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EXCELth, INC.

**FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED DECEMBER 31, 2003

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 9-15-04

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Member
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Michael B. Bruno, CPA
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Paul K. Andoh, Sr., CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors
EXCELth, Inc.
New Orleans, Louisiana

We have audited the statement of financial position of **EXCELth, Inc.** (a non-profit organization) as of December 31, 2003 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of **EXCELth, Inc.** Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2003 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

Board of Directors
EXCELth, Inc.
New Orleans, Louisiana
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In accordance with Government Auditing Standards, we have also issued our report dated June 11, 2004, on our consideration of **EXCELth, Inc.**'s internal control over financial reporting and on our 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 our audit. Also, that report identified an instance of non-compliance and reportable conditions in internal control.

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

Bruno & Tervalon LLP
BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

June 11, 2004

EXCELth, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2003

ASSETS

Cash (NOTE 2)	\$ 336,601
Grants receivable (NOTE 6)	535,858
Other support receivable (NOTE 7)	12,100
Management fee receivable (NOTE 11)	53,185
Other receivable	1,713
Property, plant, and equipment, net of accumulated depreciation \$193,039 (NOTES 2 and 8)	271,955
Leasehold improvements, net of accumulated amortization \$55,000 (NOTES 2 and 8)	58,794
Inventory (NOTE 2)	37,267
Deposits	<u>11,854</u>
Total assets	<u>\$1,319,327</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 193,697
Accrued payroll and related fringe benefits	84,371
Compensated absences (NOTE 9)	84,432
Property taxes payable (NOTE 10)	<u>81,299</u>
Total liabilities	<u>443,799</u>
Commitments and Contingencies (NOTE 9)	
Net Assets (NOTE 2):	
Unrestricted	698,432
Unrestricted board designated (NOTE 12)	<u>177,096</u>
Total net assets	<u>875,528</u>
Total liabilities and net assets	<u>\$1,319,327</u>

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

EXCELth, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

Support and Revenues:	
Grants	\$3,956,934
Patient services	379,380
Management fee revenue	129,330
Other income	<u>13,943</u>
Total support and revenues	<u>4,479,587</u>
Expenses:	
Primary healthcare	2,581,900
HIV prevention and care	493,668
Substance abuse	890,678
Social services	41,987
The Center	<u>129,330</u>
Total expenses	<u>4,137,563</u>
Change in net assets	342,024
Net Assets:	
Beginning of year	<u>533,504</u>
End of year	<u>\$ 875,528</u>

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

EXCELth, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003

Cash Flows from Operating Activities:

Change in net assets	\$ 342,024
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	48,154
Amortization	22,758
Increase/Decrease in:	
Decrease in grants receivable	11,028
Decrease in other support receivable	2,680
Decrease in other receivable	4,693
Increase in management fee receivable	(53,185)
Decrease in inventory	27,743
Increase in deposits	(164)
Decrease in accounts payable	(159,792)
Increase in accrued payroll and related taxes	5,621
Decrease in taxes payable	(56,440)
Increase in property taxes payable	4,242
Increase in compensated absences	<u>8,238</u>
Net cash provided by operating activities	<u>207,600</u>
<u>Cash Flows from Investing Activities:</u>	
Purchase of fixed assets	<u>(81,110)</u>
Net cash used in investing activities	<u>(81,110)</u>
Net increase in cash	126,490
Cash, Beginning of year	<u>210,111</u>
Cash, End of year	<u>\$ 336,601</u>

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

EXCELth, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2003

	Primary Healthcare	HIV/AIDS Prevention and Care	Substance Abuse	Social Services	The Center	Total
Personal services	\$1,155,067	\$318,639	\$412,813	\$35,169	\$ 87,267	\$2,008,955
Fringe benefits	278,337	79,686	79,424	6,818	2,885	447,150
Travel	34,333	9,543	5,429	-0-	2,718	52,023
Lab fees	21,314	8,328	1,672	-0-	-0-	31,314
Supplies	29,198	15,463	18,990	-0-	1,311	64,962
Professional fees	463,618	750	149,114	-0-	2,350	615,832
Transportation	18,231	13,671	3,071	-0-	1,350	36,323
Other	12,248	506	2,469	-0-	375	15,598
Insurance	31,668	-0-	263	-0-	-0-	31,931
Rent	153,320	18,089	166,274	-0-	8,516	346,199
Utilities	12,513	-0-	30,030	-0-	-0-	42,543
Repair and maintenance	9,578	1,480	4,942	-0-	1,207	17,207
Telephone/communications	52,864	2,613	12,098	-0-	7,647	75,222
Pharmaceutical and medical supplies	149,381	16,162	49	-0-	-0-	165,592
Depreciation	48,154	-0-	-0-	-0-	-0-	48,154
Amortization	22,758	-0-	-0-	-0-	-0-	22,758
Dues and subscriptions	28,812	16	580	-0-	-0-	29,408
Meetings	32,020	5,418	2,822	-0-	2,478	42,738
Printing	15,582	3,188	251	-0-	243	19,264
Licenses	12,904	116	387	-0-	-0-	13,407
Equipment	-0-	-0-	-0-	-0-	10,983	10,983
Total	\$2,581,900	\$493,668	\$890,678	\$41,987	\$129,330	\$4,137,563

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

EXCELth, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - Organization:

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

NOTE 2 - Summary of Significant Accounting Policies:

Principles of Accounting

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

Basis of Reporting

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

EXCELth, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued:

Basis of Reporting, Continued

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

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

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

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

As of December 31, 2003, **EXCELth, Inc.** did not have any temporarily or permanently restricted net assets.

Property, Plant, and Equipment

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

Leasehold Improvements

Leasehold improvements are stated at cost. Amortization is provided using the straight-line method over the life of the lease which is five years.

EXCELth, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued:

Basis of Reporting, Continued

Support and Revenues

Revenues received under governmental grant programs are recognized when earned.

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

Cash Equivalents

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

Functional Allocation of Expenses

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

Allowance for Losses

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

Inventory

Inventory is stated at the lower of cost determined by the first in-first out method or market.

EXCELth, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 3 - Economic Dependency:

The primary source of revenue for **EXCELth, Inc.** is federal, state and local grants provided through various funding agencies. The continued success of **EXCELth, Inc.** is dependent upon the renewal of contracts from current funding sources, including the Department of Health and Human Services, obtaining new funding, as well as the positive resolution by **EXCELth, Inc.** of all questioned costs.

NOTE 4 - Income Taxes:

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

NOTE 5 - Concentrations of Credit Risk:

Financial instruments that potentially subject **EXCELth, Inc.** to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions. Cash and cash equivalents exceeded federally insured limit totaling \$455,949 as of December 31, 2003.

EXCELth, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 6 - Grants Receivable:

Grants receivable consists of the following as of December 31, 2003:

City of New Orleans:	
Infinity -TANF	<u>\$323,493</u>
Department of Health and Human Services:	
Ryan White Title III - EIS	32,438
Center for Disease and Prevention	<u>40,045</u>
Sub-total	<u>72,483</u>
State of Louisiana:	
Office of Public Health	20,612
Infinity	<u>119,270</u>
Sub-total	<u>139,882</u>
Total	<u>\$535,858</u>

NOTE 7 - Other Support Receivable:

Other support receivable consists of the following as of December 31, 2003:

Patient receivables - EFHC	\$11,529
Insurance claims receivable	<u>571</u>
Total	<u>\$12,100</u>

EXCELth, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 8 - Property, Plant, Equipment and Leasehold Improvements:

	<u>Balance at</u> <u>01/01/03</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance at</u> <u>12/31/03</u>
Land	\$100,000	\$ -0-	\$100,000
Building	121,306	-0-	121,306
Furniture, fixtures and equipment	574,693	(403,955)	170,738
Vehicles	66,764	6,186	72,950
Accumulated depreciation	<u>(623,764)</u>	<u>430,725</u>	<u>(193,039)</u>
Net property, plant, and equipment	<u>\$238,999</u>	<u>\$ 32,956</u>	<u>\$ 271,955</u>
Leasehold improvements	\$113,794	\$ -0-	\$113,794
Accumulated amortization	<u>(32,242)</u>	<u>(22,758)</u>	<u>(55,000)</u>
Net leasehold improvements	<u>\$ 81,552</u>	<u>\$ (22,758)</u>	<u>\$ 58,794</u>

Depreciation and amortization expense for the year ended December 31, 2003 totaled \$48,154 and \$22,758, respectively.

NOTE 9 - Commitments and Contingencies:

Participation in Grant Programs

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

EXCELth, Inc.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 9 - Commitments and Contingencies, Continued:

Participation in Grant Programs, Continued

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

Operating Lease

EXCELth, Inc. leases office space and space for the New Orleans East Clinic under operating leases expiring December 31, 2003 and March 31, 2005. Minimum future rental payments under these operating lease having remaining terms in excess of one year as of December 31, 2003 and for the subsequent years are as follows:

Year Ended December 31,

2004	\$171,943
2005	<u>35,247</u>
Total	<u>\$207,190</u>

Rental expense for the year ended December 31, 2003 under these leases was \$171,409.

EXCELth, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 9 - Commitments and Contingencies, Continued:

Compensated Absences

Employees of **EXCELth, Inc.** are entitled to paid vacation and paid sick days depending on length of service and other factors. The Company's policy is to recognize the costs of compensated absences when actually earned by employees. As of December 31, 2003, the liability recorded for compensated absences totaled \$84,432.

NOTE 10 - Property Taxes Payable:

In the year 1994, **EXCELth, Inc.** purchased certain property previously described in NOTE 8 at a cost of \$121,306. **EXCELth, Inc.** has incurred significant property taxes due to the City of New Orleans since the date of acquisition. As of December 31, 2003, property taxes payable totaled \$81,299.

NOTE 11 - Related Party:

The Center of Empowered Decision Making (the Center) (a non-profit organization) is a project of the Healthy New Orleans Partnership. **EXCELth, Inc.** is a member of the partnership. In January 2003, **EXCELth, Inc.** entered into a contractual agreement with the Center to provide management services. Such management services include maintaining financial accounting records and paying salaries/wages and payroll taxes. The amount paid to **EXCELth, Inc.** for management services during the year totaled \$76,145. As of December 31, 2003, the amount due from the Center totaled \$53,185.

EXCELth, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 12 - Unrestricted Net Assets - Board Designated:

As authorized by the Board of Directors, the management of **EXCELth, Inc.** is required to reserve an initial amount of \$150,000 with additional increases of a maximum of 25% of quarterly surpluses thereafter. The Board of Directors has designated the amount for future operating expenses, purchasing of fixed assets and facility expansion. As of December 31, 2003, unrestricted net assets - board designated totaled \$177,096.

EXCELth, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003

<u>GRANTOR</u>	<u>CFDA NUMBER</u>	<u>PASS THROUGH ENTITY NUMBER</u>	<u>ACTIVITY</u>
U.S. Department of Health and Human Services			
<u>Direct Awards</u>			
Community Health Center	93.224	-----	\$2,073,272
HIV Prevention Activities Non-Governmental Organization Based	93.939	-----	202,177
Grants to provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	-----	272,208
<u>Awards from a Pass-Through Entity Through the State of Louisiana</u>			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	-----	229,744
Shelter Plus Care	14.238	-----	102,972
<u>Awards from a Pass-Through Entity Through the City of New Orleans</u>			
Health Center Grants for Homeless Population	93.151	72-119346A	4,091
HIV Emergency Relief Project Grants	93.914	01-MYR-053	7,005
Temporary Assistance for Needy Families (TANF)	93.558	01-HLTH-072A	<u>512,002</u>
Total Expenditures of Federal Awards			<u>\$3,403,471</u>

See the Independent Auditors' Report on Supplementary Information.

EXCELth, Inc.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 1 – Basis of Accounting:

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



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INDEPENDENT AUDITORS' 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, Louisiana

We have audited the financial statements of **EXCELth, Inc.** as of and for the year ended December 31, 2003 and have issued our report thereon dated June 11, 2004. We conducted our 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.

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 of compliance disclosed instances of non-compliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2003-01 and 2003-02.

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

(CONTINUED)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **EXCELth, Inc.**'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect **EXCELth, Inc.**'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-01 and 2003-02.

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. Our consideration of the internal control over financial reporting would not necessary disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above we consider audit findings 2003-01 and 2003-02 to be material weaknesses.

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

(CONTINUED)

This report is intended for the information and use of the Board of Directors, the audit committee, management, State of Louisiana and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP
BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

June 11, 2004



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

Board of Directors
EXCELth, Inc.
New Orleans, Louisiana

Compliance

We have audited the compliance of **EXCELth, Inc.** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2003. **EXCELth, Inc.**'s major federal programs are identified in the summary of independent auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal 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 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 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

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

(CONTINUED)

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.

As described in Schedule III, audit finding 2003-04 in the accompanying schedule of findings and questioned costs, **EXCELth, Inc.** did not comply with the requirements to properly document program income that are applicable to its Community Health Center grant. Compliance with such requirements is necessary in our opinion, for **EXCELth, Inc.** to comply with requirements applicable to those programs. In addition, the results of our audit procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in Schedule III in the accompanying Schedule of Findings and Questioned Costs as item 2003-03.

In our opinion, except for **EXCELth, Inc.**'s failure to properly document program income, as described in the preceding paragraphs, **EXCELth, Inc.** complied in all material respects, with the requirements referred to above that are applicable to each of its major programs for the year ended December 31, 2003.

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

(CONTINUED)

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. We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect **EXCELth, Inc.**'s ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2003-04.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition entitled Program Income is a material weakness. Such reportable condition is identified as audit finding 2003-04.

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

(CONTINUED)

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Bruno & Tervalon LLP
BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

June 11, 2004

SCHEDULE I

SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS

EXCELth, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2003

1. Type of report issued on the financial statements. Unqualified opinion
2. Did the audit disclose any reportable conditions in internal control. Yes
3. Were any of the reportable conditions material weaknesses. Yes
4. Did the audit disclose any noncompliance which is material to the financial statements of the organization. Uncertainty
5. Did the audit disclose any reportable conditions in internal control over major programs. Yes
6. Were any of the reportable conditions in internal control over major programs material weaknesses. Yes
7. Type of report issued on compliance for major programs. Qualified
8. Did the audit disclose any audit findings which the independent auditors are required to report under OMB Circular A-133, Section 510(a). Yes
9. The following is an identification of major programs:

<u>CFDA or Contract Number</u>	<u>Name of Federal Program</u>
93.224	Community Health Center
93.558	Temporary Assistance for Needy Families (TANF)

10. The dollar threshold used to distinguish between Type A and Type B Programs, as described in OMB Circular A-133, Section 520(b) was \$300,000.
11. Did the auditee qualify as a low risk auditee under OMB Circular A-133, Section 530. No

SCHEDULE II
FINANCIAL STATEMENT FINDINGS

EXCELth, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003

INTERNAL CONTROL OVER FINANCIAL REPORTING

Audit Finding Reference Number

2003-01 - Financial Management System

Criteria

OMB Circular A-110 specifies that financial management systems must be maintained in accordance with certain standards.

Conditions and Perspective

We noted during our audit that management of **EXCELth, Inc.** did not consistently adhere to established accounting procedures and ensure that accounting records and general ledger accounts (i.e. cash, grants and accounts receivable, revenues, expenses and accounts payable, and due to/from) were reconciled and reviewed on a monthly basis. The aforementioned condition resulted in inaccurate financial statements being generated during the year, which limits the effectiveness of management to make financial decisions regarding **EXCELth, Inc.** We also noted that **EXCELth, Inc.** does not follow the practice of billing funding sources on a timely basis, which negatively effects cash flow.

Recommendation

We recommend that management of **EXCELth, Inc.** adhere to established procedures and ensure that accounting records are properly maintained, reconciled, and reviewed by management on a timely basis.

EXCELth, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FINANCIAL STATEMENT FINDINGS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003

INTERNAL CONTROL OVER FINANCIAL REPORTING

Audit Finding Reference Number

2003-02 - Pharmacy Operations

Criteria

OMB Circular A-110 specifies that financial management systems must be maintained in accordance with certain standards.

Conditions and Perspective

EXCELth, Inc. operates a pharmacy, in association with its health clinics, that provide pharmaceutical products to its patients and the general public.

We noted the following conditions with regard to the pharmacy operations during our audit:

- Pharmacy revenues are initially recorded based upon prescription orders being filled and not adjusted for prescriptions not being picked up by patients;
- Pharmacy billings and receivables are not properly tracked and monitored in the general ledger, resulting in significant uncollected receivables;
- Pharmacy cash collections were not reconciled to the pharmacy cash register control tapes, the pharmacy revenue reports, and amounts recorded in the general ledger;
- Pharmacy revenues were not deposited on a regular and timely basis;
- Perpetual inventory records were not maintained for pharmaceutical supplies;

EXCELth, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003

INTERNAL CONTROL OVER FINANCIAL REPORTING, CONTINUED

Audit Finding Reference Number

2003-02 - Pharmacy Operations, Continued

Conditions and Perspective, Continued

- *Large quantities of obsolete pharmacy inventory were not returned on a timely basis; and*
- *Purchase price for certain medications were not identified.*

Recommendation

We recommend that management of **EXCELth, Inc.** take immediate steps to review its pharmacy operations and correct the noted deficiencies.

SCHEDULE III

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

EXCELth, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2003

INTERNAL CONTROL OVER COMPLIANCE AND FEDERAL COMPLIANCE

<u>Audit Finding Reference Number</u>	<u>Questioned Costs</u>
2003-03 - Inventory Management of Equipment	\$ <u>0</u>

Federal Program and Specific Federal Award Identification

CFDA Title and Number

93.224 - Community Health Center
93.939 - HIV Counseling (CDC)
93.918 - Grants to provide Outpatient Early Intervention
Services with respect to HIV disease

Federal Award year

December 31, 2003

Federal Agencies

U.S. Department of Health and Human Services

Pass-Through Entity

None

Criteria

OMB Circular A-133 Compliance Supplement Part 3 Section F stipulates that equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

EXCELth, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003

INTERNAL CONTROL OVER COMPLIANCE AND FEDERAL COMPLIANCE
(CONTINUED)

Audit Finding Reference Number

2003-03 - Inventory Management of Equipment, Continued

Conditions and Perspectives

We noted during our audit that management of **EXCELth, Inc.** had taken a physical inventory. However, the equipment and furniture inventory listing had not been reconciled to the general ledger.

Cause

We were informed by management of **EXCELth, Inc.** that the organization was unable to reconcile the listing to the general ledger.

Questioned Costs

For purpose of this condition, we have not questioned any costs.

Effect

Non-compliance with federal regulations which require that appropriate records be maintained describing the asset and its location, as well as requiring that amounts be reconciled to the general ledger.

Recommendation

We recommend that management of **EXCELth, Inc.** take the necessary steps to correct this condition.

EXCELth, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003

INTERNAL CONTROL OVER COMPLIANCE AND FEDERAL COMPLIANCE

Audit Finding Reference Number

Questioned Costs

2003-04 - Program Income

\$-0-

Federal Program and Specific Federal Award Identification

CFDA Title and Number

93.224 - Community Health Center

Federal Award year

December 31, 2003

Federal Agencies

U.S. Department of Health and Human Services

Pass-Through Entity

None

Criteria

OMB Circular A-133 Compliance Supplement Part 3 Section J stipulates that program income generated from the use of grant funds must be accurately accounted for and either deducted from outlays, added to the project budget, or used to meet matching requirements.

EXCELth, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003

INTERNAL CONTROL OVER COMPLIANCE AND FEDERAL COMPLIANCE
(CONTINUED)

Audit Finding Reference Number

2003-04 - Program Income, Continued

Conditions and Perspectives

The following conditions were noted during our audit with respect to program income for the Pharmacy operation:

- **EXCELth, Inc.** did not collect or appeared to have made every reasonable effort to collect appropriate reimbursement from third parties for their costs in providing health services to persons eligible for medical assistance or entitled to assistance for medical expenses under any other public assistance program or private health insurance program. We also noted rejections from medicaid and other third party insurance providers for various reasons.

We also noted that **EXCELth, Inc.** had not adhered to established procedures to accumulate and account for program income data and to ensure program income is utilized in compliance with all applicable federal rules and regulations.

Cause

EXCELth, Inc. has not adhered to the established system to monitor program income.

Questioned Costs

We have been unable to determine the financial impact of the non-reporting of program income. Therefore, for the purpose of this condition, we have not questioned any costs.

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EXCELth, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003

INTERNAL CONTROL OVER COMPLIANCE AND FEDERAL COMPLIANCE
(CONTINUED)

Audit Finding Reference Number, Continued

2003-04 - Program Income, Continued

Effect

EXCELth, Inc. has not complied with applicable federal rules and regulations.

Recommendation

We recommend that management of **EXCELth, Inc.** adhere to the established system to accumulate, account for, monitor and ensure that program income is utilized in compliance with all applicable federal rules and regulations.

EXCELth, INC.

EXIT CONFERENCE

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

EXCELth, INC.

Mr. Michael Andry	--	Executive Director
Mr. Byron Tregre	--	Director of Finance
Mr. Larry Jones, Sr.	--	Board of Directors - President
Mr. Gregory Rattler, Sr.	--	Board of Directors - Treasurer
Mr. Richwell Ison	--	Board Member

BRUNO & TERVALON LLP, CERTIFIED PUBLIC ACCOUNTANTS

Mr. Sean M. Bruno, CPA	--	Manager
Mr. Eric Griffin	--	Senior

04 JUL -9 PM 2:25

Member
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Michael B. Bruno, CPA
Alcide J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

Board of Directors
EXCELth, Inc.
New Orleans, Louisiana

We have audited the financial statements of **EXCELth, Inc.** for the year ended December 31, 2003, and have issued our report thereon dated June 11, 2004.

In planning and performing our audit of the financial statements, we considered the organization's internal control 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.

During our audit, we became aware of several matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. Also, we have reviewed Management's Corrective Action Plan with regard to our December 31, 2002 management letter. The current status of the December 31, 2002 conditions have been summarized in the accompanying memorandum.

This letter does not affect our report dated June 11, 2004 on the financial statements of **EXCELth, Inc.**

EXCELth, INC.

CURRENT YEAR MANAGEMENT LETTER COMMENTS

1. Employer's Quarterly Federal Tax Returns

Condition/Cause

We noted during our audit that Form W-3 did not separately include the cafeteria plan portion of wages in the amount of \$65,626.

Criteria

An entity should establish and maintain internal controls designed to ensure the accuracy of the Form W-3.

Effect

Internal controls over payroll are weakened.

Recommendation

We recommend that management of **EXCELth, Inc.** adhere to established procedures to prepare Form W-3 accurately.

EXCELth, INC.

CURRENT YEAR MANAGEMENT LETTER COMMENTS, CONTINUED

2. Accounts Payable Subsidiary Ledger

Condition

We noted during our audit of accounts payable that management of **EXCELth, Inc.** was unable to provide an aged accounts payable schedule from the accounting system due to system problems. As such, management provided a manual accounts payable detail which contained several errors.

Cause

Management did not review the accounts payable detail for potential errors and reconcile the accounts payable detail to the general ledger.

Criteria

An entity should establish and maintain internal controls designed to provide reasonable assurance regarding the effectiveness and efficiency of operations and the reliability of financial reporting.

Effect

Internal controls over accounts payable are weakened.

Recommendation

We recommend that management of **EXCELth, Inc.** review the accounts payable detail on a monthly basis to reconcile potential posting errors in the general ledger.

EXCELth, INC.

CURRENT YEAR MANAGEMENT LETTER COMMENTS, CONTINUED

3. Per Diem Allowances for Automobile

Condition

We noted during our audit of expenditures that certain employees were paid a monthly per diem allowance in the amount of \$40 for automobile usage. These amounts were paid under a non-accountable plan. Amounts paid under a non-accountable plan should be included in the employees' gross income, reported on the Form W-2, and subject to withholding. However per our testing, the per diem allowances were not included.

Cause

Management did not include per diem allowances for automobile usage in the employee's gross income, and on the employees' W-2 Form.

Criteria

An entity should establish and maintain internal controls designed to provide reasonable assurance regarding the effectiveness and efficiency of operations and the reliability of financial reporting.

Effect

EXCELth, Inc. is in violation of IRS regulations.

Recommendation

We recommend that management of **EXCELth, Inc.** develop written procedures to ensure this condition does not re-occur.

EXCELth, INC.

CURRENT YEAR MANAGEMENT LETTER COMMENTS, CONTINUED

4. Cash Disbursements

Condition/Cause

We noted during the test of cash disbursements the following conditions:

- Eight (8) cash disbursements were not supported with request for payment forms; and
- Management follows the practice of recording employee travel advances as expenditures instead of as employee receivables until travel reports are submitted.

Criteria

An entity should establish and maintain internal controls designed to provide reasonable assurance regarding the effectiveness and efficiency of operations and the reliability of financial reporting.

Effect

Internal controls over cash disbursements are weakened.

Recommendation

We recommend that management of **EXCELth, Inc.** develop written procedures to properly record travel advances and adhere to established procedures regarding cash disbursement internal controls.

EXCELth, INC.

CURRENT YEAR MANAGEMENT LETTER COMMENTS, CONTINUED

5. Cash Management/Period of Availability

Condition/Cause

We noted during our audit that management of **EXCELth, Inc.** had requested and received reimbursement for certain expenditures yet management failed to pay the vendor for the related costs in the amount of \$79,782. However, we did note as of the end of fieldwork that management liquidated the related costs.

Criteria

Federal cash management regulations stipulate that when entities are funded on a reimbursement basis, program costs must be paid before reimbursement is requested.

Effect

Internal controls over cash management are weakened.

Recommendation

We recommend that management of **EXCELth, Inc.** adhered to established procedures and ensure that costs for which reimbursement was requested were paid prior to the date of the reimbursement request.

EXCELth, INC.

CURRENT YEAR MANAGEMENT LETTER COMMENTS, CONTINUED

6. Allowable Costs

Condition/Cause

We noted during our audit of expenditures that **EXCELth, Inc.** incurred significant amount of late fees from various vendors due to untimely payments and paid parking tickets for its employees. The noted expenditures were paid with program income earned throughout the fiscal year which did not conform to the rules and regulations of the grant agreement.

Criteria

An entity should establish and maintain internal controls designed to provide reasonable assurance regarding the effectiveness and efficiency of operations and the reliability of financial reporting.

Effect

EXCELth, Inc. did not follow the practice of depositing funds and billing funding agencies timely which negatively affect cash flow. Also, certain costs did not conform to the rules and regulations of the grant agreement.

Recommendation

We recommend that management of **EXCELth, Inc.** adhere to established procedures and ensure that deposits and billings are made timely and costs are allowable per the grant agreement.

EXCELth, INC.

CURRENT YEAR MANAGEMENT LETTER COMMENTS, CONTINUED

7. Contracts

Condition/Cause

We noted during our audit that management of **EXCELth, Inc.** did not execute a written contract for the lease of an apartment complex for the Infinity Program. However, the contract is still under review. In addition, we noted that a physician received an increase in compensation without executing a written amendment to the contract.

Criteria

An entity should obtain written contracts and execute amendments to contracts for significant changes.

Effect

EXCELth, Inc. did not have written contracts on file.

Recommendation

We recommend that management adhere to established procedures and ensure that written contracts are on file.

EXCELth, INC.

CURRENT YEAR MANAGEMENT LETTER COMMENTS, CONTINUED

8. Cellular Phones

Condition/Cause

We noted during our audit that **EXCELth, Inc.** did not have a formal written policy that provides guidance for the business use and care of cellular phones.

Cause

Management did not implement a formal written policy for cellular phone usage.

Criteria

An entity should establish and maintain internal controls designed to provide reasonable assurance regarding the effectiveness and efficiency of operations and cellular phone usage.

Effect

An individual may be required to reimburse **EXCELth, Inc.** for personal usage or the amount should be included in the employees' gross income and subject to withholding.

Recommendation

We recommend that management of **EXCELth, Inc.** formally implement written procedures that will establish criteria for issuing cell phones based on duties and responsibilities, evaluate personal usage, bill each employee at a standard rate and review the detailed monthly bills for reasonableness.

EXCELth, INC.

STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS

1. Employer's Quarterly Federal Tax Returns

Recommendation

We recommended that management of **EXCELth, Inc.** adhere to established procedures to provide that the employer's quarterly federal tax return and Form W-3 are prepared accurately.

Status

Partially resolved. See current year management letter # 1.

2. Outstanding Checks

Recommendation

We recommended that management of **EXCELth, Inc.** adhere to established procedures to timely investigate checks outstanding in excess of ninety (90) days.

Status

Resolved.

Auditors' Comment: # 2 Accounts Payable Subsidiary Ledger

The Independent Auditors noted that EXCELth was unable to provide an aged accounts payable schedule from the accounting system due to system problems and that management's manual schedule of payables contained several errors.

Proposed Corrective Action

The computerized payable modular shall be reviewed semi-monthly for potential errors and corrected accordingly. The computerized aged schedule of payables shall be reconciled monthly to the general ledger.

Projected Implementation/Completion Date: July 1, 2004

Auditors' Comment: # 3 Per Diem Allowances for Automobile

The Independent Auditors noted that the monthly per diem allowances were not included in the employee's gross income on their W-2s.

Proposed Corrective Action

EXCELth will revise its policies and procedures to provide for an accountable plan of providing reimbursement to the employees.

Projected Implementation/Completion Date: July 31, 2004

Auditors' Comment: # 4 Cash Disbursements

The Independent Auditors noted several conditions that weakened internal controls over cash disbursements such as request for payments forms were missing or not properly signed. Also, travel advances are recorded as expenditures instead of as employee receivables until travel reports are submitted.

Proposed Corrective Action

EXCELth, Inc. will adhere to established procedures and ensure that proper internal controls over cash disbursements and travel advances remain intact. Policies and procedures for travel advances will be revised to ensure proper reconciliation.

Projected Implementation/Completion Date: July 31, 2004

EXCELth, INC.

**STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
(CONTINUED)**

3. Cash Receipts

Recommendation

We recommended that management of **EXCELth, Inc.** adhere to established procedures to timely deposit funds upon receipt.

Status

Resolved.

4. Accounts Payable Subsidiary Ledger

Recommendation

We recommended that management of **EXCELth, Inc.** review the accounts payable detail on a monthly basis to reconcile potential postings errors in the general ledger.

Status

Unresolved. See current year management letter # 2.

EXCELth, INC.

**STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
(CONTINUED)**

5. Per Diem Allowances for Automobile

Recommendation

We recommended that management of **EXCELth, Inc.** develop written procedures to ensure that per diem allowances for automobile usage is included in the employees' gross income and W-2 form.

Status

Unresolved. See current year management letter # 3.

6. Cash Disbursements

Recommendation

We recommended that management of **EXCELth, Inc.** develop written procedures to properly record travel advances and adhere to established procedures regarding cash disbursement internal controls.

Status

Unresolved. See current year management letter # 4.

EXCELth, INC.

STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
(CONTINUED)

7. 990 Return

Recommendation

We recommended that management file the 990 tax returns by the statutory due date.

Status

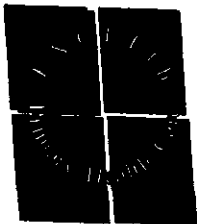
Resolved.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with appropriate personnel of EXCELth, Inc., and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Directors, management and State of Louisiana and is not intended to be and should not 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.

Bruno & Tervalon LLP
BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

June 11, 2004



EXCELth, INC.

1515 Poydras Street
Suite 1070
New Orleans, LA 70112-3723
(504) 524-1210 FAX (504)524-1491

July 2, 2004

Michael A. Andry
Chief Executive Officer

Robert E. Dawson, MD, MPH
Medical Director

BOARD of DIRECTORS

Larry Jones, Sr.
President

Larry Spencer, Sr.
Vice President

Joycelyn Williams
Secretary

Gregory Rattler, Sr.
Treasurer

Myrna Cassimere, RN,
PhD

Dolores Davis

Daisy Lawson

Richwell Ison, JD

Cyndi Xuan Nguyen

Jay Turkewitz, MD

Bruno & Tervalon, CPAs
4298 Elysian Fields Avenue
New Orleans, LA 70122

Re: Audit Findings for Audit Report for period ending December 31, 2003

Below is our responds to each of the audit findings as per your request. Each finding is listed and our action plan follows.

Audit Finding : 2003-01 Financial Management System

The Independent Auditors noted during the audit that management of EXCELth, Inc. did not consistently adhere to established accounting procedures and ensure that certain accounting records and general ledger accounts were reconciled on a monthly basis. The aforementioned condition resulted in inaccurate financial statements being generated during the year, which limits the effectiveness of management to make financial decisions regarding EXCELth, Inc.. It was also noted that billing funding sources on a timely basis negatively effects cash flow.

Proposed Corrective Action

EXCELth's Finance Department will adhere to established accounting procedures to ensure that accounting records are properly maintained, reconciled, and reviewed by management monthly. A more through review by the Board's Finance Committee will be performed monthly.

Projected Implementation/Completion Date: August 31, 2004

Audit Finding : 2003-02 Pharmacy Operation

The Independent Auditors noted several conditions with regard to the pharmacy operation during the year ending December 31, 2003.

Proposed Corrective Action

EXCELth, will review and revise operational procedures for the pharmacy to insure that noted internal control deficiencies are corrected. Pharmacy procedures will be reviewed periodically and when warranted make necessary changes. New pharmacy software will be installed and monitored to control inventory.

Projected Implementation/Completion Date: July 31, 2004

Audit Finding: 2003-03 Inventory Management of Equipment

The Independent Auditors noted that management of EXCELth, Inc. had taken a physical inventory, however, the equipment and furniture inventory listing was not reconciled to the general ledger.

Proposed Corrective Action

EXCELth, Inc. will adhere to established procedures and ensure that equipment and furniture inventory listing is reconciled to the general ledger. Appropriate records will be maintained describing the assets and its location.

Projected Implementation/Completion Date: August 31, 2004

Audit Finding: 2003-04 Program Income

The Independent Auditors noted several conditions with respect to program income for the pharmacy operations.


Proposed Corrective Action

EXCELth, Inc. will adhere to established procedures and implement stronger procedures to collect appropriate reimbursement from third parties for their costs in providing health services and to ensure that persons eligible for medical assistance or entitled to assistance for medical expenses under any other public assistance program or private health insurance program are billed appropriately and provide reasonable effort to collect such billings.

Projected Implementation/Completion Date: August 31, 2003

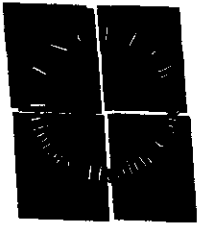
Should you have additional concerns regarding our proposed corrective action, please do not hesitate to contact us.

Sincerely,



Byron G. Tregre
Finance Director

cc: M. Andry



EXCELth, INC.

1515 Poydras Street
Suite 1070
New Orleans, LA 70112-3723
(504) 524-1210 FAX (504)524-1491

July 2, 2004

Michael A. Andry
Chief Executive Officer

Robert E. Dawson, MD, MPH
Medical Director

BOARD of DIRECTORS

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President

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Daisy Lawson

Richwell Ison, JD

Cyndi Xuan Nguyen

Jay Turkewitz, MD

Bruno & Tervalon, CPAs
4298 Elysian Fields Avenue
New Orleans, LA 70122

Re: Auditors' Comments to Management for period ending December 31, 2003

Below is our responds to each of the auditors' comments per your request. Each comment is listed and our action plan follows.

Auditors' Comment: # 1 Employer's Quarterly Federal Tax Returns

The Independent Auditors noted during the audit that Form W-3 did not separately include the cafeteria plan portion of wages in the amount of \$ 65,626.. They also noted that Form W-3 didn't include cafeteria plan portion of wages and that federal tax deposits were not made timely.

Proposed Corrective Action

EXCELth's Finance Department will established accounting procedures to ensure that the cafeteria plan portion of wages are included on the W-2's.

Projected Implementation/Completion Date: December 31, 2004

Auditors' Comment: #5 Cash Management / Period of Availability

The Independent Auditors noted that a certain vendor had not been paid by December 31, 2003 however, the related cost was liquidated by the end of fieldwork.

Proposed Corrective Action

EXCELth, Inc. will adhere to established procedures and ensure that reimbursements received for cost incurred are paid timely.

Auditors' Comment: #6 Allowable Cost

The Independent Auditors noted that there were expenditures for late fees and parking tickets paid by program income.

Proposed Corrective Action

EXCELth, will adhere to established procedures for timely payments of vendor invoices to eliminate late fees and expect reimbursement from employees who incur parking tickets with company vehicles.

Projected Implementation/Completion Date: July 15, 2004

Auditors' Comment: #7 Contracts

The Independent Auditors noted that two(2) contracts had not been executed (documented in writing) which were still under review.

Proposed Corrective Action

Management will adhere to established procedures of ensuring that a written contract is executed and on file prior to any change in payments.

Projected Implementation/Completion Date: July 31, 2004

Auditors' Comment: # 8 Cellular Phones

The Independent Auditors noted that EXCELth did not have a formal written policy that provides guidance for the business use and care of cellular phones.

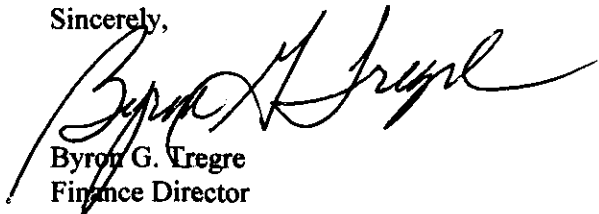
Proposed Corrective Action

EXCELth will establish and maintain policies and procedures to provide for reasonable assurance regarding the effectiveness and efficiency of cellular phone usage.

Projected Implementation/Completion Date: July 31, 2004

Should you have additional concerns regarding our proposed corrective action, please do not hesitate to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read "Byron G. Tregre". The signature is fluid and cursive, with a large initial "B" and "T".

Byron G. Tregre
Finance Director

cc: M. Andry