

*Retarded Citizens
Can Be Helped!*

**ST. JOHN ASSOCIATION FOR
RETARDED CITIZENS, INC.**

Independent Auditor's Report of Financial Statements

As of and for the Year Ended June 30, 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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.

T.S. KEARNS & CO.
CPA
(A Professional Corporation)
Timothy S. Kearns, MBA, CPA
501 Canal Boulevard, Thibodaux, LA 70301
(985) 447-8507 Fax (985) 447-4833
kearnscpa@kearnscpa.com

Release Date 12-1-04

ST. JOHN ASSOCIATION FOR RETARDED CITIZENS, INC.

Independent Auditor's Report on Financial Statements

As of and for the year ended June 30, 2004

TABLE OF CONTENTS

	Statement	Page
Financial Section		
Independent Auditor's Report on the Financial Statements		2
Financial Statements:		
Statement of Financial Position	A	3
Statement of Activities	B	4
Schedule of Functional Expenses	C	5
Statement of Cash Flows	D	6
Notes to the Financial Statements		7-11
	Schedule	Page
Supplemental Information:		
Bar Graph Comparing 2004 & 2003 Revenue Comparison	1	12
Pie Graph of Breakdown of 2004 Total Expenses	2	13
Line Graph Comparison of 2001-2004 Revenue & Expenses	3	14
Reports by Management		
Summary Schedule of Prior Audit Findings		15
Corrective Action Plan for Current Year Audit Findings		16
Special Reports of Certified Public Accountants		
Report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Governmental Auditing Standards		17
Management Letter		18-19



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
St. John Association for Retarded Citizens, Inc.
LaPlace, Louisiana

We have audited the accompanying statements of financial position of the St. John Association for Retarded Citizens (a nonprofit corporation), as of June 30, 2004 and 2003, and the related statements of activities, functional expenses, and cash flows for the years then ended. These general purpose financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the St. John Association for Retarded Citizens as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004 on our consideration of the St. John Association for Retarded Citizen's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script, appearing to read "T.S. Kearns & Co.", written in dark ink.

November 19, 2004

TIMOTHY S. KEARNS
MASTER OF BUSINESS ADMINISTRATION
CERTIFIED PUBLIC ACCOUNTANT

(A Professional Corporation)
501 Canal Boulevard, Thibodaux, LA 70301
(985) 447-8507 Fax (985) 447-4833
kearnscpa@kearnscpa.com
www.kearnscpa.com

ST. JOHN ASSOCIATION FOR RETARDED CITIZENS
LaPlace, Louisiana
Statement of Financial Position
June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 411,687	\$ 266,205
Contract Receivable	112,556	137,528
Ad Valorem Tax Receivable	27,884	6,235
Deposit on Vehicles	<u>13,620</u>	<u>-</u>
TOTAL CURRENT ASSETS	\$ 565,747	\$ 409,968
PROPERTY AND EQUIPMENT:		
Land	\$ 50,412	\$ 50,412
Land Improvements	39,449	39,449
Building	94,305	94,305
Fixed Equipment	49,398	48,743
Major Moveable Equipment	30,544	25,564
Vehicles	120,751	120,751
Accumulated Depreciation	<u>(200,299)</u>	<u>(181,237)</u>
TOTAL PROPERTY & EQUIPMENT	\$ 184,559	\$ 197,986
TOTAL ASSETS	<u>\$ 750,306</u>	<u>\$ 607,954</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 8,047	\$ 5,312
Accrued payroll	21,409	17,592
Other payable	<u>-</u>	<u>3,500</u>
TOTAL CURRENT LIABILITIES	\$ 29,457	\$ 26,404
NET ASSETS:		
Unrestricted		
Undesignated	\$ 536,290	\$ 383,564
Board Designated	-	-
Fixed Assets	<u>184,559</u>	<u>197,986</u>
TOTAL NET ASSETS	<u>\$ 720,849</u>	<u>\$ 581,550</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 750,306</u>	<u>\$ 607,954</u>

The accompanying notes are an integral part of these financial statements.

ST. JOHN ASSOCIATION FOR RETARDED CITIZENS
LaPlace, Louisiana
Statement of Activities
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
UNRESTRICTED NET ASSETS		
REVENUES AND SUPPORT:		
<i>Contract Revenues - Department of Health and Hospitals</i>	\$ 97,483	\$ 119,289
Contract Revenues - DHH - Medicaid	691,069	514,124
Contract Revenues - Betr-Care	32,556	37,020
Contract Revenues - Res-Care	39,872	38,976
Ad Valorem Tax	121,024	63,348
Client Contracts	31,233	28,348
Indirect Public Support	10,320	9,644
Contributed Facilities	42,000	42,000
Entergy Grant	1,969	-
Dues	605	590
Other	2,938	580
Interest Earnings	586	670
	<u> </u>	<u> </u>
TOTAL UNRESTRICTED NET ASSETS	\$ 1,071,655	\$ 854,588
EXPENSES:		
Program Services		
<i>Adult Habilitation Program</i>	\$ 879,662	\$ 742,006
Supporting Services		
Management and General	52,694	43,070
	<u> </u>	<u> </u>
TOTAL EXPENSES	\$ 932,356	\$ 785,076
INCREASE (DECREASE) IN NET ASSETS	\$ 139,299	\$ 69,512
NET ASSETS AT BEGINNING OF YEAR	<u>581,550</u>	<u>512,038</u>
NET ASSETS AT END OF YEAR	<u>\$ 720,849</u>	<u>\$ 581,550</u>

The accompanying notes are an integral part of these financial statements.

ST. JOHN ASSOCIATION FOR RETARDED CITIZENS
LaPlace, Louisiana
Schedule of Functional Expenses
For the Years Ended June 30, 2004 and 2003

	2004		2003	
	PROGRAM SERVICES	SUPPORTING SERVICES	PROGRAM SERVICES	SUPPORTING SERVICES
	Adult	Management and General	Adult	Management and General
	TOTALS		TOTALS	
Compensation and Related Expenses				
Compensation:				
Staff	\$ 599,070	\$ 32,689	\$ 525,219	\$ 30,839
Clients	23,576	-	24,030	-
Employee Benefits - health insurance	8,926	4,733	4,540	3,191
Payroll taxes	57,236	-	47,358	-
Conference and Training	-	3,160	-	2,337
Client Lunches	3,904	-	-	-
Depreciation	19,062	-	24,353	-
Dues	-	2,368	-	50
Insurance:				
Officers/Directors	2,367	-	975	-
Janitorial Bond	163	-	163	-
Property	10,571	-	507	-
Vehicles	22,811	-	-	-
Worker's Compensation	18,228	-	14,476	-
Liability	2,328	-	-	-
Occupancy:				
Utilities	11,364	-	9,030	-
Maintenance	8,541	-	7,725	-
Rent	42,000	-	42,000	-
Professional Services	5,961	-	5,796	-
Supplies:				
Operating	6,156	-	4,553	-
Office	-	9,278	-	6,261
Telephone	5,274	-	4,430	-
Transportation	28,876	-	21,666	-
Gain on Disposal of Assets	-	-	(380)	-
Other	3,247	466	5,544	392
TOTAL EXPENSES	\$ 879,662	\$ 52,694	\$ 742,006	\$ 43,070
				\$ 785,076

The accompanying notes are an integral part of these financial statements.

ST. JOHN ASSOCIATION FOR RETARDED CITIZENS
LaPlace, Louisiana
Statement of Cash Flows
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) In Net Assets	\$ 139,299	\$ 69,512
Adjustments To Reconcile Increase In Net Assets		
To Cash Provided By Operating Activities:		
Operating Activities:		
Depreciation	19,062	24,353
Gain on Disposal of Equipment	-	(380)
(Increase) Decrease in Operating Assets		
Receivables	3,323	(74,501)
Increase (Decrease) In Operating Liabilities		
Accounts Payable and Accrued Liabilities	<u>3,053</u>	<u>2,321</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 \$ 164,737	 \$ 21,305
 CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of Property and Equipment	0	800
Deposit on Vehicles	(13,620)	0
Purchase of Property and Equipment	<u>(5,635)</u>	<u>(13,126)</u>
 NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	 \$ (19,255)	 \$ (12,326)
 NET INCREASE (DECREASE) IN CASH	 \$ 145,482	 \$ 8,979
 CASH AT BEGINNING OF YEAR	 \$ 266,205	 \$ 257,226
 CASH AT END OF YEAR	 <u>\$ 411,687</u>	 <u>\$ 266,205</u>

The accompanying notes are an integral part of these financial statements.

ST. JOHN ASSOCIATION FOR RETARDED CITIZENS, INC.
LaPlace, Louisiana
Notes to the Financial Statements
June 30, 2004

INTRODUCTION

St. John Association For Retarded Citizens (a nonprofit organization) trains the mentally and physically handicapped citizens over 22 years of age of the parish. The areas of training are geared toward helping the individuals adjust to society. The areas of training include self-help, social skills, pre-vocational, independent living, mobile work crews, personal hygiene, daily living skills - making change, telling time, safety - recognition of danger signs, physical training and maximization of individual potential. The organization also provides free transportation for all activities including daily instruction classes.

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed are described to enhance the usefulness of the financial statements to the reader. The financial statements of St. John Association For Retarded Citizens (a nonprofit organization) have been prepared on the accrual basis; therefore, certain revenues and the related assets are recognized when earned rather than when received and certain expenses are recognized when the obligation is incurred rather than when paid. These policies have been consistently applied in the preparation of the financial statements. The corporation has no capital stock.

A. BASIS OF PRESENTATION

The financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit organizations, which requires the Organization 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.

B. PROPERTY AND EQUIPMENT

Property and equipment purchased are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support 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 support. 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

ST. JOHN ASSOCIATION FOR RETARDED CITIZENS, INC.
LaPlace, Louisiana
Notes to the Financial Statements
June 30, 2004

temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method.

C. CONTRIBUTIONS

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

D. CONTRACTS RECEIVABLE

Management believes that all contracts receivable at year-end are fully collectible; therefore, no allowance for doubtful accounts is recorded.

E. CASH FLOWS

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

F. FUNCTIONAL EXPENSES

Expenses are charged directly to program or management in general categories based on specific identification. Indirect expenses have been allocated based on salary expenditures.

NOTE II CASH AND CASH EQUIVALENTS

At June 30, 2004, the organization had cash and cash equivalents (collected bank balances) totaling \$459,413. These deposits are stated at cost, which approximates market. Of these deposits, \$443,921 is secured from risk by federal depository insurance. The remaining \$15,492 is unsecured.

ST. JOHN ASSOCIATION FOR RETARDED CITIZENS, INC.
LaPlace, Louisiana
Notes to the Financial Statements
June 30, 2004

NOTE III CONTRIBUTED SERVICES

The organization receives donated services from a variety of unpaid volunteers. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer effort under SFAS No. 116 have not been satisfied.

NOTE IV CONTRIBUTED FACILITIES

The organization occupies a government owned building -located at 101 Bamboo Street, Laplace, Louisiana under an agreement with the St. John the Baptist Parish Council. No rent is paid by the Organization. The approximate fair value of the annual rental is \$42,000.

NOTE V CONTRACT REVENUES

The Organization entered into a contract with the Office for Citizens with Development Disabilities, Department of Health and Hospitals to provide training to the mentally and developmentally handicapped citizens over 23 years of age in St. John the Baptist Parish. The areas of training include self-help, social skills, pre-vocations, independent living, mobile work crews, and behavioral skills. The contract was for the period July 1, 2003 to June 30, 2004, and in a maximum contract amount of \$97,483. Under the contract, the Department of Health and Hospitals agreed to pay the St. John Association For Retarded Citizens \$5,261 per month for twelve months, for a total of \$63,132. The remaining \$34,351 was paid based on the type of service provided to each individual client and the complexity of the individual's needs.

The organization also entered into a contract with Betr-Care, Inc. and Res-care, Inc. (residential providers) to provide day training at \$30.00 and \$28.00 per client day, respectfully. The contract with Betr-Care, Inc. was for the period June 30, 2000 and will last indefinitely, or until either party decides to terminate by giving written notice of thirty (30) calendar days. The training provided is explained in the preceding paragraph. The contract with Res-Care, Inc. was effective January 1, 1993, and will last indefinitely, or until either party decides to terminate by giving written notice of thirty (30) calendar days. The training provided is explained in the preceding paragraph.

The organization also receives revenues for providing training to Medicaid clients.

ST. JOHN ASSOCIATION FOR RETARDED CITIZENS, INC.
LaPlace, Louisiana
Notes to the Financial Statements
June 30, 2004

NOTE VI CONTRACT RECEIVABLE

Contract receivable consists of services provided but not yet paid as of June 30, 2004. Contract receivable is made up of the following:

State of Louisiana	\$ 95,805
Betr-Care, Inc.	3,060
Res-Care, Inc.	7,084
Client Contract	4,018
St. John Parish Council	<u>2,589</u>
	<u>\$112,556</u>

NOTE VII INCOME TAX STATUS

St. John Association For Retarded Citizens is exempt from federal income tax under Section 501 (C) (3) of the Internal Revenue Code. 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).

NOTE VIII ECONOMIC DEPENDENCY

The Organization depends on the State of Louisiana, Department of Health and Hospitals for a major portion of its operation.

NOTE IX PROPOSITION I

Proposition I was passed by the citizens of St. John the Baptist Parish on April 3, 1993. Proposition I allows the Parish to incur debt and issue bonds to the amount of Five Hundred Thousand Dollars (\$500,000) to run fifteen (15) years from the date thereof, with interest at a rate not exceeding nine per centum (9%) per annum, for the purpose of acquiring, constructing, improving and renovating public buildings to house a work training center for mentally retarded and developmentally disabled persons, title to which shall be in the public. The bonds will be general obligations of the Parish and payable from ad valorem taxes to be levied and collected in the manner provided by Article VI, Section 33 of the Constitution of the state of Louisiana of 1974, and statutory authority supplemental thereto. St. John Association For Retarded Citizens occupied the public building in January, 1995.

ST. JOHN ASSOCIATION FOR RETARDED CITIZENS, INC.
LaPlace, Louisiana
Notes to the Financial Statements
June 30, 2004

NOTE X PROPOSITION II

Proposition II was passed by the citizens of St. John the Baptist Parish on April 3, 1993. Proposition II allows St. John the Baptist Parish to levy a one-half (1/2) mill tax on all the property subject to taxation within said Parish for a period of ten (10) years beginning with the year 1993 and ending with year 2002. In 2002, Proposition II was renewed and will levy a one (1) mill tax on all the property subject to taxation within St. John the Baptist Parish for a period of ten (10) years beginning with the year 2003 and ending with year 2012, for the purpose of maintaining and operating public building used to house mentally retarded persons (including payment of salaries and cost of conducting training programs for the mentally retarded and developmentally disabled citizens).

NOTE XI. CONCENTRATIONS OF CREDIT RISK

Statement of Financial Accounting Standards No. 105 identifies deposits maintained at financial institutions in excess of federally insured limits as a concentration of credit risk requiring disclosure, regardless of the degree of risk. At June 30, 2004, the organization's uninsured demand and time deposit balances total \$15,492 (collected bank balances). Management believes that the risk is limited because the deposits are maintained in high quality financial institutions.

NOTE XII. GROUP LIFE & DISABILITY INSURANCE

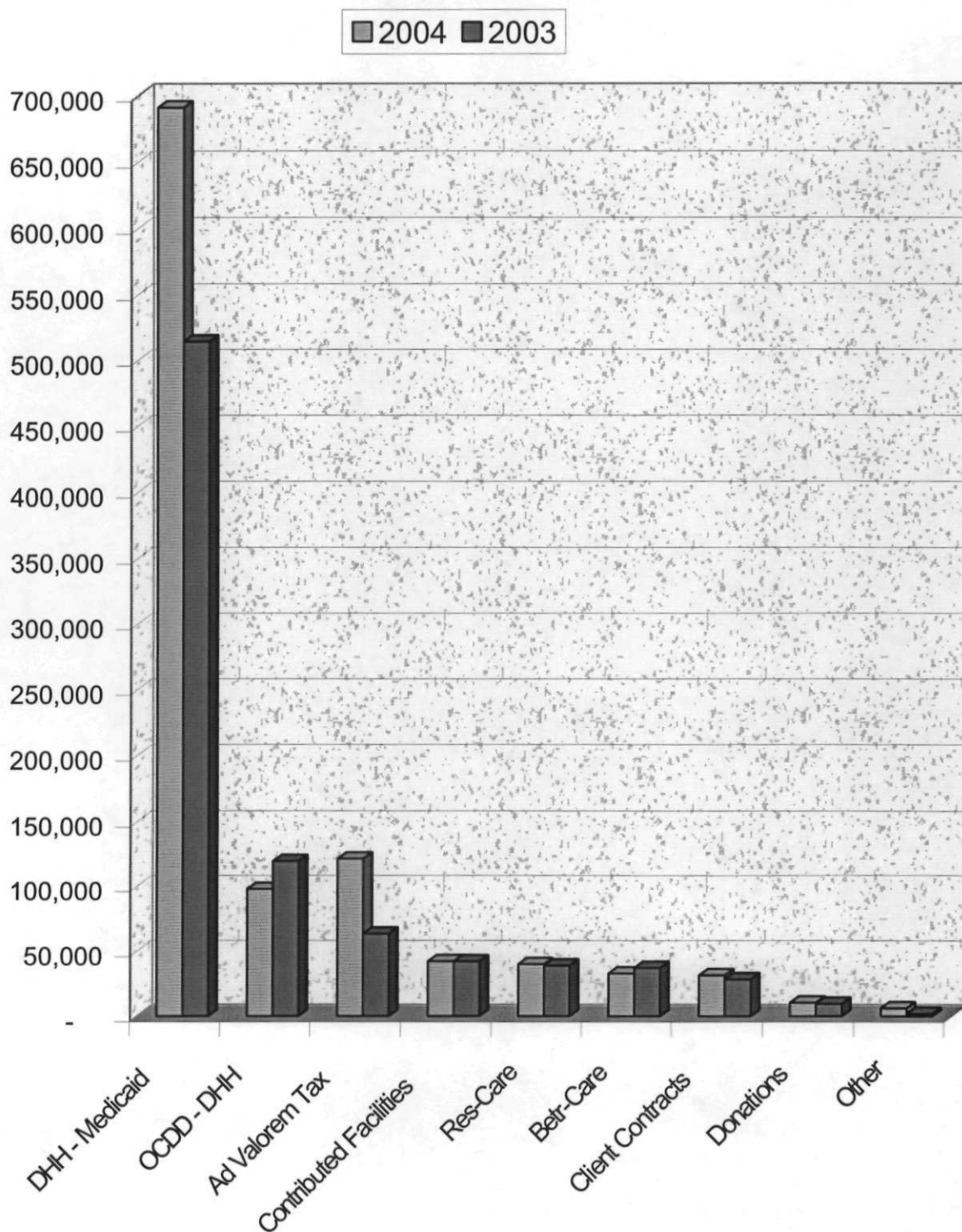
In May of 2002, the ARC began to offer group life and disability insurance plans for its employees. Employees must meet certain criteria in order to be eligible for the programs. The employee must work at least 30 hours a week and have been employed by the ARC for at least 6 months. The plans are administered by American Heritage Life Insurance and are fully funded by the employee.

NOTE XIII. LITIGATION AND CLAIMS

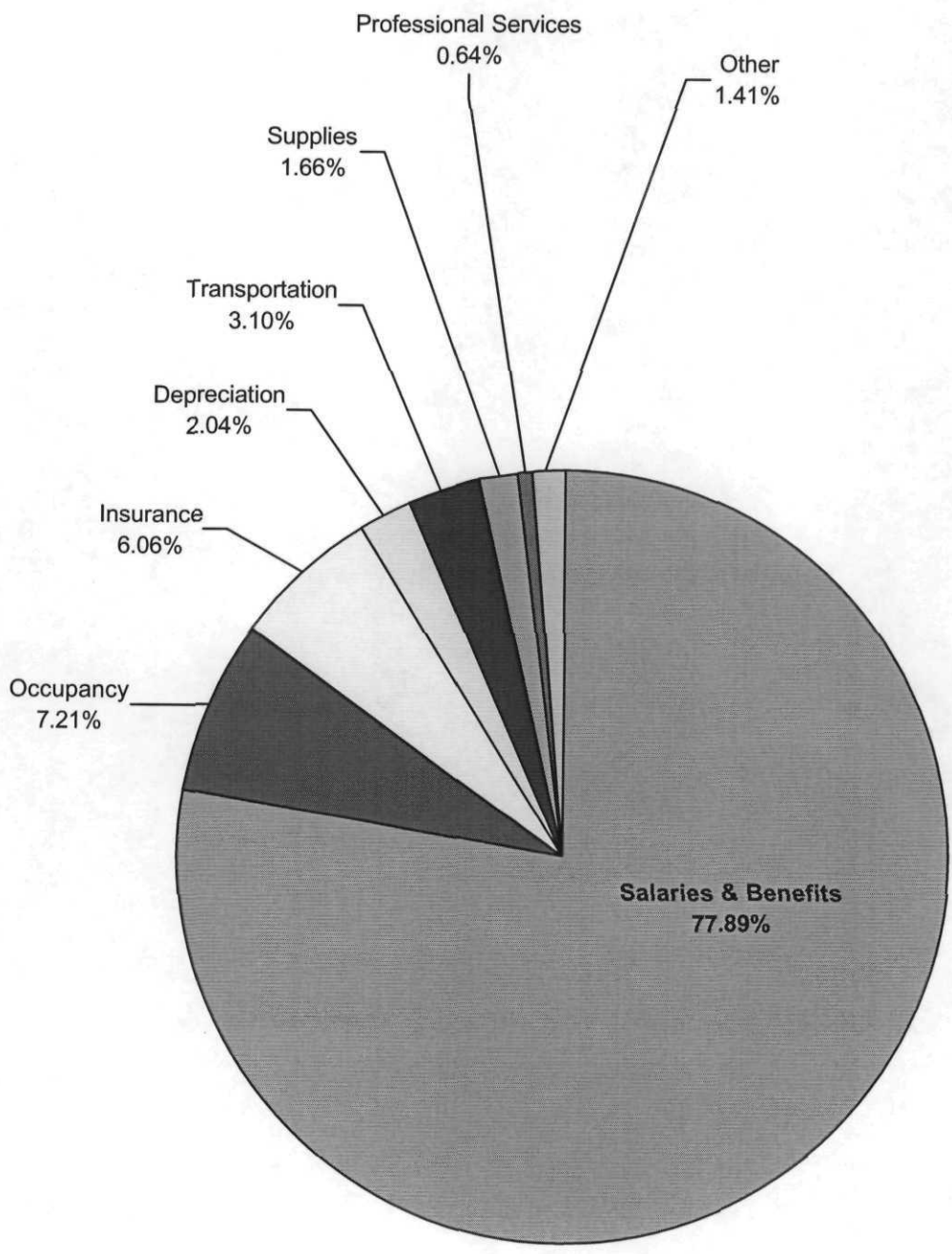
At June 30, 2004, the St. John Association for Retarded Citizens, Inc. had no litigation or claims pending.

Supplemental Information Schedules

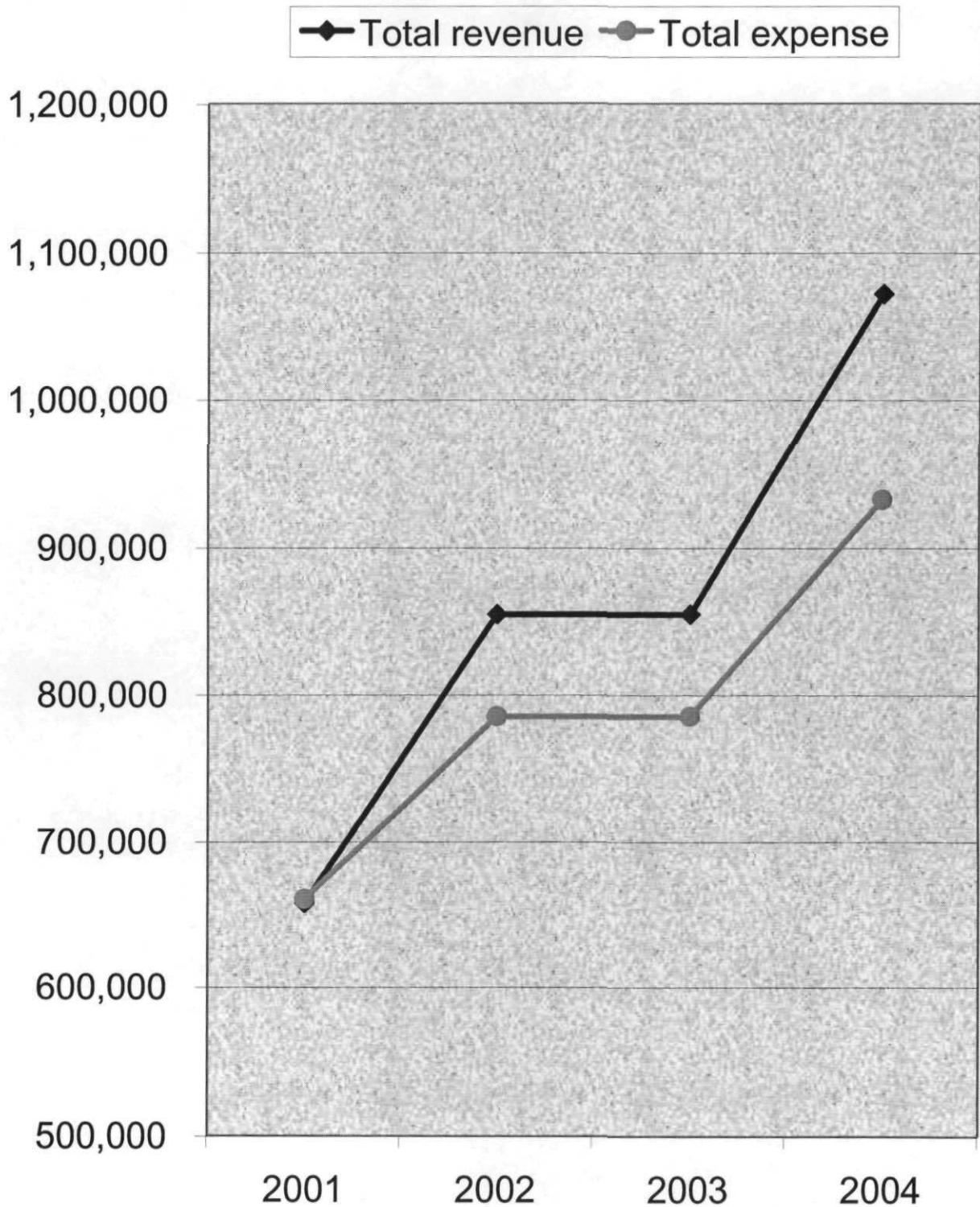
St. John Association for Retarded Citizens 2004 & 2003 Revenue Comparison



St. John Association for Retarded Citizens 2004 Total Expenses



St. John Association for Retarded Citizens 4 Year Revenue & Expense Comparison



Reports by Management

ST. JOHN ASSOCIATION FOR RETARDED CITIZENS, INC.
LaPlace, Louisiana
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2004

<u>Ref. No.</u>	<u>Description of Finding</u>	<u>Corrective Action Planned</u>	<u>Name of Contact Person</u>	<u>Anticipated Completion Date</u>
<u>None</u>	<u></u>	<u></u>	<u></u>	<u></u>

Description of Finding:

There were no findings required to be reported.

Corrective Action Taken:

ST. JOHN ASSOCIATION FOR RETARDED CITIZENS, INC.
LaPlace, Louisiana
Corrective Action Plan for Current Year Audit Findings
For the Year Ended June 30, 2004

<u>Ref. No.</u>	<u>Description of Finding</u>	<u>Corrective Action Planned</u>	<u>Name of Contact Person</u>	<u>Anticipated Completion Date</u>
<u>None</u>	<u></u>	<u></u>	<u></u>	<u></u>

Description of Finding:

There are no findings required to be reported.

Corrective Action Planned:

**Special Reports of
Certified Public Accountants**



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

To the Board of Directors
St. John Association for Retarded Citizens, Inc.
LaPlace, Louisiana

We have audited the financial statements of the St. John Association for Retarded Citizens, as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated November 19, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the St. John Association for Retarded Citizen's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the St. John Association for Retarded Citizen's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our 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 general purpose 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, the Legislative Auditor of the State of Louisiana, and the Louisiana State Planning Council on Development Disabilities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

November 19, 2004

TIMOTHY S. KEARNS
MASTER OF BUSINESS ADMINISTRATION
CERTIFIED PUBLIC ACCOUNTANT

(A Professional Corporation)
501 Canal Boulevard, Thibodaux, LA 70301
(985) 447-8507 Fax (985) 447-4833
kearnscpa@kearnscpa.com
www.kearnscpa.com



Management Letter

**To the Management and
The Board of Directors of
St. John Association for Retarded Citizens**

In planning and performing our audit of the financial statements of St. John Association for Retarded Citizens (the ARC) for the year ended June 30, 2004, we considered the ARC's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. (We previously reported on the ARC's internal control in our report dated November 19, 2004). This letter does not affect our report dated November 19, 2004, on the financial statements of the St. John Association for Retarded Citizens.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various ARC personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Securing Bank Accounts

While reviewing insurance coverage on the ARC's bank accounts, we noted that while the accounts with Union Planters Bank are sufficiently covered with FDIC and pledged securities, the accounts with Hibernia National Bank are not. The balances in excess of FDIC coverage (\$100,000) represent concentrations of credit risk. While the risk is limited because the deposits are maintained in a high quality financial institution, we believe that it would be good policy to obtain additional insurance coverage to maintain that balances kept with Hibernia are sufficiently secured from risk at all times.

Payroll

Current procedures are in place to insure that all employees, including salaried employees, clock in and out to properly record time worked. However, we noted that Ida Nathan, a salaried employee, is not required to adhere to this policy. Currently, Ms. Nathan prepares a written, daily timesheet recording time worked; a supervisor's signature is not required. We believe that in order to strengthen controls in this area, all employee time should be properly supervised, either by using a clock system or by having a supervisor approve timesheets before authorizing payroll.

During our interviews with various employees, we were informed that, on occasion, employees have punched other employees' time cards to clock in or out. While this did not seem to indicate that employees were paid for days that they did not work, we believe that

management should implement a policy whereby employees are not allowed, under any circumstance, to punch another employee's time card.

Employee Training

We noted that due to Cherie DeBowes not receiving timely information regarding changes to the Medicaid billing system that the DDT Medicaid billing was several months behind, causing periods of reduced income for the organization. Although the ARC did send a representative to receive the updated Medicaid training, this information was not relayed to all necessary employees. We believe that management should convey the importance of proper training for all employees.

Security of Unused Checks

We noted that the checks used for Respit/PCA payroll are located separately from the checks for all other bank accounts. In order to maintain security over all unused checks, we believe that all bank checks be kept together, in a locked area.

Access to Accounting Program

Password protection has not been implemented completely for the ARC's accounting program. Proper internal control procedures call for tightly controlled access to accounting books and records. Access to accounting programs is normally restricted via the use of passwords. Without password protection, the accounting system is not secure from unauthorized use and access. We recommend the immediate implementation of password protection for the ARC division of the accounting program. Passwords are currently in place for the Respit division and the DDT division of the programs.

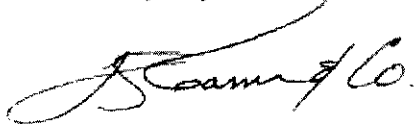
Background Checks

It is the ARC's policy and a state requirement that management obtain a statewide criminal background checks on all potential new hires. While we found no incidence of noncompliance, we believe that implementing a procedure whereby the Director verifies that background checks are properly and timely obtained for all new hires will further strengthen policies currently in place to insure that the client's safety remains the highest priority.

In reviewing the above items with management, they agree with the suggestions presented here and will work towards implementing these recommendations.

We wish to thank the Board, Director, and other employees of the St. John ARC for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



November 18, 2004