

APPROVAL OF INVOICES FOR PAYMENT

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

The Program Director or Executive Director should approve all invoices prior to payment to ensure that all purchases were properly authorized.

MINUTES OF BOARD MEETINGS

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

Official minutes of all board meetings should be maintained to document resolutions approved and decisions made by the board of directors.

VEHICLE LOGS

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

Vehicle logs should be maintained to adequately document the business use of all vehicles owned by the company.

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

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

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

Very truly yours,



Dale P. Lehman
Certified Public Accountant

Dale P. LeJeune, CPA

December 31, 1987

CONFIDENTIAL

To the Board Members
Community Independent Living Systems, Inc.

Dear Board Members:

I have audited the general purpose financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. as of and for the year ended June 30, 1987. In planning and performing my audit of the financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., I considered internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on internal control.

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

APPROVAL OF TRAVEL EXPENSE REPORTS

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

All employees travel expense reports should be approved by their appropriate supervisor to ensure that expenses were properly authorized.

TRAVEL ADVANCES

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



PARISH CLERK OF COURT

LSA-RS 24:516 provides that this report shall be available for public inspection for a period of not less than 90 days after the date of receipt.

Private Auditor

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

Baton Rouge, Louisiana

MANAGEMENT LETTER

June 30, 1997

Dale P. LeJeune
Certified Public Accountant

Subscribed for Reimbursement on Cost Report, Dated	--Amounts Reimbursed for Related Party Computer Leases--			
	Custom Payroll	Labovitch Payroll	Thompson Payroll	Total
	Contract	Contract	Contract	Contract
July 1986	\$2,500	\$2,500	\$2,500	\$7,500
August	2,500	2,500	2,500	7,500
September	2,500	2,500	2,500	7,500
October	2,000	2,500	2,500	7,000
November	2,000	2,500	2,500	7,000
December	2,000	2,500	2,500	7,000
January 1987	2,000	2,500	2,500	7,000
February	2,000	2,500	2,500	7,000
March	2,000	2,500	2,500	7,000
April	2,000	2,500	2,500	7,000
May	2,000	0	2,500	4,500
June	2,000	0	2,500	4,500
Total	\$23,000	\$25,000	\$29,000	\$77,000
Quartered Costs	FT 1986-87	\$29,000		

Criteria: Cost principles for commercial organizations, 48 CFR Part 31, limits the reimbursement of related party data processing equipment leases to the acquisition cost of the equipment.

Case of Circumstance: Management believes the reimbursement limitations do not apply to their related party leases.

Effect: The Project Independence program may have been overcharged for these leases.

Recommendation: FRS has advised Community Independent Living Systems, Inc. that it intends to withhold the disallowed costs from future reimbursements to the company.

Response: Management of Community Independent Living Systems, Inc. believes that these related party leases are not subject to the reimbursement limitations, because of an exemption included in 48 CFR Part 31. Reimbursements are not limited if the related party lease has an established practice of leasing similar property to an unrelated party. Management contends that the related party lease, Community Training, Management and Evaluation, Inc., had an established practice of leasing similar equipment to an unrelated party and the exemption applies. Community Independent Living Systems, Inc. has filed a Petition for Declaratory and Money Judgment.

The accompanying notes are an integral part of this statement.

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

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

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

Response: Management will evaluate the situation and develop some effective compensating controls.

Reference No. 91-3

CFDA Number: 91-564

Program Title: Project Independence Program

Federal Agency: Department of Health and Human Services

Pass-through entity: Louisiana Department of Social Services

Statement of Condition: Some monthly cost reimbursement reports for the Project Independence Program contained errors in the payroll amounts charged.

Criteria: Adequate internal control require procedures to be in place to help ensure accurate costs are charged on program reimbursement reports.

Cause of Condition: The Project Independence cost reimbursement reports are not reconciled to the payroll registers and general ledger before submitted for reimbursement.

Effect: This type of internal control weakness could result in overcharges to the Project Independence Program that are not detected and corrected timely.

Recommendation: All expenses on the monthly cost reports should be reconciled to the general ledger and the payroll registers before submitting the reports for reimbursement.

Response: Management will implement the necessary procedure to reconcile the cost reimbursement reports to the company's general ledger and the payroll registers.

Reference No. 91-4

CFDA Number: 91-564

Program Title: Project Independence Program

Federal Agency: Department of Health and Human Services

Pass-through entity: Louisiana Department of Social Services

Statement of Condition: The Louisiana Department of Social Services has financed the cost of certain rented party disc processing equipment leased with Community Training, Management, Evaluation, Inc., that has been reimbursed by the Project Independence Program from fiscal year 1991-92 through 1996-97.

Response: Management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. believes that these related-party leases are not subject to the sublease/rental limitation, because of an exception included in 48 CFR Part 31. Sublease/rentals are not limited if the related-party lessee has an established practice of leasing similar property to an unrelated party. Management contends that the related party lessee, Community Training, Management and Evaluation, Inc., had an established practice of leasing similar equipment to an unrelated party and the exception applies.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. has filled a Position for Declaration and Merit Judgment.

Section III - Federal Award Findings and Questioned Costs

Reference No. 91-8

CFDA Number: 93.04
Program Title: Project Independence Program
Federal Agency: Department of Health and Human Services
Pass-through entity: Louisiana Department of Social Services

Statement of Condition: Time and attendance records of employees working on the Project Independence Program in Lafourche Parish were lost.

Criteria: The contract with DHS requires that time and attendance records of employees working on the Project Independence Program be properly maintained.

Cause of Condition: Adequate internal control procedures did not exist during the process of moving equipment and records from the Project Independence Office in Lafourche Parish office, due to cancellation of the contract, and the time and attendance records were lost.

Effect: The company failed to comply with the contract requirements to maintain time and attendance records.

Recommendation: Internal control procedures should be established to adequately safeguard the time and attendance records at all times.

Response: We will establish necessary procedures to ensure that the time and attendance records are properly maintained and accurate at all times.

Reference No. 91-8

CFDA Number: 93.04
93.645, 93.658
Program Title: Project Independence Program
Home Care Program
Federal Agency: Department of Health and Human Services
Pass-through entity: Louisiana Department of Social Services

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

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

Case of Condition: The Project Independence cost reimbursement reports are not reconciled to the payroll register and general ledger before submitted for reimbursement.

Effect: This type of internal control weakness could result in overcharges to the Project Independence Program that are not detected and corrected timely.

Recommendation: All reports on the monthly cost reports should be reconciled to the general ledger and/or payroll register before submitting the reports for reimbursement.

Response: Management will implement the necessary procedures to ensure the cost reimbursement reports in the company's general ledger and/or payroll register.

Reference No. 87-4

Statement of Condition: The Louisiana Department of Social Services has allowed the cost of various related party data processing equipment leases with Community Training, Management, Evaluation, Inc., that has been reimbursed by the Project Independence Program from fiscal year 1991-92 through 1994-95.

Submitted for Reimbursement on Cost Report dated July 1996	--Amount Reimbursed for Related Party Computer Leases--			
	Leases Period Contract	Leases for Period Contract	Disagreements Period Contract	Total Contract
August	2,500	2,500	2,500	8,500
September	2,000	2,000	2,000	5,000
October	2,000	2,000	2,000	2,000
November	2,000	2,000	2,000	2,000
December	2,000	2,000	2,000	2,000
January 1997	2,000	2,000	2,000	2,000
February	2,000	2,000	2,000	2,000
March	2,000	2,000	2,000	2,000
April	2,000	2,000	2,000	2,000
May	2,000	0	2,000	2,000
June	2,000	0	2,000	2,000
Total	\$18,000	\$15,000	\$19,000	\$38,000

Questioned Costs: FY 1996-97 \$30,000

Criteria: Cost principles for noncommercial organizations, 48 CFR Part 71, limits the reimbursement of related party data processing equipment leases to the acquisition cost of the equipment.

Case of Condition: Management believes the reimbursement limitations do not apply to their related party leases.

Effect: The Project Independence program may have been overcharged for these leases.

Recommendation: DSS has advised COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., that it needs to withhold the questioned costs from future reimbursements to the company.

Section II - Financial Statement Findings

Reference No. 97-1

Statement of Condition: Time and attendance records of employees working on the Project Independence Program in Lafayette Parish were lost.

Criteria: The contract with DSS requires that time and attendance records of employees working on the Project Independence Program be properly maintained.

Cause of Condition: Adequate internal control procedures did not exist during the process of moving equipment and records from the Project Independence Office in Lafayette Parish office, due to cancellation of the contract, and the time and attendance records were lost.

Effect: The company failed to comply with the contract requirements to maintain time and attendance records.

Recommendation: Internal control procedures should be established to adequately safeguard the time and attendance records at all times.

Response: We will establish necessary procedures to ensure that the time and attendance records are properly maintained and secured at all times.

Reference No. 97-2

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

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

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

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

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

Response: Management will evaluate the situation and will develop some effective compensating controls.

Reference No. 97-3

Statement of Condition: Some monthly cost reimbursement reports for the Project Independence Program contained minor errors in the payroll amounts charged.

Criteria: Adequate internal control require procedures to be in place to help ensure accurate costs are charged on program reimbursement reports.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
 Baton Rouge, Louisiana

**Schedule of Findings and Questioned Costs
 For the fiscal year ended June 30, 1997**

Section II - Summary of Audit Results

Financial Statements

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

Federal Awards

Internal Control over major programs:	
Material weaknesses identified?	YES
Reportable conditions identified not considered to be material weaknesses?	NO

Type of auditor's report based on compliance for major programs:	QUALIFIED
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Any audit findings disclosed that are required to be reported in accordance with Circular A-111, Section 500(a)?	YES
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Identification of major programs:

<u>CYDS Numbers</u>	<u>Name of Federal Program</u>
81.561	Project Independence
81.088, 81.028	Public Care

Did the threshold used to distinguish between Type A and Type B programs:	\$200,000
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Auditor qualified as low-risk auditor?	NO
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In my opinion, except for the non-compliance described in the preceding paragraph, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1997.

Internal Control Over Compliance

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

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s ability to administer a major federal program in accordance with applicable requirements of laws, regulations, and contracts. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 97-5, 97-6 and 97-7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, and contracts that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items 97-5, 97-6 and 97-7 to be material weaknesses.

I noted other matters involving the internal control over compliance and its operation that I have reported to the management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. in a separate letter dated December 31, 1997.

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


Dale P. Johnson
Certified Public Accountant

Dale P. LeJeune, CPA

December 31, 1987

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

Compliance

I have audited the compliance of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. with the types of compliance requirements described in the OIG Office of Management and Budget (OMB) Circular A-123 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 1987. COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, and contracts applicable to its major federal programs is the responsibility of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s management. My responsibility is to express an opinion on COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s compliance based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the OMB Circular A-123, *Audit of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-123 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s compliance with these requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s compliance with these requirements.

As disclosed in item 97-B in the accompanying schedule of findings and questioned costs, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s did not comply with requirements regarding allowable cost/allow principles that are applicable to its Project Independence Program. Compliance with such requirements is necessary, in my opinion, for COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. to comply with requirements applicable to that program.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items 91-1, 93-2 and 97-1 to be material weaknesses.

I noted other matters involving the internal control over financial reporting that I have reported to the management of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. in a separate letter dated December 31, 1997.

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


Dale P. LeJeune
Certified Public Accountant

Dale P. LeJeune, CPA

December 31, 1997

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

I have audited the financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., as of and for the year ended June 30, 1997, and have issued my report thereon dated December 31, 1997. I conducted my audit in accordance with generally accepted auditing standards and the standards for financial and compliance audits of Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 1987

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Federal Expenses Billed
Department of Health and Human Services:		
Department of Social Services:		
Project Independence	93-561 *	\$705,726
Foster Care - Supervised Apartments	93-645, 93-858 *	\$11,679
Vocational Rehabilitation	84-128, 84-132	\$2,000
Department of Health and Hospitals:		
Mental health, Case management, and Rehabilitation	93-778	<u>7,855</u>
Total Federal Assistance		<u>\$1,290,265</u>

* Represents a major program.

The accompanying notes are an integral part of this statement.

SYSTEMS, INC. for the repayment of \$327,158 previously reimbursed to COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. for data processing equipment and software leases, less the actual purchase price of the data processing equipment and software.

The Louisiana Office of State Inspector General issued an investigative report on July 19, 1987 relating to the aforementioned related party leases. The report recommended that DSS recover overcharges on the related party computers and software leases. The report estimated that the acquisition cost of the computer and software leased from Community Training, Management and Evaluation, Inc. to be \$93,898.

A contingent liability of \$232,065 has been established by COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. in its financial statement based on the \$327,158 repayment demanded by DSS less the Inspector General's estimated cost of \$95,090 for the data processing equipment and software. To date, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. has not obtained all evidence to support the actual cost of the leased data processing equipment and software, and it has not reconciled the gross repayment amount (\$327,158) demanded by DSS with its records.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. does not agree with DSS's interpretation of 48 CFR Part 31, and principles for commercial organizations, relating to limitations on related party leases and has filed a Petition for Declaratory and Money Judgment. COMMUNITY INDEPENDENT SYSTEMS, INC. contends that 48 CFR Part 31 expressly allows the company recover all reasonable costs due to the fact that COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s affiliate, from which the data processing equipment was leased, Community Training, Management and Evaluation, Inc., had an established practice of leasing such equipment to an unrelated party.

NOTE 4 - RELATED PARTY TRANSACTIONS

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. leased computer equipment during the fiscal year ended June 30, 1997, from a company owned by the Executive Director of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. The leased computer equipment is used to help train participants of the Project Independence Program located in Bossard, New Orleans, and Hammond, Louisiana. COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. made lease payments to the company totaling \$88,325 for the fiscal year ended June 30, 1997.

NOTE 5 - COMPENSATED ABSENCES

Vacation and sick leave are earned by employees at varying rates from 8 to 16 hours per month depending on length of service. A maximum of 24 hours of unused leave may be carried over at December 31. Accordingly, amounts related to such leave have been accrued at June 30, 1997.

NOTE 6 - BOARD OF DIRECTORS

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s board of directors consists of two (2) members as of June 30, 1997. The President of the board resigned on May 18, 1996, and has not been replaced. One of the current board members is also a full-time employee of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

NOTE 7 - LOSS CONTINGENCY

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. is a defendant in a lawsuit filed by one of its former employees for alleged harassment. The suit asks for back pay, front pay, punitive damages, attorney fees, litigation expenses and other relief entitled to along with legal interest. The company believes the suit is completely without merit and intends to vigorously defend its position. The company has not established a contingency liability relating to this lawsuit in its financial statements.

NOTE 8 - SUBSEQUENT EVENTS

In a letter dated October 14, 1991, the Louisiana Department of Social Services (DSS) informed COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. that it has disallowed certain costs for related party data processing equipment leases that COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. was reimbursed for under the FND Work Contracts from fiscal year 1991-92 through fiscal year 1996-97. DSS stated that under 48 CFR Part 31, cost principles for commercial organizations, the reimbursement for data processing equipment leases that are considered to be however related parties is limited to the actual cost of the data processing equipment. DSS has made demand upon COMMUNITY INDEPENDENT

E. Accounts receivable

Accounts receivable represent fees for service contracts and cost-reimbursement contracts.

F. Property, equipment, and depreciation

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

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment, related service lives, and accumulated depreciation at June 30, 1997, are as follows:

	Estimated Service Lives	
Furniture and equipment	8 years	\$ 78,317
Vehicles	9-11 years	70,569
Property and equipment		3048,603
Less: accumulated depreciation		(1,172,208)
Total Property and equipment		\$ 2,276,395

Depreciation expense was \$17,372 for the year ended June 30, 1997.

NOTE 3 - ECONOMIC DEPENDENCY

During the year ended June 30, 1997, the company received a significant portion of its revenues through the State of Louisiana. The amounts applicable to the year ended June 30, 1997 are as follows:

Receivable, beginning of year	\$ 148,340
Revenues earned and invoiced	1,256,938
Collections	(1,268,178)
Receivable, end of year	\$ 137,099

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
New Orleans, Louisiana

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

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

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

B. Financial statements

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

C. Income Tax Status

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

The provision for income tax expense for the period ended June 30, 1987 was \$687. The deferred tax liability at June 30, 1987 was \$2,049, which represents a future tax liability to the organization caused by timing differences between income and expenses reported for tax purposes and income and expenses reported under generally accepted accounting principles.

D. Investments

Investments are presented in the financial statements at the lower of cost or market.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

STATEMENT OF CASH FLOWS

For the year ended June 30, 1987

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	(313,249)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	17,272
Change in operating assets and liabilities:	
Accounts receivable	(8,793)
Prepaid expenses	(24,335)
Travel advances	(3,890)
Accounts payable	498
Wages payable	(1,281)
Insurance premiums payable	(6,774)
Accrued payroll taxes	(2,779)
Deferred tax	(214,109)
Due ODS, Div. of Family Support income tax payable	229,680
Net cash provided by operating activities	38,123
CASH FLOWS FROM INVESTING ACTIVITIES	
Equipment acquisitions	<u>0</u>
Net increase (decrease) in cash and cash equivalents	38,123
CASH AND CASH EQUIVALENTS	
Beginning of year	<u>343,765</u>
End of year	<u>\$379,888</u>

The accompanying notes are an integral part of this statement.

EXHIBIT

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN EQUITY

For the year ended June 30, 1997

Revenues	
Client services	\$1,256,558
Gain on sale of investments	\$18,442
Interest and dividends	8,872
	<hr/>
Total revenues	1,283,872
Expenses	
Salaries and related benefits	\$80,884
Professional services	13,325
Office supplies	40,838
Operating expenses	62,267
Travel	28,468
Advertising	168
Telephone and utilities	48,285
Building and furniture rent	223,038
Equipment rent	84,883
Insurance	10,581
Dues and subscriptions	810
Maintenance and repairs	2,708
Payroll taxes	47,818
Depreciation	17,272
Miscellaneous	1,288
	<hr/>
Total expenses	1,181,637
Excess revenues over expenses	\$102,235
Less:	
Extraordinary item - disallowed cash by the LA. Dept. of Social Services	(232,688)
Income tax expense	687
	<hr/>
Net income	(111,140)
Equity at beginning of year	\$17,282
	<hr/>
Equity at end of year	\$66,142

The accompanying notes are an integral part of this statement.

Exhibit A

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
 Baton Rouge, Louisiana

BALANCE SHEET

June 30, 1987

ASSETS

CURRENT

Cash	\$135,080
Investments	243,800
Prepaid expenses	34,335
Taxied advances	3,808
Accounts receivable	<u>178,528</u>
Total current assets	<u>595,551</u>

PROPERTY AND EQUIPMENT

Equipment	168,808
Less: Accumulated Depreciation	<u>(77,328)</u>
Total property and equipment	<u>91,480</u>

Total assets	<u>\$687,031</u>
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LIABILITIES AND EQUITY

Current Liabilities

Due CILS C/O. of Family Support for disallowed costs	\$232,080
Accounts payable	3,118
Wages payable	8,800
Accrued payroll taxes payable	2,808
Income tax payable	5,343
Deferred income tax	<u>2,049</u>
Total current liabilities	<u>254,398</u>

Equity	<u>404,302</u>
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Total liabilities and equity	<u>\$658,700</u>
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The accompanying notes are an integral part of this statement.

It was unable to obtain a response from the company's counsel to my inquiry regarding a discussion or evaluation of the contingent liability from a lawsuit filed by a former employee as described in Note 3.

In my opinion, except for the effects of any adjustments and additional disclosures that might have resulted if the scope of my examination had not been limited by my inability to obtain satisfactory evidence relating to the actual cost of the data processing equipment leased from a related party, and the contingent liability for the lawsuit filed against COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. by a former employee, the financial statements referred to above present fairly, in all material respects, the financial position of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. at June 30, 1993, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

My audit was made for the purpose of forming an opinion on the general purpose financial statements of the company taken as a whole. The accompanying Schedule of Federal Financial Assistance is prepared for purposes of additional analysis and is not a required part of the financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued a report dated December 31, 1993, on my consideration of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts.

Respectfully submitted,


Dale P. Lohman
Certified Public Accountant

Dale P. LeJeune, CPA

December 31, 1987

INDEPENDENT AUDITORS REPORT

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

I have audited the accompanying balance sheet of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. as of June 30, 1987, and the related statements of income, expenses and changes in equity, and cash flows for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

As explained in Note 8, the Louisiana Department of Social Services (DSS) made demand upon COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. for the repayment of \$213,156, as a result of certain overpayments made to COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. for leasing data processing equipment and software from a related party from fiscal year 1981-82 through fiscal year 1986-87. DSS advised COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. that the equipment amount will be reduced by the actual purchase cost of the data processing equipment and software that was leased from the related party. To date, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. has not obtained all invoices to support the actual cost of the leased data processing equipment and software, and it has not reconciled the gross repayment amount (\$213,156) demanded by DSS with its records. As explained in Note 8, an investigative report was issued by the Louisiana Office of State Inspector General, relating to these related party leases. The report estimated that the acquisition cost of the computers and software leased from the related party to be \$95,080. COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. used that estimate to establish a contingent liability to DSS for \$117,968 in its financial statements. As further explained in Note 8, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. believes the full cost of the related party leases should be allowed under the federal cost principles and has filed a Petition for Declaratory and Money Judgment.

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COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

Baton Rouge, Louisiana

FINANCIAL REPORT

June 30, 1997

Under provisions of state law, this report is a public document. A copy of the report for copies submitted to the auditor is provided, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date: MAY 04 1998

Dale P. Lafosse
Certified Public Accountant