

**NEW HORIZONS COMMUNITY  
MENTAL HEALTH CENTER, INC.**

MANAGEMENT LETTER

JUNE 30, 2012

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MANAGEMENT LETTER

To the Board of Directors of  
New Horizons Community Mental Health Center, Inc.  
Miami, Florida

We have audited the financial statements of New Horizons Community Mental Health Center, Inc. (the "Center"), as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated January 22, 2013.

We conducted our audit in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance Applicable to each Major Federal Program and State Project and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated January 22, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, Rules of the Auditor General, which requires disclosure in the management letter of violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements or state project amounts that is less than material but more than inconsequential. In addition, for matters that have an inconsequential effect on the financial statements or state project amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, that have occurred, or are likely to have occurred, (2) deficiencies in internal control that are not significant that have deficiencies. We did not identify any matters which require disclosure in accordance with the Rules of the Auditor General.

In planning and performing our audit of the financial statements of the Center as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A deficiency in internal control exists when the design or operation of control does not allow management of employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the third paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information of the audit committee, management, the Board of Directors, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*Verdugo & De Armas, LLP*  
CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
January 22, 2013

**MANAGEMENT POINTS**

**2012-1 OPERATING DEFICIT**

**Observation**

For the year ended June 30, 2012 the Center incurred a deficit of approximately \$790,000. The impact of the financial loss for the year caused the Center to consume a portion of its net assets and increase its liabilities by approximately \$540,000.

**Recommendation**

The Center must increase revenues, reduce expenses and implement stronger budgetary controls to improve its financial condition.

**Management Response**

The Center has instituted an austerity program to reduce its expenses by a minimum of 5%. The core areas of focus for these reductions are Salaries, Communications and Health Insurance. Salaries of all staff earning more than \$30,000 were cut in the following ranges. Executive Management and Directors 20%, Other staff salaries cuts ranged from 2 to 15%. The Center reduced its telecommunications expenses by switching its telecommunications to VOIP with a projected saving of 20%. The Center reduced its health insurance cost by reducing its contribution towards the monthly premium with a projected saving of over 20%. In addition to the above the Center has focused on increasing its revenue stream by 5% by recruiting and servicing additional clients.

**2012-2 COMPLIANCE WITH DEBT COVENANT**

**Observation**

We noted that the Center was not able to meet a covenant required by the line of credit agreement. The Center is not in compliance with the debt service coverage ratio.

**Recommendation**

In addition to obtaining a waiver from the lender, the Center must improve its operations to be able to comply in future periods.

**Management Response**

The Center has obtained a waiver from the Debt Covenant clause from its lender. The Center has taken the steps mentioned in the response to 2012-1 aimed at reducing its expenses and raising its revenues, thus improving its operation to comply with the Debt Covenant in the future.

**2012-3 ACCOUNTS RECEIVABLE**

**Observation**

During the year, the Center increased the allowance for receivables by \$755,000.

**Recommendation**

Management should analyze the accounts receivable periodically and adjust the allowance after reviewing the analysis of uncollectable accounts.

**Management Response**

Management has set in place a new methodology that will adjust its receivable on a monthly basis to take into account uncollectable accounts.

**NEW HORIZONS COMMUNITY MENTAL HEALTH CENTER, INC.**  
**OBSERVATIONS AND RECOMMENDATIONS**  
**JUNE 30, 2012**

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**2012-4 BANK ACCOUNTS**

Observation

There are checks that have been outstanding for over six months.

Recommendation

Outstanding checks must be reviewed timely. Any checks outstanding for over six months should be researched, voided or re-issued, if necessary.

Management Response

Management currently reviews its outstanding checks on a monthly basis. The Center also voids or reissues checks when necessary in addition to remitting to the State of Florida Treasury Department uncollected stale checks. The Center will however pursue a more rigorous approach in researching outstanding checks to ensure all are resolved within a six month period.

**2012-5 CHILDREN'S TRUST RATIOS**

Observation

The Center did not meet a financial performance ratio utilized by The Children's Trust at year end to assess an organization's ability to pay its expenses. The Center's current liabilities as a percentage of annual expenses is higher than the acceptable range established by the Children's Trust.

Recommendation

The Center should focus on reducing the accounts payable and accrued expense balances in order to improve the above referenced ratio.

Management Response

The Center will focus its attention on reducing its accounts payable and accrued expenses to improve this ratio.