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REPORT

LOUISIANA FREE-NET, INC.

JUNE 30, 1969

Under provisions of state law, this report is a public document. A copy of this report has been distributed to the auditor, or reviewed, and is available to the public. The report is available for public inspection at the Bureau Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Released Date 11-20

LOUISIANA BREE-KIT, INC.

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INDEPENDENT AUDITOR'S REPORT

December 3, 1999

Board of Directors
Louisiana Free-Net, Inc.
1400 Canal St., Suite 527
New Orleans, Louisiana

We have audited the accompanying statement of financial position of Louisiana Free-Net, Inc. (a Louisiana nonprofit corporation) as of June 30, 1999 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Louisiana Free-Net, Inc. as of June 30, 1999, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

We have audited the financial statements of Louisiana Free-Net, Inc. for the year ended June 30, 1999 and issued our unqualified opinion on such financial statements. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information on page 18, the required schedule on the year 2000 issue, is presented for purposes of additional analysis and is not a part of the financial statements of Louisiana Free-Net, Inc. The required supplemental schedule on the year 2000 issue has not been subjected to procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 1999 on our consideration of Louisiana Free-Net, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Dupontier, Hagemann, Hagan & Acker LLP

LOUISIANA FREE-NET, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 1999

ASSETS

CURRENT ASSETS:	
Cash (Note 1)	\$ 165,022
Accounts receivable (Notes 1 and 6)	31,399
Total current assets	<u>196,421</u>
COMPUTER EQUIPMENT: (Note 1)	
Computer equipment	192,636
Less: accumulated depreciation	47,313
Net computer equipment	<u>145,323</u>
TOTAL ASSETS	\$ 341,744

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 153,779
Due to Greater New Orleans Free Net (Note 3)	20,329
Payroll taxes payable	17,633
Accrued expenses	5,580
Total current liabilities	<u>197,321</u>
NET ASSETS: (Notes 1 and 2)	
Unrestricted	144,386
Total net assets	<u>144,386</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 341,707

See accompanying notes.

LOUISIANA FREE-NET, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 1992

UNRESTRICTED NET ASSETS:

REVENUE:	
State of Louisiana - Cooperative Referee Agreement (Notes 6 and 7)	\$ 872,175
Other	<u>2,083</u>
Total revenue	<u>874,258</u>
EXPENSES: (Note 8)	
Program	781,182
Support services:	
Administrative and general	<u>146,464</u>
Total expenses	<u>927,646</u>
DECREASE IN UNRESTRICTED NET ASSETS	(53,388)
Net assets - beginning of year	<u>280,594</u>
NET ASSETS - END OF YEAR	<u>\$ 227,206</u>

See accompanying notes.

LOUISIANA FREE-NET, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 1993

CASH FLOWS FROM OPERATING ACTIVITIES:	
Decrease in unrestricted net assets	\$ (55,108)
Adjustments to reconcile decrease in unrestricted net assets to cash provided by operating activities:	
Depreciation	38,327
Disposal of computer equipment	21,311
Decrease in accounts receivable	205,582
Decrease in prepaid expenses	6,000
Decrease in accounts payable	(40,140)
Decrease in due to Greater New Orleans Free-Net	(56,862)
Increase in payroll taxes	17,638
Increase in accrued expenses	3,480
Net cash provided by operating activities	<u>134,185</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of equipment	(10,167)
Net cash used by investing activities	<u>(10,167)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	123,698
Cash and cash equivalents at beginning of year	<u>42,724</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 185,922</u>

See accompanying notes.

LOUISIANA FREE-NET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

ORGANIZATION:

The Louisiana Free-Net was organized on July 31, 1997. The Louisiana Free-Net is a nonprofit electronic community network, which provides internet access and training for a fifteen parish area. Substantially all of its revenue is derived from the Cooperative Endeavor Agreement with the State of Louisiana.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Accounting and Presentation:

The financial statements of the Organization are prepared on the accrual basis. Under the accrual method of accounting, revenue is recognized when earned and expenses are recognized when incurred.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards No. 117, Financial Statements of Not-for-Profit Organizations. The Organization reports amounts received in the current year with donor imposed restrictions as restricted only if these amounts are accrued at the end of the year. All other amounts are reported as unrestricted.

The statement of activities presents expenses of the Organization's operations functionally between program services and administrative and general. Those expenses which cannot be functionally categorized are allocated among functions based upon management's estimate of usage applicable to conducting those functions.

Accounts Receivable:

Accounts receivable are charged off as uncollectible at the time their worthlessness is established. Use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

Statement of Cash Flows:

As required by generally accepted accounting principles the financial statements include a statement of cash flows showing cash provided and used by operating, investment, and financing activities.

For purposes of implementing the cash flow statement, the Organization has defined cash equivalents as those amounts included in the statement of financial position-caption "Cash."

The Organization paid no interest or income taxes for the year ended June 30, 1999.

LOUISIANA FREE-NET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Promises To Give:

Gifts are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Gifts that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the gifts are recognized. All other donor-restricted gifts are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine unconditional promises receivable. The allowance is based on historical experience and management's analysis of specific promises made.

Computer Equipment:

Computer equipment is carried at cost and depreciated over its estimated useful life of five years using the straight-line method of depreciation. Depreciation expense for the year ended June 30, 1999 was \$38,313.

Donated Services:

No amounts have been reflected in the financial statements for donated services. Donated services were not recorded due to the fact that the value of these services was not readily determinable. The amount of donated services is not considered significant. However, volunteers have donated time to the Organization's program and general and administrative services.

2. **INCOME TAXES:**

The Organization is exempt from income taxes under the Internal Revenue Code Section 501(c)(3). The Organization files federal form 990 "Return of Organizations Exempt from Income Tax."

3. **RELATED PARTY:**

Certain officers on the Board of Directors of the Louisiana Free-Net are officers on the Board of Directors of the Greater New Orleans Free-Net. Additionally, both the Louisiana Free-Net and the Greater New Orleans Free-Net are under certain common controls by individuals who could exercise influence over their day-to-day decisions.

LOUISIANA FREE-NET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

3. RELATED PARTY: (Continued)

Louisiana Free-Net has contracted with Greater New Orleans Free-Net to provide various contractual services. The details of these contractual services and expenses are provided in the following paragraphs.

Greater New Orleans Free-Net and the Louisiana Free-Net initiated a Cooperative Endorsement Agreement on December 1, 1997. This agreement expired June 30, 1998. The agreement requires the Greater New Orleans Free-Net to assist with the implementation of the Free Net Technology Institute for students. The agreement requires the Greater New Orleans Free-Net to receive \$250 for each student the Greater New Orleans Free-Net assists in training. Also the Greater New Orleans Free-Net will be reimbursed for a portion of administrative salaries. Another Cooperative Endorsement Agreement was initiated for the period July 1, 1998 through June 30, 1999 for various contractual services. During the fiscal year ended June 30, 1999, the Louisiana Free-Net recorded expenses of \$147,636 under these contracts. At June 30, 1999, the Greater New Orleans Free-Net was owed \$20,299 related to this agreement.

Greater New Orleans Free-Net and the Louisiana Free-Net had an additional Cooperative Endorsement Agreement also initiated on December 1, 1997. This agreement provides that the Greater New Orleans Free-Net will assist with site licensing. The Greater New Orleans Free-Net was paid \$35,809 as a result of the agreement during the fiscal year ended June 30, 1999.

Greater New Orleans Free-Net reimbursed amounts paid by Louisiana Free-Net during the year ended April 30, 1999. The total amounts reimbursed by Greater New Orleans Free-Net to Louisiana Free-Net was \$5,806.

Greater New Orleans Free-Net subleases office space to Louisiana Free-Net. The amount charged each month is based on the amount of space used by Louisiana Free-Net. The lease term began December 1, 1997 and expired on August 31, 1998. Louisiana Free-Net currently leases on a month to month basis. Occupancy expense recorded during the fiscal year ended June 30, 1999 amounted to \$18,332.

4. 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. Actual results could differ from these estimates.

LOUISIANA FRED-NET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

5. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets are released from temporary donor restrictions by incurring expenses satisfying the restricted purpose.

6. COOPERATIVE ENDEAVOR AGREEMENT

The Organization's major source of revenue is a Cooperative Endeavor Agreement with the State of Louisiana Division of Administration. (See also note 7.) The agreement requires the Organization to offer a wide range of services relating to the internet including internet based training and providing affordable access to the internet for a variety of users. The agreement was effective beginning July 1, 1998 and terminated on June 30, 1999. Payments are made to the Organization on a cost reimbursement basis.

The Organization requested \$104,896 from the Division of Administration under the Cooperative Endeavor Agreement for the contract year July 1, 1998 through June 30, 1999. In addition, the Organization recorded revenue that was received in advance from the prior year in the amount of \$84,625 to pay for expenses incurred during fiscal year ended June 30, 1998. The total revenue recorded for the period ended June 30, 1999 was \$872,373. The remaining amount of \$47,156, which was received subsequent to June 30, 1999, was used to pay expenses in the subsequent fiscal year and is not recorded in these financial statements.

The Organization has a new Cooperative Endeavor Agreement with the State of Louisiana Division of Administration for a maximum amount of \$100,000. This agreement began on July 1, 1999 and terminates June 30, 2000.

7. CONCENTRATION OF REVENUE

The Organization received substantially all of its revenue from the State of Louisiana Division of Administration Cooperative Endeavor Agreement. (See also note 6.) A significant reduction in the level of this revenue, if this were to occur, may have an effect on the Organization's programs and activities.

8. CONCENTRATION OF CREDIT RISK

From time to time throughout the year, the Organization's bank balance exceeded the \$100,000 amount insured by the Federal Deposit Insurance Corporation.

LOUISIANA FREE-NET, INC.
SUPPLEMENTARY INFORMATION
YEAR 2000 ISSUE (Unaudited)
JUNE 30, 1999

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Louisiana Free-Net's operations.

Louisiana Free-Net has completed a process of identifying computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the Organization's operations. The systems and equipment have been tested and results reviewed to determine that connected systems operate properly. The Louisiana Free-Net's management believes that computer software and hardware are year 2000 compliant.

Every effort has been made to assure that the Louisiana Free-Net is year 2000 compliant. However, because of the unprecedented nature of the year 2000 issue, its effect and the success of related efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that parties with whom the Organization does business will be year 2000 ready.

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

December 3, 1999

To the Board of Directors
Louisiana Free-Net, Inc.

We have audited the financial statements of Louisiana Free-Net, Inc. as of June 30, 1999 and for the year then and have issued our report thereon dated December 3, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Louisiana Free-Net, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the following paragraphs.

59-01 - Cash Disbursements:

The Louisiana Free-Net's Cooperative Endorsement Agreement with the State of Louisiana Division of Administration requires that payments be made on a cost reimbursement basis with reference to specific line items within a budget which was pre-approved by the State of Louisiana. During our testing we discovered several disbursements, for which Louisiana Free-Net had received reimbursement from the State of Louisiana that were not classified correctly when applied to the pre-approved budget. Procedures should be implemented to increase controls over the cash disbursement system and ensure compliance with the Cooperative Endorsement Agreement.

62-02 - Cash Disbursements:

We were unable to locate supporting documentation for several disbursements which Louisiana Free-Net had received reimbursement from the State of Louisiana. For those disbursements we were also not able to determine if they were classified correctly in relation to the pre-approved budget. Procedures should be implemented to increase controls over the cash disbursement system and ensure compliance with the Cooperative Endorsement Agreement.

99-01 - Cooperative Endorser Agreement:

The Cooperative Endorser Agreement the Organization has with the State of Louisiana Division of Administration allows for reimbursement of eligible expenses incurred from July 1, 1998 through June 30, 1999. The Organization received from the Division of Administration \$47,138 subsequent to June 30, 1999, under this agreement for reimbursement of expenses which were incurred subsequent to June 30, 1999. We recommend the Organization use more care when requesting funds under its Cooperative Endorser Agreements with the State of Louisiana Division of Administration to ensure that amounts requested under each grant are for the proper period.

Internal Control Over Financial Reporting

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

99-01 - Cash Disbursements:

See 99-01 Compliance Finding.

99-02 - Cash Disbursements:

See 99-02 Compliance Finding.

99-03 - Cooperative Endorser Agreement:

See 99-03 Compliance Finding.

99-04 - Cash at Bank:

In performing audit procedures on cash, it was determined that Louisiana Free-Net did not always timely reconcile the cash bank balance to the cash balance recorded on the general ledger. The lack of controls in this area could lead to material misstatements of cash and the possibility of the loss of cash. To safeguard assets, we recommend that a monthly reconciliation be performed in a timely manner which reconciles the bank balance to the general ledger balance.

99-05 - Computer Equipment

In performing audit procedures on Louisiana Free-Net's computer equipment, it was determined that the controls over the Organization's property and equipment were deficient in several areas. These included not having a completed equipment inventory report, a lack of formal approval of certain significant equipment purchases, and a lack of formal documentation or authorization on equipment in use at other locations or equipment donated for use under Free-Net programs. If these controls are not corrected, there could be a material effect on the financial statements due to unauthorized acquisition, use, or disposition of the Organization's equipment. For internal controls over safeguarding equipment, we recommend that an equipment inventory report be completed with the equipment being tagged in order to identify the organization's ownership, all significant equipment purchases approved by the board, and documentation and authorization forms should be completed for any equipment in use at other locations or donated for use under Free-Net programs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reflect to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not 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, of the reportable conditions described above, we consider items 99-01, 99-02, 99-03, 99-04 and 99-05 to be material weaknesses.

This report is intended for the information of the Board of Directors of Louisiana Free-Net, Inc., management, the Legislative Auditor of the State of Louisiana and the State of Louisiana Division of Administration and is not intended to be and should not be used by anyone other than those specified parties.

Duplantis, Arapman, Hogan & Miller, L.L.P.



DUPLANTIER, KRAFFTMAN,
HOGAN & MAHER, L.L.C. **REGISTERED**
COOPERATIVE AUDITOR

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER OF COOPERATIVE, CPA,
REGISTERED MEMBER, CPA, ASSOCIATION

December 3, 1999

Legislative Auditor
State of Louisiana
Baton Rouge, Louisiana 70804

Dear Sir or Madam:

**SCHEDULES AND DATA COLLECTION FORM
SECTION I. SUMMARY OF AUDITOR'S REPORT**

A. FINANCIAL STATEMENT AUDIT OPINION

We have audited the financial statements of Louisiana Free-Net, Inc. as of and for the year ended June 30, 1999 and have issued our report thereon dated December 3, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our audit as of June 30, 1999 resulted in an unqualified opinion.

B. REPORT ON INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS:

INTERNAL CONTROL:

CURRENT YEAR FINDINGS:

Reportable conditions considered to be material weaknesses:

20-21 - Cash Disbursements:

The Louisiana Free-Net's Cooperative Reimbursement Agreement with the State of Louisiana Division of Administration requires that payments be made on a cost reimbursement basis with reference to specific line items within a budget which was pre-approved by the State of Louisiana. During our testing we discovered several disbursements, for which Louisiana Free-Net had received reimbursement from the State of Louisiana that were not classified correctly when applied to the pre-approved budget. Procedures should be implemented to increase controls over the cash disbursement system and ensure compliance with the Cooperative Reimbursement Agreement.

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99-02 -- Cash Disbursements:

We were unable to locate supporting documentation for several disbursements for which Louisiana Free-Net had received reimbursement from the State of Louisiana. For those disbursements we were also not able to determine if they were classified correctly in relation to the pre-approved budget. Procedures should be implemented to increase controls over the cash disbursement system and ensure compliance with the Cooperative Endeavor Agreement.

99-03 -- Cooperative Endeavor Agreement:

The Cooperative Endeavor Agreement the Organization has with the State of Louisiana Division of Administration allows for reimbursement of eligible expenses incurred from July 1, 1998 through June 30, 1999. The Organization received from the Division of Administration \$47,156 subsequent to June 30, 1999, under this agreement for reimbursement of expenses which were incurred subsequent to June 30, 1999. We recommend the Organization use more care when requesting funds under its Cooperative Endeavor Agreements with the State of Louisiana Division of Administration to ensure that amounts requested under each grant are for the proper period.

99-04 -- Cash at Bank:

In performing audit procedures on cash, it was determined that Louisiana Free-Net did not always timely reconcile the cash bank balance to the cash balance recorded on the general ledger. The lack of controls in this area could lead to material misstatements of cash and the possibility of the loss of cash. To safeguard assets, we recommend that a monthly reconciliation be performed in a timely manner which reconciles the bank balance to the general ledger balance.

99-05 -- Computer Equipment:

In performing audit procedures on Louisiana Free-Net's computer equipment, it was determined that the controls over the Organization's property and equipment were deficient in several areas. These included not having a completed equipment inventory report, a lack of formal approval of certain significant equipment purchases, and a lack of formal documentation or authorization on equipment in use at other locations or equipment donated for use under Free-Net programs. If these controls are not corrected, there could be a material effect on the financial statements due to unauthorized acquisition, use, or disposition of the Organization's equipment. For internal controls over safeguarding equipment, we recommend that an equipment inventory report be completed with the equipment being tagged in order to identify the organization's ownership, all significant equipment purchases approved by the board, and documentation and authorization forms should be completed for any equipment in use at other locations or donated for use under Free-Net programs.

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COMPLIANCE

Noncompliance material to the financial statements:
CURRENT YEAR FINDING:

98-01 - Cash Disbursements:

The Louisiana Free-Net's Cooperative Endorser Agreement with the State of Louisiana Division of Administration requires that payments be made on a cost reimbursement basis with reference to specific line items within a budget which was pre-approved by the State of Louisiana. During our testing we discovered several disbursements, for which Louisiana Free-Net had received reimbursement from the State of Louisiana that were not classified correctly when applied to the pre-approved budget. Procedures should be implemented to increase controls over the cash disbursement system and ensure compliance with the Cooperative Endorser Agreement.

98-02 - Cash Disbursements:

We were unable to locate supporting documentation for several disbursements for which Louisiana Free-Net had received reimbursement from the State of Louisiana. For those disbursements we were also not able to determine if they were classified correctly in relation to the pre-approved budget. Procedures should be implemented to increase controls over the cash disbursement system and ensure compliance with the Cooperative Endorser Agreement.

98-03 - Cooperative Endorser Agreement:

The Cooperative Endorser Agreement the Organization has with the State of Louisiana Division of Administration allows for reimbursement of eligible expenses incurred from July 1, 1998 through June 30, 1999. The Organization received from the Division of Administration \$47,156 subsequent to June 30, 1999, under this agreement for reimbursement of expenses which were incurred subsequent to June 30, 1999. We recommend the Organization use more care when requesting funds under its Cooperative Endorser Agreements with the State of Louisiana Division of Administration to ensure that amounts requested under each grant are for the proper period.

II. FISCAL YEAR REPORT ON INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

INTERNAL CONTROL

PREVIOUS YEAR FINDINGS:

Reportable conditions considered to be material weaknesses:

98-01 - Financial Statement:

Louisiana Free-Net, Inc. did not provide audited financial statements to the Legislative Auditor's office of the State of Louisiana as required by December 31, 1998.

This finding was corrected during the current year.

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98-02 - Cooperative Endorsement Agreement:

The Cooperative Endorsement Agreement the Organization has with the State of Louisiana Division of Administration allows for reimbursement of eligible expenses incurred from December 31, 1997 through June 30, 1998. The Organization requested from the Division of Administration \$94,633 which was received subsequent to June 30, 1998, under this agreement for reimbursement of expenses which were incurred subsequent to June 30, 1998.

This finding was repeated as 99-02 in the current year. Management feels this finding will not be repeated in the future.

98-03 - Cash at Bank:

Louisiana Free-Net did not reconcile the cash bank balance to the cash balance recorded on the general ledger. We recommend that a monthly reconciliation be performed in a timely manner which reconciles the bank balance to the general ledger balance.

This finding was repeated in the current year as 99-04. Management feels this finding will not be repeated in the future.

COMPLIANCE

Noncompliance material to the financial statements.

PRIOR YEAR FINDING:

98-04 - Financial Statement:

Louisiana Free-Net, Inc. did not provide audited financial statements to the Legislative Auditor's office of the State of Louisiana as required by December 31, 1998.

This finding was corrected during the current year.

98-05 - Cooperative Endorsement Agreement:

The Cooperative Endorsement Agreement the Organization has with the State of Louisiana Division of Administration allows for reimbursement of eligible expenses incurred from December 31, 1997 through June 30, 1998. The Organization requested from the Division of Administration \$94,633 which was received subsequent to June 30, 1998, under this agreement for reimbursement of expenses which were incurred subsequent to June 30, 1998.

This finding was repeated in the current year as 99-03. Management feels this finding will not be repeated in the future.

December 7, 1999

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Management has indicated they will address each of the findings noted above. Management will also work with the independent CPA firm to develop policies and procedures which will strengthen internal controls over each of the areas mentioned above and over the Organization as a whole.

Yours very truly,

DUPLANTIER, HERRMANN, HOGAN & MAHER, LLP

 Lindsay J. Cahal, CPA

Lindsay J. Cahal, CPA
Partner

LJC:js



800 CANAL STREET, SUITE 527
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LEGISLATIVE AUDITOR
1999 DEC 30 AM 10:47 3, 1999

Legislative Auditor
State of Louisiana
Baton Rouge, Louisiana 70804

Dear Sir or Madam:

SCHEDULE OF PRIOR YEAR FINDINGS

A. FINANCIAL STATEMENT AUDIT OPINION

Our auditors, Duplantier, Haymann, Hogan & Mahor, LLP, have audited the financial statements of Louisiana Free-Net, Inc. as of and for the year ended June 30, 1999 and have issued their report thereon dated December 3, 1999. They conducted their audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Their audit as of June 30, 1999 resulted in an unqualified opinion.

B. REPORT ON INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

INTERNAL CONTROL FINDINGS

Reportable conditions considered to be material weaknesses:

88-01 - Financial Statement:

Louisiana Free-Net, Inc. did not provide audited financial statements to the Legislative Auditor's office of the State of Louisiana as required by December 31, 1998. This finding was corrected during 1999.

98-01 - Cooperative Endeavor Agreement:

The Cooperative Endeavor Agreement the Organization has with the State of Louisiana Division of Administration allows for reimbursement of eligible expenses incurred from December 31, 1997 through June 30, 1998. The Organization requested from the Division of Administration \$94,639 which was received subsequent to June 30, 1998, under this agreement for reimbursement of expenses which actually occurred subsequent to June 30, 1998. This finding has been repeated as 99-03 in the current year. We have hired a new Executive Director and implemented procedures to ensure this finding will not be repeated.

BT - PENDING

WFO/PJL

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**DR. GORDON MULLER
PRESIDENT**

**BOB CHERRY
VICE-PRESIDENT**

**WILLIAM E. DESS
VICE-PRESIDENT**

**CURTIS B. SANDERS-STAN
VICE-PRESIDENT**

**MICHAEL P. WYNN JR.
SECRETARY/TREASURER**

89-03 - Cash at Bank:

Louisiana Free-Net does not reconcile the cash bank balance to the cash balance recorded in the general ledger. We recommend that a monthly reconciliation be performed in a timely manner which reconciles the bank balance to the general ledger balance. This finding has been reported as 89-04 in the current year. We have implemented procedures to ensure this finding will not be repeated.

COMPLIANCE

Noncompliance material to the financial statements:

89-01 - Financial Statement:

Louisiana Free-Net, Inc. did not provide audited financial statements to the Legislative Auditor's office of the State of Louisiana as required by December 31, 1998. This finding was corrected during 1999.


89-02 - Cooperative Endorsement Agreement:

The Cooperative Endorsement Agreement the Organization has with the State of Louisiana Division of Administration allows for reimbursement of eligible expenses incurred from December 31, 1997 through June 30, 1998. The Organization requested from the Division of Administration \$94,603 which was received subsequent to June 30, 1998, under this agreement for reimbursement of expenses which actually occurred subsequent to June 30, 1998. This finding has been reported as 89-03 in the current year. We have hired a new Executive Director and implemented procedures to ensure this finding will not be repeated.

Please contact Dr. Gordon Mueller, our President, if you have any questions.

Yours very truly,

LOUISIANA FREE-NET





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DR. GORDON HARRIS
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WILLIAM D. BIRD
VICE-PRESIDENT

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VICE-PRESIDENT

MICHAEL E. PERRY, JR.
SECRETARY/TREASURER

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1891 DEC 30 AM 10:14
December 3, 1999

Legislative Auditor
State of Louisiana
Peters Barrage, Louisiana 70804

Dear Sir or Madam:

CORRECTIVE ACTION PLAN

A. FINANCIAL STATEMENT AUDIT OPINION

Our auditors, Dupuchette, Hopmann, Hagan & Maher, LLP, have audited the financial statements of Louisiana Free-Net, Inc. as of and for the year ended June 30, 1999 and have issued their report thereon dated December 3, 1999. They conducted their audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Their audit as of June 30, 1999 resulted in an unqualified opinion.

B. REPORT ON INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

INTERNAL CONTROL CURRENT YEAR FINDINGS

Reportable conditions considered to be material weaknesses:

20-01 – Cash Disbursements:

The Louisiana Free-Net's Cooperative Endorsement Agreement with the State of Louisiana Division of Administration requires that payments be made on a cost reimbursement basis with reference to specific line items within a budget which was pre-approved by the State of Louisiana. During our testing we discovered several disbursements, for which Louisiana Free-Net had received reimbursement from the State of Louisiana that were not classified correctly when applied to the pre-approved budget.

MANAGEMENT'S RESPONSE:

We have increased existing controls and implemented new controls to prevent the above finding from being repeated.

December 3, 1999

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99-02 - Cash Disbursements:

We were unable to locate supporting documentation for several disbursements for which Louisiana Free-Net had received reimbursement from the State of Louisiana. For those disbursements we were also not able to determine if they were classified correctly in relation to the pre-approved budget.

MANAGEMENT'S RESPONSE:

We have increased existing controls and implemented new controls to prevent the above finding from being repeated.

99-03 - Cooperative Endorsement Agreement:

The Cooperative Endorsement Agreement the Organization has with the State of Louisiana Division of Administration allows for reimbursement of eligible expenses incurred from July 1, 1998 through June 30, 1999. The Organization received from the Division of Administration \$47,199 subsequent to June 30, 1999, under this agreement for reimbursement of expenses which were incurred subsequent to June 30, 1999.

MANAGEMENT'S RESPONSE:

These funds were used in connection with the Cooperative Endorsement Agreement for specific grant program activities approved by the State of Louisiana.

99-04 - Cash at Bank:

In performing audit procedures on cash, it was determined that Louisiana Free-Net did not always timely reconcile the cash bank balance to the cash balance recorded on the general ledger. The lack of controls in this area could lead to material misstatements of cash and the possibility of the loss of cash. To safeguard assets, we recommended that a monthly reconciliation be performed in a timely manner which reconcile the bank balance to the general ledger balance.

MANAGEMENT'S RESPONSE:

As of July 1, 1999 we perform monthly reconciliations of all bank accounts, which are reviewed by management.

99-05 - Computer Equipment:

In performing audit procedures on Louisiana Free-Net's computer equipment, it was determined that the controls over the Organization's property and equipment were deficient in several areas. These included not having a completed equipment inventory report, a lack of formal approval of certain significant equipment purchases, and a lack of formal documentation or authorization on equipment in use at other locations or equipment donated for use under Free-Net programs. If these controls are not corrected, there could be a material effect on the financial statements due to unauthorized acquisition, use, or disposition of the Organization's equipment.

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MANAGEMENT'S RESPONSE:

As of December, 1999 we have a formal completed equipment listing which is recorded to the general ledger. This will be updated as new equipment is purchased or disposed of. We will also implement other procedures to increase internal controls over computer equipment.

COMPLIANCE

Noncompliance material to the financial statements:

CURRENT YEAR FINDINGS:

99-01 - Cash Disbursements:

See 99-01 Internal Control Finding.

99-02 - Cash Disbursements:

See 99-02 Internal Control Finding.

99-03 - Cooperative Evaluation Agreement:

See 99-03 Internal Control Finding.

We will work with the independent CPA to continue to increase controls over our entire Organization. Please contact Dr. Gordon Mucillo, our President, if you have any questions regarding our Corrective Action Plan.

Yours very truly,

LOUISIANA FREE-NET

Carolyn O'Hare