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LEGISLATIVE AUDITOR

**COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.**

Baton Rouge, Louisiana

**FINANCIAL REPORT**

June 30, 1996

*Dale P. LaFleur*  
*Certified Public Accountant*

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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 4-2-97

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.  
Baton Rouge, Louisiana

TABLE OF CONTENTS

June 30, 1996

	Exhibit	Page
INDEPENDENT AUDITOR'S REPORT		3
FINANCIAL STATEMENTS		
Balance Sheet	A	2
Statement of Revenues, Expenses and Changes in Fund Equity	B	3
Statement of Cash Flows	C	4
Notes to Financial Statements	D	5
INTERNAL CONTROL REPORTS		
Report on the Internal Control Structure Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		8
Report on Internal Control Structure Used in Administering Federal Financial Assistance Programs		12
COMPLIANCE REPORTS		
Compliance with General Requirements Applicable to Federal Financial Assistance Programs		15
Compliance with Specific Requirements Applicable to Major Federal Financial Assistance Programs		17
Compliance with Specific Requirements Applicable to Non-Major Federal Financial Assistance Program Transactions		19
Compliance Report based on an Audit of the Basic Financial Statements Performed in Accordance with Governmental Auditing Standards		20

**SUPPLEMENTARY INFORMATION**

**Independent Auditor's Report on Schedule of Federal  
Financial Assistance**

**23**

**Schedule of Federal Financial Assistance**

**23**

## 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.**, Inc. as of June 30, 1998, and the related statements of income, retained earnings, 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 September, 1998, **COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.** established a self-insured medical insurance plan, **COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. Employee Health Plan**, for its employees. Governmental Accounting and Financial Reporting Standards for self-insured employee benefit plans requires that a liability for Reported But Unpaid Claims and Incurred But Unreported Claims expenses be accrued in the financial statements. **COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s** financial statements for the fiscal year ended June 30, 1998, did not reflect an accrued liability for Reported But Unpaid Claims and Incurred But Unreported Claims.

In my opinion, except for the effects of such adjustments relating to a liability for Reported But Unpaid Claims and Incurred But Unreported Claims, the financial statements referred to above present fairly, in all material respects, the financial position of **COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.** at June 30, 1998, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

My audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements of the company. 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 presented in all material respects in relation to the general purpose financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued a report dated February 5, 1999, on my consideration of **COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s** internal control structure and a report dated February 5, 1999, on its compliance with laws and regulations.

  
Dale P. LeJours  
Certified Public Accountant

February 5, 1999

## Exhibit A

**COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.**  
Baton Rouge, Louisiana

**BALANCE SHEET**

June 30, 1998

**ASSETS**

**CURRENT**

Cash	\$233,808
Investments	108,900
Accounts receivable	<u>168,900</u>
Total current assets	<u>\$511,608</u>

**PROPERTY AND EQUIPMENT**

Equipment	149,000
Less: Accumulated Depreciation	<u>(63,045)</u>
Total property and equipment	<u>85,955</u>
Total assets	<u>\$597,563</u>

**LIABILITIES AND FUND EQUITY**

**Current Liabilities**

Accounts payable	\$2,708
Refund due Office of Family Support	3,400
Wages payable	18,101
Insurance premiums payable	8,714
Accrued taxes payable	5,887
Income tax payable	28,477
Deferred tax	<u>20,688</u>
Total current liabilities	<u>89,875</u>

**Fund Equity**

	<u>\$17,592</u>
Total liabilities and fund equity	<u>\$597,563</u>

The accompanying notes are an integral part of this statement.

Exhibit B

**COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.**

Baton Rouge, Louisiana

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY**

For the year ended June 30, 1998

<b>Revenues</b>	
Client services	\$1,842,182
Interest and dividends	1,866
	<hr/>
Total revenues	1,844,047
<b>Expenses</b>	
Salaries and related benefits	853,208
Professional services	17,438
Office supplies	22,896
Operating expenses	58,524
Travel	38,947
Advertising	277
Utilities	58,480
Rent	392,157
Insurance	9,989
Coverage and subscriptions	1,680
Maintenance and repairs	4,987
Payroll taxes	80,422
Income taxes	10,844
Depreciation	14,276
Miscellaneous	6,890
	<hr/>
Total expenses	1,522,208
Excess revenues over expenditures	\$321,838
Fund equity at beginning of year	475,754
	<hr/>
Fund equity at end of year	\$817,592

The accompanying notes are an integral part of this statement.

Exhibit C

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

Baton Rouge, Louisiana

STATEMENT OF CASH FLOWS

For the year ended June 30, 1996

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net income	\$41,888
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	14,578
Loss on disposal of assets	6,737
Change in operating assets and liabilities:	
Accounts receivable	(83,578)
Prepaid taxes	18,800
Prepaid leases	8,878
Accounts payable	(14,378)
Refund due Office of Family Support	2,400
Wages payable	13,181
Insurance premiums payable	8,714
Accrued taxes	(22,932)
Deferred tax	(24,025)
Income tax payable	28,677
Net cash provided by operating activities	<u>148,583</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Equipment acquisitions	<u>(32,325)</u>
Net increase (decrease) in cash and cash equivalents	116,257
<b>CASH AND CASH EQUIVALENTS</b>	
Beginning of year	<u>227,326</u>
End of year	<u>\$343,583</u>

The accompanying notes are an integral part of this statement.

**Exhibit D**

**COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.**  
Baton Rouge, Louisiana

**NOTES TO FINANCIAL STATEMENTS**

**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 adjustments,
- provide, develop and promote employment opportunity,
- promote independent learning skills

**B. Financial statements**

The accompanying financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. have been prepared on the accrual basis of accounting.

**C. Income Tax Status**

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. was formed as a non-profit Louisiana corporation in July, 1988. However, 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, 1996 was \$18,948. The deferred tax liability at June 30, 1996 was \$29,448, 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. Investments**

Investments are presented in the financial statements at the lower of cost or market.

**E. Accounts receivable**

Accounts receivable represent fees for service contracts and cost-sharing contracts.



**Exhibit D**  
Continued

**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. Revenue recognition**

The company records revenue as services are rendered and invoiced.

**NOTE 3 - PROPERTY AND EQUIPMENT**

Property and equipment, related service lives, and accumulated depreciation at June 30, 1996, are as follows:

	Estimated Service Lives	
Furniture and equipment	8 years	\$ 78,127
Vehicles	9-11 years	<u>70,500</u>
Property and equipment		\$148,627
Less: accumulated depreciation		(1,804)D
Total Property and equipment		<u>\$ 146,823</u>

Depreciation expense was \$14,378 for the year ended June 30, 1996.

**NOTE 3 - SELF-INSURED EMPLOYEE BENEFITS PLAN**

In September, 1995, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. established a self-insured employee benefit plan. The benefit plan is administered by a third party and uses a reinsurance agreement to reduce COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s exposure to large losses on medical insurance claims. Reported But Unpaid Claims and Incurred But Unreported Claims are not recorded as estimated liabilities in COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s financial statement for the fiscal year ended June 30, 1996.

The following is a summary of the self-insured benefit plan's activity for the fiscal year ended June 30, 1996:

Employee/Employer Premium Contributions	\$58,008
Miscellaneous Income	<u>1,580</u>
Total Income	<u>\$59,588</u>

**Exhibit D**  
**Continued**

Medical Expenses Paid	\$40,400
Business Expense	17,313
Life Insurance Premiums	2,328
Third Party Administrator Fees	2,900
Miscellaneous Expenses	<u>5,664</u>
Total Expenses	\$68,733
Net Fund Increase (Decrease)	<u>\$(8,738)</u>

**NOTE 4 - ECONOMIC DEPENDENCY**

During the year ended June 30, 1996, the company received a significant portion of its revenues through the State of Louisiana. The amounts applicable to the year ended June 30, 1996 are as follows:

Receivable, beginning of year	\$ 253,496
Revenues earned and invoiced	1,504,865
Collections	<u>(1,619,021)</u>
Receivable, end of year	<u>\$ 139,340</u>

**NOTE 5 - RELATED PARTY TRANSACTIONS**

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. leased computer equipment during the fiscal year ended June 30, 1996, from a company owned by the Executive Director of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. The leased computer equipment is used to help train participants of the Project Independence Programs located in Raceland, New Orleans, and Hammond, Louisiana. COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. made lease payments to the company totaling \$128,575 for the fiscal year ended June 30, 1996.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. rented an apartment during the fiscal year ended June 30, 1996, which is owned by the Executive Director of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. The apartment was rented for a Louisiana Rehabilitation Services Program client. The total amount of rent paid by COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. for the apartment, for the year ended June 30, 1996, was \$2,400.

**NOTE 6 - 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 36 hours of unused leave may be carried over at December 31. Accordingly, amounts related to such leave have been accrued at June 30, 1996.

**Exhibit D**  
**Continued**

**NOTE 7 - BOARD OF DIRECTORS**

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s board of directors consists of two (2) members as of June 30, 1996. The President of the board resigned on May 28, 1996, and has not been replaced. One of the current board members is also a full-time employee of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

**NOTE 8 - SUBSEQUENT EVENTS**

In September, 1996, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. discontinued its self-funded benefit plan and obtained a medical insurance policy with a commercial insurance company.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. receives telecommunications service through the State of Louisiana, Office of Telecommunications Management, for its Baton Rouge and Hammond offices. In January, 1997, the Office of Telecommunications Management notified COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. of its intent to discontinue telecommunications services unless COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. can provide evidence that it qualifies for the services under the criteria outlined in the OTM Administrative Code.

Special Independent Auditor's Report

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.  
Baton Rouge, Louisiana

June 30, 1996

**INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL STRUCTURE IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

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, 1996, and have issued my report thereon dated February 5, 1997.

I conducted my audit in accordance with generally accepted auditing standards, the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing my audit of the financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., for the year ended June 30, 1996, I considered its internal control structure 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 structure.

The management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are recorded in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the structure to future periods is subject to the risk that conditions may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, I have classified the significant internal control structure policies and procedures in the following categories:

**Accounting Applications**

- Billings
- Cash receipts
- Cash Disbursements
- Revenues and receivables
- Purchasing
- Payroll
- Property and equipment

#### General requirements

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable cost principles
- Administrative requirements

#### Specific Requirements

- Types of services
- Eligibility of cost
- Reporting
- Cost allocation

For all the internal control structure categories listed above, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk.

I noted certain matters involving the internal control structure and its operation that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

### REPORTABLE CONDITION

#### REPORTING

##### Observation

The organization requested reimbursement for cost in the operations of the Project Independence Program through monthly cost reports/invoices. A comparison of the cost reports to the organization's general ledger reflected that on occasion the general ledger balances were not in agreement with the requests for reimbursements. Specifically, (1) the allocation of salary expenses in the general ledger for employees working on multiple programs occasionally was not in agreement with the cost reports/invoices; and (2) prepaid expenses, (e.g. building rent, computer lease) were expensed in the general ledger in the month paid, which does not agree with the cost reports/invoices.

##### Recommendation

I recommend that all salary expenses for the Project Independence Program be reconciled to the monthly cost reports/invoices and appropriate adjustments to the general ledger be made timely. In addition, all prepaid expenses should be amortized in the general ledger over the effective months and reconciled to the monthly Project Independence Program cost reports/invoices.

##### Management Response

We agree with this finding and recommendation and will ensure that the general ledger accounts and monthly cost reports/invoices are reconciled monthly and appropriate adjustments are made to the general ledger.

## SEGREGATION OF DUTIES

### Observation:

The functions of issuing, cash receipts, cash disbursements, recording transactions in the accounting records and reconciliation of bank accounts are performed by the same employee.

### Recommendation:

The functions of issuing, cash receipts, cash disbursements, recording and reconciliation should be segregated and performed by different employees. Where this is not feasible, compensating controls should be established to help assure that any errors or irregularities are discovered and corrected timely.

### Management Response:

We agree with this finding and recommendation and will take necessary measures to help assure that the duties of this employee are properly segregated or establish adequate compensating controls.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

I also noted other matters involving the internal control structure and its operation that I have reported to the management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. in a separate letter dated February 5, 1997.

This report is intended for the information of management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



Dale P. Lehman  
Certified Public Accountant

February 5, 1997

**INDEPENDENT AUDITORS' SINGLE AUDIT REPORT  
ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING  
FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

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

I have audited the financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., for the year ended June 30, 1996, and have issued my report thereon dated February 5, 1997.

I have also audited COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'S compliance with requirements applicable to major federal financial assistance programs and have issued my report thereon dated February 5, 1997.

I conducted my audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-118, Audits of State and Local Governments. These standards and OMB Circular A-118 require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., complied with laws and regulations, non-compliance with which would be material to a major federal financial assistance program.

In planning and performing my audit of the year ended June 30, 1996, I considered the organization's internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the organization's financial statements and on its compliance with requirements applicable to major programs and not to provide assurance on the internal control structure. This report addresses my consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs.

The management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general-purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of non-compliance may nevertheless occur and not be detected. Also, projection of my evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, I have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

**Accounting Applications**

- Billing
- Cash receipts



- Cash disbursements
- Revenues and receivables
- Purchasing
- Payroll
- Property and equipment

**General requirements**

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable cost/claim principles
- Administrative requirements

**Specific Requirements**

- Types of services
- Eligibility of cost
- Reporting
- Cost allocation

For all the internal control structure categories listed above, I obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and I assessed control risk.

I performed tests of controls, as required by OMB Circular A-128 to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that I considered relevant to preventing or detecting material non-compliance with specific requirements, general requirements, and requirements governing claims for reimbursements that are applicable to the organization's major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance. My procedures were limited in scope that would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, I do not express such an opinion.

I noted certain matters involving the internal control structure and its operation that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

**REPORTABLE CONDITION**

**REPORTING**

**Observation:**

The organization reported reimbursement for cost in the operations of the Project Independence Program through monthly cost reports/allocations. A comparison of the cost reports to the organization's general ledger reflected that on occasion the general ledger balances were not in agreement with the reports for

reconciliations. Specifically, (1) the allocation of salary expenses in the general ledger for employees working on multiple programs occasionally was not in agreement with the cost reports/invoices, and (2) prepaid expenses, (e.g. building rent, computer leases) were expensed in the general ledger in the month paid, which does not agree with the cost reports/invoices.

**Recommendation:**

I recommend that all salary expenses for the Project Independence Program be reconciled to the monthly cost reports/invoices and appropriate adjustments to the general ledger be made timely. In addition, all prepaid expenses should be amortized in the general ledger over the effective months and reconciled to the monthly Project Independence Program cost reports/invoices.

**Management Response:**

We agree with this finding and recommendation and will ensure that the general ledger accounts and monthly cost reports/invoices are reconciled monthly and appropriate adjustments are made to the general ledger.

**SEGREGATION OF DUTIES**

**Observation:**

The functions of invoicing, cash receipts, cash disbursements, recording transactions in the accounting records and reconciliation of bank accounts are performed by the same employees.

**Recommendation:**

The functions of invoicing, cash receipts, cash disbursements, recording and reconciliation should be segregated and performed by different employees. Where this is not feasible, compensating controls should be established to help ensure that any errors or irregularities are discovered and corrected timely.

**Management Response:**

We agree with this finding and recommendation and will take necessary measures to help ensure that the duties of this employee are properly segregated or establish adequate compensating controls.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

I also noted other matters involving the internal control structure and its operation that I have reported to the management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. in a separate letter dated February 5, 1997.

This report is intended for the information of the management of the organization. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

  
Dale P. Leffner  
Certified Public Accountant

February 5, 1997

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH THE GENERAL REQUIREMENTS APPLICABLE  
TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

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

I have applied procedures to test COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., compliance with the following requirements applicable to each of its major federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the year ended June 30, 1996:

- Political activity
- Civil rights
- Federal financial reports
- Allowable costs/unit principles

My procedures were limited to the applicable procedures described in the Office of Management and Budget Compliance Supplement for Single Audits of State and Local Governments. My procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., compliance with the requirements listed in the preceding paragraph. Accordingly, I do not express such an opinion.

With respect to the items tested, the results of these procedures disclosed the following disallowed and questioned costs:

**DISALLOWED COSTS**

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. purchased a copier for its Project Independence Program in Rapierland, Louisiana through a lease-purchase agreement. The Project Independence Program reimbursed COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. each month for the monthly installment. The final installment on the copier was made in December, 1995. However, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. continued to invoice the Project Independence Program for the monthly installment which resulted in an over reimbursement of \$2,401.84 for the fiscal year ended June 30, 1996. A liability to reflect the refund of \$2,401.84 which is due the Project Independence Program is included in the COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. financial statement as of June 30, 1996.

**Management Response:**

We agree with this finding and will refund the Project Independence Program \$2,401.84.

**QUESTIONED COSTS**

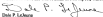
COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. entered into three (3) separate related party contracts to lease computer equipment from a company owned by the Executive Director of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. . The leased computer equipment was used for the Project

Independence Program located in Raceland, New Orleans and Hammond, Louisiana. The stated terms of the three (3) contracts for the computer equipment ranged from one (1) year to three (3) years and were all non-cancelable. The monthly lease payments ranged from \$100 to \$150 per computer, which is more representative of a month-to-month computer lease than an annual or multi-year computer lease. The Project Independence Program, which is administered by the Louisiana Department of Social Services, Office of Family Support, reimbursed COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. \$111,208.24, for the leased computer equipment, for the fiscal year ended June 30, 1996.

**Management Response:**

The rates charged for these computer equipment leases are in fact based on a month-to-month contract, because payment is totally contingent on COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s continuance of the Project Independence Program contracts, which all have a thirty (30) day cancellation clause. For example, the Project Independence Basic Education Program contract in New Orleans was canceled in September, 1996, and COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. did not continue to pay for the leased computers that were being used by the Project Independence Basic Education Program. Furthermore, the Louisiana Department of Social Services, Office of Family Support obviously found these rates to be reasonable since they approved the monthly reimbursement requests for the entire fiscal year. We will, however, amend the computer equipment leases to clearly reflect that the leases are cancelable if COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s Project Independence Program contracts are canceled.

This report is intended for the information of the management of the organization. This revision is not intended to limit the distribution of this report, which is a matter of public record.



Dale P. LeJeune  
Certified Public Accountant

February 5, 1997

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR  
FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

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, 1996, and have issued my report dated February 5, 1997.

I have also audited COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s compliance with the requirements governing types of services allowed or unallowed, eligibility, reporting and claims for reimbursements that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended June 30, 1996. I have audited the schedules of reimbursable costs and audited rate components derived from the Foster Care cost report of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'S for year ended June 30, 1996. The management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. is responsible for the organization's compliance with these requirements. My responsibility is to express an opinion on compliance with these requirements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, "Audit of State and Local Governments". Those standards and OMB Circular A-128 require that I plan and perform the audit to obtain reasonable assurance about whether material non-compliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the organization's compliance with these requirements. I believe that my audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed the following disallowed and questioned costs:

**DISALLOWED COSTS**

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. purchased a copier for its Project Independence Program in Raynaud, Louisiana through a lease-purchase agreement. The Project Independence Program reimbursed COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. each month for the monthly installment. The final installment on the copier was made in December, 1995. However, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. continued to invoice the Project Independence Program for the monthly installment which resulted in an over-reimbursement of \$2,481.84 for the fiscal year ended June 30, 1996. A liability to reflect the refund of \$2,481.84 which is due the Project Independence Program is included in the COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. financial statement as of June 30, 1996.

**Management Response:**

We agree with this finding and will refund the Project Independence Program \$2,481.84.

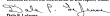
#### QUESTIONED COSTS

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. entered into three (3) separate related party contracts to lease computer equipment from a company owned by the Executive Director of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. The leased computer equipment was used for the Project Independence Program located in Raceland, New Orleans and Hammond, Louisiana. The stated terms of the three (3) contracts for the computer equipment ranged from one (1) year to three (3) years and were all non-cancelable. The monthly lease payments ranged from \$100 to \$150 per computer, which is more representative of a month-to-month computer lease than an annual or multi-year computer lease. The Project Independence Program, which is administered by the Louisiana Department of Social Services, Office of Family Support, reimbursed COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. \$111,208.34, for the leased computer equipment, for the fiscal year ended June 30, 1997.

#### Management Response:

The rates charged for these computer equipment leases are in fact based on a month-to-month contract, because payment is totally contingent on COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s continuation of the Project Independence Program contracts, which all have a thirty (30) day cancellation clause. For example, the Project Independence Basic Education Program contract in New Orleans was cancelled in September, 1996, and COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. did not continue to pay for the leased computers that were being used by the Project Independence Basic Education Program. Furthermore, the Louisiana Department of Social Services, Office of Family Support obviously found these rates to be reasonable since they approved the monthly reimbursement requests for the entire fiscal year. We will, however, amend the computer equipment leases to clearly reflect that the leases are cancelable if COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s Project Independence Program contracts are cancelled.

This report is intended for the information of the management of the organization. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



Dale P. Lefranc  
Certified Public Accountant

February 5, 1997

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH SPECIFIC REQUIREMENTS APPLICABLE TO NON-MAJOR  
FEDERAL FINANCIAL ASSISTANCE PROGRAM TRANSACTIONS

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, 1996, and have issued my report dated February 3, 1997.

In connection with my audit of the June 30, 1996 financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., and with my study and evaluation of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. internal control structure used to administer federal financial assistance programs, as required by Office of Management and Budget Circular A-128, "Audits of State and Local Governments", I selected certain transactions applicable to the non-major federal financial assistance programs for the year ended June 30, 1996. As required by OMB Circular A-128, I have performed auditing procedures to test compliance with requirements governing types of services allowed or disallowed and eligibility that are applicable to these transactions. My procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s compliance with these requirements. Accordingly, I do not express such an opinion.

With respect to the items tested, the results of these procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to my attention that caused me to believe that the COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. had not complied, in all material respects, with these requirements.

This report is intended for the information of the management of the organization. This material is not intended to limit the distribution of this report, which is a matter of public record.

  
Dale P. Lockman  
Certified Public Accountant

February 3, 1997

COMPLIANCE REPORT BASED ON AN AUDIT OF THE BASIC  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENTAL AUDITING STANDARDS

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, 1996, and have issued my report thereon dated February 5, 1997.

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. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., is the responsibility of the organization's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the organization's compliance with certain provisions of laws, regulations, contracts, and grants. However, my objective was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in laws, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatement resulting from those failures or violations is material to the financial statements. The results of my tests disclosed the following material instances of noncompliance, disallowed costs and questioned costs.

#### NONCOMPLIANCE

The audit report for COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. for the period ending June 30, 1996, was not submitted within six months of the close of the entity's fiscal year as required by Louisiana Revised Statute 14:513.

#### Management Response:

We will assure that in the future the audit will be submitted within six months of the close of the fiscal year.

#### DISALLOWED COSTS

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. purchased a copier for its Project Independence Program in Raynaud, Louisiana through a lease-purchase agreement. The Project Independence Program reimbursed COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. each month for the monthly installment. The final installment on the copier was made in December, 1995. However, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. continued to invoice the Project Independence Program for the monthly installment which resulted in an over-reimbursement of \$2,481.84 for the fiscal year ended June 30,



1996. A liability to reflect the refund of \$2,461.84 which is due the Project Independence Program is included in the COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. financial statements as of June 30, 1996.

**Management Response:**

We agree with this finding and will refund the Project Independence Program \$2,461.84.

### QUESTIONED-COSTS

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. entered into three (3) separate related party contracts to lease computer equipment from a company owned by the Executive Director of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.. The leased computer equipment was used for the Project Independence Programs located in Bayou La Batre, New Orleans and Hammond, Louisiana. The stated terms of the three (3) contracts for the computer equipment ranged from one (1) year to three (3) years and were all non-cancelable. The monthly lease payments ranged from \$100 to \$150 per computer, which is more representative of a month-to-month computer lease than an annual or multi-year computer lease. The Project Independence Program, which is administered by the Louisiana Department of Social Services, Office of Family Support, reimbursed COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. \$11,208.34, for the leased computer equipment, for the fiscal year ended June 30, 1996.

**Management Response:**

The rates charged for these computer equipment leases are in fact based on a month-to-month contract, because payment is totally contingent on COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s continuance of the Project Independence Program contracts, which all have a thirty (30) day cancellation clause. For example, the Project Independence Basic Education Program contract in New Orleans was cancelled in September, 1996, and COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. did not continue to pay for the leased computers that were being used by the Project Independence Basic Education Program. Furthermore, the Louisiana Department of Social Services, Office of Family Support obviously found these rates to be reasonable since they approved the monthly reimbursement requests for the entire fiscal year. We will, however, amend the computer equipment leases to clearly reflect that the leases are cancellable if COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s Project Independence Program contracts are cancelled.

This report is intended for the information of the management of the organization. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



Dale P. Johnson  
Certified Public Accountant

February 5, 1997

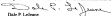
INDEPENDENT AUDITOR'S REPORT ON  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

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, 1998, and have issued my report thereon dated February 5, 1999. These financial statements are the responsibility of the organization'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, Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-133, "Audits State and Local Governments". These standards and OMB Circular A-133 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 statements presentation. I believe that my audit provides a reasonable basis for my opinion.

My audit was made for the purpose of forming an opinion on the basic financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., taken as a whole. The accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



Dale P. Lehman  
Certified Public Accountant

February 5, 1999

**COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.**

Baton Rouge, Louisiana

**SUPPLEMENTARY SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

For the year ended June 30, 1994

Federal Grantor Fiscal Year Program Title	Federal CFDA Number	Federal Services	*Expenses
<b>56A-036 AND 56B-041/06 FEDERAL ASSISTANCE PROGRAMS</b>			
<b>Department of Health and Human Services</b>			
<b>Department of Social Services</b>			
Project Independence	93-391	\$628,174	\$468,318
Emergency - Supervised Apartments	93-641, 93-638	380,452	298,472
Vocational Rehabilitation	94-126, 94-122	38,028	48,677
<b>Department of Health and Hospitals</b>			
Mental Health, Community and Rehabilitation	93-779	268,114	252,815
<b>Total</b>		<u>\$1,314,768</u>	<u>\$1,068,282</u>

\*COE. Expenses include the allocation of central office overhead costs, including income tax expenses.

**Dale P. LeJeune, CPA**

February 3, 1997

**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, 1996. 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 work, 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:

**MOVABLE PROPERTY TAGS**

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., has not affixed inventory control tags to the movable property it owns. Only movable property purchased for the Project Independence Program is tagged.

The movable property owned by COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. should be tagged to help safeguard the assets of the organization. A physical inventory should be taken annually and reconciled with the subsidiary inventory records.

**MINUTES OF BOARD MEETINGS**

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. does not maintain a record (minutes) of its board meetings.

Official minutes of all board meetings should be maintained to document decisions made by the board of directors.

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ADMINISTRATIVE SERVICES

## VEHICLE LOGS

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. does not maintain vehicle logs to document the business use of its vehicles.

Vehicle logs should be maintained to adequately document the business use of the vehicles owned by COMMUNITY INDEPENDENT LIVING SYSTEMS, INC..

## PAYROLL COSTS CHARGED TO FEDERAL ASSISTANCE PROGRAMS

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s current payroll accounting system does not provide sufficient documentation to ensure compliance with the Office of Management and Budget's revised Circular A-87, which is effective for federal awards after September 1, 1995.

The Office of Management and Budget revised Circular A-87, which requires that salaries and wages for employees who work on multiple federally assisted programs be distributed based on either personal activity reports or an approved statistical sampling system. Salaries and wages must be supported by documented payrolls approved by a responsible official.

Personal activity reports must (1) reflect an after-the-fact actual distribution of the employee's activity, (2) account for the total of the employee's activities, (3) be prepared at least monthly and coincide with one or more pay periods, and (4) be signed by the employee. Budget estimates may be used for interim purposes but adjustments must be made at least quarterly to reflect actual costs.

Employees who work on a single federally assisted program must certify at least semiannually that they worked only on that one program.

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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 also, 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. and its board members and management. However,  
this report is a matter of public record and its distribution is not limited.

Very truly yours,



Dale P. Lehman  
Certified Public Accountant