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R E P O R T

LOUISIANA FRET-NET, INC.

JUNE 30, 1950

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Release Date FEB 4 1951
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LOUISIANA FRIE-NET, INC.

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**DUPLANTIER, HOGGAN,
MAHER & MAHER, L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS

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CHIEF FINANCIAL OFFICER
OFFICE

ALL INFORMATION CONTAINED

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DATE 05-08-2008 BY 60324

REASON FOR DENIAL 25X.C.F.R.

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MEMBERS:

ANDREW W. DUPLANTIER, CPA
FRANCIS J. HOGGAN, CPA
DAVID A. MAHER, CPA
DAVID J. MAHER, CPA

MEMBER & MANAGER, C.P.A.
WILLIAM D. STANLEY, C.P.A.
CHIEF FINANCIAL OFFICER, C.P.A.

MEMBER & MANAGER, C.P.A.
WALTER P. CLARK, C.P.A.
CHIEF FINANCIAL OFFICER, C.P.A.
WALTER J. HOLLAND, C.P.A.
DAVID A. STANLEY, C.P.A.
MEMBER & CONTROLLER, C.P.A.

ASSOCIATE
MEMBER & MANAGER, C.P.A.

INDEPENDENT AUDITOR'S REPORT

January 7, 1989

Board of Directors
Louisiana Free-Bet, Inc.
1600 Canal St., Suite 527
New Orleans, Louisiana

We have audited the accompanying statement of financial position of Louisiana Free-Bet, Inc. (a Louisiana nonprofit corporation) as of June 30, 1988 and the related statements of activities and cash flows for the period July 31, 1987 (date of inception) through June 30, 1988. 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-Bet, Inc. as of June 30, 1988, and the changes in its net assets and its cash flows for the period July 31, 1987 (date of inception) through June 30, 1988 in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 7, 1989 on our consideration of Louisiana Free-Bet, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Duplantier, Hoggan, Maher & Maher, LLP

LOUISIANA FRIE-NET, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 1998

ASSETS

CURRENT ASSETS:	
Cash (Note 1)	\$ 47,224
Accounts receivable (Notes 1 and 3)	234,984
Prepaid expenses	1,000
Total current assets	283,208
COMPUTER EQUIPMENT: (Note 1)	
Computer equipment	294,000
Less: accumulated depreciation	9,400
Net computer equipment	284,600
TOTAL ASSETS	\$ 479,808

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 210,041
Due to Greater New Orleans Frmo Net (Note 1)	68,567
Total current liabilities	278,608
NET ASSETS: (Notes 1 and 3)	
Unrestricted	200,594
Total net assets	200,594
TOTAL LIABILITIES AND NET ASSETS	\$ 479,802

See accompanying notes.

LOUISIANA FRIE-NET, INC.
STATEMENT OF ACTIVITIES
FOR THE PERIOD JULY 31, 1997 (DATE OF INCORPORATION)
THROUGH JUNE 30, 1998

UNRESTRICTED NET ASSETS:

REVENUE:

State of Louisiana - Cooperative Endorsement Agreement (Notes 5 and 7)	\$ 771,351
Total revenue	771,351

EXPENSES: (Note 1)

Program	474,000
Support services:	
Administrative and general	96,699
Total expenses	570,699

INCREASE IN UNRESTRICTED NET ASSETS 200,654

Net assets - beginning of year ---

NET ASSETS - END OF YEAR \$ 200,654

See accompanying notes.

LOUISIANA FREE-NET, INC.
 STATEMENT OF CASH FLOWS
 FOR THE PERIOD JULY 31, 1997 (DATE OF ACQUISITION)
 THROUGH JUNE 30, 1998

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in unrestricted net assets	\$ 700,504
Adjustments to reconcile increase in unrestricted net assets to cash provided by operating activities:	
Depreciation	9,407
Increase in accounts receivable	(234,884)
Increase in prepaid expenses	(6,000)
Increase in due to Greater New Orleans Free-Net	68,667
Increase in accounts payable	218,841
Net cash provided by operating activities	746,225
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of equipment	(704,001)
Net cash used by investing activities	(704,001)
NET INCREASE IN CASH AND CASH EQUIVALENTS	42,224
Cash and cash equivalents at beginning of year	--
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 42,224

See accompanying notes.

LOUISIANA FREE-NET, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 1998

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. Its revenue is derived from the Cooperative Indevco 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. 137, *Financial Statements of Not-for-Profit Organizations*.

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 these functions.

Accounts Receivable:

Accounts receivable are charged off as uncollectible at the time their worthlessess 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 Flow:

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 eleven months ended June 30, 1998.

LOUISIANA FREE-NET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998

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 eleven months ended June 30, 1998 was \$8,487.

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 has applied for exemption 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. RELATER RISKS:

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 has contracted with Greater New Orleans Free-Net for office space and to provide various contractual services required under the Cooperative Indevser Agreement with the State of Louisiana Department of Administration. Additionally, Greater New Orleans Free-Net paid some of the operating expenses for Louisiana Free-Net prior to Louisiana Free-Net receiving its funding. The following schedule details the transactions between the Organization and Greater New Orleans Free-Net:

LOUISIANA FREE-NET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998

3. RELATED PARTIES (Continued):

Reimbursement of operating expenses	\$ 27,522
Contractual services and office leasing	153,584
Total	<u>\$181,106</u>
Due to Greater New Orleans Free-Net	<u>\$ 68,062</u>

The details of these contractual services and expenses are provided in the following paragraphs.

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 ends August 31, 1998. Louisiana Free-Net has the option to renew the lease for one year at expiration under the same terms as the previous lease.

Greater New Orleans Free-Net and the Louisiana Free-Net initiated a Cooperative Indefinite 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.

Greater New Orleans Free-Net and the Louisiana Free-Net had an additional Cooperative Indefinite 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 received \$25,000 of revenue as a result of the agreement.

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.

5. NET ASSETS RELIEVED FROM RESTRICTIONS:

Net assets are released from temporary donor restrictions by incurring expenses satisfying the restricted purpose. Restricted revenues recorded in the same period that the restrictions are met are reported as unrestricted revenues in these financial statements.

6. COOPERATIVE INDEFINITE AGREEMENT:

The Organization's only source of revenue is a Cooperative Indefinite 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

LOUISIANA FISH-NET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998

6. COOPERATIVE INDEAVOR AGREEMENT: (Continued)

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 December 1, 1997 and terminated on June 30, 1998. Payments are made to the Organization on a cost reimbursement basis.

The Organization requested \$665,908 from the Division of Administration under the Cooperative Endeavor Agreement. The Organization recorded revenue in the amount of \$771,751 from the Division of Administration under this agreement for the eleven months ended June 30, 1998. The remaining amount requested in the amount of \$84,835, which was received subsequent to June 30, 1998, 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 \$665,908. This agreement began on July 1, 1998 and terminates June 30, 1999.

7. CONCENTRATION OF REVENUE:

The Organization received 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.



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**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**

January 7, 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, 1998 and for the period July 30, 1997 (date of inception) through June 30, 1998 and have issued our report thereon dated January 7, 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 those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the following paragraph.

98-00 - 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 was due to the entire turnover of the accounting staff, resulting in misplaced invoices and other accounting problems which management feels will be resolved in future periods.

98-02 - 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 \$95,535 which was received subsequent to June 30, 1998, under this agreement for reimbursement of expenses which were incurred subsequently to June 30, 1998. 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.

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.

98-03 - Financial Statements:

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 was due to the entire turnover of the accounting staff, resulting in misplaced invoices and other accounting problems which management feels will be resolved in future periods.

98-02 - 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 \$94,835 which was received subsequent to June 30, 1998, under this agreement for reimbursement of expenses which were incurred subsequently to June 30, 1998. 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.

98-03 - Cash at Bank:

Louisiana Free-Net does 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.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 98-01, 98-02 and 98-03 to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Dyckster, Wagoner, Hagan & Parker LLP



**DUPLANTIER, HRAUTMANN,
HOGAN & MAHER, LLP**

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January 7, 1999

Legislative Auditor
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, 1998 and have issued our report thereon dated January 7, 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, 1998 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:

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 was due to the entire turnover of the accounting staff, resulting in misplaced invoices and other accounting problems which management feels will be resolved in future periods.

98-02 - 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 \$54,625 which was received subsequent to June 30, 1998, under this agreement for reimbursement of expenses which were incurred subsequent to June 30, 1998.

98-03 - Cash vs Bank

Louisiana Free-Net does 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.

COMPLIANCE

Noncompliance material to the financial statements:

CURRENT YEAR FINDINGS: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 was due to the entire turnover of the accounting staff, resulting in misplaced invoices and other accounting problems which management feels will be resolved in future periods.

98-02 - 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, 1987 through June 30, 1998. The Organization requested from the Division of Administration \$94,635 which was received subsequent to June 30, 1998, under this agreement for reimbursement of expenses which were incurred subsequent to June 30, 1998.

Management feels the findings noted above were primarily caused from personnel who are no longer employed at the Free-Net. The Free-Net has had a complete restructuring of the accounting department since June 30, 1998. However, management 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,

DUPLASTIC, BOGARDUS, HOGAN & BABIE, LLP


Lindsey D. Catib, CPA
Partner



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DR. GUYTON MITCHELL
PRESIDENT

BOB CHAMBERLAIN
VICE-PRESIDENT

WILLIAM B. RICE
VICE-PRESIDENT

CAROL B. SANDERS-THOMAS
VICE-PRESIDENT

RODOLPH E. IVINS, JR.
SECRETARY/TREASURER

January 7, 1999

Legislative Auditor
Baton Rouge, Louisiana 70804

Dear Sir or Madam:

CORRECTIVE ACTION PLAN

A. FINANCIAL STATEMENT AUDIT OPINION

Our auditors, Duplantier, Magnann, Hogan & Fisher, LLP, have audited the financial statements of Louisiana Free-Net, Inc. as of and for the year ended June 30, 1998 and have issued their report thereon dated January 7, 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, 1998 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:

98-01 - Financial Statements:

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.

Management's Response:

This was due to the entire turnover of the accounting staff, resulting in misplaced invoices or invoices filed in unfamiliar places, as well as other accounting problems which will not recur in future periods.

98-02 - 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 \$94,425 which was received subsequent to June 30, 1998, under this agreement for reimbursement of expenses which actually occurred subsequent to June 30, 1998.

Management's Response:

This was primarily caused by the fact that cost reimbursements from the State were delayed due to the State approval process. Therefore, the planned program were initiated later than anticipated causing completion to be delayed into the next state fiscal year. We have had a complete restructuring of the accounting department since June 30, 1998. We will initiate procedures to more efficiently request and track expenditures and reimbursements which will eliminate these timing problems. In the future, we will not request any cost reimbursements for periods beyond the inclusive dates of the current Cooperative Endeavor Agreement.

98-82 - Cash at Bank:

Louisiana Free-Net does 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.

Management's Response:

This problem has been corrected. Month-end cash balances are now being reconciled to the general ledger in a timely manner.

COMPLIANCE

Non-compliance material to the financial statements:

CURRENT YEAR FINDINGS:**98-84 - 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.

Management's Response:

This was due to the entire turnover of the accounting staff, resulting in misplaced invoices or invoices which were filed in unfamiliar places, as well as other accounting problems which management feels will be resolved in future periods.

98-87 - 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 \$94,628 which was received subsequent to June 30, 1998, under this agreement for reimbursement of expenses which actually occurred subsequent to June 30, 1998.

Management's Response:

This was primarily caused by the fact that cost reimbursements from the State were delayed due to the State approval process. Therefore, the planned program were initiated later than anticipated causing completion to be delayed into the next state fiscal year. We have had a complete restructuring of the accounting department since June 30, 1998. We will initiate procedures to more efficiently request and track expenditures and reimbursements which will eliminate these timing problems. In the future, we will not request any cost reimbursements for periods beyond the inclusive dates of the current Cooperative Endeavor Agreement.

We feel the findings noted above were primarily caused by personnel who are no longer employed at the Free-Net and have subsequently been corrected. Please contact Robin Houston, our Executive Director, if you have any questions regarding our Corrective Action Plan.

Yours very truly,

LOUISIANA



Michael P. Ann
Director