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**SERENITY 67  
Baton Rouge, Louisiana**

**FINANCIAL STATEMENTS  
For the Year Ended June 30, 2006**

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 2/27/08

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**Melvin L. Davis  
Certified Public Accountant**

(A Limited Liability Company)

## TABLE OF CONTENTS

	Statement	Page
Independent Auditor's Report		1
Financial Statements:		
Statement of Financial Position	A	3
Statement of Activities	B	4
Statement of Cash Flows	C	5
Statement of Functional Expenses	D	6
Notes to the Financial Statements		7
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on An Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		13
Summary Schedule of Findings and Questioned Costs		15
Summary Schedule of Prior Audit Findings		21
Letter to Management		23

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**INDEPENDENT AUDITOR'S REPORT**

The Board of Directors and Management  
Serenity 67  
Baton Rouge, Louisiana

I have audited the accompanying financial statements of Serenity 67 (a nonprofit organization) as of and for the year ended June 30, 2006, which collectively comprise Serenity 67's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Serenity 67's management. My responsibility is to express opinions on these financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, I express no such opinion. 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.

Because of the inadequacy of accounting records for the fiscal year prior to July 1, 2005, I am unable to form an opinion regarding the amounts at which assets, liabilities, and net assets (stated at \$75,793, \$151,714, and (\$75,921), respectively) were recorded in the accompanying statement of financial position at the beginning of the year ended June 30, 2006.

Because I was not able to examine documentation related to numerous cash disbursement transactions, I was unable to satisfy myself about the propriety of such transactions.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had prior-year records concerning assets, liabilities, and net assets been adequate and failure to examine documentation related to numerous cash disbursement transactions, the financial statements referred to above present fairly, in all material respects, the financial position of the Serenity 67 as of June 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**SERENITY 67**

Baton Rouge, Louisiana  
Independent Auditor's Report  
For the Year Ended June 30, 2006

In accordance with *Government Auditing Standards*, I have also issued my report dated January 11, 2008, on my consideration of Organization's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and on compliance. 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 my audit.

*Melvin L. Davis*

Baton Rouge, Louisiana  
January 11, 2008

**SERENITY 67**  
**Baton Rouge, Louisiana**

**Statement of Financial Position**  
**June 30, 2006**

<b>ASSETS</b>	
Cash in bank	\$ 2,051
Grants receivable	32,968
Property and equipment, net (note 4)	<u>4,358</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>39,377</u></b>
<b>LIABILITIES</b>	
Accrued and withheld payroll taxes	\$ 56,605
Other liabilities	14,000
Notes payable (note 5)	<u>5,490</u>
<b>TOTAL LIABILITIES</b>	<b>76,095</b>
<b>NET ASSETS</b>	
Unrestricted	<u>(36,718)</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>39,377</u></b>

The notes to the financial statements are an integral part of this statement.

**SERENITY 67**  
**Baton Rouge, Louisiana**

**Statement of Activities**  
**Year Ended June 30, 2006**

<b>SUPPORT AND REVENUE</b>	
Public support	\$ 1,200
Miscellaneous	18,047
Grants from governmental agencies	180,155
In-Kind support (note 7)	<u>3,100</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>202,502</u>
 <b>EXPENSES</b>	
Program Services:	
Drug-free and tutorial services	79,806
Elderly and youth services	243,167
Supporting Services:	
General and administrative	<u>46,262</u>
<b>TOTAL EXPENSES</b>	<u>369,235</u>
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	(166,733)
<b>NET ASSETS AT BEGINNING OF YEAR, as restated</b>	<u>130,015</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ (36,718)</u>

The notes to the financial statements are an integral part of this statement.

**SERENITY 67**  
**Baton Rouge, Louisiana**

**Statement of Cash Flows**  
**Years Ended June 30, 2006**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ (166,733)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities	
Adjustment to record restatement of various prior year asset, liabilities, and revenues	218,297
Depreciation and amortization	2,164
(Increase) decrease in operating assets:	
Employee advance	5,620
Accounts receivable	(32,968)
Other assets	700
Deposit	10,000
Increase (decrease) in operating liabilities:	
Accounts, salaries, and other payables	(54,853)
Cash overdrafts	(35,256)
Other liabilities	14,000
Notes payable	490
	<hr/>
Net cash provided (used) by operating activities	(38,539)
	<hr/>
Net increase (decrease) in cash and cash equivalents	(38,539)
<b>CASH AT BEGINNING OF YEAR</b>	 <hr/> 40,590
<b>CASH AT END OF YEAR</b>	 <hr/> <hr/> \$ 2,051

The notes to the financial statements are an integral part of this statement.

**SERENITY 67**  
**Baton Rouge, Louisiana**

**Statement of Functional Expenses**  
**Years Ended June 30, 2006**

	Drug-Free and Tutorial Youth Services	Elderly and Youth Services	Total Program Services	General and Adminstrative	Total
<b>EXPENSES</b>					
Accounting	-	\$ 5,860	\$ 5,860	\$ 651	\$ 6,511
Advertising	-	6,397	6,397	711	7,108
Auto expenses	-	751	751	83	834
Bank charges	-	372	372	42	414
Building maintenance	-	-	-	1,211	1,211
Contributions	-	1,213	1,213	-	1,213
Contract labor	\$ 11,430	20,427	31,857	1,270	33,127
Food and snacks	313	6,545	6,858	-	6,858
Garbage pick-up	-	-	-	120	120
Insurance	-	3,355	3,355	372	3,727
Legal	-	-	-	20	20
Licenses	-	-	-	383	383
Miscellaneous	-	-	-	13,912	13,912
Payroll taxes	3,048	7,594	10,642	1,182	11,824
Pest control	-	-	-	320	320
Postage	-	331	331	37	368
Printing	-	7,446	7,446	-	7,446
Rent	-	18,858	18,858	4,957	23,815
Repairs & maintenance	-	1,053	1,053	117	1,170
Salaries	48,550	81,264	129,814	14,425	144,239
Scholarship/Grant assistance	-	30,875	30,875	-	30,875
Supplies	16,465	12,555	29,020	2,122	31,142
Telephone	-	2,664	2,664	297	2,961
Travel	-	33,544	33,544	1,637	35,181
Utilities	-	2,063	2,063	229	2,292
Utilities	-	-	-	2,164	2,164
	<u>\$ 79,806</u>	<u>\$ 243,167</u>	<u>\$ 322,973</u>	<u>\$ 46,262</u>	<u>\$ 369,235</u>

The notes to the financial statements are an integral part of this statement.



**SERENITY 67**  
**Baton Rouge, Louisiana**

Notes to the Financial Statements  
For the Year Ended June 30, 2006

**Note 1 – Summary of Significant Accounting Policies**

**A. Organization**

Serenity 67 (the Organization) was organized in Louisiana in 1993 as a non-profit corporation for the purpose of providing human services to the residents of Louisiana House of Representatives District 67 and surrounding areas. Services provided include medical transportation services for the elderly, a day program for senior citizens, camps for youth, tutoring, self-esteem programs, personal hygiene programs, and drug abuse prevention/awareness counseling for the youth of the District.

**B. Basis of Accounting**

The financial statements are prepared on the accrual basis in accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

**C. Financial Statement Presentation**

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board on its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profits Organization*. 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, as applicable.

**Unrestricted Net Assets** – Support, revenues, and expenses for the general operation of the Organization.

**Temporarily Restricted Net Assets** – Contributions specifically authorized by the grantor or donor to be used for a certain purpose or to benefit a specific accounting period.

**Permanently Restricted Net Assets** – Contributions subject to donor-imposed restrictions and that are to be held in perpetuity by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income derived from the investment of these contributions.

**D. Cash and Cash Equivalents**

For purposes of reporting the statement of cash flows, the Organization considers cash accounts, which are not subject to withdrawal restrictions or penalties, and highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

**E. Grants Receivable**

The grants receivable are stated at the amount management expects to collect from outstanding balances. The financial statements do not include an estimate for allowance for doubtful accounts. Management believes that all receivables are collectible.

**F. Property and Equipment**

The Organization's policy is to capitalize property and equipment over \$200. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value.

Depreciation is provided utilizing the straight-line method over estimated useful lives of the asset. Depreciation expense totaled \$2,164 for the year ended June 30, 2006. Useful lives vary from 3 to 7 years for furniture and equipment.

**G. Use of Estimates**

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 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.

**H. Income Taxes**

Income taxes are not provided for in the financial statements since the Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 501(9) of the code.

**I. Contributions**

Contributions are generally recorded only upon receipt, unless evidence or an unconditional promise to give has been received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value for the amounts expected to be collected. Conditional promises to give are not included as support until such time as the conditions are substantially met. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

**J. Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Serenity 67**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2006**

**Note 2 – Deficit Net Assets**

Serenity 67 has deficit net assets of \$34,554 as of June 30, 2006. The Organization plans to implement staff restructuring, expenditure reduction strategies, and collection of grant funds being withheld due to delinquent audits, in accordance State law.

**Note 3 - Concentration of Credit Risk**

The Organization maintains cash balances in two financial institutions located in Louisiana which is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The Organization had no uninsured balances at June 30, 2006.

**Note 4 – Property, Equipment and Leasehold Improvements**

Property and equipment consist of the following at June 30, 2006:

	Office Furniture and Fixtures	Office Machinery and Equipment	Vehicles	Total
Cost at June 30, 2005	\$ 21,591	\$ 74,493	\$ 52,990	\$ 149,074
Additions	-	-	-	-
Deletions	(14,446)	(60,059)	(32,154)	(106,659)
Cost at June 30, 2006	<u>7,145</u>	<u>14,434</u>	<u>20,836</u>	<u>42,415</u>
Accumulated depreciation, June 30, 2005	15,335	69,305	52,143	136,783
Additions	1,021	1,143	-	2,164
Deductions	(11,950)	(57,633)	(31,307)	(100,890)
Accumulated depreciation, June 30, 2006	<u>4,406</u>	<u>12,815</u>	<u>20,836</u>	<u>38,057</u>
Capital assets, net of accumulated depreciation, at June 30, 2006	<u>\$ 2,739</u>	<u>\$ 1,619</u>	<u>\$ -</u>	<u>\$ 4,358</u>

Depreciation expense for the year ended June 30, 2006, totaled \$2,164.

**Serenity 67**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2006**

Leasehold improvements are as follows:

	<u>Leasehold Improvements</u>
Cost at June 30, 2005	\$ 8,507
Additions	-
Deletions	<u>(8,507)</u>
Cost at June 30, 2006	<u>-</u>
Accumulated amortization, June 30, 2005	1,915
Additions	-
Deductions	<u>(1,915)</u>
Accumulated amortization, June 30, 2006	<u>-</u>
Capital assets, net of accumulated amortization, at June 30, 2006	<u>\$ -</u>

Net deletions of \$12,361 were the result of retirement, obsolete, and deletion of equipment and leasehold improvement items previously recorded for amounts that were erroneously recorded or was recorded for amounts less than the Organization's capitalization threshold of \$200.

**Note 5 - Long Term Debt**

Note payable in the amount of \$5,490 represents a miscellaneous loan of \$490 and a \$5,000 loan from The Harmony Center, Inc. The loan from The Harmony Center, Inc. was made to alleviate the Organization's cash flow problem and no formal loan agreement or note was signed.

**Note 6 - Operating Lease**

During the year ended the Organization had a non-cancelable operating lease for facilities it occupies. The current lease was effective for the period March 1, 2005 through February 28, 2006 at the monthly rent of \$1,400 per month. This lease agreement terminated during the year ended June 30, 2006.

Rent expense under this lease agreement was \$18,300 for the year ended June 30, 2006.

**Note 7 - In-Kind Support**

The Organization records the in-kind value of goods and services contributed to support various activities as support and related expenses. In-kind support was \$3,100 for the year ended June 30, 2006, for donation of rent-free office space.

The above item is included in the supporting services expenses on the statement of activities.

**Serenity 67**  
Notes to the Financial Statements  
For the Year Ended June 30, 2006

**Note 8 – Prior Period Adjustments**

Beginning net assets/fund balances at June 30, 2005, were restated as follows:

Net assets at June 30, 2005, as previously reported	\$	(75,921)
To correct prior year assets/liabilities		91,338
To correct prior year capital assets		(12,361)
To record prior year revenues		<u>126,959</u>
Net assets at July 1, 2005, as restated	\$	<u>130,015</u>

**Note 9 – Pending Litigation**

Serenity 67 is involved in one (1) lawsuit, which is not covered by insurance. Subsequent to year end, Serenity 67 and the claimant agreed to a settlement in the amount of \$14,000. The settlement agreement required four (4) payments of \$3,500 each, due on July 17, August 7, August 28, and September 18, 2006, respectively. This amount has been recorded as "Other Liabilities" in the Organization financial statements.

**INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT PERFORMED IN  
ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

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

The Board of Directors and Management  
Serenity 67  
Baton Rouge, Louisiana

I have audited the financial statements of Serenity 67 (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued my report thereon dated January 11, 2008. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Serenity 67'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. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Serenity 67's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-1 through 2006-5.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. I believe that the reportable condition referred as item 2006-3 above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Serenity 67's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws,

**SERENITY 67**

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statement Performed in Accordance  
With *Government Auditing Standards***

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2006-5.

This report is intended solely for the information and use of the management of Serenity 67, federal and state awarding agencies, and the Legislative Auditor and is not intended to be and should not be used by anyone other than these specific parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Melvin L. Davis*

Baton Rouge, Louisiana  
January 11, 2008



**SERENITY 67**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2006**

**A. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statement Audit**

- Type of auditor's report issued: Qualified

- Material weakness(es) identified?     x     Yes            No

- Reportable condition(s) identified that are not considered to be material weaknesses?     x     Yes            No

- Noncompliance material to financial statements noted?            Yes     x     No

**SERENITY 67**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2006**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**Finding 2006-1 Bank Reconciliations**

Condition:

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. Also, cash management and control activities are weak, as evidenced by the number of overdrawn cash balances. During the year ended June 30, 2006, my review the bank reconciliations disclosed the following:

- The bank reconciliations were not prepared until June 2007, and were not reviewed or approved by appropriate supervisory personnel.
- Several accounts were inactive, with very small balances and thus the necessity for such is questionable.

Criteria:

An adequate internal control structure would require the complete, accurate, and timely reconciliation of all cash accounts to the general ledger on a monthly basis to ensure that all transactions are properly recorded and that the accounts do not contain errors.

Cause:

Due to the absence of written procedures and inadequate management supervision, the Organization does not have an adequate control environment to ensure that all cash accounts are reconciled to the general ledger on a monthly basis.

Effect:

The failure to prepare bank reconciliations in a complete, accurate, and timely manner could allow errors and/or irregularities to exist without being identified and corrected.

Recommendation:

The Organization should implement an adequate control environment that includes written procedures and management monitoring to ensure that all bank accounts are reconciled in a timely manner and reviewed and approved by an appropriate supervisor. In addition, I recommend that management appraise the need for the existing bank accounts and close any that are no longer deemed necessary.

Management's Response and Correction Action Plan:

We concur with the recommendation. Prior to the year ended June 30, 2005, all accounts were reconciled in a timely manner. Persistent turnover in personnel allowed this important function to fall behind. Management will make sure that all bank accounts are reconciled on a monthly basis and the outstanding checks list for each account will be reviewed at the same time.

**Serenity 67**  
**Schedule of Findings and Questioned Costs –**  
**Financial Statement Audit**  
**Year Ended June 30, 2006**

Subsequent to the year ended June 30, 2005, and prior to June 30, 2007, management closed all accounts deemed unnecessary.

**Finding 2006-2 Procurement Procedures and Cash Disbursement Function**

**Condition:**

During my audit, I noted that the organization did not have adequate controls over cash disbursements. My detail tests of 27 disbursements disclosed the following discrepancies:

- The Organization was unable to locate documentation supporting 14 disbursement transactions.
- In 4 instances, copies of checks or check request forms were used as supporting documentation.
- Four (4) disbursements totaling \$17,000 were made to a local Foundation as a "Mini Grant". However, management was unable to locate a copy of the awarding document, agreement, contract, etc.
- Four (4) disbursements totaling \$12,500 (apparently net pay) were made to an individual as compensation. However, management was unable to locate time and attendance sheets or other supporting documentation verifying that services were actually rendered. Also, the material portion of the gross pay related to these payments were not reported to the Internal Revenue Service.
- Check writing procedures require two signatures on checks, however, when funds were withdrawn from the bank to procure cashier's checks, the bank allowed such transactions with only one signature.
- In many instances, the documentation does not include evidence that the goods or services were received or rendered and the "Check Requisition Form" was canceled with a "Paid" stamp, rather than canceling the invoice to avoid duplicate payment.

**Criteria:**

Adequate internal controls relating to the cash disbursements require that specific procedures be in place to ensure that the procurement of goods and services are in compliance with the Organization's procurement regulations and that disbursements are properly authorized, supported with documentation such as invoices and receiving reports, and that the disbursements are paid and recorded timely.

**Cause:**

Due to the absence of written procedures and inadequate management supervision, the Organization does not have an adequate control environment to ensure that all purchases are properly requested, authorized, and payments are supported by original invoices and receiving reports.

**Serenity 67**  
Schedule of Findings and Questioned Costs –  
Financial Statement Audit  
Year Ended June 30, 2006

**Effect:**

The lack of adequate internal control relating to the procurement procedures and cash disbursements functions could result in the Organization assets being misappropriated and/or the financial statements could be materially misstated.

**Recommendation:**

I recommend that the Organization adopt written policies and procedures related to procurement and cash disbursements that will require adequate supporting documentation, proper maintenance of files, and timely payment and recording of transactions.

**Management's Response and Correction Action Plan:**

Management agrees that documentation regarding some cash disbursements could not be located. It also agrees that a process needed to be defined and adopted by the Organization to ensure that this does not occur in the future. Since only a very limited number of people are authorized to sign on the Organization's bank account, management does not believe that any inappropriate disbursements were made.

**Finding 2006-3 Human Resources and Payroll Transactions**

**Condition:**

My review of the Serenity 67's procedures relating to the payroll function disclosed the following weaknesses:

- The organization did not record its matching contributions for social security and medicare taxes as liabilities on its general ledger. The amounts totaled \$11,034 and the financial statements were adjusted to reflect the liability.
- The organization prepared Internal Revenue Service form 941 "Employer's Quarterly Federal Tax Return", however, I was unable to verify whether the returns were submitted. In addition, no tax payments due during the year ended June 30, 2006 were made. The required payments totaled \$21,357.
- The organization did not remit state withholding taxes totaling \$2,918 to the Louisiana Department of Revenue.

In addition, I examined the personnel files of all employees and none of the files had any documentation to verify rate of pay (i.e. personnel action forms, appointment letters, etc.).

**Criteria:**

Adequate internal controls relating to human resources and payroll require that specific procedures be in place to ensure that payroll expenses are properly documented and recorded and employee records are sufficiently maintained.

**Cause:**

Serenity 67 did not maintain an adequate control environment for the human resources and payroll functions due to a lack of written policies and procedures.

**Serenity 67**  
**Schedule of Findings and Questioned Costs –**  
**Financial Statement Audit**  
**Year Ended June 30, 2006**

Effect:

Due to the organization's failure to make tax payments, such could subject the organization to additional liabilities such as late fees, penalties, and interest.

Recommendation:

Serenity 67 should develop written internal control procedures that require current and complete personnel files are maintained for all employees. Serenity 67 should also develop procedures to ensure that all payroll transactions are properly recorded and taxes are paid in a timely manner.

Management's Response and Correction Action Plan:

Management agrees that some payroll documentation were not available for examination. We believe this is related to the changes in personnel experienced by the Organization. Also, the Organization has moved several times since the audit period ended and, it is possible that some records may have been misplaced or unintentionally discarded.

**Finding 2006-4 Failure to Prepare and Document Journal Entries**

Condition:

The auditor's review and observation of the general ledger for the year ended June 30, 2006, resulted in entries apparently made as result of debit and credit transactions noted on bank statements. Management and/or personnel responsible for overseeing the accounting function for Serenity 67 did not prepare properly documented, reviewed, and approved journal entries prior to posting to the Organization's general ledger.

Criteria:

A good system of internal controls would include the use of a standard journal entry form that is supported with full explanation, adequate documentation, and supervisory review and approval of all journal entries prior to posting to the general ledger.

Cause:

Management of Serenity 67 has not placed sufficient emphasis on ensuring that all financial transactions are adequately documented, reviewed, and approved.

Effect:

Without adequate internal controls and supervisory review of journal entries prior to posting; errors, irregularities, and/or duplications could exist and not be detected timely.

Recommendation:

I recommend the adoption of procedures whereby all journal entries will be accompanied by full explanation, adequately documented, and reviewed and approval by a responsible member of management.

**Serenity 67**  
Schedule of Findings and Questioned Costs –  
Financial Statement Audit  
Year Ended June 30, 2006

**Management's Response and Correction Action Plan:**

Management agrees with this finding. There are explanations for these types of entries. The Organization currently has a document in place to ensure the preparation of journal entries and will be used in the 2006-2007 fiscal year.

**Finding 2006-5 Late Submission of the Audit Report**

**Condition:**

The audit of the Serenity 67's financial statements was not completed and filed with the Office of Legislative Auditor within six months of the close of Serenity 67's fiscal year.

**Criteria:**

In accordance with Louisiana Revised Statute §24:513A(5)(a) ... audits shall be completed within six months of the close of the entity's fiscal year.

**Cause:**

Serenity 67 did not close its books for the year ended June 30, 2006, until November 2007.

**Effect:**

The audit report was not filed within the time period required by state law.

**Recommendation:**

Management needs to place emphasis on providing audit related data in a timely manner and establish financial reporting procedures that will ensure the complete, accurate, and timely recording to transactions. In addition, management should develop and adhere to year-end closing procedures.

**Management's Response and Correction Action Plan:**

Management agrees with this finding. The Organization is taking steps to make sure its financial statements for the year ended June 30, 2008, will be filed timely. The Organization also acknowledges that its financial statements for the year ended June 30, 2007, will be filed late.

**SERENITY 67**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2006**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**Finding 2005-1 Bank Reconciliations**

Recommendation:

The Organization should implement an adequate control environment that includes written procedures and management monitoring to ensure that all bank accounts are reconciled in a timely manner and reviewed and approved by an appropriate supervisor. In addition, I recommend that management appraise the need for the existing bank accounts and close any that are no longer deemed necessary.

Response: Unresolved – See Finding 2006-1

**Finding 2005-2 Cash Receipts/Revenues and Accounts Receivable Function and Transactions**

Recommendation:

Serenity 67 should implement an adequate control environment that includes written procedures and management monitoring to ensure that all cash receipts and revenues are properly documented and recorded timely, accurate, and in accordance with GAAP.

Response: Resolved

**Finding 2005-3 Procurement Procedures and Cash Disbursement Function**

Recommendation:

I recommend that the Organization adopt written policies and procedures related to procurement and cash disbursements that will require centralized purchasing, the utilization of the purchase order system, adequate supporting documentation, proper maintenance of files, and timely payment and recording of transactions.

Response: Unresolved – See Finding 2006-2

**Finding 2005-4 Human Resources and Payroll Transactions**

Recommendation:

Serenity 67 should develop written internal control procedures that require current and complete personnel files are maintained for all employees. Serenity 67 should also develop procedures to ensure that time and attendance related records are properly completed, signed, approved, and are securely filed and maintained.

Response: Partially resolved – See finding 2006-3

**SERENITY 67**  
Schedule of Prior Year Findings and Questioned Costs –  
Financial Statement Audit  
For the Year ended June 30, 2006

**Finding 2005-5 Failure to Reconcile and Analyze Certain General Ledger Accounts**

Recommendation:

Serenity 67 should implement an adequate control environment that includes written procedures and management monitoring to ensure that all bank accounts and other critical balance sheet accounts are reconciled in a timely manner and reviewed by an appropriate supervisor. The written procedures should specifically identify employees to perform the reconciliations and the supervisor that is responsible for the review and approval.

Response: Resolved

**Finding 2005-6 Fixed Assets**

Recommendation:

The Organization should establish adequate written policies and procedures related to the accountability of fixed assets.

Response: Partially resolved – See Management Letter Comment 2006-3

**Finding 2005-7 Failure to Prepare and Document Journal Entries**

Recommendation:

I recommend the adoption of procedures whereby all journal entries will be accompanied by full explanation, adequately documented, and reviewed and approval by a responsible member of management.

Response: Unresolved – See Finding 2006-4

**Finding 2005-8 Late Submission of Audit Report**

Recommendation:

Management needs to place emphasis on providing audit related data in a timely manner and establish financial reporting procedures that will ensure the complete, accurate, and timely recording to transactions. In addition, management should develop and adhere to year-end closing procedures.

Response: Unresolved – See Finding 2006-5

**MANAGEMENT LETTER COMMENTS:**

**Compliance with Contractual Requirements of Funding Sources**

Response: Resolved

**Organizational Structure**

Response: Resolved



## **LETTER TO MANAGEMENT**

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**MANAGEMENT LETTER**

The Board of Directors and Management  
Serenity 67  
Baton Rouge, Louisiana

In planning and performing my audit of the financial statements of the Serenity 67 for the year ended June 30, 2006, I considered the Organization's internal controls to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during my audit, I became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. I previously reported on the Organization's internal control in my report dated January 11, 2008. This letter does not affect my report dated January 11, 2008, on the financial statements of Serenity 67.

I will review the status of these comments during my next engagement. I have already discussed many of these comments and suggestions with various Organization personnel, and I 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. The following paragraphs summarize my comments and suggestions regarding those matters. My comments are summarized as follows:

**ML 2006-1 Board of Directors Meetings**

During my attempt to review of the minutes of the Board of Directors meetings, I noted that the Board did not meet during the year. Current management of the Organization informed me, that the Board did not meet because only one Director is currently a member of the Board of Directors. The remaining members of the Board have either resigned or discontinued attending meetings. Therefore, I recommend that the Organization appoint persons to serve as Board of directors and schedule meetings as frequent as necessary to fulfill its oversight responsibilities.

**Management's Response and Correction Action Plan:**

Management agrees with this comment. As of March 2007, the Boar of Directors was reorganized and, currently has five members. The Board now meets on a regular basis.

**ML 2006-2 Fixed Assets**

As reported in my prior audit, detailed property records lack such information as adequate description of the fixed assets, serial number, make, model, location, etc. Some fixed asset items are combined with other items and in some instances, appear to be immaterial in amount and should be expensed as supplies.

The Organization should establish adequate written policies and procedures related to the accountability of fixed assets. In addition, Serenity 67 should consider increasing its capitalization threshold, to eliminate immaterial fixed asset items.

**Management's Response and Correction Action Plan:**

Management agrees with the recommendation. Fixed assets belonging to the Organization have been acquired over a twelve year period under the supervision of various executive directors. The Organization has moved multiple times during its existence. Some items have outlived their useful life and have been scrapped, however, no entry was made on the books to remove the cost and accumulated depreciation.

Management has conducted a physical inventory of the items still in use by the Organization and made an appropriate entry to remove assets not still in its possession as of June 30, 2006. Also, the Organization will adopt a capitalization policy and annually compare the fixed asset list to its physical inventory.

My audit procedures are designed primarily to enable me to form an opinion on the financial statements and, therefore, may not reveal all weaknesses in policies and procedures that may exist.

This report is intended solely for the information and use of the Board of Directors, management, and other within the Organization and is not intended to be and should not be used by anyone other than these specific parties. Although the intended use of these reports may be limited, under Louisiana Revised Statute 24:513, this report is distributed by the Office of the Legislative Auditor as a public document.



Baton Rouge, Louisiana  
January 11, 2008