstanding that are over a year old.

Cause: This condition is caused by oversight at the DNRC.

Effect: This condition has the effect of causing the cash balances per book to be understated throughout the audit period.

Criteria: A good system of internal control over financial reporting would include timely reconciliation preparation and timely voiding and or adjustment of the ledger in accordance with the results of the reconciliation.

Questioned Costs: None.

Recommendation: I recommend that DNRC establish controls whereby the bank reconciliation is reviewed periodically to make sure the internal procedures regarding bank reconciliations be followed and enforced.

THE DESIRE NARCOTICS REHABILITATION CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2004

Section I Summary of Auditor's Reports

04-04 Timely Submission of Audited Financial Statements

Condition: I noted that the DNRC failed to submit its audit report within the statutory deadline of six months.

Cause: This condition was caused by delays in getting needed information from the organization due to the death of the in-house accountant's mother and the reduction in staff due to the completion of the CSAT grant.

Effect: This condition has the effect of putting the Program in non-compliance with State law.

Questioned Costs: None.

Recommendation: I recommend that in the future all needed confirmations and correspondences be provided to the auditor in a timely fashion to facilitate timely completion as required by State law. I further recommend that the audit be commenced and engaged in a more timely manner to facilitate the completion of the audit within the statutory deadlines.

THE DESIRE NARCOTICS REHABILITATION CENTER, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2004

Prior Year Findings and Management Comments

Findings & Questioned Costs:

03-01 Timely Preparation of Financial Statements (Youth Offenders) = No longer applicable, this program has ended.

Management Letter Comments:

MGT. 03-01 Payment of the Director's Personal Expenses in Lieu of Paying Back Proceeds From a Personal Loan By the Director to the Corporation = Unresolved and still occurring.



**EILEEN
SHANKLIN
ANDRUS
CERTIFIED
PUBLIC
ACCOUNTANT**

A LIMITED LIABILITY
COMPANY

Member of the
American Institute
of Certified Public
Accountants

Member of the
Louisiana Society
of Certified Public
Accountants

December 30, 2004

To Mr. Vernon Shorty
And the Board of Directors of
The Desire Narcotics Rehabilitation Center, Inc.
4116 Old Gentilly Road
New Orleans, LA 70126

I have audited the financial statements of the Desire Narcotics Rehabilitation Center, Inc. as of and for the year ended June 30, 2004, and have issued my report thereon dated December 30, 2004. I conducted my audit in accordance with auditing standard generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of my examination, I issued my report on the financial statements dated June 30, 2004 and my report on internal control and compliance with laws, regulations, and contracts dated June 30, 2004.

In planning and performing my audit of the financial statements of Desire Narcotics I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on internal control.

However, I noted certain matters involving internal control and its operation that I consider to be important, but not significant enough to be considered a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal control that, in my judgment, could adversely affect the ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

The following conditions were noted during the course of conducting Desire Narcotic's audit for the year ended June 30, 2004.

MGT. 03-01 Payment of the Director's Personal Expenses in Lieu of Directly Paying Back Proceeds From a Personal Loan By the Director to the Corporation to the Director.

Condition: As outlined in Note 8, the Director of Desire Narcotics Rehabilitation Center, Inc. has loaned the corporation over \$ 603,933 dollars of his personal money in past years. I further noted that instead of making checks for repayment of this loan directly to the Director, Mr. Vernon Shorty, several checks were written to Mr. Shorty's mortgage company and to other creditors.

Recommendation: I recommend that all repayment of loans be made out to Mr. Shorty directly instead of to his personal creditors.

MGT. 04-01 Periodic Monitoring and Evaluations Not Maintained in the months of May and June of 2004

Condition: I noted during my testing of CSAT client files that four of the ten files tested did have evidence of bi-monthly monitoring and counseling of the patient.

Recommendation: I recommend that all counseling efforts be properly documented in the client's file.

These recommendations are meant as suggestions to "tighten" controls and not to criticize management or the administrative staff. Should you have any further questions, please do not hesitate to contact me at (985) 209-3067 or e-mail Eileen@esacpa.com

Sincerely,



Eileen S. Andrus
CERTIFIED PUBLIC ACCOUNTANT
A LIMITED LIABILITY COMPANY

THE DESIRE NARCOTICS REHABILITATION CENTER, INC.

MANAGEMENT'S CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2004

Finding # 04-01 Payroll Tax Forms Record Keeping

Condition: I noted during my test of payroll that the fourth quarter of 2003 and the first quarter of 2004 form 941 could not be located for my review.

Corrective Action: Payroll tax forms will be maintained by the internal accountant versus the contractual CPA in an effort to allow for better safekeeping.

Finding # 04-02 Accounts Payable and Accounts Receivable Maintenance – Material Weakness

Condition: During my testing I noted that current receivable and payable balances were not being reversed and or adjusted on a periodic basis in accordance with full-accrual accounting. In fact, there was \$ 58,405 of payables dating back more than 90 days with the majority of this amount resulting from payables which were claimed for reimbursement under the CSAT grant. Some of these costs were disallowed by the grantor; yet they remain unpaid and remain coded to the CSAT grant expenses at June 30, 2004. Management has asked that I note that the City of New Orleans is often 60 to 90 days in providing reimbursement for costs incurred under this contract.

Corrective Action: The accounts receivable and accounts payable balances will be reviewed on a quarterly basis to identify, correct, reclassify or reverse and past due or outstanding balances.

Finding # 04-03 Timely and Accurate Bank Reconciliations

Condition: During my testing I noted that bank reconciliations were often done some four or five months after the bank statement date. I further noted that there were checks listed as outstanding that are over a year old.

Corrective Action: We will void outstanding checks and other reconciling items in excess of 90 days during the normal reconciling period. We will also begin to reconcile the bank statements on a monthly basis to adhere to good control procedures.

Finding # 04-04 Timely Submission of Audit Reports

Condition: I noted that the DNRC failed to submit its audit report within the statutory deadline of six months.

Corrective Action: In the future we will engage and commence the audit in a timelier manner so that the statutory deadline will be met.

DESIRE NARCOTICS REHABILITATION CENTER, INC.

SCHEDULE OF PROGRAM EXPENSES

JUNE 30, 2004

	<u>Program Services</u>				<u>Total</u>
	<u>Center for Substance Abuse Treatment</u>	<u>Faith Based Initiatives</u>	<u>Housing Opportunities for People Management with AIDS</u>	<u>Supporting Services & General</u>	
Program Services:					
Administrative	--	--	--	\$ 1,017	\$ 1,017
Advertising	--	--	--	362	362
Bank Service Charges	\$ 34	--	--	1,935	1,969
Client Expenses	200	--	--	1,796	1,996
Donation	--	--	\$ 300	10,911	11,211
Equipment Purchases	--	\$ 1,000	--	77	1,077
Faith Based Initiative	--	27,141	--	1,250	28,391
Group Activity	200	--	--	1,810	2,010
Other Direct Costs	100,708	1,210	9,212	31,915	143,045
Payroll and Fringe	172,429	--	1,400	57,706	231,535
Professional Services	231,362	5,000	3,200	11,866	251,428
Supplies	29,186	--	898	5,271	35,355
Training	--	--	--	355	355
Travel	<u>1,400</u>	--	--	<u>3,680</u>	<u>5,080</u>
Total	\$ 535,519	\$ 34,351	\$ 15,010	\$ 129,951	\$ 714,831