LOUISIANA COMMUNITY DEVELOPERS, INC.

COMPLIANCE AUDIT
ISSUED DECEMBER 9, 2009

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Ten copies of this public document were produced at an approximate cost of $34.90. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.la.gov. When contacting the office, you may refer to Agency ID No. 7206 or Report ID No. 50090025 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Administration Manager, at 225-339-3800.

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 9, 2009

MS. BERTHA COLEMAN, EXECUTIVE DIRECTOR,
AND BOARD OF DIRECTORS
LOUISIANA COMMUNITY DEVELOPERS, INC.
New Orleans, Louisiana

We have audited certain transactions of the Louisiana Community Developers, Inc. Our audit was conducted in accordance with Title 24 of the Louisiana Revised Statutes to determine the credibility of certain allegations.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*; therefore, we are not offering an opinion on the Louisiana Community Developers, Inc.'s financial statements or system of internal control nor assurance as to compliance with laws and regulations.

The accompanying report presents our findings and recommendations as well as management's response. This correspondence is intended primarily for the information and use of management of the Louisiana Community Developers, Inc. Copies of this report have been delivered to the District Attorney for the Orleans Parish Judicial District of Louisiana and others as required by law.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Temporary Legislative Auditor

KO:GC:DD:dl

LCD09

1600 NORTH THIRD STREET • POST OFFICE BOX 94397 • BATON ROUGE, LOUISIANA 70804-9397
WWW.LLA.LA.GOV • PHONE: 225-339-3800 • FAX: 225-339-3870

Page

Louisiana Community Developers, Inc. (LCD) is a nonprofit agency with a mission to provide students with educational, tutorial, and cultural activities as well as computer readiness. LCD was established in 2001 and serves as a support system to public, private, and parochial schools located throughout New Orleans. The agency is organized to assist local educational institutions in increasing overall academic performance for the program participants. LCD's main source of funding is grants from the Louisiana Department of Education and the Louisiana Department of Social Services.

Based on the amount of funding LCD received from the State of Louisiana during the fiscal year ending June 30, 2008, LCD was required to have an annual review of its financial statements accompanied by an attestation report. Although LCD's reports were to be submitted to the Louisiana Legislative Auditor (LLA) by December 30, 2008, the independent certified public accountant (ICPA) engaged by LCD could not obtain the records necessary to perform the review. As a result, on January 16, 2009, LCD was placed on the list of agencies not in compliance with the state audit law. Over the next several months, the ICPA encountered additional issues obtaining the records necessary to complete the review. Because of LCD's inability to provide the ICPA with the records necessary to complete the review, the LLA began an independent review of LCD's books and records. This report presents our findings and recommendations.

This page is intentionally blank.

Payments to Executive Director

During the period October 2007 to April 2009, Bertha Coleman, executive director of Louisiana Community Developers, Inc. (LCD), issued payroll checks to herself totaling $158,560. Because Ms. Coleman could not provide a board approved budget, an employment contract, time sheets for hours worked, or payroll information indicating periods for which checks were issued, we could not determine if the amounts paid to Ms. Coleman personally were appropriate or tendered with board approval. In addition, because checks issued to Ms. Coleman during this period appear to have been issued for prior periods (as far as 12 months back), it appears that Ms. Coleman may have used funds received for current grants to pay expenses from past grants.

During our review of LCD's financial records, we noted that no information was available to determine what salary amounts should have been paid to Ms. Coleman. Ms. Coleman does not have an employment contract and there are no annual budgets that have been approved by LCD's board members indicating a salary to be paid to the executive director. Board members for the corporation either indicated that they did not participate in the governance of LCD or refused to meet with Louisiana Legislative Auditor (LLA) representatives without a quorum of board members. In addition to an apparent lack of governance, LCD has no written financial policies and procedures, and it appears that Ms. Coleman controls all aspects of the checking account including authorizing payments and issuing and signing all checks.

The only available information pertaining to Ms. Coleman's salary was a budget for a 2007 grant submitted to the Louisiana Department of Social Services which indicated that the executive director's annual salary was $50,000 per year. An analysis of the grants received by LCD during this period indicates that amounts totaling $85,933 were budgeted as salary expenses for the executive director. However, because Ms. Coleman did not maintain documentation to reflect which grants she charged her time to nor the particular grants her paychecks were for, we could not match amounts paid to Ms. Coleman to grant monies budgeted.

From October 2007 to April 2009, Ms. Coleman issued payroll checks to herself totaling $107,897, which indicate they were for pay periods dating back to October 2006. For example, a check issued on October 18, 2007, in the amount of $3,060 indicated it was for the pay period from October 2, 2006, through December 29, 2006. In addition, payroll checks totaling $50,663 were issued but did not indicate a pay period; therefore, we could not determine the salary or rate of pay Ms. Coleman received during this time period. However, based on checks that indicate pay periods, amounts paid to Ms. Coleman ranged from $1,020 per month to $8,440 per month. It should be noted that none of these payments were supported by any type of documentation and that all payments were authorized, issued, and signed only by Ms. Coleman.

Ms. Coleman stated that LCD's board does not set her salary and that her salary is based on amounts budgeted in the grants for her position. She paid herself as the executive director as well as an instructor when she taught health-related topics. Ms. Coleman explained that multiple checks issued for the same pay period were for each program that was operating during that period. She did not maintain time sheets to reflect her hours worked as an instructor or the executive director and has no documentation indicating the percentage of time worked on each contract as the executive director. Ms. Coleman stated that she forgot to record pay periods on some payroll checks and that she would provide LLA representatives with an accounting of all amounts paid to her from each grant. As of this report date, Ms. Coleman has not provided this information.

We recommend the board of directors develop written policies and procedures to ensure that a board approved budget is adopted on an annual basis, which includes amounts to be paid to employees for salaries. These policies and procedures should allow the board to compare, on a regular basis, amounts budgeted versus amounts expended on a grant by grant basis to properly match current revenues with current expenses. The board should also implement written policies and procedures that require all employees to prepare daily time sheets that document hours worked. At the end of each pay period, time sheets should be signed by the employees and reviewed/approved by a supervisor. In the case of the executive director, one of the board members should review those time sheets and document approval. In addition, the board should implement controls to ensure that accounting responsibilities are segregated so that no single individual controls all facets of a financial function.

Questionable Transactions

From December 2007 to August 2008, LCD issued reimbursement checks totaling $37,425, which included $24,800 to Ms. Coleman and $12,625 to Rolanda Smith. Although Ms. Coleman indicated that these payments were reimbursements for loans made to the corporation, there were no loan agreements and no documentation to indicate that Ms. Coleman loaned personal funds to LCD. In addition, although Ms. Smith provided copies of cancelled checks to indicate that she loaned funds to LCD, Ms. Smith owns three companies, all of which provide goods and services to LCD; however, neither Ms. Smith nor Ms. Coleman could provide documentation supporting $80,743 in purchases from Ms. Smith's companies.[1] Based on this information, we question the amounts received by Ms. Coleman as reimbursements and whether loans between Ms. Smith and LCD were arm's length transactions.

From December 7, 2007, to January 17, 2008, Ms. Coleman issued three reimbursement checks to herself totaling $5,200. There were no loan agreements supporting these payments and our review of LCD bank records for the six months prior to this period did not show any deposits other than grant payments from the State of Louisiana. As a result, we could not confirm that these amounts were loaned to LCD by Ms. Coleman; therefore, we question the reimbursements to Ms. Coleman.

LCD bank records do indicate that two cash deposits, each in the amount of $9,800 (totaling $19,600), were made on July 25, 2008; however, because the amounts were in cash, we could not determine the source of the funds. On August 27, 2008, Ms. Coleman issued herself two reimbursement checks, each in the amount of $9,800. Bank records indicate one check was cashed on August 29, 2008, and although an image of the second check was not available to determine how it was negotiated, bank records indicate that the check cleared LCD's checking account on August 27, 2008.

[1] See finding, **Lack of Controls and Oversight**, Purchasing and Disbursements.

Ms. Coleman stated that she has loaned personal funds to LCD to make payroll whenever the state is slow with releasing her funds. In addition to her personal loans, family members and family friends have also loaned LCD funds to make payroll. These loans are deposited in cash into LCD's bank account. According to Ms. Coleman, if a loan was coming from a friend or family member, she would have him/her write the check made payable to her. She would then cash the check and deposit the cash into LCD's bank account. Ms. Coleman stated that she would not deposit checks because if LCD was audited she would not want anyone's personal bank information involved. Ms. Coleman stated that she felt if she deposited the cash then it would be clear the funds did not come from the state, and thus there would be no need to show documentation of where the cash came from.

On August 8, 2007, Ms. Coleman issued two reimbursement checks totaling $12,625 to Ms. Smith. Although there were no loan agreements, bank records and documentation provided by Ms. Smith confirmed that from July 23, 2007, to August 1, 2007, she loaned LCD amounts totaling $12,625. However, it should be noted that from July 2007 through February 2009, Ms. Smith and her businesses--The Supply Side, Design Data Systems, and Kharo Computer Rentals--did a significant amount of business with LCD. During this period, LCD issued payments totaling $137,845 to Ms. Smith's businesses for supplies and equipment purchases, equipment rentals, training, consulting, and other services. Neither Ms. Smith nor Ms. Coleman could provide documentation supporting $80,473 of these expenditures. Ms. Smith stated that she has provided supplies and services to Ms. Coleman's company since 2001 and has offered to loan LCD funds to pay teachers who worked under LCD's grant programs.

Should LCD continue the practice of accepting loans from employees and other third parties, we recommend that LCD properly document those loans with written agreements that provide for the amount to be loaned and the period in which the loan will be repaid. In addition, written policies and procedures should be implemented to ensure that the board of directors formally accepts and approves loans from employees and/or third parties. The board should also consider whether loans made to the corporation by related parties and/or vendors are arm's length transactions prior to accepting the funds.

Payroll and Contract Labor

Controls over payroll/personnel appear insufficient. Payroll duties were not adequately segregated for a proper system of checks and balances. Good business practices and proper controls dictate that duties should be segregated to the extent possible, so that no one individual performs/controls all duties related to an accounting function. Without segregation of duties and adequate oversight, errors or fraud could occur and not be detected, increasing the risk of loss or theft of assets. In addition, because of the lack of supporting documentation, LCD cannot verify that grant funds were expended for purposes required by the state.

Segregation of Payroll Functions

During our review, it appeared that Ms. Coleman performed all payroll-related duties. She authorized payroll transactions, issued payroll checks from the accounting system, signed checks, and distributed checks to employees and contract laborers.

Time/Attendance Recordkeeping

LCD did not maintain adequate employee/contract labor time/attendance records to support payroll payments. Time records (e.g., time sheets, time cards, et cetera) documenting hours worked were not always prepared by all employees and contract laborers. In addition, time records were not always signed by both the employee/contractor and supervisor. Without time/attendance records, including evidence of supervisory review and approval, management cannot ensure that hours worked are accurate or that grant funds were spent appropriately.

Federal Payroll Taxes

As an employer, LCD is required to withhold certain taxes from employees' pay checks including federal income tax withholding, Social Security, and Medicare taxes. The organization, as the employer, must withhold and deposit the employee's part of the taxes and pay a matching amount. Federal income taxes, Social Security, and Medicare must be reported on Internal Revenue Service (IRS) Form 941, Employer's Quarterly Federal Tax Return.

During our review, we noted that during calendar years 2007 and 2008, the total amounts withheld for federal payroll taxes for LCD's payroll did not match amounts paid to the IRS. In addition, a review of payroll checks issued to Ms. Coleman indicates that although she was an employee of the corporation, she did not always withhold federal income taxes from her payroll checks. Ms. Coleman stated that if the grant she was working under did not provide for fringe benefits, she would not deduct any federal withholdings from her payroll checks. She added that her certified public accountant informed her that she would be responsible for reporting all amounts received to the IRS. Because LCD did not properly withhold and remit federal payroll taxes, LCD may be subject to additional liabilities to the IRS including back taxes, penalties, and interest.

In addition, LCD bank records indicate that on November 28, 2007, a total of $28,000 was drafted from LCD's checking account as a "Special processing debit - LA TAX LEVY." Although LCD's former auditor indicated that the tax levy occurred because of an error that created a difference between LCD's 2005 or 2006 IRS forms 941 and W-3, Transmittal of Wages and Tax Statement, Ms. Coleman indicated that the amount was withdrawn by the IRS for unpaid federal payroll taxes. She explained that in prior years, LCD did not have payroll expenses in every quarter and as a result, she did not submit quarterly 941 reports for the quarters in which there were no payroll expenses. Ms. Coleman stated that the IRS estimated amounts for the quarters in which she did not file quarterly reports creating a balance owed. Because Ms. Coleman did not provide LLA with any documentation from the IRS, we could not determine the purpose of this payment. However, if the amount was used to pay for back taxes and/or penalties to the IRS, it appears that current grant funds were used to satisfy obligations from prior grants received by LCD.

State Income Taxes

State law provides that every employer making payment of wages shall deduct and withhold from such wages a tax in amounts to be provided in withholding tables promulgated by the secretary of the Louisiana Department of Revenue (LDR). State law further requires that employers who deduct and withhold any amount from any wage payments shall make a calendar quarterly return and shall pay the tax required to be paid on a quarterly basis. During the period of our review, LCD withheld state income taxes totaling $1,939 from employees; however, there was no documentation to indicate that the amounts were remitted to LDR. As a result, LCD may be subject to additional liabilities to LDR including back taxes, penalties, and interest.

Louisiana Workforce Commission

Unemployment insurance is a program that provides temporary weekly benefits for workers who have lost their job through no fault of their own and are able, available and seeking work in their usual occupations. Unemployment insurance is administered by the Louisiana Workforce Commission (LWC). According to state law, contributions made by the employer (not the employee) are based on wages paid to employees. Employers are required to file quarterly wage reports to LWC and pay contributions to the unemployment insurance fund based on reported wages. If an employer fails to report wages, the LWC shall make an estimate of the information required from the employer and notify the employer by registered mail. According to LWC, LCD has not reported wages since the fourth quarter of 2005 and that wages have been estimated since that time. LWC has attempted to contact LCD; however, all correspondence was returned. As a result, LCD may be subject to additional liabilities to LWC for failing to report wages and make contributions to the unemployment insurance fund.

IRS Form 1099

The Internal Revenue Code requires that IRS Form 1099-MISC be filed for all persons whom LCD paid nonemployee compensation exceeding $600 in one year. During our review, we noted that these requirements were met by at least seven individuals in 2007 and 30 individuals in 2008, for which it does not appear that these forms were issued. Many of these individuals, which include Ms. Coleman's mother, mother-in-law, and sister, appear to have been paid for services rendered under LCD's oversight of Temporary Assistance for Needy Families, 21st Century, and Teen Pregnancy Prevention grants.

We recommend that LCD implement the following policies and procedures pertaining to payroll:

1. Develop written policies and procedures to ensure that accounting responsibilities are segregated so that no single individual controls all facets of payroll

2. Require all employees and contract laborers to complete and sign time/attendance records to document hours worked

3. Develop written policies and procedures to ensure that time/attendance records are reviewed by an appropriate supervisor at the end of each pay period

4. Implement written policies and procedures to ensure that proper amounts are withheld from payroll checks and that these amounts are properly recorded and remitted to the appropriate agencies

5. Comply with state law by reporting wages, on a quarterly basis, to the LWC

6. Comply with the federal tax code by reporting all payments to contract laborers as 1099 Miscellaneous Income

Lack of Controls and Oversight

LCD does not appear to have board oversight and management of the fiscal operations needs improvement. Without board oversight and an effective financial management system, the executive director and board of directors cannot effectively exercise their fiduciary responsibilities of managing LCD's finances.

Board of Directors

During our review we were not provided with any evidence to indicate that the corporation's board of directors meets regularly or provides any oversight over LCD's operations. In addition, it appears that a majority of the board members are related to Ms. Coleman including her brother and two sisters-in-law. According to the Louisiana Secretary of State, Darryl Williams, Cindy West, and Cathy Wright are the current directors of the corporation. Documents submitted to LLA also indicate that Larry Cook is a member of the board.

LLA representatives attempted on several occasions to meet with Mr. Williams and Mr. Cook to discuss LCD's operations as well as the board's involvement in overseeing LCD's operations. Mr. Williams, Ms. Coleman's brother, declined and only offered to meet with LLA representatives with the entire board of directors and Mr. Cook submitted a letter to LLA requesting that all questions be submitted in writing. LLA representatives then met with Ms. West and Ms. Wright, Ms. Coleman's sisters-in-law, and provided them with copies of board resolutions authorizing LCD to contract with the state as well as copies of the Louisiana Attestation Questionnaires which are provided to LLA on an annual basis. These documents appeared to have been signed by Ms. Wright and Ms. West as board members and submitted to the appropriate state agencies. Both Ms. Wright and Ms. West indicated that the signatures on the documents were not their signatures and they had not participated in the governance of LCD in any way.

Ms. Coleman stated that LCD's board of directors did not have official meetings; however, she would consult with Larry Cook, board president, by telephone to inform him of LCD's programs and funding sources. When asked about documents that appeared to have been signed by board members, Ms. Coleman indicated that Ms. Wright and Ms. West did sign the documents. Ms. Coleman further stated that in the last two weeks, a meeting was held to reestablish board membership.

We recommend that LCD develop and adopt bylaws to define the governance and oversight to be provided by the board of directors. These bylaws should include requirements for board participation; frequency of board meetings; the process for recording minutes of board meetings; the process by which the board will prepare, adopt, monitor and amend an annual budget; and provide for the nature, extent, and frequency of financial reporting information that should be provided to management and the board of directors.

Segregation of Accounting Duties and Financial Reporting

LCD's accounting duties were not adequately segregated for a proper system of checks and balances. Good business practices and proper controls dictate that duties be segregated to the extent possible so that no one individual performs/controls all duties (e.g., authorization, custody, recordkeeping, and reconciliation) related to an accounting function. Without adequate segregation of duties and adequate oversight, errors or fraud could occur and not be detected, increasing the risk of loss or theft of LCD assets.

Purchasing and Disbursements

Controls over purchasing and disbursements need to be strengthened. Good business practices dictate that purchases be supported by appropriate documentation and be approved prior to payments being made. Without documentation and approval, there is greater risk of paying for unauthorized purchases. During our review of purchases made by LCD, we noted that all accounting duties related to purchasing and disbursements were performed by the executive director, including (1) initiating purchases; (2) receiving invoices from vendors; (3) processing checks using the computer system; (4) signing checks; and (5) mailing and/or distributing the checks.

In addition, LCD failed to maintain adequate documentation regarding purchases of materials, equipment, supplies, and services. During the period of our review, LCD could not provide receipts or other documentation supporting checks totaling $155,193. Of this amount, expenditures totaling $80,473 were paid to The Supply Side, Design Data Systems, and Kharo Computer Rentals--businesses owned by Rolanda Smith. It should be noted that LLA representatives requested missing documentation from both Ms. Coleman and supporting documentation from Ms. Smith. Ms. Coleman also indicated that many of her original files were destroyed during Hurricane Gustav. As of this report, the LLA has not received documentation from Ms. Coleman supporting the purchases or from Ms. Smith supporting that the purchases were delivered.

Credit/Debit Cards

LCD has at least one debit card that is used primarily by Ms. Coleman. During our review of debit card purchases by LCD, we noted $27,900 of charges for which an itemized receipt was not available. In addition, the business purpose(s) for the purchases were not always documented. Since LCD management did not maintain documentation to support all debit card purchases, we could not determine the business purpose, necessity, or reasonableness of the purchases or if the purchases benefited LCD.

Neither the debit card authorization receipt nor the monthly bank statement is adequate documentation as it does not provide enough detail to support the propriety of the charges. We recommend that LCD adopt policies and procedures for the use of debit cards. These policies should provide guidance for the business use of the debit cards as well as the supporting documentation expected to be maintained.

Capital Assets

LCD does not maintain a listing of capital assets. Good controls over capital assets require that (1) a detailed listing of assets be maintained and updated periodically; (2) every asset includes a tag identifying it with a number that can be cross-referenced to the detailed asset records; and (3) a physical inventory be conducted at least on an annual basis. The records should include information as to the date of purchase of such property or equipment and the initial cost. During the period of our review, LCD purchased assets totaling $25,373 which included a phone system, 18 computers, two digital cameras, one projector, three printers, and two additional flat panel monitors. Ms. Coleman stated that she did not maintain an inventory list for the assets that she purchased for LCD. She added that she was required to submit inventory lists to the state prior to Hurricane Katrina but has not been required to do so since.

Ms. Coleman stated that the projector she purchased has been loaned to an employee of the bank next to her office. When asked about the 15 Dell computers purchased in September 2007, Ms. Coleman indicated they were to be used at O Perry Walker High School for the 21st Century grant. She added the school never used the computers because the program was terminated shortly after the computers arrived at the school. Ms. Coleman stated that six of the computers were in her office but was unsure as to where the other computers were located. When asked about two additional computers purchased in October 2008, Ms. Coleman indicated that both computers were purchased for use in her office but were damaged by Hurricane Gustav. It should be noted that Hurricane Gustav made landfall in Louisiana on September 1, 2008.

We recommend that LCD conduct a physical inventory and tag all assets belonging to LCD. Second, management should develop procedures to (1) maintain a detailed listing of assets; (2) update the detailed listing when assets are purchased or disposed; and (3) take periodic physical inventories of all assets.

Louisiana Community Developers, Inc. (LCD) is a nonprofit agency with a mission to provide students with educational, tutorial, and cultural activities as well as computer readiness. LCD was established in 2001 and serves as a support system to public, private, and parochial schools located throughout New Orleans, Louisiana. The agency is committed to assisting local educational institutions in increasing overall academic performance for the program participants. LCD's main source of funding is grants from the Louisiana Department of Education and the Louisiana Department of Social Services.

The Louisiana Legislative Auditor received an allegation regarding LCD's inappropriate uses of grant funds. The procedures performed during this audit consisted of:

(1) interviewing employees of LCD;

(2) interviewing other persons as appropriate;

(3) examining selected documents and records of LCD;

(4) gathering documents from external parties;

(5) reviewing LCD policies; and

(6) reviewing applicable state laws and regulations.

This page is intentionally blank.

Management's Response

LA Community Developers
Response to LA Legislative Auditor's Report

November 24, 2009

INTRODUCTION

The Louisiana Legislative Auditor's Office conducted an investigation of the operations LA Community Developers (LCD) in response to un-documented suggestions of impropriety with managing certain grants and State funded programs. As a result of their investigation a draft audit report was prepared. The report included findings and recommendations for future consideration by LCD. This response was prepared in connection with the findings.

For the benefit of anyone that reads the auditor's report and/or LCD's response, we would like it known that bulk of these findings result more from the lack of accounting sophistication than from any act of misapplication of funds or fraud. And while the management of all aspects of transactions by the Executive Director made for very weak internal controls it should have also been an indication that the Executive Director's time devoted to administering the grants was well beyond the normal 40 hour work week. This was demonstrated again in assisting with the audit, as well as preparing for the report.

Our response to each finding will indicate any corrective measures LCD will take as a result of this examination. In most instances we take no exception to the stated finding. However, in certain instances the findings as written do not present to the reader pertinent facts that ultimately removes any suspicion of impropriety. For instance, loans made by a third party were accounted for to the penny although it appears from the finding that those funds could have been part of a set of transactions that were not completely accounted for. The fact that the transaction was an obvious repayment was spelled out in a subsequent paragraph. Finally, it should have been clear to the auditor that the timing of grant reimbursement necessitated, and will continue to necessitate, cash advances in order for the programs to operate, instead of the suggestion that the loans may not have been "arms length transactions".

It should be noted that LCD understands the serious nature of the auditor's findings, and as a result, will exhaust every possible avenue to restructure the Board's oversight, business practices and flow of transactions of the organization to the full satisfaction of the LA Legislative Auditor's office and any other interested government agency.

Following are the responses to the specific findings, along with any corrective measures that will be employed to strengthen internal controls. Our responses will follow the

Categories and subcategories as presented in the report. Each response will be introduced with an excerpt or restatement of the finding followed by LCD's response.

Responses to Recommendations from LA Legislative Auditor

I. **Payment to Executive Director** – We recommend the Board of Directors develop written policies and procedures to ensure that a board approved budget is adopted on an annual basis, which includes amounts to be paid to employees for salaries.

Response:

a. LCD will restructure the flow of authority originating with the Board and delegated to the Executive Director and staff. Additionally, LCD has implemented a "Conflict of Interest Policy" that was put into effect on November 1, 2009. This policy gives total control of all expense payments, both payroll and vendor payments, to the Board of Directors. The Board of Directors will approve and document all salaries and contracts at the time of grant award.

b. The Board will designate and empower one member to review and authorize (sign) checks, employment contracts and salaries.

c. New Board members will be identified and recruited with professional training in business policies and practices and/or financial management to strengthen the financial integrity of LCD.

II. **Questionable Transactions** – "We recommend that LCD properly document loans from employees and other third parties with written agreements that provide the amount to be loaned and the period in which the loan will be repaid. In addition, written policies and procedures should be implemented to ensure that the Board of Directors formally accepts and approves loans . . ."

Response:

a. LCD will utilize Fund accounting concepts to segregate and control financial transactions of individual grants; particularly in those situations where multiple grants are operating simultaneously.

b. LCD has implemented a General Ledger System that will allow the Board to exercise control over disbursements and provide a permanent record of all transactions.

c. In accordance with I-b above, the Board will also have the authority to formally approve and accept any loans to LCD, regardless of source. All cash in-flows will be accounted for using generally accepted accounting practices for revenues, loans and other cash advances. The general ledger system will allow for full documentation of all receipts and deposits. The Board will not allow any donation or loans to be accepted without prior approval of the Board of Directors

III. **Payroll and Contract Labor** – We recommend that LCD implement policies and procedures pertaining to payroll.

Response:

a. The Board of Directors has hired RX Payroll LLC. This payroll company will be responsible for paying all employees that have approved, signed timesheets (the timesheets will require two signatures). All time sheets must be approved, in advance, and signed by the Executive Director and the designated Board Member. Timesheets for the Executive Director will be signed by the designated Board Member.

b. Personnel files will be established for every employee hired by LCD and will include, as a minimum, the hiring authorization from the Board and the official W-4 and L-4, federal and state withholding certificates. Copies of the withholding certificates will be provided to RX Payroll to facilitate the proper withholding of federal and state income taxes.

c. RX Payroll will be responsible for filing and paying all payroll related taxes including quarterly/annual tax reports for Federal and State Taxes.

d. LCD will re-establish a reporting relationship with LA Workforce Commission to file all prospective unemployment tax reports.

e. LCD is in the process of reviewing a proposal from Intego Insurance Services, LLC to provide workmen's compensation insurance coverage. The Board of Directors will vote on this issue at the first meeting for 2010.

f. LCD has engaged the services of Allen Accounting & Consulting to provide bookkeeping services on a regular basis. Included in the scope of work is the filing of earnings reports (IRS form 1099) for non-employee compensation paid directly by LCD.

g. Financial records, including payroll transactions, will be retained for a minimum of five years or the statutory time required by government funding agencies if greater.

IV. **Lack of Controls and Oversight** – "LCD does not appear to have board oversight and management of fiscal operations needs improvement. . . we recommend that LCD develop and adopt bylaws to define the governance and oversight to be provided by the Board of Directors . . . purchasing and disbursements need to be strengthened . . . supported by appropriate documentation and be approved prior to payments being made."

Response:

a. LCD's existing bylaws are on file with the LA Secretary of State. However, the current bylaws will be revised to increase the number of official meetings from the current two times a year and also include a provision that allows the President of the Board or Executive Director to call a special meeting at any time after providing adequate notice to the members of the Board.

b. LCD has hired Allen Accounting & Consulting to re-establish financial records for the 2007 & 2008 operating periods. Going forward, Allen Accounting will be responsible for recording and reporting all financial transactions of the organization. Also included in the scope of work is the requirement to provide periodic financial reports to the Board on a timely basis.

c. Procedures have been implemented that requires the approval signature of two board members on a requisition form for any purchase for LCD. This requisition form has been implemented for ALL purchases and disbursements. Checks for the payment of purchases will be supported by the signed requisition, vendor invoice or receipt and signed proof of receipt or delivery.

d. The Board of Directors has modified procedures for the use of debit cards. Debit cards will only be used for emergency purchases and must be ratified by signature of a Board member after the purchase has been made; supported by vendor invoice or receipt.

e. LCD will conduct a physical inventory of ALL fixed assets. Assets will be tagged and identified by serial number and/or model number and posted to the general ledger system maintained by Allen Accounting. The fixed assets inventory will be completed and documented not later than January 31, 2010.

SUMMARY

It is the sincere hope and desire of LCD to communicate it's commitment to strengthening fiscal and operating controls. We believe that this audit, by its very nature and limited scope, did not focus on the services that were delivered or the level of success achieved as measured by the benefits recipients received. However, we also understand that overall success will also be measured by the fiscal stewardship demonstrated by LCD. To this end, we have recommitted ourselves to be successful by any and every measure.

Bertha W. Coleman, Executive Director

Response from Ms. Rolanda Smith

In correspondence dated November 20, 2009, we asked Ms. Smith to respond, in writing to this report; Ms. Smith chose not to respond.