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VERNON COMMUNITY ACTION COUNCIL, INC.
LEESVILLE, LOUISIANA

ANNUAL FINANCIAL REPORT
For the Year Ended December 31, 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 SEP 02 1998

Receipt Acknowledged
Legislative Auditor

By S. Smith

GLEEN O. EVERHART
CERTIFIED PUBLIC ACCOUNTANT
104 W. SECOND ST. - SUITE 1
DERIDDER, LA 70634

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VERNON COMMUNITY ACTION COUNCIL, INC.
LEESVILLE, LOUISIANA

ANNUAL FINANCIAL REPORT
For the Year Ended December 31, 1997

VERNON COMMUNITY ACTION COUNCIL, INC.
LEESVILLE, LOUISIANA
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Independent Auditor's Report

Board of Directors
Vernon Community Action Council, Inc.
Leesville, Louisiana


I have audited the accompanying statement of financial position of Vernon Community Action Council, Inc. (a nonprofit organization) as of December 31, 1997, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Vernon Community Action Council, Inc. and Education'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 applicable to 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 the 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 financial statements referred to above present fairly, in all material respects, the financial position of Vernon Community Action Council, Inc. and as of December 31, 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*, I have also issued my report dated July 24, 1998, on my consideration of Vernon Community Action Council, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


July 24, 1998

VERNON COMMUNITY ACTION COUNCIL, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 1997

| | 1997 |
|--|-------------------|
| Assets | |
| Current Assets | |
| Cash and cash equivalents | \$ 12,652 |
| Grants Receivable (Net) | 54,109 |
| Total Current Assets | 66,761 |
| Noncurrent assets | |
| Fixed Assets - At cost (Net of accumulated depreciation of \$59,204) | 34,579 |
| Total Noncurrent Assets | 34,579 |
| Total Assets | \$ 101,340 |
| Liabilities and Net Assets | |
| Current Liabilities | |
| Note payable to Police Jury | 10,000 |
| Accounts payable and accrued expenses | 11,647 |
| Accrued vacation pay | 4,851 |
| Due to funding agency | 7,374 |
| Total Current Liabilities/Total Liabilities | 33,872 |
| Net assets | |
| Unrestricted Net Assets | |
| Undesignated | 32,889 |
| Fixed Assets | 34,579 |
| Total Unrestricted Net Assets/Total Net Assets | 67,468 |
| Total Liabilities and Net Assets | \$ 101,340 |

The accompanying notes are an integral part of these statements.

VERNON COMMUNITY ACTION COUNCIL, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 1997

| Changes in Unrestricted Net Assets | 1997 |
|--|------------------|
| Revenues | |
| Grant - Contract Support | \$ 376,055 |
| Developer Fees | 27,790 |
| Rent | 7,080 |
| Contributions | 5,174 |
| Interest | 436 |
| Sundry | 2,350 |
| Total Unrestricted Revenues | 418,885 |
| Expenses | |
| Program Services | |
| Salaries and Benefits | 227,301 |
| Travel | 6,972 |
| Rent | 20,000 |
| Client Assistance | 90,127 |
| Architect Fees - Section 811 | 21,768 |
| Total Program Services | 366,168 |
| Support Services | |
| Management and General | 60,854 |
| Total Support Services | 60,854 |
| Total Expenses | 427,022 |
| Decrease in Net Assets | (8,137) |
| Net Assets at Beginning of Year As Stated | 120,060 |
| Prior Period Adjustment - Correction of Error | (44,455) |
| Net Assets at Beginning of Year as Restated | 75,605 |
| Net Assets at End of Year | \$ 67,468 |

The accompanying notes are an integral part of these statements.

VERNON COMMUNITY ACTION COUNCIL, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 1997

| Cash Flows From Operating Activities | 1997 |
|--|-------------|
| Net decrease in net assets | \$ (8,137) |
| Adjustment to reconcile change in net assets to net cash used by operating activities | |
| Depreciation | 8,881 |
| Decrease in grants receivable | 4,571 |
| Decrease in other assets | 276 |
| Decrease in accounts payable and accrued expenses | (10,275) |
| Increase in due to fund agency | 5,054 |
| Increase in Note Payable | 10,000 |
| Net cash provided by operating activities | 10,370 |
| Cash Flows From Investing Activities | |
| Acquisition of Fixed Assets | (4,664) |
| Net Cash Used in Investing Activities | (4,664) |
| Net cash used by Investing Activities | (4,664) |
| Net Increase in Cash and Cash Equivalents | 5,706 |
| Cash and Cash Equivalents at Beginning of Year | 6,946 |
| Cash and Cash Equivalents at End of Year | \$ 12,652 |

The accompanying notes are an integral part of these statements.

VERNON COMMUNITY ACTION COUNCIL, INC.
Leesville, Louisiana
Notes to Financial Statements
For the Year ended December 31, 1997

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[a] Nature of Activities

Vernon Community Action Council, Inc. is a nonprofit corporation incorporated to strengthen and preserve the dignity and economic mix of the parish. The work of the corporation significantly affects three levels of community life: helping individuals and families with housing, social services; and developing new programs in cooperation with other local organizations to meet pressing community needs; and serving as an advocate for women and children and protection of the neighborhood environment.

[b] Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

[c] Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statements of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

[d] Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

[e] Concentration of Revenue/Support

The Organization receives approximately 30% of its annual revenue and support from the State Department of Labor Community Development Block Grant.

[f] Donated Property and Equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

[g] Donated Services

No amounts have been reflected in the financial statements for donated services. The Organization pays for services requiring specific expertise.

[h] Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

[I] Income Tax Status

The Vernon Community Action Council, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Service Code. However, income, if any, from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 (b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

[J] Property and Equipment

All acquisitions of property and equipment in excess of \$500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the assets generally as follows:

| | |
|-------------------------|----------|
| Furniture and Equipment | 5 years |
| Vehicles | 3 years |
| Buildings | 27 years |

Note 2 - CHANGE IN ACCOUNTING PRINCIPLES

Change for New Pronouncement

In 1997, the Organization adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a Statement of Cash Flows. As permitted by the Statement, the Organization has discontinued its use of fund accounting and has, accordingly, reclassified its financial statements to present the three classes of net assets required. This reclassification had the effect of reducing net assets by \$29,365 for prior years depreciation.

Note 3 - COMMITMENTS

On July 16, 1996, the Organization entered into an agreement to lease Lots 1 and 4 of Block 4, Old Survey of Leesville, Louisiana. The primary term of the lease is 48 months commencing July 1, 1995 and ending the last day of June, 1999, monthly rental fees of \$300 per month. Further, the lease agreement grants the Lessee the exclusive right, privilege, or option to extend the lease for an additional term of 24 months which would extend the term of the lease to the last day of June, 2001.

Lessee shall notify the Lessor in writing 30 days prior to the expiration of the primary term of the lease of Lessee's intentions to renew and extend for a new term of an additional 24 months at a rental value of \$275 per month.

Future minimum lease payment under operating leases that have remaining terms in excess of one year as of December 31, 1997 are:

| | |
|-----------------------------|----------------|
| Years Ending December 31: | |
| 1998 | \$3,600 |
| 1999 | <u>1,800</u> |
| Total Minimum lease payment | <u>\$5,400</u> |

Note 4 - DEBT

Note Payable

The Organization has an interest-free note that is payable to the Vernon Parish Police Jury in the amount of \$10,000. This note is due on demand.

Note 5 - PRIOR PERIOD ADJUSTMENTS

Certain errors resulting in an overstatement of previously reported fixed assets were discovered during the current year. Accordingly, an adjustment of \$29,365 was made during 1997 to write down fixed assets as of the beginning of the year. Certain errors resulting in the understatement of previously reported liabilities were discovered during the current year. Accordingly, an adjustment of \$15,054 was made during 1997 to write up liabilities at the beginning of the year. Corresponding entries were made to reduce previously reported net assets. The effect of the restatement on net assets for 1996 is not determinable.

Note 6 - PROPERTY AND EQUIPMENT

Property and equipment consisting of the following:

| | |
|--------------------------|-----------------|
| Land | \$ 4,000 |
| Buildings | 39,000 |
| Equipment | <u>50,783</u> |
| | 93,783 |
| Accumulated Depreciation | <u>(59,204)</u> |
| | <u>\$34,579</u> |

Note 7 - RELATED PARTY TRANSACTION

The Vernon Community Action Council, Inc. is a 50% managing partner of the Vernon Place Apartments Partnership; the Butler Street Estates Partnership; and, New Llano Senior Apartments Partnership with Calhoun Property Management, Inc. who is a 50% financial partner. The Vernon Community Action Council, Inc. has a zero equity in the partnerships and Calhoun has stated that they hold the VCAC harmless in losses of the Partnership. The Vernon Community Action Council, Inc. receives a monthly rental fee of \$15 per rented unit per month which is paid by Calhoun. Additionally, the Vernon Community Action Council, Inc. receives a specified developer fee from each project. Previously, the VCAC has received \$27,790 from Vernon Place and should have received \$4,509 from the Butler Street Estates Project. The \$4,509 from Butler Street Estates has not been recorded in the financial statements.

The amount to be received from Calhoun for the New Llano Project has not been recorded in the financial statements primarily because the appropriate amount of the fee has not been determined.

Note 8 - GRANTS RECEIVABLE

Grants receivable represent amounts that have been expended for grant purposes and are to be reimbursed by the grantor. Consequently, an allowance for uncollectible amounts was established even though it was not material.

Note 9 - PENSION PLANS

The Vernon Community Action Council, Inc. does not have a pension plan for its employees; however, they do participate in the FICA program.

Note 10 - COMPENSATED ABSENCES

The Vernon Community Action Council, Inc. accrues a liability for vacation pay in accordance with SFAS No. 43..

Note 11 - OFF-BALANCE SHEET RISK

The Vernon Community Action Council, Inc. does not engage in off-balance sheet financing as defined in FAS Statement 105.

Note 12 - BANK ACCOUNTS

In accordance with FAS Statement 105, the Vernon Community Action Council, Inc. maintains all funds in one bank. These funds are secured by the Federal Deposit Insurance Corporation in the amount of \$100,000. The monetary assets of Vernon Community Action Council, Inc. does not exceed the insured amount.

Note 13 - ECONOMIC DEPENDENCY

The Vernon Community Action Council, Inc. receives a substantial amount of its support from the Federal Government. Renewal of these grants are subject to approval from year to year.

Note 14 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

None.

Note 15 - SUBSEQUENT EVENTS

On May 4, 1998, the State Inspector General reported that the Vernon Community Action Council, Inc. owed the Vernon Council on Aging, Inc. a total of \$29,110 in back rental payments for the period July, 1994 through June, 1997. The Governor's Office of Elderly Affairs had previously made the same allegation.

In April, 1998, the Vernon Community Action Council, Inc. received a firm commitment from the U.S. Department of HUD to finance a Section 811 Housing Project known as the Franklin Street Apartments. This commitment is for the amount of \$595,200 and closure is currently pending. Once the closure is made, the Vernon Community Action Council, Inc. is to receive \$67,938 in operating capital for use in the project. However, no amounts have been recorded in the financial statements because of the lack of closure.

Note 16 - CONTINGENCIES

The Vernon Community Action Council, Inc. is involved in a dispute with Vernon Council on Aging, Inc. about the amount of back rent that it allegedly owes the Vernon Council on Aging, Inc. Both parties involved have engaged legal counsel. The Vernon Community Action Council, Inc. believes that it is justified in asserting that they have no liability for past rent and will defend their position to the fullest. No liability for back rent has been recorded in the financial statements because there is substantial doubt about the legitimacy of the Vernon Council on Aging, Inc.'s assertion.

The Vernon Community Action Council, Inc. has been named a Co-Defendant in a Petition for Damages filed by a former employee alleging unjustified termination of their employment. The Vernon Community Action Council, Inc. will vigorously defend itself in actions related to the alleged violation.

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

Board of Directors
Vernon Community Action Council, Inc.
Leesville, Louisiana

I have audited the financial statements of Vernon Community Action Council, Inc. (a nonprofit organization) as of and for the year ended December 31, 1997, and have issued my report thereon dated July 24, 1998. I conducted my 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.

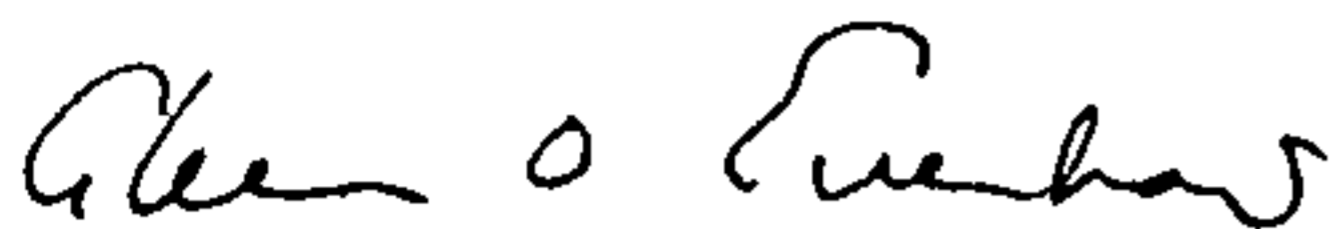
Compliance

As part of obtaining reasonable assurance about whether Vernon Community Action Council, Inc.'s financial statements are free of material misstatement, I performed test of its compliance with certain provision 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Vernon Community Action Council, Inc's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. I noted no matters involving the internal control over financial reporting and its operation that I consider 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.

A handwritten signature in cursive script, appearing to read "Allen O. Trenchard".

July 24, 1998

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR 1-133**

Board of Directors
Vernon Community Action Council, Inc.
Leesville, Louisiana

Compliance

I have audited the compliance of Vernon Community Action Council, 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 each of its major federal programs for the year ended December 31, 1997. Vernon Community Action Council, 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, contracts and grants applicable to each of its major federal programs is the responsibility of Vernon Community Action Council, Inc.'s management. My responsibility is to express an opinion on Vernon Community Action Council, Inc.'s compliance based on my audit.

I conducted my audit of compliance 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 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 major federal program occurred. An audit includes examining, on a test basis, evidence about Vernon Community Action Council, 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 of Vernon Community Action Council, Inc.'s compliance with those requirements.

In my opinion, Vernon Community Action Council, 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 December 31, 1997.

Internal Control Over Compliance

The management of Vernon Community Action Council, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and perform my audit, I considered Vernon Community Action Council, 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.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 that risk that noncompliance with

applicable requirements of laws, regulations, contracts and grants 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. I noted no matters involving the internal control over compliance and its operation that I consider 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.



July 24, 1998

VERNON COMMUNITY ACTION COUNCIL, INC.
SCHEDULE OF FEDERAL AWARDS
For the year ended December 31, 1997

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Passed Through Entity Identifying Number | Federal Expenditures |
|---|------------------------|--|-------------------------|
| United States Department of Human Services | | | |
| Community Services BlockGrant - Community Food and Nutrituion | 93.571 | N/A | \$ 2,159 |
| Community Development Block Grant | 93.569 | N/A | 111,779 |
| LIHEP Emergency Assistance | 93.568 | N/A | 10,457 |
| Family Preservation | 93.556 | N/A | 5,603 |
| Total Department of Human Services | | | 129,998 |
| United States Department of Energy | | | |
| LIHEP Weatherization | 81.042 | N/A | 34,094 |
| Federal Emergency Management Agency | | | |
| Emergency Food and Shelter | 83.523 | N/A | 46,485 |
| U. S. Department of Agriculture | | | |
| Housing Preservation | 10.433 | N/A | 22,414 |
| U. S. Department of Housing and Urban Development | | | |
| Transitional Housing | 14.178 | N/A | 43,333 |
| Section 811 Supportive Housing* | 14.181 | N/A | 21,769 |
| Total U.S. Department of Housing and Urban Development | | | 65,102 |
| U. S. Department of Justice | | | |
| Crime Victims Assistance | 16.575 | N/A | 15,638 |
| Total | | | \$ 313,731 |

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 1997

Note 1 - Basis Presentation

The accompanying schedule of expenditures of Federal Awards includes the federal grant activity of the Vernon Community Action Council, Inc. and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the general purpose financial statements.

* Expenditures for Section 811 Housing are being made for services that must be rendered prior to the Grant's approval.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 1997

Board of Directors
Vernon Community Action Council, Inc.
Leesville, Louisiana

Section I - Summary of Auditor's Results

Financial Statements

| | |
|--|---------------|
| Type of auditor's report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Reportable condition(s) identified not considered to be material weaknesses? | None reported |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|---------------|
| Internal Control over major programs: | |
| Material weakness(es) identified? | No |
| Reportable condition(s) identified not considered to be material weaknesses? | None reported |
| Type of auditor's report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133 Section .510(a)? | No |
| Identification of major <u>programs</u> : | None |
| Auditee qualified as low-risk auditee? | Yes |

Section II -- Financial Statement Findings

Finding No. 1:

Criteria: Statutory

Condition: The audit was not completed and filed in accordance with LA R. S. 24:513(A)(5)(a).

The above citation states that the audit must be completed and filed with the Office of the Legislative Auditor no later than six months following the close of the entities fiscal year end which is December 31 each year.

Questioned cost: None

Finding perception: This should be an isolated case, however, this is the second or more years that the entity has been late filing their audit report.

Asserted effect: Untimely and/or late filing affects the funding agencies ability to evaluate proper compliance with grant agreements.

Recommendation: The entity engaged an auditing firm in sufficient time to have the audit completed within the six-month period required by the statutes. My recommendation will not improve on the timely engagement process.

Management's response/plan of corrective action:

Management concurs with the finding and will take the following action:

Ms. Caren Kay, Executive Director of the Vernon Community Action Council, Inc., has been designated as the person responsible for corrective action on the finding.

In order to preclude this from recurring in the future, the Council shall insure that:

- 1] The audit engagement letter will be signed no later than January 31, following the close of the fiscal year requiring an audit.
- 2] The engagement letter will stipulate that the audit is to be completed and ready for presentation to the Board no later than the June meeting following the fiscal year end of the audit period. Should the audit firm object to this requirement, they will not be engaged to perform the audit.
- 3] The required copies of the audit shall be filed with the Office of the Legislative Auditor (mailed) no later than the last Monday of June following the fiscal year end of the report effective date, the date of the fiscal year end.

Finding No. 2:

Criteria: Other

Condition: See Note 15 to the financial statements. The Vernon Community Action Council, Inc.,

received a Firm Commitment, for Franklin Avenue Apartments Project No. 064-HD027-WPD-NP-L8 on April 31, 1998. All conditions of the Firm Commitment must be satisfied prior to Initial Closing. No costs, except for Architect's design work, can be incurred for this project until after closing.

Between 1995 and 1997 the Vernon Community Action Council, Inc., has incurred costs of \$38,187. The Firm Commitment only allows \$32,254 for Architect fees. Additionally the minutes of the April 2, 1996 Board Meeting refers to an authorization to purchase and mortgage property "for HUD Section 811 Grant".

The financial statements does not indicate if the purchase (asset) or a mortgage (liability) was consummated.

Questioned costs: \$5,933

Finding perception: One time occurrence.

Asserted effect: The Council has spent \$5,933 that HUD may not reimburse them for. Also, the Council's assets and liabilities could be understated on December 31, 1996 and 1997.

Recommendation: That these transactions be carefully reviewed in order to insure that no unauthorized costs are incurred.

Management's response/plan of corrective action:

When the April 2, 1996 motion was approved, the Board had one site in mind. Subsequent to the April 2 meeting, the Board determined that an alternative site would be more feasible. Therefore, the intended purchase was rejected, consequently there was no purchase or mortgage to be recorded.

No action is necessary.

Finding No. 3:

Criteria: Other

Condition: On September 5, 1997, the Vernon Community Action Council, Inc., signed an agreement to purchase property at the corner of Tenth and Franklin Avenue for the expressed purpose of constructing Section 811 Housing on that site. The agreement stipulated a \$2,000 down payment, which is evidenced by check # 9020 dated September 5, 1997, and the balance of \$36,000 payable no later than October 5, 1997.

Questioned cost: None

Finding Perception: One time occurrence.

Asserted effect: Because the Franklin Project will be operated by its own Board of Directors, and because the Vernon Community Action Council, Inc., will be reimbursed for the total purchase price, the Council will not record an asset and liability as a result of this action.

Recommendation: Because the Firm Commitment does not provide funds for the purchase of real property ;

because the Vernon Community Action Council, Inc., must underwrite the financial requirements of the Franklin Project for a period of twenty (20) years; and, because the due date of the remaining payment is past due, I recommend that:

- 1] The Vernon Community Action Council, Inc., request an amendment to the Firm Commitment that states that HUD will, in fact, reimburse them for the purchase price of the land.
- 2] Because of the contingent liability that will attach to the underwriting of the financial position of the Franklin Project, I recommend that the Board take whatever steps necessary to ensure that they review and approve all financial transactions taking place during the period of their responsibility for Franklin's finances. Otherwise the Board may find themselves in a position of having to take responsibility for debt obligations that they did not incur.
- 3] Because of the fact that the last payment on the purchase agreement is now past due, I recommend that the Council's Executive Director ascertain whether or not the purchase agreement is still in effect, or will a new one have to be consummated.

Management's
response/plan of
corrective action:

Concur with the recommendation. Also, the Executive Director will contact HUD and ascertain the correct course of action necessary to insure that the Council is protected as far as reimbursement is concerned. The amendment and/or agreement reached with HUD will be in writing.

The Board shall take the second recommendation under advisement. Final action will be furnished when a decision is reached.

The Executive Director will ascertain whether or not the purchase agreement is still valid and will execute an amendment to the agreement extending the due date of the final payment.

Finding #4:

Criteria:

Other

Condition:

The minutes of the August 15, 1995 meeting of the Board of Directors, Director Thor Anderson ask "if the \$30,000 donation received from Calhoun Builders had any restrictions regarding the use or expenditure of the money." The response was "some Board Members were concerned with the fact that the VCAC may have to expend some money while building the Vernon Place Apartments and the money would be used for contingency basis. The money has been placed in it own account."

The \$30,000 was placed in account #0505-900-3 at the Merchants & Farmers Bank in Leesville on September 26, 1995 and the deposit was returned (presumably to Calhoun) by the bank on October 2, 1995.

A representative of Calhoun Property Management, Inc., has stated that the above

information is correct and that they felt that the \$30,000 was a "performance bond" and once they begin the building project, that the money would be returned to them.

Questioned costs: None

Finding perception: From reading the minutes, it is clear that Board Members considered the \$30,000 a "donation" to the Vernon Community Action Council, Inc., for their use in operating the Council. From talking to Calhoun, it is clear that they did not intend for it to be a \$30,000 donation.

When the minutes of other Board Meetings where Calhoun and the desirability of the Vernon Community Action Council, Inc., teaming up with Calhoun in a partnership agreement, one could deduce that the Board could have been misled into believing that it was a "donation". Considering the evasive response to Mr. Anderson's question, one could again conclude that the Board could have been misled. Or, they could have just misunderstood.

The perception remains, however, that they were misled. If Calhoun's account of what transpired is correct, then the individual giving Mr. Anderson the answer surely knew that it was not a "donation" to the Council, and that it had to be returned to Calhoun once they begin building. Now the question becomes: Why was Mr. Anderson and the Board not told forthwith that it was considered to be a performance bond and not a donation?

Asserted effect: This leaves the impression that someone wanted the Board to believe that the Council had in fact received a "donation" and they would be able to spend the funds as they desired. Why anyone would want them to believe that it was a donation is not clear. Also, what is not clear is if anyone could gain from the fact that the Board had received a "donation". If in fact the Board's decision would have been not to enter into the partnership unless Calhoun furnished up-front money, then perhaps there was some gain involved. That would appear to be fraud.

A close reading of the minutes gives this reader the impression that the Board was likely to decline the offer to go into partnership with Calhoun.

None of this discussion should be construed to imply that Calhoun was even aware of the way the \$30,000 could or would be perceived.

Recommendation: That this finding along with Findings #5 & 6 be used as a basis for Board action to investigate past practices of the Joint Vernon Council on Aging, Inc/Vernon Community Action Council, Inc., operations.

Management's response/plan of corrective action: Management understands the Auditor's concerns and will consider the feasibility of implementing his recommendation.

Finding #5:

Criteria: Other

Condition: See Note 3 to the financial statements. On July 16, 1996, the Council was committed to a

lease agreement calling for payments of \$300 per month for 48 months. The lease can be renewed for an additional 24 months at a fee of \$275 per month. There was no prudent reason for this commitment, because there was no economic benefit to be received by the Vernon Community Action Council, Inc.

Additionally, the agreement was signed on July 16, 1996 and was effective on July 1, 1995. No explanation can be found for the retroactive nature of the agreement.

It is understood that the lease agreement was actually consummated for the sole benefit of the Vernon Council on Aging, Inc.

Questioned costs: None

Finding perception: This is considered to be evidence of a pattern, use the Vernon Community Action Council, Inc., as a alternative funding source for the Vernon Council on Aging, Inc.

Asserted effect: As shown in prior year audit findings, money that should have been used to aid clients of the Vernon Community Action Council, Inc., has actually been used to fund the Vernon Council on Aging, Inc. Perhaps some was in violation of federal statutes.

Recommendation: That Vernon Community Action Council, Inc., funds be restricted in use to aid only clients of the Council.

Management's response/plan of corrective action: Recommendation has already been implemented. No longer do we use funds for purposes other than aid to our clients.

Finding #6:

Criteria: Other

Condition: The 1996 audit report contained an audit finding dealing with the Butler Street Apartment Complex. That finding is still valid because corrective action had not been taken as of December 31, 1997.

Because auditing standards require that auditor determine the status of prior year auditing finding, further research was conducted on this finding. The results were:

- 1] Actual expenditures charged to the Butler Street Apartment Complex by the Vernon Community Action Council through December 31, 1996 were \$59,106.
- 2] Actual (documented deposits) reimbursements received from Calhoun through December 31, 1996 were \$53,795.
- 3] No record of the remaining \$5,311 being received and/or deposited was found.
- 4] According to the Certified Cost Report obtained from Calhoun, and

additional \$2,200 was paid to Vernon Community Action Council, Inc., and they were paid \$4,509 in developer fees.

- 5] No record of this \$6,709 being received and/or deposited was found.
- 6] According to Calhoun, the Vernon Community Action Council, Inc., should not have incurred any costs on this project. Costs were to be incurred and paid by the builders.
- 7] This leaves the question: Why did the Vernon Community Action Council, Inc., incur \$59,106 in costs and where did they get the money used to pay for these expenditures?
- 8] Because the Vernon Community Action Council, Inc., must spend money before it can be reimbursed, it is quite possible that the misuse of federal funds occurred.

Questioned costs: None

Finding perception: Perhaps not all funds were received and/or deposited.

Asserted effect: Material violations of the Grant Agreements could have occurred during 1996.

Recommendation: Same as in Finding #4.

Management's response/plan of corrective action: Same as for Finding #4.

Finding #7:

Criteria: Statement on Auditing Standards (SAS) Number 82.

Condition: The Vernon Community Action Council, Inc., and the Vernon Council on Aging, Inc., had the same Executive Director and Chief Accountant until May 1997.

Questioned costs: None

Finding perception: This improper separation of duties left the Vernon Community Action Council, Inc. vulnerable to errors and omissions without the benefit of potentially being discovered in a timely manner.

Recommendation: That the Board review its policies to insure that such conditions are kept to a minimum.

Management's Response/plan of action: The Board will review its policies to insure that conditions are kept to a minimum.

Section III -- Federal Award Findings and Questioned Costs **No**

Gleen O. Everhart
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended December 31, 1996

Finding # 1:

Emergency Food and Shelter Program - Resolved.

Finding # 2:

Housing Prevention Grant - Resolved.

Finding # 3:

Butler Street Apartments - Still pending. See current year auditing findings # 6.

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July 24, 1998

Board of Directors
Vernon Community Action Council, Inc.
Leesville, Louisiana

I have completed my audit of the financial statements of the Vernon Community Council, Inc., (a nonprofit organization) as of and for the year ended December 31, 1997 and issued my report on July 24, 1998.

During my audit, I noticed certain matters that did not warrant inclusion in my report; however, they are management letter items.

- 1) As I pointed out at your July 21, 1998 Board Meeting, your financial statements contained some items that I felt were unnecessary and they were eliminated. I was able to render an unqualified opinion because I gained reasonable assurance that your financial statements were free of material errors, therefore, they were fairly presented in all material respects. Your staff has made the corrections necessary to permit them to better report financial statements on a monthly basis. Consequently, this problem should no longer exist.
- 2) As you are well aware, for the past few months, your agency has been involved in a controversy over alleged back rent owed to the Vernon Council on Aging, Inc., I noted that your agency has also received a substantial amount of adverse publicity due to this matter. I want to make a couple of observations relating to this matter as it pertains to my audit of your financial statements:
 - a. While this matter has had an acute affect on the Agencies employee moral, it has not however, affected the performance of their duties or the level of service they provide to your clients.
 - b. It is apparent from reading past audit findings, lease agreements, minutes, and other documents, the Vernon Community Action Council, Inc., was used as an alternative funding source for the Vernon Council on Aging, Inc. This can best be illustrated by the finding contained in your 1996 audit report and the Governor's Office of Elderly Affairs' report in which the alleged back rent was reported:
 1. Finding #1 deals with (restricted) funds being loaned to the Council on Aging, Inc., in the amount of \$10,194.
 2. The number of loans that have been made to the Council on Aging, Inc., by the Vernon Community Action Council, Inc., in past years.

Board of Directors
July 24, 1998
Page Two

- c. For the past thirty-three month period ending December 31, 1997, the Vernon Community Action Council, Inc., has made \$300 per month lease payments on a lease commitment that has not economically benefited the VCAC. However, I understand that the VCOA has benefitted from these lease payments.

Although, an affiliation between the VCAC and VCOA has not existed since February 1998, the VCAC is committed by the lease agreement to pay an additional \$4,500 between December 31, 1997 and March 31, 1999, when the term of the lease will expire.

- d. As an auditor I am concerned about such transactions taking place between the two agencies and ask if there are other transactions, unknown to me as the auditor, of more serious consequences that would negatively affect the Vernon Community Action Council, Inc., statements of financial position.
- e. Based on my findings, I feel that more serious transactions have occurred in the past. The scope of my engagement only covers fiscal year 1998, however.

My conclusions:

- 1) The Vernon Community Action Council, Inc., has been criticized for their past actions while those actions have been to the benefit of the Vernon Council on Ageing, Inc.;
- 2) Employee moral has been adversely affected by these criticisms;
- 3) The Vernon Community Action Council, Inc., must continue to pay money for the benefit of the Vernon Council on Aging, Inc., until the end of March 1999;
- 4) As an auditor, I am concerned about past transactions between the Vernon Council on Aging, Inc., and the Vernon Community Action Council, Inc., because of the lack of control over these transactions; and,
- 5) With a new Board of Directors and Senior Staff in place the situation no longer exists and will not occur in the future.


/cf

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V C A C

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August 18, 1998

Legislative Auditor
State of Louisiana
1600 North Third Street
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Sir/Madam:

This is in response to the management letter submitted by Mr. Gleen O. Everhart, Certified Public Accountant, on July 24, 1998.

At our August 13, 1998 Board meeting, the Directors reviewed the conclusions stated in the management letter and voted in favor of:

Conclusion #1 - Criticism for past actions that have benefited the Vernon Council on Aging, Inc.

The Executive Director will:

- 1) Recognize that some of the criticism has merit;
- 2) Attempt to determine, where possible, who is or was responsible for the adverse action(s) and recommend appropriate action to the Board;
- 3) Immediately implement procedures to insure that such actions do not occur in the future; and,
- 4) As appropriate, cause action to be taken to recover any money that was spent inappropriately and/or in violation of federal regulations and grant agreements.

Conclusion #2 - Effects on employee moral.

The Board President shall:

- 1) At the next regular meeting of the board, address all Council employees and relay the Board's appreciation for all of their support and understanding; and
- 2) Assure the employees that everything is being done to correct this problem.

Conclusion #3 - The lease commitment:

If there was a legal way to void this lease the Vernon Community Action Council, Inc., would do so immediately; however, we do not have grounds for doing so. Therefore, we are committed to this lease until March 1999.

The auditor has recommended that we take legal action to recover all expenses incurred by the VCAC from the party who obligated the Council to make these payments.

This recommendation is being given serious consideration.

Conclusion #4 - Seriousness of past financial transactions.

This problem no longer exists. Our system of internal controls has been changed and we feel that the changes have corrected the problem as far as the future is concerned. The past problems still remain; however, and will be addressed as follows:

- 1) The back rent issue:
 - A. The Board authorized our auditor to attempt to reach a closure in this matter. A meeting took place today with the following present:
 1. Our auditor;
 2. The VCOA Auditor; and,
 3. The VCOA Executive Director.

Our auditor maintains that we have paid an adequate amount for rent, therefore, no more is due and payable. Our legal council concurs and states that we could have overpaid. This would mean we are due a refund.

The VCOA maintains that we owe the back rent and they must collect the amount in full.

It was not a successful meeting and the matter will more likely than not be litigated.

- B. Our auditor has stated that if the rent expense recorded by the VCAC was charged to one of our grants (meaning federal money) was involved, there could be a violation of the provisions of OMB Circular A-122, *Cost Principles for Nonprofit Organizations*. This would result in an additional audit finding/questioned cost not previously known. Also, if there is a finding, it will automatically result in a questioned cost. However, no amount can be established at this time.

Furthermore, the condition of prior years records may preclude us from ever making such a determination. Also, because this involves prior years, the Board had to approved an expanded scope in order to permit the auditor to make this determination, if it can be done.

The above will be determined as soon as possible.

- 2) The other issues involve possible violations of Federal and State Statutes. Again, the Board authorized the Auditor to determine if there is cause to seek legal action against former employee(s) of the Vernon Community Action Council, Inc.

Plans are now being made for our auditor to meet with the Inspector General's Office for the purpose of discussing this problem with them.

Legislative Auditor
August 18, 1998
Page Three

Once that meeting takes place and the Board has been briefed, they will consider action on any recommendation that may result from the meeting.

Caren Kay
Executive Director