

OFFICIAL
FILE COPY

DO NOT SEND OUT

(Xerox necessary
copies from this
copy and PLACE
BACK in FILE)

RECEIVED
LEGISLATIVE AUDITOR

1999 DEC 30 PM 1:49

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

Baton Rouge, Louisiana

FINANCIAL REPORT

June 30, 1999

Under provisions of state law, this report is a public document. A copy of the report shall be furnished to the contractor, or vendor, or 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

JAN 19 2000

Release Date _____

Curtis Michael Johnston
Certified Public Accountant

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

TABLE OF CONTENTS

June 30, 1999

	<u>Exhibit</u>	<u>Page</u>
<u>INDEPENDENT AUDITOR'S REPORT</u>		1 -2
<u>FINANCIAL STATEMENTS:</u>		
Balance Sheet	A	3
Statement of Revenues, Expenses and Changes in Equity	B	4
Statement of Cash Flows	C	5
Notes to Financial Statements	D	6 - 8
<u>SUPPLEMENTAL INFORMATION:</u>		
Schedule of Expenditures of Federal Awards	1	9
Year 2000 Supplemental Information	2	10
Independent Auditor's Report on Compliance and on the Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		11 - 12
Independent Auditor's Report on Compliance with Requirements Applicable to Its Major Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133		13 - 14
Schedule of Findings and Questioned Costs	3	15 - 17
Summary Schedule of Prior Audit Findings	4	18 - 19

CURTIS MICHAEL JOHNSTON, C.P.A.

2491 Oak Manor Court • Baton Rouge, LA 70810 • (504) 766-6932

December 29, 1999

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Independent Living Systems, Inc.

I have audited the accompanying Balance Sheet of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. as of June 30, 1999, and the related Statements of Revenues, Expenses and Changes in Equity, and Cash Flows for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. as of June 30, 1999, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 7 to the financial statements, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. is a defendant in a lawsuit filed by one of its former employees for alleged harassment. The suit asks for back pay, front pay, punitive damages, attorney fees, litigation expenses and other relief entitled to along with legal interest. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements.

The year 2000 supplementary information in Schedule 2 on page 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management.

However, I did not audit the information and do not express an opinion on it. In addition, I do not provide assurance that COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. is or will become year 2000 compliant, that COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s year 2000 remediation efforts will be successful in whole or in part, or that parties with which COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. does business are or will become year 2000 compliant.

In accordance with Government Auditing Standards, I have also issued a report dated December 29, 1999 on my consideration of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts.

My audit was made for the purpose of forming an opinion on the general purpose financial statements of the company taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the general purpose financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,

Curtis Michael Johnston, CPA

Curtis Michael Johnston
Certified Public Accountant

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

Baton Rouge, Louisiana

BALANCE SHEET

June 30, 1999

ASSETS**CURRENT**

Cash		\$62,775
Investments (cost)	\$ 439,312	
Add: Valuation allowance	<u>48,213</u>	
Net (market value)		487,525
Prepaid expenses		20,800
Employee advances		3,090
Accounts receivable		<u>193,420</u>
Total current assets		<u>767,610</u>

PROPERTY AND EQUIPMENT

Equipment		141,401
Less: Accumulated Depreciation		<u>(82,484)</u>
Total property and equipment		<u>58,917</u>
Total assets		<u><u>\$826,527</u></u>

LIABILITIES AND EQUITY**Current Liabilities**

Accounts payable	\$6,098
Wages payable	6,566
Accrued payroll taxes payable	1,949
State income taxes payable	1,090
Deferred income tax	<u>108,084</u>
Total current liabilities	123,787

Equity

Equity	<u>702,740</u>
Total liabilities and equity	<u><u>\$826,527</u></u>

The accompanying notes are an integral part of this statement.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

Baton Rouge, Louisiana

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN EQUITY

For the year ended June 30, 1999

Revenues

Client services	\$1,123,877
Realized gain on sale of investments	8,416
Unrealized gain on investments	18,572
Dividends	2,410
Gain on sale of equipment	2,046
Miscellaneous income	2,400
	<hr/>
Total revenues	1,157,721

Expenses

Salaries and related benefits	486,726
Professional services	46,576
Office supplies	14,559
Operating expenses	77,210
Travel	25,719
Telephone and utilities	48,487
Building and furniture rent	224,492
Insurance	5,170
Dues and subscriptions	856
Maintenance and repairs	5,272
Payroll taxes	40,834
Depreciation	15,183
Advertising	168
Miscellaneous	4,160
	<hr/>
Total expenses	995,412

Net income before taxes	162,309
Income tax expense	54,039
	<hr/>
Net income	108,270
Equity at beginning of year	594,470
	<hr/>
Equity at end of year	<u>\$ 702,740</u>

The accompanying notes are an integral part of this statement.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

Baton Rouge, Louisiana

STATEMENT OF CASH FLOWS

For the year ended June 30, 1999

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$108,270
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	15,183
Gain on sale of equipment	(2,047)
Change in operating assets and liabilities:	
Accounts receivable	111,989
Prepaid expenses	6,576
Accounts payable	5,198
Wages payable	(74)
Accrued payroll taxes	(1,230)
Deferred income tax	(10,056)
Income tax payable	1,090
Net cash provided by operating activities	<u>234,899</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Equipment acquisitions	(20,040)
Equipment sold	<u>3,500</u>

Net increase (decrease) in cash and cash equivalents 218,359

CASH AND CASH EQUIVALENTS

Beginning of year	<u>331,941</u>
End of year	<u><u>\$550,300</u></u>

The accompanying notes are an integral part of this statement.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS

June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. is a human service provider corporation. The company provides case management, independent living skills and counseling to individuals in the community including, but not limited to the following:

- develop job skills,
- develop personal and work adjustment,
- provide, develop and promote employment opportunity,
- promote independent learning skills

B. Basis of Accounting

The accompanying general purpose financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

C. Income Tax Status

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. was originally formed as a non-profit Louisiana corporation in July 1988. However, the corporation has actually operated as a for-profit corporation since its formation. The corporation has not elected to apply for tax-exempt organization status under Section 501(c)(3) of the Internal Revenue Code and, therefore, it must pay federal and state income taxes on any profits realized by the organization.

The provision for income tax expense for the period ended June 30, 1999 was \$54,039. The deferred tax liability at June 30, 1999 was \$108,084, which represents a future tax liability to the organization caused by timing differences between income and expenses reported for tax purposes and income and expenses reported under generally accepted accounting principles.

D. Investment Securities

Investments are presented in the financial statements at their fair market value. Unrealized gains and losses for the year ended June 30, 1999 are included in the Statement of Revenue, Expenses and Changes in Equity.

E. Accounts receivable

Accounts receivable represent amounts due from the Louisiana Department of Social Services for services rendered by COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. under fee for service contracts and cost-reimbursement contracts.

F. Property, equipment and depreciation

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated service lives of the assets.

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment, related service lives, and accumulated depreciation at June 30, 1999, are as follows:

	<u>Estimated Service Lives</u>	
Furniture and equipment	8 years	\$ 81,708
Vehicles	9-11 years	<u>59,693</u>
Property and equipment		\$141,401
Less: accumulated depreciation		<u>(82,484)</u>
Total Property and equipment		<u>\$ 58,917</u>

Depreciation expense was \$15,183 for the year ended June 30, 1999.

NOTE 3 - ECONOMIC DEPENDENCY

During the year ended June 30, 1999, the company received a significant portion of its revenues through the State of Louisiana. The amounts applicable to the year ended June 30, 1999 are as follows:

Receivable, beginning of year	\$ 305,409
Revenues earned and invoiced	1,123,877
Collections	<u>(1,235,866)</u>
Receivable, end of year	<u>\$ 193,420</u>

NOTE 4 - RELATED PARTY TRANSACTIONS

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. used computer equipment owned by its former Executive Director to help train participants of the Project Independence Programs located in New Orleans and Hammond, Louisiana. The equipment was furnished to COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. and the Project Independence Program at no cost for the 1998-99 fiscal year.

NOTE 5 - COMPENSATED ABSENCES

Vacation and sick leave are earned by employees at varying rates from 8 to 16 hours per month depending on length of service. A maximum of 24 hours of unused leave may be carried over at December 31. Accordingly, amounts related to such leave have been accrued at June 30, 1999.

NOTE 6 - BOARD OF DIRECTORS

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. 's board of directors consists of two (2) members. One of the current board members is also a full-time employee of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

NOTE 7 - LOSS CONTINGENCY

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. is a defendant in a lawsuit filed by one of its former employees for alleged harassment. The suit asks for back pay, front pay, punitive damages, attorney fees, litigation expenses and other relief entitled to along with legal interest. The company believes the suit is completely without merit and intends to vigorously defend its position. According to COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. 's outside legal counsel, the ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements.

NOTE 8 - OPERATING LEASES

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. had no operating leases with remaining noncancelable lease terms in excess of one year as of June 30, 1999.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 1999

<u>Federal Grantor</u> Pass-through Grantor Program Title	Federal CFDA Number		Federal Awards Expended
<u>Department of Health and Human Services</u>			
Department of Social Services:			
Project Independence	93.561	*	\$444,643
Foster Care - Supervised Apartments	93.645	*	<u>679,234</u>
Total Federal Assistance			<u><u>\$1,123,877</u></u>

* Represents a major program.

The accompanying notes are an integral part of this statement.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

YEAR 2000 SUPPLEMENTARY INFORMATION

June 30, 1999

UNAUDITED

Because many computer systems use only two digits to record the year in date fields, such systems may not be able to accurately process dates including the year 2000 and after. The effects of this problem will vary from system to system, but unless this problem is addressed, computer systems that rely on date calculations are at risk of producing unpredictable results or complete failure.

Management is aware of the year 2000 issue and initiated a year 2000 remediation project to take necessary and reasonable steps to get mission critical systems and operations year 2000 compliant. The company's general ledger accounting system was identified as a mission critical system. Management feels that the mission critical system identified is being updated and that testing and validating of the system will be completed by December 31, 1999. Management cannot estimate the costs of these updates.

As of June 30, 1999, expenditures for remediation, testing and validation approximated \$2,600 to replace hardware.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management can not assure that COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. is or will be year 2000 ready, that the company's remediation efforts will be successful in whole or part, or that parties with whom the company does business will be year 2000 ready.

The assessment of the costs of the year 2000 compliance and the completion of the internal year 2000 modifications are management's estimates. It is reasonably possible that actual and estimated results will differ materially.

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



CURTIS MICHAEL JOHNSTON, C.P.A.

2491 Oak Manor Court • Baton Rouge, LA 70810 • (504) 766-6932

December 29, 1999

To the Board of Directors
Community Independent Living Systems, Inc.

I have audited the financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., as of and for the year ended June 30, 1999, and have issued my report thereon dated December 29, 1999. I conducted my audit in accordance with generally accepted auditing standards and the standards for financial and compliance audits of Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure over financial reporting that, in my judgment, could adversely affect COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 99-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I consider the reportable condition described above, item 99-1, to be a material weakness.

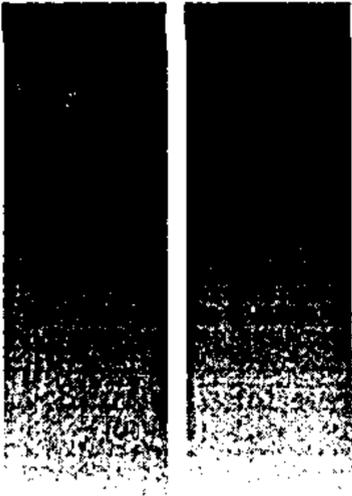
I noted other matters involving internal control over financial reporting that I have reported to the management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. in a separate letter dated December 29, 1999.

This report is intended for the Board of Directors, management, the Office of the Louisiana Legislative Auditor and any cognizant agency and should not be used for any other purpose.

Curtis Michael Johnston, CPA

Curtis Michael Johnston
Certified Public Accountant

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



CURTIS MICHAEL JOHNSTON, C.P.A.

2491 Oak Manor Court • Baton Rouge, LA 70810 • (504) 766-6932

December 29, 1999

To the Board of Directors
Community Independent Living Systems, Inc.

Compliance

I have audited the compliance of COMMUNITY INDEPENDENT LIVING SYSTEMS, 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 June 30, 1999. COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, and contracts applicable to its major federal programs is the responsibility of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s management. My responsibility is to express an opinion on COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s compliance based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'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 COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s compliance with those requirements.

The results of my tests disclosed no instances of noncompliance that are required to be reported.

In my opinion, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999.

Internal Control Over Compliance

The management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, and contracts applicable to federal programs. In planning and performing my audit, I considered COMMUNITY INDEPENDENT LIVING SYSTEMS, 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted a certain matter involving the internal control over compliance and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure over compliance that, in my judgment, could adversely affect COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s ability to administer a major federal program in accordance with applicable requirements of laws, regulations, and contracts. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 99-2.

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, and contracts 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. My consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I consider the reportable condition described above, item 99-2, to be a material weakness.

I noted other matters involving internal control over compliance and its operations that I have reported to the management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. in a separate letter dated December 29, 1999.

This report is intended for the Board of Directors, management, the Office of the Louisiana Legislative Auditor and any cognizant agency and should not be used for any other purpose.

Curtis Michael Johnston, CPA

Curtis Michael Johnston
Certified Public Accountant

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

**Schedule of Findings and Questioned Costs
For the fiscal year ended June 30, 1999**

Section I – Summary of Auditors Results

Financial Statements

Type of auditor's report issued:	UNQUALIFIED
Internal control over financial reporting:	
Material weaknesses identified?	YES
Reportable conditions identified not considered to be material weaknesses?	NO
Noncompliance material to financial statements noted?	NO

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	YES
Reportable conditions identified not considered to be material weaknesses?	NO
Type of auditor's report issued on compliance for major programs:	UNQUALIFIED
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	YES

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
93.561	Project Independence
93.645	Foster Care

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	NO

Section II – Financial Statement Findings

Reference No. 99-1

Statement of Condition: The functions of billing, cash receipts, cash disbursements, recording transactions in the accounting records and reconciling bank accounts are performed by the same employee.

Criteria: Adequate internal control requires that these duties be appropriately segregated.

Cause of Condition: Due to limited accounting staff there is not adequate segregation of duties over these functions.

Effect: This type of internal control weakness could result in errors or irregularities that would be hard to detect since the same person handles all functions.

Recommendation: Management has made progress in implementing some compensating controls, such as approving all invoices before checks are signed, and reviewing bank statements and canceled checks each month. Management should also consider assuming some of the duties of the accountant or cross-training other employees to perform some of the duties on a rotation basis.

Response: Management will continue to evaluate the situation and attempt to develop some additional effective compensating controls.

Section III – Federal Award Findings and Questioned Costs

Reference No. 99-2

CFDA Number: 93.561
93.645

Program Title: Project Independence Program
Foster Care Program

Federal Agency: Department of Health and Human Services

Pass-through-Entity: Louisiana Department of Social Services

Statement of Condition: The functions of billing, cash receipts, cash disbursements, recording transactions in the accounting records and reconciling bank accounts are performed by the same employee.

Criteria: Adequate internal control requires that these duties be appropriately segregated.

Cause of Condition: Due to limited accounting staff there is not adequate segregation of duties over these functions.

Effect: This type of internal control weakness could result in errors or irregularities that would be hard to detect since the same person handles all functions.

Recommendation: Management has made progress in implementing some compensating controls, such as approving all invoices before checks are signed, and reviewing bank statements and canceled checks each month. Management should also consider assuming some of the duties of the accountant or cross-training other employees to perform some of the duties on a rotation basis.

Response: Management will continue to evaluate the situation and attempt to develop some additional effective compensating controls.

The accompanying notes are an integral part of this statement.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

**Summary Schedule of Prior Audit Findings
For the fiscal year ended June 30, 1999**

Financial Statement Findings:

Reference No. 98-1

Statement of Condition: Time sheets do not always contain approval signatures of employees and their supervisors.

Status of Finding: Corrective action was taken.

Reference No. 98-2

Statement of Condition: The functions of billing, cash receipts, cash disbursements, recording transactions in the accounting records and reconciling bank accounts are performed by the same employee.

Status of Finding: Partial corrective action was taken. Management has made progress in implementing some compensating controls, such as approving all invoices before checks are signed, and reviewing bank statements and canceled checks each month. Management plans to continue evaluating the situation and attempt to develop some additional effective compensating controls.

Reference No. 98-3

Statement of Condition: The accounting system captures Project Independence Program expenses by regional location and not by individual contract.

Status of Finding: Corrective action was taken.

Reference No. 98-4

Statement of Condition: The Louisiana Department of Social Services (DSS) disallowed the cost of certain related party data processing equipment leases with Community, Training, Management, Evaluation.

Status of Finding: Corrective action was taken.

Federal Award Findings and Questioned Costs:

Reference No. 98-5

Statement of Condition: Time sheets do not always contain approval signatures of employees and their supervisors.

Status of Finding: Corrective action was taken.

Reference No. 98-6

Statement of Condition: Only annual certifications are obtained from employees working on a single federal program or cost objective. OMB A-87, Attachment B, requires employees working on a single federal contract or cost objective to prepare semi-annual certifications to support charges for their salaries and wages.

Status of Finding: Corrective action was taken.

Reference No. 98-7

Statement of Condition: The functions of billing, cash receipts, cash disbursements, recording transactions in the accounting records and reconciling bank accounts are performed by the same employee.

Status of Finding: Partial corrective action was taken. Management has made progress in implementing some compensating controls, such as approving all invoices before checks are signed, and reviewing bank statements and canceled checks each month. Management plans to continue evaluating the situation and attempt to develop some additional effective compensating controls.

Reference No. 98-8

Statement of Condition: The accounting system captures Project Independence Program expenses by regional location and not by individual contract.

Status of Finding: Corrective action was taken.

Reference No. 98-9

Statement of Condition: The Louisiana Department of Social Services (DSS) disallowed the cost of certain related party data processing equipment leases with Community, Training, Management, Evaluation.

Status of Finding: Corrective action was taken.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

BATON ROUGE, LOUISIANA

MANAGEMENT LETTER

June 30, 1999

Curtis Michael Johnston, CPA

December 29, 1999

CONFIDENTIAL

To the Board Members
Community Independent Living Systems, Inc.

Dear Board Members:

I have audited the general purpose financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. as of and for the year ended June 30, 1999. In planning and performing my audit of the financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., I considered internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on internal control.

During my audit, I noted certain matters involving the internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

Reference No. 1: RECORDING ACCOUNTS PAYABLE AT YEAR END

Accounts payable are not stated at year end. There should be a review of invoices at year end to determine which ones are for the current year that will be paid in the next accounting period. These should then be recorded as accounts payable at year end.

My procedures are designed primarily to enable me to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. I am, however, to use my knowledge of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s organization gained during my work to make comments and suggestions that I hope will be useful to you.

I would like to take this opportunity to acknowledge the courtesy and assistance extended to me by the personnel of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. during the course of my audit.

This report is intended solely for the information and use of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s board members and management. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

Curtis Michael Johnston, CPA

Curtis Michael Johnston, CPA

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
8261 SUMMA AVENUE, SUITE H
BATON ROUGE, LA 70810

**CORRECTIVE ACTION PLAN
FOR 1999 FISCAL YEAR MANAGEMENT LETTER COMMENTS**

December 29, 1999

Reference No. 1: RECORDING ACCOUNTS PAYABLE AT YEAR END

Management will review unpaid invoices at year end for accrual and recording of accounts payable.


Melanie Meyers
Executive Director

**COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
8261 SUMMA AVENUE, SUITE H
BATON ROUGE, LA 70810**

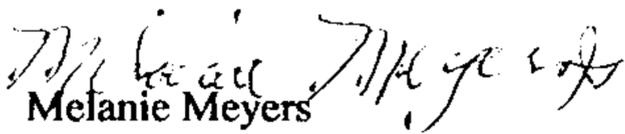
**CORRECTIVE ACTION PLAN
FOR 1999 FISCAL YEAR AUDIT FINDINGS**

December 29, 1999

Reference No.99-1 and No. 99-2

Finding: The functions of billing, cash receipts, cash disbursements, recording transactions in the accounting records and reconciling bank accounts are performed by the same employee.

Response: Management will continue to evaluate the situation and attempt to develop some additional compensating controls to reduce risk.


Melanie Meyers
Executive Director

**COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
8261 SUMMA AVENUE, SUITE H
BATON ROUGE, LA 70810**

**CORRECTIVE ACTION PLAN
FOR 1998 PRIOR FISCAL YEAR AUDIT FINDINGS**

December 29, 1999

Reference No.98-2 and No. 98-7

Finding: The functions of billing, cash receipts, cash disbursements, recording transactions in the accounting records and reconciling bank accounts are performed by the same employee.

Response: Management will continue to evaluate the situation and attempt to develop some additional compensating controls to reduce risk.


Melanie Meyers
Executive Director