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**FIRST STEPS REFERRAL AND  
CONSULTING, L.L.C.**

**FINANCIAL REPORT**

**MAY 31, 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.

Release Date 12-22-04

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# BROUSSARD, POCHÉ, LEWIS & BREAU, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

4112 West Congress  
P. O. Box 61400  
Lafayette, Louisiana  
70596-1400  
phone: (337) 988-4930  
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## INDEPENDENT AUDITORS' REPORT

### Other Offices:

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First Steps Referral and Consulting, L.L.C.  
New Iberia, Louisiana

We were engaged to audit the accompanying balance sheet of First Steps Referral and Consulting, L.L.C. (a limited liability company) as of May 31, 2004, and the related statements of income, changes in member's equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management.

Eugene C. Gilder, CPA\*  
Donald W. Kelley, CPA\*  
Herbert Lemoine II, CPA\*  
Frank A. Stagno, CPA\*  
Scott J. Broussard, CPA\*  
L. Charles Abshire, CPA\*  
Kenneth R. Dugas, CPA\*  
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Patrick D. McCarthy, CPA\*  
Martha B. Wyatt, CPA\*  
Troy J. Breau, CPA\*  
Fayette T. Dupré, CPA\*  
Mary A. Castille, CPA\*  
Joey Breau, CPA\*  
Terrel P. Dressel, CPA\*

We were unable to determine the propriety of certain recorded expenses reflected in the statement of income and whether such expenses are qualified expenses reimbursable under a DHH grant. We were also unable to satisfy ourselves that recorded expenses reflected in the financial statements were made to the appropriate payee as cancelled checks, in either original or imaged form, were not available for inspection.

Because of the significance of the matters discussed in the preceding paragraph, the scope of our work was not sufficient, to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with Government Auditing Standards, we have also issued a report dated December 14, 2004, on our consideration of First Steps Referral and Consulting, L.L.C.'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.

### Retired:

Sidney L. Broussard, CPA\* 1980  
Leon K. Poché, CPA 1984  
James H. Breau, CPA 1987  
Erma R. Walton, CPA 1988  
George A. Lewis, CPA\* 1992  
Geraldine J. Wimberley, CPA\* 1995  
Rodney L. Savoy, CPA\* 1996  
Larry G. Broussard, CPA\* 1997  
Lawrence A. Cramer, CPA\* 1999  
Michael P. Crochet, CPA\* 1999  
Ralph Friend, CPA 2002

*Broussard, Poché, Lewis & Breau, L.L.P.*  
Lafayette, Louisiana  
December 14, 2004

Members of American Institute of  
Certified Public Accountants  
Society of Louisiana Certified  
Public Accountants

FIRST STEPS REFERRAL AND CONSULTING, L.L.C.

BALANCE SHEET  
May 31, 2004

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 5,270
Due from State Department of Health and Hospitals	95,593
Prepaid expenses	<u>375</u>
Total current assets	<u>\$ 101,238</u>

PROPERTY AND EQUIPMENT, at cost:

Equipment	\$ 23,174
Furniture and fixtures	<u>2,169</u>
	\$ 25,343
Less accumulated depreciation	<u>(3,523)</u>
	<u>\$ 21,820</u>

OTHER ASSETS

Deposits	\$ <u>750</u>
Total assets	<u>\$ 123,808</u>

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 20,490
Accrued liabilities	9,432
Due to stockholder	<u>7,000</u>
Total current liabilities	<u>\$ 36,922</u>

MEMBER'S EQUITY

MEMBER'S EQUITY	<u>\$ 86,886</u>
Total liabilities and member's equity	<u>\$ 123,808</u>

See Notes to Financial Statements.

FIRST STEPS REFERRAL AND CONSULTING, L.L.C.

STATEMENT OF INCOME  
For the Year Ended May 31, 2004

REVENUES:

Department of Health and Hospitals contract revenue	\$ 536,812
Consulting	<u>2,100</u>
Total revenues	<u>\$ 538,912</u>

EXPENSES:

Salaries	\$ 297,071
Telephone and utilities	19,591
Office rent	13,400
Copier rental	4,338
Travel	17,231
Payroll taxes	24,291
Health stipend	19,604
Professional fees	25,035
Insurance	13,612
Office supplies	28,020
Depreciation	3,523
Mailing	3,646
Other	<u>7,876</u>
Total expenses	<u>\$ 477,238</u>
Net income	<u>\$ 61,674</u>

See Notes to Financial Statements.

FIRST STEPS REFERRAL AND CONSULTING, L.L.C.

STATEMENT OF CHANGES IN MEMBER'S EQUITY  
For the Year Ended May 31, 2004

MEMBER'S EQUITY, June 1, 2003	\$ 25,212
Net income	<u>61,674</u>
MEMBER'S EQUITY, May 31, 2004	<u>\$ 86,886</u>

See Notes to Financial Statements.

FIRST STEPS REFERRAL AND CONSULTING, L.L.C.

STATEMENT OF CASH FLOWS  
For the Year Ended May 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 61,674
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation	3,523
(Increase) decrease in - Accounts receivable	(95,593)
Increase (decrease) in - Accounts payable	19,424
Accrued expenses	<u>9,432</u>
Net cash used in operating activities	<u>\$ (1,540)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of equipment	<u>\$ (10,607)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Loan from stockholder	<u>\$ 7,000</u>
Net decrease in cash and cash equivalents	\$ (5,147)
Cash and cash equivalents at beginning of year	<u>10,417</u>
Cash and cash equivalents at end of year	<u>\$ 5,270</u>

See Notes to Financial Statements.

FIRST STEPS REFERRAL AND CONSULTING, L.L.C.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of business:

First Steps Referral and Consulting, L.L.C. (the Company) provides System Points of Entry (SPOE) services within the parishes of Lafayette, Iberia, St. Martin, Vermilion, St. Landry, Evangeline and Acadia for Louisiana's early intervention system - ChildNet (Part C) and its eligible infants and toddlers from birth to three as regulated under Part C of the Individuals With Disabilities Education Act (IDEA). The Company began operations in 2003 and is supported almost entirely through contracts with Department of Health and Hospitals. For the fiscal year ended May 31, 2004, 99.6% of the Company's revenue was derived from these contracts.

Use of estimates in the preparation of financial statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition:

The Company recognizes revenues as reimbursable expenses are incurred under the contracts. Expenses are recognized as they are incurred.

Fixed assets:

Fixed assets are valued at cost and depreciated over the estimated useful lives of the individual assets using the straight-line method. The estimated lives are as follows:

Furniture and Fixtures	7 years
Equipment	5 years

Income taxes:

The Company has elected to be taxed as a limited liability company for federal and state income tax purposes. The members have consented to include their pro rata share of the Company's income or loss in their individual tax returns. Accordingly, no provision for federal and state income taxes were made in the accompanying financial statement.



NOTES TO FINANCIAL STATEMENTS

Concentration of credit risk:

Contract revenue from Department of Health and Hospitals accounted for substantially all of the Company's revenues during the 2004 fiscal year.

Allowance for doubtful accounts:

The Company considers amounts due from Department of Health and Hospitals to be fully collectible. Accordingly, no allowance for doubtful accounts is required.

Compensated absences:

Each employee earns annual leave of 80 hours per year which is granted to the employee on January 1 of each calendar year. Any amount not used in the year it is earned is lost. Unused annual leave is paid to an employee upon retirement or resignation at hourly rates being earned by that employee at separation. The amount of unused leave as of the end of the fiscal year is \$9,432, which is reported as accrued liabilities.

Cash and cash equivalents:

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

Note 2. Fixed Assets

The following is a summary of property and equipment as of May 31, 2004:

Equipment	\$ 23,174
Furniture and fixtures	<u>2,169</u>
	\$ 25,343
Less accumulated depreciation	<u>(3,523)</u>
	<u>\$ 21,820</u>

Depreciation expense for the year ended May 31, 2004 was \$3,523.

Note 3. Related Party Transactions

During the fiscal year ended May 31, 2004, the Company paid the owner's sister \$5,000 for accounting and professional services.

NOTES TO FINANCIAL STATEMENTS

Note 4. Contingent Liability

Based on the results of the current audit, certain amounts claimed under the contracts may be disallowed by the grantors. Because the outcome of this matter is unknown, no liability is recorded at May 31, 2004.

In addition, because these contracts are subject to review and audit by the agency providing the funding, such audits and reviews could result in expenses other than those disclosed by the audit being disallowed under the terms and conditions of the contracts. In the opinion of management, such disallowances, if any, would be immaterial.



# BROUSSARD, POCHÉ, LEWIS & BREAU, L.L.P.

C E R T I F I E D P U B L I C A C C O U N T A N T S

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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

First Steps Referral and Consulting, L.L.C.  
New Iberia, Louisiana

We have audited the financial statements of First Steps Referral and Consulting, L.L.C. (a limited liability company) as of and for the year ended May 31, 2004, and have issued our report thereon dated December 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Company'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 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 items #2004-1, #2004-2, #2004-7 and #2004-8.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Company's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal

control over financial reporting that, in our judgment, could adversely affect the Company's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items #2004-3 through #2004-6 and #2004-8.

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

This report is intended solely for the information of management, others within the Company, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Broussard, Poché, Lewis & Breau, L.L.P.*

Lafayette, Louisiana  
December 14, 2004

FIRST STEPS REFERRAL AND CONSULTING, L.L.C.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended May 31, 2004

We were engaged to audit the financial statements of First Steps Referral and Consulting, L.L.C. as of and for the year ended May 31, 2004, and have issued our report thereon dated December 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our audit of the financial statements as of May 31, 2004 resulted in a disclaimer of opinion.

Section I - Summary of Auditors' Reports

A. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses  Yes  No  
Reportable Conditions  Yes  None Reported

Compliance

Compliance Material to Financial Statements  Yes  No

Section II - Financial Statement Findings

**#2004-1 Disbursements Prior to the Contract**

Finding: The contract with Department of Health and Hospitals (DHH) is for the period June 1, 2003 through May 31, 2004. When testing requests for reimbursement, it was discovered that \$24,682 of costs billed under the contract were incurred in May of 2003, prior to the start of the contract. This amount consists of capital assets (\$16,974), salaries (\$2,500), office supplies (\$3,037) and operating services (\$1,167). The remaining amount requested of \$1,004 is the difference between the check paid for the computers and the invoice amount. When we examined the invoice for the purchase of computers the total amount was \$14,200; the check was made out for \$15,204. It appears that the purchase was made with a credit card belonging to the owner's sister. We could not find where the overpayment of the card charges was reimbursed to the Company, nor was the overpayment recorded as a receivable.

In addition, the Company requested and received reimbursement for May 2003 rent in the amount of \$375 and \$750 for a rental deposit.

Recommendation: The Company should contact the grantor to determine the action needed to be taken on this issue.

#### **#2004-2 Administrative Expenses**

Finding: The contracts with DHH provides for a 10% administrative expense reimbursement. Based on actual expenses, the Company should have received \$19,012 under the contract identified as CFMS 597482. The amount billed and received was \$19,411 resulting in an over billing of \$399. In addition, the May 2003 expenses identified in finding #2004-1 above, are included in the calculation. If these are ultimately disallowed, the administrative expenses will be over billed for these as well.

Recommendation: The Company should contact the grantor to determine the action needed to be taken on this issue.

#### **#2004-3 Personal Use of Assets**

Finding: The intake coordinators have capital assets, purchased under the DHH contracts, located in their homes. These assets consist of laptop computers, filing cabinets, shredders, printers, etc. In addition, some have office furniture. While the Company maintains an inventory of these assets by location, they do not have a policy addressing personal use of such assets.

Recommendation: The Company should develop and adopt a written policy addressing personal use of assets.

#### **#2004-4 Salary Payments**

Finding: In December 2003, salary payments were made in the amount of \$1,162 to two employees, which were in addition to each employee's regular salary payment. The support accompanying the payments indicated that it was overtime pay. However, the number of hours on the employee time card did not agree exactly to the number of hours paid. Also, the rate of pay used in the calculation for both did not agree to the rate being earned by the individual employees' at the time of payment at either regular pay which is straight time, or overtime pay which is time and a half. The rate of pay shown on the support was actually the rate the employees' are earning in fiscal year 2004-2005 instead of the rate being earned in fiscal year 2003-2004. In addition, payroll taxes were not withheld from these checks.

Recommendation: Amounts should be paid only upon receiving proper supporting documentation. Any overtime pay should be based on an employee's current rate of pay and payroll taxes should be withheld.

#### **#2004-5 Web Design**

Finding: On August 9, 2003, the Company paid an invoice dated June 1, 2003 in the amount of \$3,000 to the owner's sister for the custom design, publication and maintenance of the Company's website. As of November 14, 2004, the Company's website was not up and running, nor were we able to substantiate its existence through other means. Subsequent to this date, we were given a web address and were able to view it. On closer analysis of the website, we discovered the Company had only recently registered the domain name on November 23, 2004. Based on our understanding of website development, the \$3,000 payment appears to be excessive based on the simple layout of the website. This invoice was claimed for reimbursement from DHH in August of 2003.

Recommendation: A policy should be developed addressing the use of related parties which would require documentation to be obtained supporting the amount to be paid for the service as an arms length transaction. This could include obtaining quotes for the service.

#### **#2004-6 Bank Accounts**

Finding: For the fiscal year under audit, the Company did not possess any of its cancelled checks, and has asserted to us that it does not receive cancelled checks, in original or imaged form, from the bank with their bank statements. Examination of cancelled checks by management to determine that payments were made to the proper payee is a control procedure that should be in place for this Company.

Although there was a bank reconciliation on file at the balance sheet date, the reconciled balance did not agree to the general ledger balance. There was an unreconciled difference of \$161, and even though this amount is not material to the financial statements, the balancing should agree or there should be an explanation of the difference. The disposition of reconciling items should also be timely recorded in the financial statements.

Recommendation: The Company should take whatever actions are necessary in order to start receiving cancelled checks. In addition, the bank balance should be reconciled to the general ledger balance monthly.

#### **#2004-7 Health Benefits**

Finding: The Company budgeted employee benefits under the DHH contracts at 15.3% and based on the justification attached, this was to cover FICA and FUTA. Each month, starting with June 2003, the first month of the contract, they billed the budgeted percent based on their salary expense. This resulted in them receiving more in benefits than they were expending. In December 2003, a calculation was made to determine the excess received by employee, based on their salary and related taxes, and this amount was given to the employee in the form of a health stipend. From that point forward, each employee received a health stipend. The total paid in the form of health stipends for the fiscal year and contract period was \$19,604. There was no approval on file from DHH authorizing the payment of this benefit.

Recommendation: The Company should contact the grantor to determine the action needed, if any, to resolve this issue.

#### **#2004-8 Payment of Invoices**

Finding: During the course of the audit, we noted an invoice paid for training in the amount of \$1,500 under each contract. There was no way to distinguish these as separate invoices; in fact, it looked like the same invoice was being paid twice. In addition, there was no detail showing the breakdown of the amount between the different components of the bill such as training, travel and materials. During fieldwork and at our request, the Company obtained two invoices from the vendor which provided more detail. However, payment should not have been made without these detailed invoices.

The Company made significant purchases on May 28, 2004, prior to the end of the contract, of supplies and equipment. In reviewing the invoices, it was noted that \$204 was for items not included under the contract. These consisted of paper towels, toilet tissue and hand soap. In addition, \$1,602 of the amount purchased was subsequently returned, in June 2004, and a credit received.

Recommendation: The Company should implement a policy requiring detail bills for all professional services. In addition, if an invoice covers both contracts, two separate invoices should be required.

If not already done, the amount returned for a credit should be reimbursed or deducted from the next invoice prepared under the current contract. If additional items were purchased in its place, and a reconciliation made between the credit received and the new items purchased to ensure that DHH is billed for the net amount only.





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New Iberia, LA 70560  
Phone (337) 359-8748  
Fax (337) 359-8747

December 16, 2004

Mr. Steve Theriot  
Legislative Auditor  
State of Louisiana  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

First Steps Referral and Consulting, L.L.C. respectfully submits the following corrective action plan for the year ended May 31, 2004.

Name and address of independent public accounting firm:

Broussard, Poche', Lewis & Breaux, L.L.P.  
Certified Public Accountants  
Post Office Box 61400  
Lafayette, Louisiana 70596-1400

Audit period: June 1, 2003 through May 31, 2004.

The findings from the 2004 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section I of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

Section II - Financial Statement Findings

#2004-1 Disbursements Prior to the Contract

Recommendation: The Company should contact the grantor to determine the action needed to be taken on this issue.

Action Taken: Future: First Steps will contact the grantor for written permission for all activities regarding the expending of funds. First Steps will assure compliance of regulations regarding expending funds as set forth in the contract. Prior written permission will be obtained prior to expending any funds. Current: The Director of First Steps will contact the grantor for documentation regarding the verbal permission granted by the Program Manager to expend funds prior to the June 1, 2003 start date. Verbal permission granted in May, 2003. Email dated November 4, 2004 at 5:44 p.m. recalled verbal permission by program manager.

Mr. Steve Theriot  
Legislative Auditor  
State of Louisiana  
December 16, 2004  
Page 2

#2004-2 Administrative Expenses

Recommendation: The Company should contact the grantor to determine the action needed to be taken on this issue.

Action Taken: First Steps will contact the DHH Program Manager for a review of the calculations of the administrative funds to determine the amount of overpayment based on this finding. The company will adjust as necessary for any overpayment/underpayment.

#2004-3 Personal Use of Assets

Recommendation: The Company should develop and adopt a written policy addressing personal use of assets.

Action Taken: The company will have a policy regarding the personal use of computer by all staff members of the company. The policy will be developed by 1/31/05 and implemented by 2/1/05.

#2004-4 Salary Payments

Recommendation: Amounts should be paid only upon receiving proper supporting documentation. Any overtime pay should be based on an employee's current rate of pay and payroll taxes should be withheld.

Action Taken: The company will complete a time sheet for all overtime services rendered by current or part-time staff.

#2004-5 Web Design

Recommendation: A policy should be developed addressing the use of related parties which would require documentation to be obtained supporting the amount to be paid for the service as an arms length transaction. This could include obtaining quotes for the service.

Action Taken: The company agrees to abide by state and federal policies regarding the hiring of related parties. The company agrees to adhere to policy. The company agrees that when using related parties for professional contract services a detailed contract with time sheets will be part of the records.

Note: The company did not publish the website prior to November of 2004, due to DHH's request to wait until all logos and names of the program were in place. Oversight of this published website was not by the individual web designer but by the Director of First Steps. The company also agrees to research the "market" price of a web design of this size and style.

#2004-6 Bank Accounts

Recommendation: The company should take whatever actions are necessary in order to start receiving cancelled checks. In addition, the bank balance should be reconciled to the general ledger balance monthly.

Action Taken: The company has contacted Bank One of New Iberia to change the method in which bank statements are received. Note: As of November 4, 2004, the bank will send photo copies of all checks. As of December 16, 2004, a request has been made to receive all cancelled checks for First Steps. All prior months will be accessed as soon as possible.

Mr. Steve Theriot  
Legislative Auditor  
State of Louisiana  
December 16, 2004  
Page 3

#2004-7 Health Benefits

Recommendation: The company should contact the grantor to determine the action needed, if any, to resolve this issue.

Action Taken: The company will obtain written prior approval for all changes in spending. The company will not expend funds without prior approval. Note: Verbal approval to expend the funds was given by the program manager of Early Steps. The verbal decision was made for the company to expend the funds as long as we did not exceed the allotted amounts in the category.

#2004-8 Payments of Invoices

Recommendation: The company should implement a policy requiring detail bills for all professional services. In addition, if an invoice covers both contracts, two separate invoices should be required.

Action Taken: The company will develop a simple contract for all professional services to be utilized using grant funds. The contract and invoices will identify all details of work schedule dates, time, hours and other necessary fees associated with training and technical assistance. The company will develop a policy for the hiring of trainers including sample contracts and invoices. The company will receive prior written permission for expenditures. Note: The company did make significant purchases of items necessary to meet the objectives of the grant during the month of May, 2003. The company was given verbal approval to spend the remaining funds as necessary to meet the objectives of the grant. Those items listed in the report (paper towels, toilet paper and hand soap) were used to operate the office. The company will consistently report all credits during the monthly invoicing to DHH. The company will record all credits and subsequent invoices when funds/credits are used.

If the Legislative Auditor has questions regarding this plan, please call Ms. Mary F. Hockless at (337)359-8748.

Sincerely yours,

FIRST STEPS REFERRAL AND CONSULTING, L.L.C.



Mary F. Hockless  
Director