

OPERATION REACH, INC.
FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2009

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 10/27/10

Sean M. Bruno
Certified Public Accountants

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Sean M. Bruno
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Operation Reach, Inc.
New Orleans, Louisiana

I have audited the accompanying statement of financial position of **Operation Reach, Inc.**, (a non-profit organization) as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of **Operation Reach's** management. 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 the 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 referenced in the first paragraph present fairly, in all material respects, the financial position of **Operation Reach** as of December 31, 2009, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

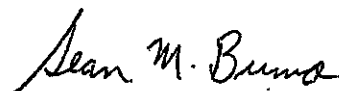
INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors
Operation Reach, Inc.
New Orleans, Louisiana
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In accordance with *Government Auditing Standards*, I have also issued my report dated September 27, 2010, on my consideration of **Operation Reach's** internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting or on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming an opinion on the basic financial statements of **Operation Reach** taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Government and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects in relation to the basic consolidated financial statements taken as a whole.

The other supplementary information which is prepared in accordance with accounting principles generally accepted in the United States of America and is not a required part of the financial statements has also been subjected to auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.



SEAN M. BRUNO
CERTIFIED PUBLIC ACCOUNTANTS

September 27, 2010

Sean M. Bruno
Certified Public Accountants

OPERATION REACH, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2009

ASSETS

Cash and cash equivalents (NOTE 2)	\$ 150,317
Grants and contracts receivable (NOTE 6)	238,422
Property and equipment net of accumulated depreciation of \$114,033 (NOTES 2 and 7)	1,920,238
Other assets	<u>349</u>
Total assets	<u>\$ 2,309,326</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 93,334
Accrued liabilities	52,848
Note payable (NOTE 8)	1,303,209
Line of credit (NOTE 9)	30,000
Deferred revenues (NOTE 2)	476,847
Other liabilities	<u>9,125</u>
Total liabilities	<u>1,965,363</u>
Net Assets (NOTE 2):	
Unrestricted net assets	<u>343,963</u>
Total net assets	<u>343,963</u>
Total liabilities and net assets	<u>\$ 2,309,326</u>

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

OPERATION REACH, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

Revenues and Other Support

Grant revenue	\$ 841,660
Contract services	24,500
Contributions and donations	601,031
Tuition and fees	18,760
Other revenue	<u>58,955</u>

Total revenues and other support 1,544,906

Expenses

Program services	1,188,256
Support services	<u>550,347</u>

Total expenses 1,738,603

Change in net assets (193,697)

Net assets, beginning of year	501,898
Adjustment to beginning net assets (NOTE 10)	<u>35,761</u>

Net assets, beginning of year, as adjusted 537,659

Net assets, end of year \$ 343,962

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

OPERATION REACH, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

Cash Flows from Operating Activities:	
Change in net assets	\$ (193,697)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	61,966
Adjustment to net assets	35,761
Contributed assets	(356,683)
Increase in receivables	(20,966)
Decrease in other assets	2,571
Increase in accounts payable	56,491
Increase in accrued liabilities	52,848
Increase in deferred revenues	476,847
Decrease in other liabilities	<u>(2,080)</u>
Net cash provided by operating activities	<u>113,058</u>
Cash Flows from Investing Activities:	
Acquisition of property and equipment	<u>(394,257)</u>
Net cash used by investing activities	<u>(394,257)</u>
Cash Flows from Financing Activities	
Proceeds from notes payable	298,673
Proceeds from line of credit	30,000
Repayments of notes payable	<u>(14,649)</u>
Net cash provided by financing activities	<u>314,024</u>
Increase in cash and cash equivalents	32,825
Cash and Cash Equivalents	
Beginning of year	<u>117,492</u>
End of year	<u>\$ 150,317</u>

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

OPERATION REACH, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION:

Operation Reach, Inc. was organized in 1999 as a non-profit organization to assist schools, foundations, government agencies and other community organizations with technical management resources and proven programs that help youth and families obtain academic success through effective educational enhancement programs and a life-long love for learning.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

Operation Reach financial statements comply with Accounting Standards Codification (ASC) 958 "Financial Statements of Not-for-Profit Organizations." Under ASC 958, **Operation Reach** is required to report information regarding its financial position and activities according to three classes of net assets according to externally (donor) imposed restrictions.

A description of the three (3) 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 mission of **Operation Reach** are included in this category. **Operation Reach** has determined that any donor-imposed restrictions for current or developing programs and activities are generally met within the operating cycle of **Operation Reach** and therefore, **Operation Reach's** policy is to record these net assets as unrestricted.

Temporarily restricted net assets include realized gains and losses, investment income and gifts, appropriations and contributions for which donor imposed restrictions have not been met.

OPERATION REACH, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Financial Statement Presentation, Continued

Permanently restricted net assets are contributions which are required by the donor-imposed restriction to be vested 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.

At December 31, 2009, **Operation Reach** did not have any temporarily or permanently restricted net assets.

Accounting Standards

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. This standard replaces SFAS No. 162, *the Hierarchy of Generally Accepted Accounting Principles*, and establishes only two levels of U.S. GAAP, authoritative and non-authoritative. Upon the effective date of SFAS No. 168, the FASB Accounting Standards Codification (the "FASB ASC") became the single source of authoritative, non-governmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. Subsequent to the effective date of SFAS No. 168, the FASB will issue accounting standards updates that serve to update the FASB ASC.

Cash and Cash Equivalents

Cash consist solely of demand deposits and a money market account that is secured by federal deposit insurance. All highly liquid debt instruments purchased with an original maturity of three (3) months or less are considered to be cash equivalents for purposes of the statement of cash flows.

OPERATION REACH, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Estimates

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 disclosures 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.

Contributions and Grants

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor imposed restrictions. Grants from governmental agencies and other entities are recognized when earned.

Contributed Services

Operation Reach recognizes contribution revenue for certain services received at the fair value of those services provided those services create or enhance non-financial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation

In-kind Contribution

In-kind contributions are recorded as revenue and expense in the accompanying financial statements. These contributions consist of art works, equipment, services and instructional and office space all of which are recorded at their estimated fair values.

Income Taxes

Operation Reach is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provisions for federal or state income taxes have been recorded in the accompanying financial statements.

OPERATION REACH, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Property and Equipment

Property and equipment are carried at cost (or fair market for donated assets). Additions in excess of \$500 are capitalized. Depreciation is computed using the straight-line method based on the assets' estimated useful lives. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized.

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.

Deferred Revenue

Deferred revenue consists of grants from foundations which are recognized as income during the period in which the services are provided or expenditures are incurred.

NOTE 3 - CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject **Operation Reach** to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 each. At December 31, 2009, cash and cash equivalent balances at each institution were secured by federal deposit insurance.

OPERATION REACH, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 4 - COMMITMENTS AND CONTINGENCIES:

Operation Reach 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. Grants and contracts with agencies often require fulfillment of certain conditions as set forth in the terms of the instrument. Failure to fulfill the conditions could result in the return of funds to the grantors. Although the return of funds is a possibility, the Board of Directors deems the contingency unlikely, since **Operation Reach** has agreed to comply with the grantor's provisions. In addition, the administration of the program and activities funded by the grants and contracts are under the control and administration of **Operation Reach** 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.

NOTE 5 - FAIR VALUE MEASUREMENT:

In accordance with FASB ASC Topic 820 fair value is defined as the price that **Operation Reach** would receive to sell an asset or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market, the most advantageous market for the asset or liability. ASC Topic 820 established a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish various inputs are used in determining the value of **Operation Reach's** assets or liabilities. The inputs are classified into three broad levels:

Level 1 - Quoted prices in active markets for identical assets or liabilities as of the reporting date.

OPERATION REACH, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 5 - FAIR VALUE MEASUREMENT, Continued:

Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, as of the reporting date. The fair value is determined through the use of models or other valuation methodologies.

Level 3 - Pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity at the reporting date. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. **Operation Reach's** assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset/liability. All assets/liabilities are considered Level 1 assets/liabilities.

The carrying amounts of the assets and the liabilities reported in the Statement of Financial Position approximate fair value because of the terms and relatively short maturity of those financial instruments.

OPERATION REACH, INC.
NOTES TO THE FINANCIAL STATEMENTS; CONTINUED

NOTE 6 - GRANTS AND CONTRACTS RECEIVABLES:

Grants and contracts receivables consist of the following as of December 31, 2009:

U.S. Department of Housing and Urban Development:	
Community Development Block Grant	\$ 142,656
U.S. Department of Labor:	
WIA-Dislocated Workers - JOB1	42,888
Corporation for National and Community Service AmeriCorps State and National	<u>52,878</u>
Total	<u>\$ 238,422</u>

NOTE 7 - PROPERTY AND EQUIPMENT:

	Balance at <u>January 1, 2009</u>	Additions (Reductions)	Balance at <u>December 31, 2009</u>
Land	\$ 122,100	\$ -0-	\$ 122,100
Building and improvements	1,086,483	606,254	1,692,737
Furniture and equipment	74,748	144,686	219,434
Accumulated depreciation	<u>(52,067)</u>	<u>(61,966)</u>	<u>(114,033)</u>
Net property and equipment	<u>\$ 1,231,264</u>	<u>\$ 688,974</u>	<u>\$ 1,920,238</u>

Depreciation expense for the year ended December 31, 2009 totaled \$61,966.

OPERATION REACH, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 8 – NOTE PAYABLE

At December 31, 2009, note payable consisted of the following:

Note payable to a financial institution in an original amount of \$1,317,857.52 bearing interest at LIBOR plus 4.761 percent (4.9961% at December 31, 2009). The note is secured by real estate located in New Orleans, Louisiana and is payable in interest only installments through October 2009. Thereafter, installments of principal in equal amounts of \$7,321 plus accrued interest are due monthly. A final balloon payment of the outstanding principal balance plus accrued but unpaid interest is due and payable on September 15, 2014. At December 31, 2009, the balance on the loan was \$1,303,209. Interest of \$39,515 was paid on the note during the year ended December 31, 2009.

NOTE 9 – LINE OF CREDIT

Operation Reach has a line of credit with a credit union that matures on August 31, 2010. The interest rate on the line of credit is 7.5 percent, and it is secured by property. The promissory note indicates that the line of credit is payable in quarterly interest and principal installments of \$4,073. However, during 2009 Operation Reach made only interest payments on the credit line of \$1,564. The balance drawn against the line of credit at December 31, 2009, totaled \$30,000.

NOTE 10 – ADJUSTMENTS TO BEGINNING NET ASSETS

Net assets at the beginning of 2009 have been adjusted to correct errors and unrecorded differences primarily involving property and equipment and receivables at December 31, 2008.

OPERATION REACH, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 11 - RELATED PARTY:

An immediate family member of **Operation Reach's** Founder and Executive Director serves on the Board of Directors in a Legacy Seat Appointment authorized by the organization's by-laws, commensurate with the founding purpose. That immediate family member did not receive any compensation for service during the year ended December 31, 2009.

NOTE 12 - SUBSEQUENT EVENTS:

ASC Topic 855-10 requires the disclosure of the date through which subsequent events have been evaluated by management and the reason for selecting that date. **Operation Reach's** management has evaluated subsequent events from January 1, 2010 through September 27, 2010, which represents the date the consolidated financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

OPERATION REACH, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Program Services</u>	<u>Support Services</u>	<u>TOTAL</u>
Salaries and benefits	590,063	153,813	743,876
Stipends	6,319	1,580	7,899
Professional fees	54,709	31,673	86,382
Supplies	23,654	32,271	55,925
Telephone	12,501	18,751	31,252
Utilities	5,885	8,828	14,713
Postage and delivery	-	2,090	2,090
Equipment rental and maintenance	-	1,644	1,644
Printing & copying	8,181	8,181	16,362
Books and subscriptions	1,671	418	2,089
Rent and parking	20,073	-	20,073
Internet service	2,096	3,143	5,239
Field trips	8,417	-	8,417
Travel	7,343	4,518	11,861
Conference and meetings	7,989	-	7,989
Insurance	31,538	8,015	39,553
Membership dues - organization	682	-	682
Depreciation expense	-	61,966	61,966
Interest expense	-	45,441	45,441
Executive allowance	13,181	3,295	16,476
Consultants / contracted services	119,789	29,947	149,736
Advertising expense	12,202	-	12,202
Food and snacks	7,432	7,432	14,864
Uniforms	6,198	-	6,198
Minor assets - less than \$500	19,753	4,938	24,691
Culminating event	20,020	-	20,020
Bank service charge	-	1,632	1,632
Bad debt expense	-	53,271	53,271
Miscellaneous expenses	20,498	18,311	38,809
Repairs and maintenance	31,231	7,808	39,039
Custodial expense	3,664	3,664	7,328
Scholarships	2,300	-	2,300
In-kind expenses - services	150,867	37,717	188,584
TOTALS	<u>1,188,256</u>	<u>550,347</u>	<u>1,738,603</u>

The accompanying notes are an integral part of these financial statements

OPERATION REACH, INC.
SCHEDULE OF EXPENDITURES FOR FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

FEDERAL GRANTOR/PROGRAM NAME	CEDA NUMBER	PASS THROUGH ENTITY'S NUMBER	ACTIVITY
U.S. Department of Housing and Urban Development			
<i>Awards from a Pass-Through Entity</i>			
Through: City of New Orleans			
Community Development Block Grant (CDBG)-YES (BioDiesel)	14,218	50-295(09)	\$ 31,748
Community Development Block Grant (CDBG)-LES (College Bound)	14,218	50-300(09)	23,148
Community Development Block Grant (CDBG)-CCS (Knowledge Garden)	14,218	50-288(09)	71,635
Through: State of Louisiana - The Parish of Jefferson			
Community Development Block Grant (CDBG)	14,218		27,357
			<u>153,888</u>
Total U.S. Department of Housing and Urban Development			
U.S. Department of Labor			
Through: Goodwill Industries of Southeastern Louisiana, Inc			
D/B/A JOB1 Business and Career Solutions			
On behalf of Region I Workforce Investment Boards			
WIA-Dislocated Workers - JOB1	17,260	002-2009	42,888
			<u>42,888</u>
Total U.S. Department of Labor			
Corporation for National and Community Service			
<i>Direct Award</i>			
AmeriCorps State and National	94,006		335,118
<i>Awards from a Pass-Through Entity</i>			
Through: Louisiana Serve Commission			
AmeriCorps State and National	94,006		86,094
			<u>421,212</u>
Total Corporation for National and Community Service			
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 617,988</u>

See the Independent Auditors' Report

OPERATION REACH, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

Note 1 – Basis of Accounting:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of **Operation Reach** 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.

Sean M. Bruno
Certified Public Accountants

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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

To the Board of Directors
Operation Reach, Inc.
New Orleans, Louisiana

I have audited the financial statements of **Operation Reach** as of and for the year ended December 31, 2009, and have issued my report thereon dated September 27, 2010. 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.

Internal Control over Financial Reporting

In planning and performing my audit, I considered **Operation Reach's** internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Operation Reach's** internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of **Operation Reach's** internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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

(CONTINUED)

Internal Control Over Financial Reporting, Continued

A *deficiency in internal control* exists when the design or operation of a control does not allow management or 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. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2009-02 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Operation Reach's** financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the Schedule of Findings and Questioned Costs as item 2009-01.

I noted certain matters that I reported to management of **Operation Reach** in a separate letter dated September 27, 2010.

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

(CONTINUED)

Compliance and Other Matters, Continued

Operation Reach's response to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. I did not audit Operation Reach's response and accordingly, I express no opinion on it.

This report is intended solely for the use of Operation Reach, its Board of Directors, management and the Legislative Auditor of the 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.

Sean M. Bruno

SEAN M. BRUNO
CERTIFIED PUBLIC ACCOUNTANTS

September 27, 2010

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

To the Board of Directors of
Operation Reach, Inc.
New Orleans, Louisiana

Compliance

I have audited the compliance of **Operation Reach, Inc.**, (a non-profit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2009. **Operation Reach's** major federal program is identified in the Summary of Independent 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 program is the responsibility of **Operation Reach's** management. My responsibility is to express an opinion on **Operation Reach'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 non-compliance 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 **Operation Reach'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 on **Operation Reach's** compliance with those requirements.

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

(CONTINUED)

Compliance, Continued

In my opinion, **Operation Reach** complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2009-01, 2009-02, and 2009-03.

Internal Control Over Compliance

The management of **Operation Reach** 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 **Operation Reach'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance in accordance with OMB Circular A-133. Accordingly, I do not express an opinion on the effectiveness of **Operation Reach's** internal control over compliance.

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

(CONTINUED)

Internal Control Over Compliance, Continued

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

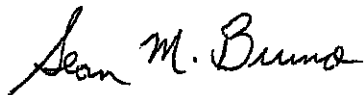
My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2009-02 and 2009-03. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Operation Reach's response to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. I did not audit **Operation Reach's** response and accordingly, I express no opinion on it.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON 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, 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.



SEAN M. BRUNO
CERTIFIED PUBLIC ACCOUNTANTS

September 27, 2010

OPERATION REACH, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

Section I - Summary of the Independent Auditor's Results

Financial statements

1. Type of report issued: Unqualified
2. Did the audit disclose any material weaknesses in internal control over financial reporting: Yes
3. Did the audit disclose any significant deficiencies in internal control over financial reporting that are not considered to be material weaknesses: No
4. Did the audit disclose any non-compliance which is material to the financial statements of the organization: No

Federal awards

5. Did the audit disclose any material weaknesses internal control over major federal programs: No
6. Did the audit disclose any significant deficiencies in internal control over major programs that are not considered to be material weaknesses: Yes
7. Type of report issued on compliance for major programs: Unqualified
8. Did the audit disclose any audit findings which the independent auditor is required to report under OMB Circular A-133, Section 510(a): Yes

OPERATION REACH, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

Section I - Summary of the Independent Auditor's Results, Continued

9. The following is an identification of major programs:

<u>CFDA or Contract Number</u>	<u>Name of Federal Program</u>
94.006	AmeriCorps State and National

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

OPERATION REACH, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

Schedule II – Financial Statement Findings

COMPLIANCE

Audit Finding Reference Number

2009-01 – Untimely Submission of Audit Report

Criteria

Pursuant to the requirement of Louisiana Statute R.S. 24:513, annual financial reports shall be completed within six (6) months of the close of an entity's fiscal year, and according to OMB Circular A-133, section 320, Single Audits are required to be completed and the data collection form and reporting package submitted within the earlier of thirty (30) days after receipt of the auditor's report, or nine (9) months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit.

Condition

The December 31, 2009 audited financial statements were not submitted within the prescribed timeframes.

Cause

Operation Reach experienced an unexpected staff termination during the audit process due to the severe illness of the Business Manager, a key position in the accounting and grants management areas. This employee was the main point of contact for all financial transactions including management of the audit process. Operation Reach's management required additional time to identify a substitute employee to become familiar with the financial processes and manage the completion of the audit.

Effect

Operation Reach has not complied with the audit reporting requirements.

Recommendation

I recommend that management of Operation Reach take steps to ensure that the audit reports are submitted within the prescribed state and federal deadlines.

OPERATION REACH, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

Schedule II – Financial Statement Findings, Continued

INTERNAL CONTROL OVER FINANCIAL REPORTING

Audit Finding Reference Number

2009-02 - Financial Management System

Criteria

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

Condition

During my audit, it was noted that management of **Operation Reach** did not consistently adhere to established accounting procedures to ensure that accounting records were properly maintained or that the accounting records and general ledger accounts (i.e. grants and accounts receivable, note payable, revenues, and expenses) were reconciled and reviewed on a monthly basis.

Cause

The aforementioned condition was due to the frequency of staff turnover in the Business Manager position, key accounting personnel.

Effect

The aforementioned condition resulted in inaccurate financial statements being generated during the year, which limits the effectiveness of management to make financial decisions regarding **Operation Reach** and to have the audit report issued on a timely basis.

Recommendation

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

OPERATION REACH, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

Schedule III – Federal Award Findings and Questioned Costs

INTERNAL CONTROL OVER COMPLIANCE AND FEDERAL COMPLIANCE

Audit Finding Reference Number

2009-01 - Untimely Submission of Audit Report

See finding number 2009-01 in Schedule II

2009-02 - Financial Management System

See finding number 2009-02 in Schedule II

OPERATION REACH, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009.

INTERNAL CONTROL OVER COMPLIANCE AND FEDERAL COMPLIANCE

Audit Finding Reference Number

2009-03 - Reporting

Federal Program and Specific Federal Award Identification

CFDA Number and Title

94.006 - AmeriCorps State and National

Federal Agency

Corporation for National and Community Service

Pass-through Entity

Not Applicable.

Criteria

OMB Circular A-110, Subpart C, requires that financial management systems of recipients of federal awards provide records that identify adequately the source and application of funds for federally-sponsored activities. Also, OMB Circular A-133 requires that federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.

Condition

Operation Reach's financial system provides a mechanism to track expenditures of each grant that it receives from federal agencies, foundations, and private donors. However, the system is not being effectively utilized. During the audit, I noted that **Operation Reach** was unable to provide a complete and accurate general ledger detail of the costs incurred for the AmeriCorps grant or the other non-major federal programs tested. The inability to separately identify expenditures by grant does not provide for full accounting disclosure of grant activities.

OPERATION REACH, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

Schedule III – Federal Award Findings and Questioned Costs

INTERNAL CONTROL OVER COMPLIANCE AND FEDERAL COMPLIANCE

Audit Finding Reference Number

2009-03 - Reporting, continued

Effect

Operation Reach is not in compliance with applicable federal requirements.

Cause

Although the financial system is set up to track the expenditures for each grant, management of **Operation Reach** experienced difficulty in properly recording grant transactions to the appropriate program fund code.

Questioned Costs

Not applicable.

Recommendation

I recommend that immediate steps be taken to ensure that the accounting system properly discloses the allocation of grant and non-grant activities.

OPERATION REACH, INC.
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

Not applicable.

ORI OPERATION REACH Inc

Engaging, Empowering, Inspiring since 1999

September 27, 2010

Sean M. Bruno, CPA
4949 Bullard Avenue
New Orleans, LA 70128

Mr. Bruno:

We are in receipt of your Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters and the related Schedule of Findings and Questioned Costs in connection with the audit of the financial statements of **Operation REACH, Inc. (ORI)** for the year ended December 31, 2009. We have completed a corrective action plan with regard to the comments noted in the audit report. Our intentions are noted below with specific references to each finding:

2009-01 Untimely Submission of Audit Report

ORI recognizes the importance of timely reporting and completion of audits. Unfortunately, the responsibility for management of the audit process was placed with the incumbent Business Manager at the inception of the audit. However, due to unforeseen illness which resulted in voluntary termination of employment by the Business Manager, the audit process was significantly delayed. With the completion of this (the 2009 fiscal year) audit, the responsibility for management of financial functions has been transferred to the recently hired Chief Operating Officer, who will also have responsibility for staffing the financial services department and infusing varied levels of responsibility within the department. With this organizational change, operations should return to a more constant state, back-up support for each major financial function will be built into related job descriptions and future reporting requirements should be met without extended effort. With the corrective actions indicated above, there should be no further concerns regarding timely submission of audit reports.

2009-02 Financial Management System

As mentioned in our response to item 2009-01, above, ORI has taken the necessary steps to employ a Chief Operating Officer who will have the responsibility for oversight of all financial functions. Responsibility inherent with this position also includes assuring that all established accounting procedures are adhered to, accounting records are properly maintained and that accounting general ledger accounts are reconciled and reviewed on a monthly basis. As a part of the strategic plan related to the on-boarding of the Chief Operating Officer, a review of all accounting records will be performed with necessary corrections being implemented. In addition, monthly accounting procedures will require completed reconciliations of all general ledger accounts prior to the issuance of monthly financial statements, which will be reviewed by management on a regular basis.

2009-03 Reporting

In the auditor's finding under the "Condition", the auditor indicates that ORI has successfully secured a financial accounting software package that is sufficient to provide a mechanism to track expenditures of each grant received. In the upcoming fiscal year, ORI will take measures to ensure that the financial accounting system is properly utilized to allow for efficient allocation of all revenues and related expenditures to proper fund codes within the financial accounting system, therefore yielding summary and detail reports indicating all financial activity related to each funding source.



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In addition to the above corrective action items, the management of ORI wishes to emphasize that we accept full fiscal responsibility for the stewardship afforded to ORI through the granting of both public and private grant funds. We acknowledge that fiscal year 2009, our first year to experience a full financial audit and to be reviewed in reference to OMB Circular A-133, included some corporate challenges with staff turnover in key fiscal management positions. We are fully committed to our fiscal responsibility and will implement these and other modes of corrective action, which should allow for a more smooth process in the future. We appreciate your attention to our internal control procedures and the opportunity to improve them with the assistance of your expertise.

Sincerely,

A handwritten signature in black ink, appearing to read "Kyshun Webster". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Kyshun Webster Sr., Ph.D.
Chief Executive Officer
Operation REACH, Inc.

Sean M. Bruno
Certified Public Accountants

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

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Board of Directors
Operation Reach, Inc.
New Orleans, Louisiana

In planning and performing my audit of the financial statements of **Operation Reach, Inc.**, (a nonprofit organization) for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, I considered the organization's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, I do not express an opinion on the effectiveness of the **Operation Reach's** internal control.

However, during my audit I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. Also, I have reviewed Management's Corrective Action Plan with regard to the December 31, 2009 comments to management. This letter does not affect my report dated September 27, 2010, on the financial statements of **Operation Reach**.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

CURRENT YEAR'S COMMENTS TO MANAGEMENT

2009-01 Reconciling Fixed Assets to the General Ledger

Condition

During the audit, I noted that there is no procedure for reconciling detailed fixed asset records (maintained in an excel spreadsheet schedule) to the general ledger on a regular basis. The lack of such a procedure led to inaccurate reporting of fixed asset costs and depreciation expenses in the general ledger and financial records resulting in audit adjustments.

Recommendation

To prevent the need for major adjustments to the fixed asset accounts at the end of each year, fixed assets per the general ledger should be reconciled to the detailed records on a monthly basis.

2009-02 Reconciliation of Contractor Payments in the General Ledger to Form 1099

Condition

Based on procedures performed, I noted that the amounts recorded as expenses for contractor payments did not reconcile to the IRS 1099 Forms issued for the year ended December 31, 2009.

Recommendation

I recommend that management adhere to established procedures and ensure that amounts paid to contractors agree to applicable IRS form 1099's. In addition to the above management should correct the IRS Form 1099's that were issued to contractors.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

CURRENT YEAR'S COMMENTS TO MANAGEMENT, CONTINUED

2009-03 Written Policy for Suspension and Debarment

Condition

During the audit, I noted that **Operation Reach's Corporate Financial Accounting Policies and Procedures Manual** did not contain an official written policy for suspension and debarment that:

- (i) Contains or references the Federal requirements;
- (ii) Prohibits the award of a sub-award, covered contract, or any other covered agreement for program administration, goods, services, or any other program purpose with any suspended or debarred party; and
- (iii) Requires staff to determine that entities receiving sub-awards of any value and procurement contracts equal to or exceeding \$25,000 and their principals are not suspended or debarred, and specifies the means that will be used to make that determination, i.e., checking the *Excluded Parties Listing System* (EPLS), which is maintained by the General Services Administration; obtaining a certification; or inserting a clause in the agreement.

Recommendation

I recommend that **Operation Reach** amend its *Corporate Financial Accounting Policies and Procedures Manual* to include suspension and debarment procedures.

2009-04 Adhere to Capitalization Policy

Condition

Based on procedures performed, I noted that **Operation Reach** did not adhere to its capitalization policy. In several instances, purchases that did not exceed the capitalization threshold were capitalized and in other instances purchases that exceeded the capitalization threshold were not capitalized.

Recommendation

I recommend that **Operation Reach** adhere to its written policies to ensure consistent application of the capitalization of fixed assets within the organization.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

CURRENT YEAR'S COMMENTS TO MANAGEMENT, CONTINUED

2009-05 Revenue Recognition Policy

Condition

During the audit, I observed several instances where **Operation Reach** received advanced funds through grants and contracts from third parties prior to the funds being earned (deferred revenue). **Operation Reach** recorded these cash advances as revenues, which resulted in a \$476,847 adjustment to deferred revenue.

Recommendation

I recommend that **Operation Reach's** staff and management adhere to the established policy of recognizing revenue when earned.

2009-06 Quality Control Over Grant Reports

Condition

During my analysis of the monthly financial reports required by the grantor for the Community Development Block Grant, I noted that several of the reports submitted for cost reimbursement contained mathematical errors.

Recommendation

I recommend that a careful review of federal financial reports take place before they are filed. Amounts reported in the federal financials should be reviewed for accuracy.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

CURRENT YEAR'S COMMENTS TO MANAGEMENT, CONTINUED

2009-07 Adequate Staffing of Accounting Department to Match Organizational Growth

Condition

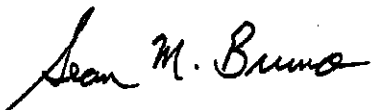
During the audit, I noted that **Operation Reach** is experiencing significant delays in its accounting and reporting processes due to an understaffed accounting department and recent vacancy of the Business Manager position, a key accounting position. This condition has resulted in significant delays in producing complete, reconciled, and properly adjusted financial statements and other information. I also noted that the Business Manager position had additional duties relating to administrative functions and involvement in **Operation Reach's** operations, which took time away from performing necessary accounting functions. Delays in receiving timely and current financial information can significantly impact management's ability to properly manage the organization.

Recommendation

I recommend that **Operation Reach** hire a competent, experienced individual to fill the vacant position as soon as possible. **Operation Reach** should give the accounting department staffing issue the highest priority in the upcoming months. I also recommend that the allocation of duties be more consistent throughout the organization to keep the employees functioning as efficiently as possible.

**INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)**

I believe that the implementation of these recommendations will provide **Operation Reach** with a stronger system of internal accounting control while also making its operations more efficient. I will review the status of these comments during my next audit engagement. I will be pleased to discuss the comments 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, and management and is not intended to be and should not be used by anyone other than these specified parties.



**SEAN M. BRUNO
CERTIFIED PUBLIC ACCOUNTANTS**

September 27, 2010



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September 27, 2010

Sean M. Bruno, CPA
4949 Bullard Avenue
New Orleans, LA 70128

Mr. Bruno:

We are in receipt of your Comments to Management regarding opportunities for strengthening internal controls and operating efficiency, which you compiled in connection with the audit of the financial statements of Operation REACH, Inc. (ORI) for the year ended December 31, 2009. In response to the comments included in the letter, we offer the following corrective action plan:

MLC2009-01 Reconciling Fixed Assets to the General Ledger

In connection with the monthly reconciliation of all general ledger accounts referenced in our corrective action plan related to audit finding 2009-03 – “Reporting”, fixed assets accounts will be reconciled to the detailed records on a monthly basis. This item will become a part of ORI’s regular monthly reconciliation checklist.

MLC2009-02 Reconciliation of Contractor Payments in the General Ledger to Form 1099

ORI management will adhere to established procedures and ensure that all amounts paid to contractors are reconciled to applicable IRS forms.

MLC2009-03 Written Policy for Suspension and Debarment

ORI management will amend its *Corporate Financial Accounting Policies and Procedures Manual* to include a policy related to Suspension and Debarment.

MLC2009-04 Fixed Assets Capitalization Policy

ORI management will adhere to the fixed asset capitalization policy as written in the *Corporate Financial Accounting Policies and Procedures Manual* and will only capitalize purchases greater than \$500 to be recorded as fixed assets to ensure consistent application of fixed assets within the organization.

MLC2009-05 Adherence to Revenue Recognition Policy

ORI management will adhere to the revenue recognition policy as written in the *Corporate Financial Accounting Policies and Procedures Manual* and will recognize revenue when earned.

MLC2009-06 Quality Control over Grant Reports

A checklist process has been implemented whereby all key managers of the organization have the responsibility for pre-viewing all documents to be issued externally prior to their submission. ORI management will assure that this checklist process is adhered to by all related parties.



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MLC2009-07 Adequate Staffing of Accounting Department to Match Organizational Change

As indicated in ORI management's response to Audit Finding #2009-02, responsibility for management of financial functions has been transferred to the recently hired Chief Operating Officer, who will also have responsibility for staffing the financial services department and infusing varied levels of responsibility within the department. With this organizational change, operations should return to a more constant state.

In addition to the above corrective action items, the management of ORI wishes to emphasize that we accept full fiscal responsibility for the stewardship afforded to ORI through the granting of both public and private grant funds. We acknowledge that fiscal year 2009, our first year to experience a full financial audit and to be reviewed in reference to OMB Circular A-133, included some corporate challenges with staff turnover in key fiscal management positions. We are fully committed to our fiscal responsibility and will implement these and other modes of corrective action, which should allow for a more smooth process in the future. We appreciate your attention to our internal control procedures and the opportunity to improve them with the assistance of your expertise.

Sincerely

A handwritten signature in black ink, appearing to read 'Kyshun Webster Sr.', written over a white background.

Kyshun Webster Sr., Ph.D.
Chief Executive Officer
Operation REACH, Inc.

Sean M. Bruno
Certified Public Accountants

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

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

Prior Year's Comments and Recommendations

To the Board of Directors
Operation Reach, Inc.
New Orleans, Louisiana

We reviewed the prior year's suggestions, recommendations, and/or comments to determine the extent to which such matters have been resolved.

In the agreed upon procedures performed for Operation Reach, Inc. ("ORI") for the year ended December 31, 2008, Bruno and Tervalon, LLP reported the following recommendations:

- Requiring reconciling differences between program close-out reports and accounting records.

Status: Unresolved.

Refer to Audit Finding Number 2009-03 in the *Schedule of Audit Findings and Questioned Cost* in the December 31, 2009 audit report for current status of the finding and management's corrective action plan.

- Requiring the maintenance of copies of posted signs advertising open meetings of the Board of Directors of ORI.

Status: Resolved

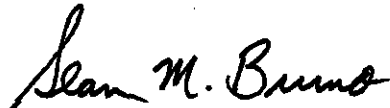
**INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)**

Prior Year's Comments and Recommendations, Continued

- Requiring timely filing with required reports with the Office of the Louisiana Legislative Auditor.

Status: **Unresolved**.

Refer to Audit Finding Number 2009-01 in the *Schedule of Audit Findings and Questioned Cost* in the December 31, 2009 audit report for current status of the finding and management's corrective action plan.



**SEAN M. BRUNO
CERTIFIED PUBLIC ACCOUNTANTS**

September 27, 2010

Sean M. Bruno
Certified Public Accountants