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GUS SCHRAM & CO., Ltd

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AUDIT OF THE FINANCIAL STATEMENTS OF

SOUTHWEST LOUISIANA INDEPENDENCE CENTER, INC.

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1997

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 APR 15 1998

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GUS SCHRAM & CO., Ltd.
A PROFESSIONAL CORPORATION
Certified Public Accountants Business Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Southwest Louisiana Independence Center, Inc.
Lake Charles, Louisiana

We have audited the accompanying statement of financial position of Southwest Louisiana Independence Center, Inc. (a non profit organization) as of September 30, 1997, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those 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.

As explained in Note 1, the Center does not record a liability for compensated absences in these financial statements. In our opinion, generally accepted accounting principles require that this liability be recorded. The amount of the liability at September 30, 1997 which was material to the statement of financial position was $3,147. The effect on the statement of activities due to the change in the liability account from September 30, 1996 and September 30, 1997 was $2,742. The latter amount is not material to the statement of activities.

As explained in Note 6, the Center did not capitalize a lease for the purchase of a copier. Generally accepted accounting principles require that leases of this type be capitalized. An asset should be recorded for the copier with a corresponding lease liability. Monthly payments would be applied to the liability account as well as an interest expense account. The asset would then be depreciated. The effect on the statement of financial position was estimated to be $3,471 which is considered to be material. The effect on the statement of activities is immaterial and estimated to be $811.

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In our opinion, except for the effects of not recording the compensated absences liability and capital lease transaction as discussed in the preceding two paragraphs, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Southwest Louisiana Independence Center, Inc. as of September 30, 1997, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated March 19, 1998 on our consideration of the Southwest Louisiana Independence Center, Inc.'s internal control and a report dated March 19, 1998 on its compliance with laws and regulations.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses, listed as supplementary information in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gus Schram & Co., Ltd

March 19, 1998

Southwest Louisiana Independence Center, Inc.
Statement of Financial Position
September 30, 1997

Assets		
Current Assets		
Cash and Cash Equivalents	$	41,020
Grants Receivable (Note 4)		48,643
Prepaid Insurance		499
Total Current Assets		90,163
Property and Equipment, Net (Note 2)		36,979
Other Assets		
Deposits		4,921
Total Assets	$	132,062
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	$	14,849
Payroll Taxes Payable		422
Salaries Payable		21,569
Expense Reimbursements Payable		1,023
Legal Claim Liability (Note 7)		49,037
Total Current Liabilities		86,899
Net Assets		
Unrestricted		
Operating		43,973
Total Unrestricted Assets		43,973
Temporarily Restricted (Note 3)		1,190
Total Net Assets		45,163
Total Liabilities and Net Assets	$	132,062

See Accompanying Notes to the Financial Statements

Southwest Lousiana Independence Center
Statement of Activities
For the Year Ended September 30, 1997

	Unrestricted	Temporarily Restricted	Total
Support			
Medicaid Waiver Program	$ 560,525	$ -	$ 560,525
Federal and State Grants	222,992	-	222,992
Foundations	7,275	1,896	9,171
Special Events and Other	510	-	510
Total Support	791,302	1,896	793,198
Expenses			
Program Expenses	713,499	705	714,205
Supporting Services			
Management and General	76,519	-	76,519
Total Expenses	790,018	705	790,723
Change in Net Assets	1,285	1,190	2,475
Net Assets, October 1, 1996	40,868	-	40,868
Prior Period Adjustment (Note 5)	1,820	-	1,820
Net Assets, September 30, 1997	$ 43,973	$ 1,190	$ 45,163

See Accompanying Notes to the Financial Statements

Southwest Louisiana Independence Center
Statement of Cash Flows
For the Year Ended September 30, 1997

Cash flows from operating activities		$ 2,475
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	$ 13,282	
Increase (Decrease) in operating assets		
Prepaid insurance	1,588	
Grants receivable	19,445	
Miscellaneous assets	(1,751)	
Increase in operating liabilities		
Accounts payable	(260)	
Salaries and related taxes payable	(33,616)	
Legal claim liability	49,037	
Miscellaneous payable	1,023	
Prior Period Adjustment	3,313	
Total adjustments		52,061
Net cash provided by operating activities		54,535
Cash flows from investing activities		
Purchase of property and equipment	(8,238)	
Net cash used by investing activities		(8,238)
Cash flows from financing activities		
Principal note payments-software purchase	(1,523)	
Net cash used by financing activities		(1,523)
Net decrease in cash		44,774
Cash		
September 30, 1996		(3,754)
September 30, 1997		$ 41,020

Supplemental Disclosure:
Interest expense in the amount of $475 was paid during the fiscal year

See Accompanying Notes to the Financial Statements

SOUTHWEST LOUISIANA INDEPENDENCE CENTER, INC.
Notes to Financial Statements
September 30, 1997

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Southwest Louisiana Independence Center, Inc. was organized under Section 501(c)(3) of the Internal Revenue Code as a nonprofit organization for the purpose of providing support services to the physically disabled and their families. A significant portion of the Center's revenues are medicaid payments received for providing patient care services to Medicaid eligible individuals. The Center also receives grants from the U.S. Department of Education and the State of Louisiana Department of Social Services. The Center is not classified as a private foundation by the Internal Revenue Service.

Income Taxes

The Center is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from Louisiana income taxes. Therefore, no provision has been made for federal or state income taxes in the accompanying financial statements.

Basis of Accounting

The accompanying financial statements of Southwest Louisiana Independence Center, Inc. have been prepared on the accrual basis of accounting.

Grants, miscellaneous contributions of cash and other assets are reported as unrestricted support unless donor stipulations are not removed during the fiscal year.

Cash and Cash Equivalents

The Center had deposits of $47,688 at September 30, 1997 and a carrying value of $41,020 which includes $154 in petty cash. These balances were entirely covered by federal depository insurance.

For purposes of the statement of cash flows, the Center considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Use of Estimates

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

SOUTHWEST LOUISIANA INDEPENDENCE CENTER, INC.
Notes to Financial Statements
September 30, 1997

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment/Depreciation and Amortization

Property and equipment are recorded at their historical cost. Donated assets are recorded at their estimated fair value on the date of the donation.

Furniture and equipment are being depreciated over estimated useful lives of five to ten years. The straight-line method of depreciation is being utilized. Depreciation expense for the year ended September 30, 1997 was $13,282.

Compensated Absences

The Center had a contingent liability in the amount of $3,147 at September 30, 1997 for unused vacation and earned time off. Although the amount of compensated absences can be reasonably estimated, the Center has chosen not to accrue the liability. This is a departure from generally accepted accounting principles. As a result, liabilities are understated by $3,147 and net assets are overstated. The effect on the current year statement of activities would be to decrease expenditures by $2,742 (if the current year and prior year liability would have been recorded). Sick leave is not vested, therefore no accrual is reflected in the financial statements.

Prepaid Insurance

The Center has purchased insurance for general liability and worker's compensation insurance. The Center has recorded prepaid insurance for the portion of insurance coverage that extends in the next fiscal year.

Retirement Benefits

The Center does not provide retirement benefits. Employees participate in the Social Security system. The Center is not responsible for any post-employment benefits. The Center has only the usual obligation to make current matching payments to the Social Security system for active employees.

SOUTHWEST LOUISIANA INDEPENDENCE CENTER, INC.
Notes to Financial Statements
September 30, 1997

NOTE 2: PROPERTY AND EQUIPMENT

The following is a summary of furniture, equipment, and property as of September 30, 1997:

Furniture and Equipment, October 1, 1996	$ 90,177
New Additions	16,518
Furniture and Equipment, September 30, 1997	106,695
Accumulated Depreciation, October 1, 1996	$ 56,434
Current Year Depreciation	13,282
Accumulated Depreciation, September 30, 1997	69,716
Net Book Value	$ 36,979

Depreciation expense for the year was $13,282.

NOTE 3: TEMPORARILY RESTRICTED NET ASSETS

At year end, there were $1,190 in funds from the Trustees of the H.C. Drew Estate which were not yet expended. This temporarily restricted net asset will be released from donor restriction by incurring expenses to satisfy the purpose specified by the donor in the future. The current year funds were given with the specific purpose of purchasing computer equipment. However, another grantor paid 100% of the purchase price in order to avoid split ownership of the assets. The Agency also received funds from the Estate for book purchases which were made during the year.

NOTE 4: GRANTS RECEIVABLE

Grants receivable at September 30, 1997 consisted of reimbursements for expenses incurred in the following programs:

Program	Amount
Title VIIB	$ 1,159
Title VIIC	7,855
State Personal Care Attendant Contract	2,338
State Independent Living Contract	8,226
State Medicaid Contract Services	29,065
Total Receivable	$ 48,643

SOUTHWEST LOUISIANA INDEPENDENCE CENTER, INC.
Notes to Financial Statements
September 30, 1997

NOTE 5: PRIOR PERIOD ADJUSTMENTS

The Center has made the following adjustments to Net Assets at October 1, 1996:

$ 3,404	Revenue received which relates to a prior year.
$ 8,671	Deferred revenue incorrectly recorded in the prior year.
$(10,922)	Accounts payable and payroll taxes payable related to a prior year.
$ 667	To correctly reflect petty cash on hand and operating cash due to the reversal of old outstanding checks.
$ 1,820	Total adjustments to prior period net assets

Beginning net assets were increased by $1,820 for the above adjustments.

NOTE 6: OPERATING LEASE

Operating Leases

The Center currently leases office space for both the Lake Charles and the Lafayette offices. The previous lease agreement for the Lake Charles site was renewed for an additional thirty-six months beginning July 1, 1997 with a monthly fee of $2,100. The Lafayette, LA office facilities are being leased for a monthly fee of $1,298. On August 12, 1995, the lease agreement was amended to reflect the term of the lease on a month to month basis. Total rent expense reflected in these financial statements was $40,776.

The Center also entered into a lease agreement for a copier in August, 1995. In the previous two years, this lease has been reflected as an operating lease when in fact it appears to be a capital lease. This accounting is a departure from generally accepted accounting principles which require the asset to be capitalized and a corresponding lease liability reflected upon identification of a capital lease. Over the past two years, the monthly lease payments have been expensed. Since there is only approximately one year remaining on the lease, management had decided to continue the same reporting format for this lease as has been done in the past. The lease terms were thirty-six monthly payments of $200 for a total of $7,200. If the lease was initially capitalized, then an asset of $5,951 would have been set up with an interest rate of 12.6% applied to the monthly payments. During the fiscal year, payments of $2,400 were expensed when in fact interest of $398 and depreciation of $1,190 should have been recorded in lieu of the monthly payments.

SOUTHWEST LOUISIANA INDEPENDENCE CENTER, INC.
Notes to Financial Statements
September 30, 1997

NOTE 7: CONTINGENCIES/SUBSEQUENT EVENT

Litigation initiated by former employees in 1988 for back wages has resulted in a judgment in the amount of $26,050 plus interest of $22,987. The Center had previously appealed the judgment however in November, 1997 this amount was levied and withdrawn from the Center's bank account. $49,037 has been recorded as a liability in these financial statements as a legal claim liability.

The Center is not involved in any other litigation at September 30, 1997 and did not consult with an attorney during the current fiscal year.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability. Management is not aware of any disallowed costs as of September 30, 1997.

NOTE 8: RISK MANAGEMENT

The Center has purchased commercial insurance for its general liability and worker's compensation insurance. They have not retained any risk with relation to these activities. However, it was noted that during the year, there was a lapse in the general liability coverage and the Center was exposed to a risk of loss.

NOTE 9: ECONOMIC DEPENDENCY

The Center receives the majority of its revenue from funds provided by state and federal grants as well as through a contract for patient care services provided to Medicaid eligible individuals. If significant budget cuts are made at the federal and/or state level or the Medicaid contract is not renewed, the amount of funds the Center receives could be reduced significantly and have an adverse impact on its operations. Management is not aware of any actions that will adversely affect the amount of funds the Center will receive in the next fiscal year.

Southwest Louisiana Independence Center

Schedule of Functional Expenses
For the Year Ended September 30, 1997

	Program Services	Supporting Services Management & General	Total
Advertising	$ 2,201	$ -	$ 2,201
Audit Expense	4,045	-	4,045
Bank Service Charges	22	-	22
Depreciation	-	13,282	13,282
Dues and Subscriptions	175	-	175
Education and Training	12,304	-	12,304
Housekeeping	1,535	-	1,535
Insurance	14,745	-	14,745
Legal Claim Expense	-	49,037	49,037
Miscellaneous	100	14,200	14,300
Office Equipment	1,103	-	1,103
Payroll Taxes/Fringe Expense	59,862	-	59,862
Postage	4,804	-	4,804
Purchased Services	12,535	-	12,535
Rent	40,776	-	40,776
Repairs and Maintenance	6,896	-	6,896
Salaries	504,860	-	504,860
Supplies	12,098	-	12,098
Telephone	10,485	-	10,485
Travel	21,717	-	21,717
Utilities	3,940	-	3,940
Total Expenses by Function	$ 714,205	$ 76,519	$ 790,723

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Board of Directors
Southwest Louisiana Independence Center, Inc.
Lake Charles, Louisiana

We have audited the financial statements of the Southwest Louisiana Independence Center, Inc., as of and for the year ended September 30, 1997, and have issued our report thereon dated March 19, 1998. In our report, our opinion on the balance sheet was qualified due to the Center's reporting of compensated absences and a capital lease financing activity.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of Southwest Louisiana Independence Center, Inc. is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements 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 executed 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, projection of any 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.

In planning and performing our audit of the financial statements of Southwest Louisiana Independence Center, Inc. for the year ended September 30, 1997, we obtained an understanding of its internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures

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for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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

Lack of Segregation of Duties

An effective internal control structure is dependent to a great extent on segregation of responsibilities for initiating, evaluating, and approving transactions from those for detail accounting and other related functions. Because of the entity's size, segregation of duties was not always fully achieved. During our current year review of internal controls we noted the following:

(1) Bank reconciliations were not performed by someone other than the accountant. We recommend, if at all possible, that the bank reconciliations be performed by someone independent of the accounting function. However, even if this option is not possible, we recommend that the executive director review and initial the monthly bank reconciliations. He should also review the bank statement and cancelled checks for unusual items. It might also be beneficial to have the board president also review this information.

    Management's Response: Bank reconciliations along with a complete list of all checks written during the month are provided to the Executive Director and Board of Directors on a monthly basis. The items are reviewed during the Treasurer's report at the monthly board meeting and approved into the minutes.

(2) The Center has someone independent of the accounting function open the mail and list any receipts received. However, the accountant prepares and makes the deposits. We recommend that the "mail log receipt listing" be expanded to include the actual amounts received in addition to the source of the funds. This listing should be given to the executive director to reconcile the listing to the actual deposits on a random basis. This should ensure that all receipts have been deposited intact. As is the current policy, the person who opens the mail and lists the receipts received should not be involved in the deposit preparation process.

Management's Response: The mail log receipt listing has been expanded to include the actual amounts received. The source of the receipt has always been noted.

(3) The petty cash custodian is not independent of the receipts and disbursement function therefore we recommend that the executive director or board member test count this petty cash on a random basis throughout the year.

Management's Response: The Executive Director will count petty cash on a random basis.

Cash Disbursement Function (Including Payroll Transactions)

Because there is lack of segregation of duties, it is imperative that other controls be established to monitor the financial activities of the Center. We noted the following items related to the cash disbursement function during our current year testing:

(1) The Center has developed a voucher form for pertinent information such as account codes, vendors, amounts, etc. It also serves as the workpaper to initial as approval of the invoice is made by the executive director. However, during our current year testing, we noted that 9 of 60 disbursements pulled did not reflect the approval notation. In addition 5 of 22 accounts payable transactions did not have this approval notation. It is important that this review be performed and documented for every disbursement not previously authorized by the board of directors. We recommend that the Center review its procedures for obtaining approval of disbursements prior to issuance.

Management's Response: We are making every effort to obtain signatures on all vouchers and supporting documentation. Because the Executive Director must sign all checks and all documentation is provided along with the checks, each voucher is approved indirectly by his signature on the check. Occasionally a voucher is missed.

(2) The Center has also stated that they utilize supply requisition forms to monitor the purchases of various supplies. However we noted on 9 disbursements for supplies that there was no supply requisition form prepared. We recommend that the Center follow through on their policy of requiring supply requisition forms in order to control the purchases of supplies.

Management's Response: We have several new employees who were not aware of the requisition form requirement. We have trained all staff in the use of the supply requisition form.

(3) During our review of 60 payroll transactions during the year, we noted that of the 60 transactions, there were 21 transactions with no record of the employee's pay rate in the personnel file. We also noted that some of the employees' personnel files were located in a file cabinet that was unlocked. These files should be maintained in a secured location given the nature of this information. In one instance, the employee did not sign their payroll timesheet. We recommend that the Center review their personnel files to determine that they are secured and contain all of the required information. We also recommend that a review of the timesheets ensure that all appropriate signatures are obtained.

<u>Management's Response</u>: We are in the process of setting up a new personnel file system, which will improve the documentation problem. The files are locked when not in use but because the cabinets contain information other than personnel files, they are frequently unlocked.

Since this is a small organization, we recommend that management, which includes the board of directors, continue to take an active interest in the financial affairs of the Center.

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 errors or irregularities in amounts that would be material in relation to the financial statements being auditing 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 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. However, we believe the reportable conditions described above are material weaknesses. This condition was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements for the year ended September 30, 1997.

However, we noted other matters involving the internal control structure and its operation that we have reported to the management of Southwest Louisiana Independence Center, Inc. in a separate letter dated March 19, 1998.

This report is intended for the information of management and the Legislative Auditor of the State of Louisiana. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Gus Schram & Co., Ltd

March 19, 1998

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Board of Directors
Southwest Louisiana Independence Center, Inc.
Lake Charles, Louisiana

We have audited the financial statements of Southwest Louisiana Independence Center, Inc. as of and for the year ended September 30, 1997, and have issued our report thereon dated March 19, 1998. In our report, our opinion on the balance sheet was qualified due to the Center's reporting of compensated absences and a capital lease financing activity.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we 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 Southwest Louisiana Independence Center, Inc. is the responsibility of the Center's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Southwest Louisiana Independence Center, Inc.'s compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such as opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted immaterial instances of noncompliance that we have reported to the management of Southwest Louisiana Independence Center, Inc. in a separate letter dated March 19, 1998.

This report is intended for the information of management and the Legislative Auditor of the State of Louisiana. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Gus Schram & Co., Ltd.

March 19, 1998

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To the Board of Directors
Southwest Louisiana Independence Center, Inc.

In planning and performing our audit of the financial statements of Southwest Louisiana Independence Center, Inc. for the year ended September 30, 1997, we considered the Center's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated March 19, 1998 on the financial statements of Southwest Louisiana Independence Center.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Center personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation(s). A copy of this letter will be provided to the Legislative Auditor.

Gus Schram & Co., Ltd.

March 19, 1998

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CURRENT YEAR MANAGEMENT
LETTER COMMENTS AND SUGGESTIONS

Compliance with Laws and Regulations:

(1) Preparation of Forms 1099:

Finding: The Center paid rent to an individual during the year that exceeded $600. The Internal Revenue Service requires that all payments to unincorporated entities for services performed or other reportable instances (including rent) in excess of $600 on a calendar year basis be reported for Form 1099 - Miscellaneous Income. The Center did not file this form. They were unaware that the landlord was not a corporation. We recommend that the Center adopt a policy to inquire about entity types and identification numbers and addresses for all contract labor individuals or other vendors for "non-supply" items.

Management's
Response: The item has been noted for future and a 1099 will be issued.

(2) Classification of Payments to Employees for Training

Finding: The Center paid several of its employees for time incurred while training. These amounts were paid to the employees based on their respective hourly rates however the amounts were recorded as training expenses and not included in their gross salary amounts. These individuals are employees of the Center and as such all payments, except for true reimbursements of out-of-pocket expenses, should be reflected as gross salary and properly reported on the employees' Form W-2.

Management's
Response: This item was rectified during the fiscal year 96-97.

(3) Completion of Various Payroll Related Forms

Finding: During our review of 60 payroll transactions, we noted that there were 5 employee personnel files that did not contain Forms W-4 for withholding calculation purposes. In addition, Form I-9 Employment Eligibility Verification Form was not located in 2 files. Another 44 files had an incomplete Form I-9. The Internal Revenue Service requires that these forms be maintained for all applicable employees.

Management's
Response: We are in the process of setting up a new personnel file system, which will improve the documentation problem.

Internal Control Structure:

(1) Reconciliation of Fixed Assets to Inventory Control:

Finding: The Center has an inventory of fixed assets listing as well as a copy of the depreciation schedule used for auditing purposes. For various reasons, these two schedules have not reconciled over the years. We recommend that a reconciliation be performed when the annual inventory is performed. Any assets that are no longer being used should be flagged for deletion during the next audit.

Management Response: This item has been noted for future and in cooperation with the auditors a new system of tracking fixed assets has been established.

(2) Documentation of Minutes of the Board of Directors

Finding: We were not able to locate the minutes of the meetings of the Board of Directors for four months during the year. We recommend that the Center ensure that their files contain proper documentation regarding the meetings held by the Board of Directors.

Management's Response: The missing board minutes were due to a lack of cooperation from the past Board Secretary. We have now assigned the duty of minute taking to the Agency secretary.

(3) Insurance Coverage

Finding: During our current year testing, we noted that the Center's general liability coverage had lapsed for a short period of time at the end of 1996. Without adequate insurance, the Center had a risk of loss if an accident were to occur during this time period. We recommend that the Center monitor its coverages to ensure that they are adequately insured at all times for general liability as well as fidelity insurance on key employees.

Management's Response: We have current insurance coverage and it will be reviewed annually for content and coverage.

(4) Reconciliation of Expense Reports to Grant Billing

Finding: During the current year testing, we noted that a reconciliation of billing to the general ledger was not completed on a cumulative basis. There were several "rebills" and disallowance of specific amounts. The Center was able to reconcile these amounts upon request. We recommend that a cumulative year to date reconciliation of year to date expense amounts to billing be prepared to ensure that all expenses are properly billed.

Management's
Response: The current accounting system allows the reconciliation on a cumulative basis and is used and reviewed monthly.