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COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

Baton Rouge, Louisiana

FINANCIAL REPORT

June 30, 1998

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 ~~MAY 27 1999~~

Dale P. LeJeune
Certified Public Accountant

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

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June 30, 1998

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Dale P. LeJeune, CPA

December 30, 1998

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying balance sheet of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. as of June 30, 1998, and the related Statements of Revenues, Expenses and Changes in Equity, and Cash Flows for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. as of June 30, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

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

In accordance with Government Auditing Standards, I have also issued a report dated December 30, 1998, on my consideration of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts.

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

Respectfully submitted,



Dale P. LeJeune
Certified Public Accountant

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

BALANCE SHEET

June 30, 1998

ASSETS

CURRENT

Cash		\$30,208
Investments (cost)	\$ 272,091	
Add: Valuation allowance	<u>29,642</u>	
Net (market value)		301,733
Prepaid expenses		27,376
Travel advances		3,090
Accounts receivable		<u>305,409</u>
 Total current assets		 <u>667,816</u>

PROPERTY AND EQUIPMENT

Equipment		150,175
Less: Accumulated Depreciation		<u>(94,663)</u>
 Total property and equipment		 <u>55,512</u>
 Total assets		 <u><u>\$723,328</u></u>

LIABILITIES AND EQUITY

Current Liabilities

Accounts payable		\$900
Wages payable		6,639
Accrued payroll taxes payable		3,179
Deferred income tax		<u>118,140</u>
 Total current liabilities		 128,858

Equity

		<u>594,470</u>
 Total liabilities and equity		 <u><u>\$723,328</u></u>

The accompanying notes are an integral part of this statement.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

Baton Rouge, Louisiana

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN EQUITY

For the year ended June 30, 1998

Revenues

Client services	\$1,174,448
Realized loss of sale of investments	(25,175)
Unrealized gain on investments	29,642
Dividends	4,721
Miscellaneous income	265
	<hr/>
Total revenues	1,183,901

Expenses

Salaries and related benefits	505,060
Professional services	24,627
Office supplies	18,893
Operating expenses	77,602
Travel	20,842
Telephone and utilities	47,840
Building and furniture rent	237,989
Equipment rent	6,697
Insurance	10,497
Dues and subscriptions	1,595
Maintenance and repairs	5,494
Payroll taxes	43,961
Depreciation	17,344
Miscellaneous	3,450
	<hr/>
Total expenses	1,021,891

Net income before taxes and extraordinary items	162,010
Income tax expense	53,467
	<hr/>

Net income before extraordinary items	108,543
---------------------------------------	---------

Extraordinary item - litigation settlement with LA. Dept. of Social Services (net of income taxes of \$61,065)	81,575
	<hr/>

Net income	190,118
------------	---------

Equity at beginning of year	404,352
	<hr/>

Equity at end of year	\$594,470
	<hr/> <hr/>

The accompanying notes are an integral part of this statement.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
 Baton Rouge, Louisiana

STATEMENT OF CASH FLOWS

For the year ended June 30, 1998

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$190,118
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	17,344
Change in operating assets and liabilities:	
Accounts receivable	(126,290)
Prepaid expenses	(3,041)
Accounts payable	(2,216)
Wages payable	(2,291)
Accrued payroll taxes	291
Deferred income tax	116,091
Due DSS, Ofc. of Family Support	(232,068)
Income tax payable	(5,345)
Net cash provided by operating activities	(47,407)

CASH FLOWS FROM INVESTING ACTIVITIES

Equipment acquisitions	(540)
Net increase (decrease) in cash and cash equivalents	(47,947)

CASH AND CASH EQUIVALENTS

Beginning of year	379,888
End of year	\$331,941

The accompanying notes are an integral part of this statement.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS

June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

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

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

B. Basis of Accounting

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

C. Income Tax Status

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

The provision for income tax expense for the period ended June 30, 1998 was \$114,532 (i.e. \$53,467 income tax on net income before extraordinary items and \$61,065 income tax on extraordinary items). The deferred income tax liability at June 30, 1998 was \$118,140, which represents a future tax liability to the organization caused by timing differences between income and expenses reported for tax purposes and income and expenses reported under generally accepted accounting principles.

D. Investment Securities

Investments are presented in the financial statements at their fair market value. Unrealized gains and losses for the year ended June 30, 1998 are included in the Statement of Revenue, Expenses and Changes in Equity.

E. Accounts receivable

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

F. Property, equipment and depreciation

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

G. Estimates

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

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment, related service lives, and accumulated depreciation at June 30, 1998 are as follows:

	<u>Estimated Service Lives</u>	
Furniture and equipment	8 years	\$ 78,666
Vehicles	9-11 years	<u>71,509</u>
Property and equipment		\$150,175
Less: accumulated depreciation		<u>(94,663)</u>
Total Property and equipment		<u>\$ 55,512</u>

Depreciation expense was \$17,344 for the year ended June 30, 1998.

NOTE 3 - ECONOMIC DEPENDENCY

During the year ended June 30, 1998, the company received a significant portion of its revenues through the State of Louisiana. The amounts applicable to the year ended June 30, 1998 are as follows:

Receivable, beginning of year	\$ 179,120
Revenues earned and invoiced	1,174,448
Withheld by DSS to offset overpayment	(89,428)
Collections	<u>(958,731)</u>
Receivable, end of year	<u>\$ 305,409</u>

NOTE 4 - RELATED PARTY TRANSACTIONS

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. entered into two (2) separate agreements to lease computer equipment during the fiscal year ended June 30, 1998, from Community, Management, Training, and Evaluation, a company owned by the Executive Director of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. The computer equipment was used to help train participants of the Project Independence Programs located in New Orleans, and Hammond, Louisiana. COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. originally issued a check at year-end payable to the related company for \$40,700. According to the Executive Director of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. the check was not negotiated pending the outcome of a lawsuit against the Louisiana Department of Social Services. The lawsuit was subsequently settled out-of-court and the check was voided. The financial statements have been adjusted to reflect the void payment of \$40,700 as of June 30, 1998 and no liability has been established in the financial statements for the unpaid leases at June 30, 1998. According to the Executive Director of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., no liability has been established in the financial statements as a result of the litigation settlement between the Louisiana Department of Social Services and COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. (See Note 9).

NOTE 5 - COMPENSATED ABSENCES

Vacation and sick leave are earned by employees at varying rates from 8 to 16 hours per month depending on length of service. A maximum of 24 hours of unused leave may be carried over at December 31. Accordingly, amounts related to such leave have been accrued at June 30, 1998.

NOTE 6 - BOARD OF DIRECTORS

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s board of directors consists of two (2) members as of June 30, 1998. The President of the board resigned on May 18, 1990, and has not been replaced. One of the current board members is also a full-time employee of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

NOTE 7 - LOSS CONTINGENCY

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

NOTE 8 - OPERATING LEASES

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. had no operating leases with remaining noncancelable lease terms in excess of one year as of June 30, 1998.

NOTE 9 - SUBSEQUENT EVENTS

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. and the Louisiana Department of Social Services agreed to an out-of-court litigation settlement relating to disallowed costs for certain related party data processing equipment leases reimbursed for under the FIND Work Contracts from fiscal year 1991-92 through fiscal year 1996-97. The settlement resulted in an extraordinary gain for COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. of \$81,575, net of income taxes of \$61,065.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 1998

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Federal Awards Expended
 <u>Department of Health and Human Services</u>		
Department of Social Services:		
Project Independence	93.561 *	\$476,840
Foster Care - Supervised Apartments	93.645, 93.658 *	693,746
 Department of Health and Hospitals:		
Mental health, Casemanagement, and Rehabilitation	93.778	3,862
Total Federal Assistance		\$1,174,448

* Represents a major program.

The accompanying notes are an integral part of this statement.

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

Dale P. LeJeune, CPA

December 30, 1998

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

I have audited the financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., as of and for the year ended June 30, 1998, and have issued my report thereon dated December 30, 1998. I conducted my audit in accordance with generally accepted auditing standards and the standards for financial and compliance audits of Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as item 98-4.

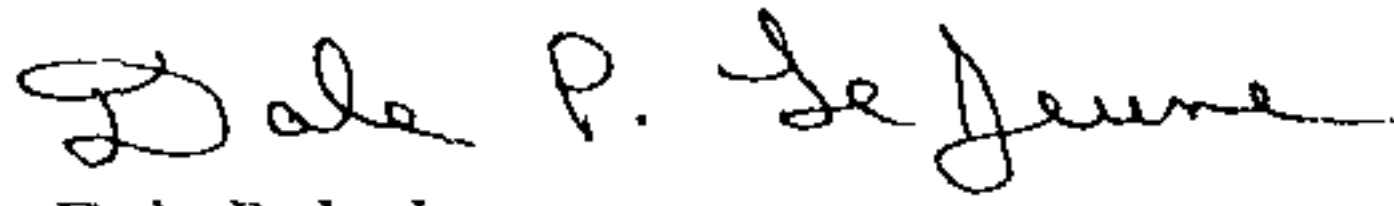
Internal Control Over Financial Reporting

In planning and performing my audit, I considered COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure over financial reporting that, in my judgment, could adversely affect COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-1, 98-2 and 98-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items 98-1, 98-2 and 98-3 to be material weaknesses.

I noted other matters involving the internal control over financial reporting that I have reported to the management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. in a separate letter dated December 30, 1998.

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



Dale P. LeJeune
Certified Public Accountant

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

Dale P. LeJeune, CPA

December 30, 1998

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

Compliance

I have audited the compliance of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 1998. COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, and contracts applicable to its major federal programs is the responsibility of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s management. My responsibility is to express an opinion on COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s compliance based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s compliance with those requirements.

As described in item 98-8 in the accompanying schedule of findings and questioned costs, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. did not comply with requirements regarding allowable costs/cost principles that are applicable to its Project Independence Program. Compliance with such requirements is necessary, in my opinion, for COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. to comply with requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998.

Internal Control Over Compliance

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

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure over compliance that, in my judgment, could adversely affect COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s ability to administer a major federal program in accordance with applicable requirements of laws, regulations, and contracts. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-5, 98-6 and 98-7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, and contracts that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items 98-5, 98-6 and 98-7 to be material weaknesses.

I noted other matters involving the internal control over compliance and its operation that I have reported to the management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. in a separate letter dated December 30, 1998.

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



Dale P. LeJeune
Certified Public Accountant

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

**Schedule of Findings and Questioned Costs
For the fiscal year ended June 30, 1998**

Section I - Summary of Auditors Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
93.561	Project Independence
93.645, 93.658	Foster Care

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

Reference No. 98-1

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

Criteria: The contracts with the Louisiana Department of Social Services require that time and attendance records of employees be properly maintained.

Cause of Condition: Adequate internal control procedures did not exist to ensure time sheets contain approval signatures of the employees and their supervisors.

Effect: Employees may be compensated incorrectly and federal programs may be charged incorrectly for personal services rendered.

Recommendation: Internal control procedures should be established to ensure all time sheets contain approval signatures of employees and supervisors attesting to the hours worked, before payroll checks are processed.

Response: We will establish necessary procedures to ensure that time sheets are properly signed by employees and supervisors.

Reference No. 98-2

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

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

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

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

Recommendation: Management should consider assuming some of these duties or cross-training other employees to perform some of these duties on a rotation basis. Also, fidelity bond coverage could be obtained for the employee handling these functions.

Response: Management has implemented some compensating controls, such as examining questionable invoices before checks are signed and reviewing bank statements and canceled checks each month to detect any irregularities. However, we will continue to evaluate the situation and develop additional effective compensating controls.

Reference No. 98-3

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

Criteria: The Project Independence Program contracts require the company to maintain accounting records in accordance with generally accepted accounting procedures and practices, sufficient to reflect properly all direct and indirect costs incurred for each contract.

Cause of Condition: Monthly cost reimbursement reports are prepared for each Project Independence Program contract based on original payroll journals and actual invoices. The accounting system has not been set up to capture these costs in general ledger accounts for cost reimbursement reporting.

Effect: This type of internal control weakness in the accounting system structure could result in program costs billed incorrectly to Project Independence Program contracts and the errors may not be detected and corrected timely.

Recommendation: The accounting system should be modified to capture costs for each individual Project Independence Program contract. The monthly Project Independence Program cost reimbursement reports should be prepared and/or reconciled to the accounting system reports.

Response: Management will make the necessary changes to its accounting system structure to capture Project Independence Program costs by individual contract.

Reference No. 98-4

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

---- Disallowed Related Party Lease Charges by Contract Location ----

Orleans Parish	Tangipahoa Parish	Total
<u>Contracts</u>	<u>Contracts</u>	<u>Contracts</u>
\$18,000	\$26,400	\$44,400

Disallowed Costs: FY 1997-98 \$44,400

Criteria: OMB Cost Principles Circular A-87, Attachment B, does not allow reimbursement for related party rentals.

Cause of Condition: COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. billed Project Independence for the use of the related party data processing equipment for the 1998 fiscal year pending settlement of a lawsuit against DSS. The lawsuit was settled out-of-court, after the close of the fiscal year.

Effect: COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. did not receive payment from DSS for the related party lease amounts billed in the 1998 fiscal year.

Recommendation: COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. should adjust its accounting records to reflect the disallowed costs billed to the Project Independence Program effective June 30, 1998.

Response: Management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., agrees to adjust its accounting records effective June 30, 1998, by writing-off the amounts billed to the Project Independence Program for related party data processing leases in the 1998 fiscal year.

Section III - Federal Award Findings and Questioned Costs

Reference No. 98-5

CFDA Number: 93.561

93.645, 93.658

Program Title: Project Independence Program
Foster Care Program

Federal Agency: Department of Health and Human Services

Pass-through Entity: Louisiana Department of Social Services

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

Criteria: The contracts with the Louisiana Department of Social Services require that time and attendance records of employees be properly maintained.

Cause of Condition: Adequate internal control procedures did not exist to ensure time sheets contain approval signatures of the employees and their supervisors.

Effect: Employees may be compensated incorrectly and federal programs may be charged incorrectly for personal services rendered.

Recommendation: Internal control procedures should be established to ensure all time sheets contain approval signatures of employees and supervisors attesting to the hours worked, before payroll checks are processed.

Response: We will establish necessary procedures to ensure that time sheets are properly signed by employees and supervisors.

Reference No. 98-6

CFDA Number: 93.561
93.645, 93.658
Program Title: Project Independence Program
Foster Care Program
Federal Agency: Department of Health and Human Services
Pass-through Entity: Louisiana Department of Social Services

Statement of Condition: Only annual certifications are obtained from employees working on a single federal program or cost objective.

Criteria: OMB Cost Principles Circular A-87, Attachment B, requires employees working on a single federal contract or cost objective to prepare semi-annual certifications to support charges for their salaries and wages.

Cause of Condition: Management was not aware of the requirement to obtain semi-annual certifications from employees working on a single federal contract or cost objective.

Effect: Federal programs may be inaccurately charged for personal services rendered by employees.

Recommendation: Internal control procedures should be established to ensure all employees working on a single federal program or cost objective prepare semi-annual certifications to support salary and wage charges to the federal program.

Response: We will establish necessary procedures to ensure employees working on a single federal program or cost objective prepare semi-annual certifications.

Reference No. 98-7

CFDA Numbers: 93.561
93.645, 93.658
Program Titles: Project Independence Program
Foster Care Program
Federal Agency: Department of Health and Human Services
Pass-through Entity: Louisiana Department of Social Services

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

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

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

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

Recommendation: Management should consider assuming some of these duties or cross-training other employees to perform some of these duties on a rotation basis. Also, fidelity bond coverage could be obtained for the employee handling these functions.

Response: Management has implemented some compensating controls, such as examining questionable invoices before checks are signed and reviewing bank statements and canceled checks each month to detect any irregularities. However, we will continue to evaluate the situation and develop additional effective compensating controls.

Reference No. 98-8

CFDA Number: 93.561

Program Title: Project Independence Program

Federal Agency: Department of Health and Human Services

Pass-through Entity: Louisiana Department of Social Services

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

Criteria: The Project Independence Program contracts require the company to maintain accounting records in accordance with generally accepted accounting procedures and practices, sufficient to reflect properly all direct and indirect costs incurred for each contract.

Cause of Condition: Monthly cost reimbursement reports are prepared for each Project Independence Program contract based on original payroll journals and actual invoices. The accounting system has not been set up to capture these costs in general ledger accounts for cost reimbursement reporting.

Effect: This type of internal control weakness in the accounting system structure could result in program costs billed incorrectly to Project Independence Program contracts and the errors may not be detected and corrected timely.

Recommendation: The accounting system should be modified to capture costs for each individual Project Independence Program contract. The monthly Project Independence Program cost reimbursement reports should be prepared and/or reconciled to the accounting system reports.

Response: Management will make the necessary changes to its accounting system structure to capture Project Independence Program costs by individual contract.

Reference No. 98-9

CFDA Number: 93.561

Program Title: Project Independence Program

Federal Agency: Department of Health and Human Services

Pass-through Entity: Louisiana Department of Social Services

Statement of Condition: The Louisiana Department of Social Services (DSS) has disallowed the cost of certain related party data processing equipment leases, with Community, Management, Training and Evaluation, that were charged to the Project Independence Program.

---- Disallowed Related Party Lease Charges by Contract Location ----

Orleans Parish	Tangipahoa Parish	Total
<u>Contracts</u>	<u>Contracts</u>	<u>Contracts</u>
\$18,000	\$26,400	\$44,400

Disallowed Costs: FY 1997-98 \$44,400

Criteria: : OMB Cost Principles Circular A-87, Attachment B, does not allow reimbursement for related party rentals.

Cause of Condition: COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. billed Project Independence for the use of the related party data processing equipment for the 1998 fiscal year pending settlement of the lawsuit. The lawsuit was settled out-of-court after the close of the fiscal year.

Effect: COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. did not receive payment from DSS for the related party lease amounts billed in the 1998 fiscal year.

Recommendation: COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. should adjust its accounting records to reflect the disallowed costs billed to the Project Independence Program effective June 30, 1998.

Response: Management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. agrees to adjust its accounting records effective June 30, 1998, by writing-off the amounts billed to the Project Independence Program for related party data processing leases in the 1998 fiscal year.

The accompanying notes are an integral part of this statement.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

Baton Rouge, Louisiana

MANAGEMENT LETTER

June 30, 1998

Dale P. LeJeune
Certified Public Accountant

Dale P. LeJeune, CPA

December 30, 1998

CONFIDENTIAL

To the Board Members
Community Independent Living Systems, Inc.

Dear Board Members:

I have audited the general purpose financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. as of and for the year ended June 30, 1998. In planning and performing my audit of the financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., I considered internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on internal control.

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

Reference No. 98A: APPROVAL OF INVOICES PRIOR TO PAYMENT

Management's approval of invoices prior to payment is not always documented. Management should document approval of invoices prior to payment by signing or initialing the invoices.

Reference No. 98B: OUTSTANDING TRAVEL ADVANCES

An employee travel advance has been outstanding for over one (1) year. Travel advances should be repaid timely by employees.

Reference No. 98C: RECEIPTS FOR START-UP COST

Receipts are not properly maintained in the Company's payables files to support the use of start-up funds for Foster Care clients. Controls should be established to ensure receipts are properly maintained in the Company files to support the use of start-up funds by its Foster Care clients.

Reference No. 98D: LEASE FOR HEADQUARTERS BUILDING

The Baton Rouge headquarters building is currently leased on a month to month basis under a verbal agreement with the landlord. The Company should obtain a written lease to adequately document the terms and conditions of the lease agreement.

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

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

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

Very truly yours,



Dale P. LeJeune
Certified Public Accountant

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
8261 SUMMA AVENUE, SUITE H
BATON ROUGE, LA 70809
PHONE: (504)767-4040

**CORRECTIVE ACTION PLAN
FOR
1998 FISCAL YEAR MANAGEMENT LETTER COMMENTS**

Management Letter Reference No. 98-A

Management's approval of invoices prior to payment is not always documented.

Contact Person: Melvin Meyers, Jr., Executive Director

Corrective Action Planned: Management will establish necessary controls to ensure that all invoices contain the Program Director or Executive Director's signature of approval before the invoices are paid.

Anticipated Completion Date: January 31, 1999.

Management Letter Reference No. 98-B

An employee travel advance has been outstanding for over one (1) year.

Contact Person: Melvin Meyers, Jr., Executive Director

Corrective Action Planned: Management will ensure that this travel advance is cleared before year end June 30, 1999, and we begin monitoring all travel advances to ensure they are cleared more timely.

Anticipated Completion Date: June 30, 1999.

Management Letter Reference No. 98-C

Receipts are not properly maintained in the Company's payment files to support the use of start-up funds for Foster Care clients.

Contact Person: Melvin Meyers, Jr., Executive Director

Corrective Action Planned: Management will implement the necessary control procedures to ensure that receipts supporting the use of start-up funds for Foster Care clients are properly accounted for in the headquarters payment files.

Anticipated Completion Date: January 31, 1999.

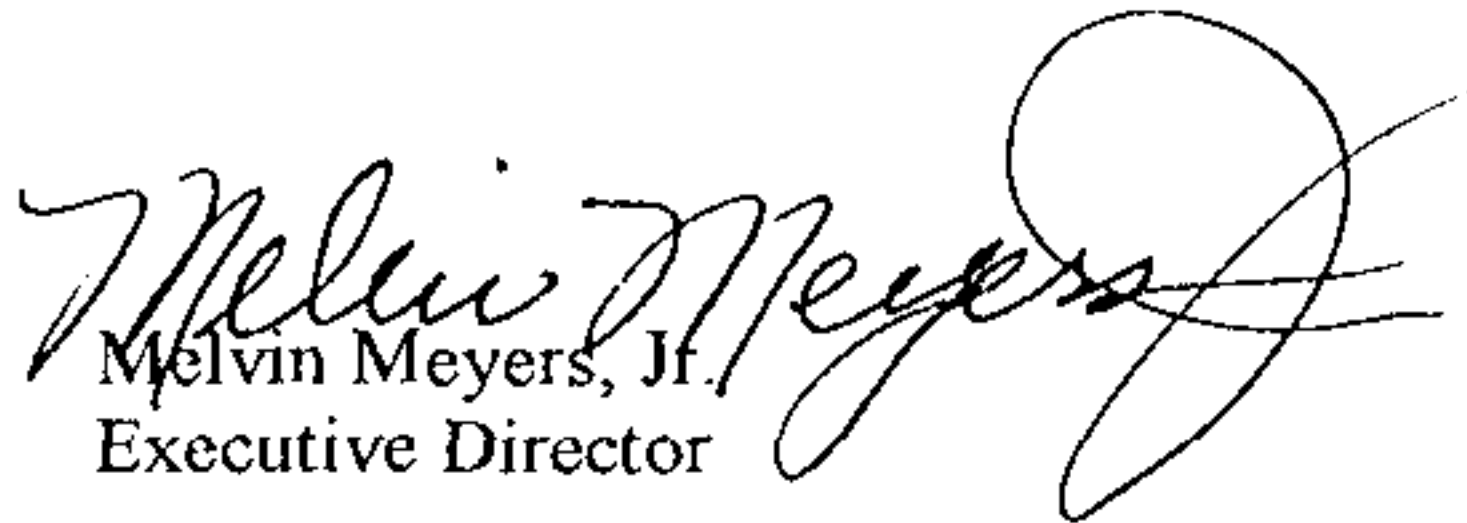
Management Letter Reference No. 98-D

The Baton Rouge headquarters building is currently leased on a month to month basis under a verbal agreement with the landlord.

Contact Person: Melvin Meyers, Jr., Executive Director

Corrective Action Planned: Management will obtain a written lease agreement for the Baton Rouge headquarters building detailing the terms and conditions of the lease.

Anticipated Completion Date: January 31, 1999.


Melvin Meyers, Jr.
Executive Director

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
8261 SUMMA AVENUE, SUITE H
BATON ROUGE, LA 70809
PHONE: (504)767-4040

Summary Schedule of Prior Management Letter Comments

1997 Fiscal Year Management Letter Comments:

Prior Management Letter Comment Reference No. 1

Employee travel expense reports are not always approved by their supervisor before submitted for reimbursement.

Contact Person: Melvin Meyers, Jr., Executive Director

Status of Audit Finding: Procedures have been established that requires travel reports to contain either the approval signature of the employee's supervisor, Program Director, Program Manager or Executive Director before the voucher is processed for payment. No additional corrective action is required.

Prior Management Letter Comment Reference No. 2

An employee travel advance has been outstanding for over one (1) year.

Contact Person: Melvin Meyers, Jr., Executive Director

Status of Audit Finding: This travel advance has not yet been cleared, however, action will be taken to clear this travel advance before the fiscal year end June 30, 1999.

Prior Management Letter Comment Reference No. 3

Invoices are approved for payment by the Accountant who is also responsible for payment of the invoice.

Contact Person: Melvin Meyers, Jr., Executive Director

Status of Audit Finding: Procedures have been established which requires the Program Director or Executive Director's approval of all invoices prior to payment. No additional corrective action is required.

Prior Management Letter Comment Reference No. 4

An official record (minutes) of the company's board meetings are not maintained.

Contact Person: Melvin Meyers, Jr., Executive Director

Status of Audit Finding: Official minutes of board meetings are now being maintained. No additional corrective action is required.

Prior Management Letter Comment Reference No. 5

Vehicle logs are not maintained on all vehicles owned by the company, to document the business use of the vehicles.

Contact Person: Melvin Meyers, Jr., Executive Director

Status of Audit Finding: CILS owns three cars, two of which are not being used at this time, and may be sold in the future. The remaining vehicle is used on a daily basis and mileage logs have been established. No additional corrective action is required.


Melvin Meyers, Jr.
Executive Director