

SOUTHWEST LOUISIANA LEGAL SERVICES SOCIETY, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Year Ended December 31, 2005

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 6-21-06

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McMullen and Mancuso
Certified Public Accountants, LLC
P.O. Box 202

Lisa F. McMullen, CPA
Pamela C. Mancuso, CPA

3600 Maplewood Drive
Sulphur, Louisiana 70663

Telephone (337) 625-5054
Fax (337) 625-5849

INDEPENDENT AUDITORS' REPORT

Board of Directors
Southwest Louisiana Legal Services Society, Inc.
Lake Charles, Louisiana

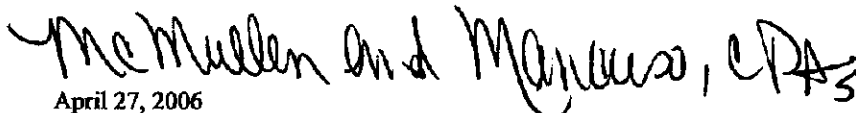
We have audited the accompanying statements of financial position of Southwest Louisiana Legal Services Society, Inc. (a non-profit organization) as of December 31, 2005 and 2004 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Louisiana Legal Services Society, Inc. as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated April 27, 2006, on our consideration of Southwest Louisiana Legal Services Society, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McMullen and Mancuso, CPAs


April 27, 2006

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SOUTHWEST LOUISIANA LEGAL SERVICES SOCIETY, INC.
STATEMENT OF FINANCIAL POSITION
As of December 31, 2005 and 2004

ASSETS		
	<u>2005</u>	<u>2004</u>
Current Assets		
Cash and Cash Equivalents	\$ 24,847	\$ 40,031
Restricted Cash	141,724	15,420
Accounts Receivable	38,050	30,705
Grants Receivable	10,375	18,841
Unconditional Promise to Give	50,000	50,000
Receivable - Arcadian Settlement	-	237,565
Due From Employees	275	100
Miscellaneous Receivable	579	579
Prepaid Expenses	<u>3,392</u>	<u>2,995</u>
Total Current Assets	<u>269,242</u>	<u>396,236</u>
Property and Equipment		
Furniture, Fixtures, and Equipment	161,400	153,609
Accumulated Depreciation	(149,693)	(143,423)
Law Library	<u>139,840</u>	<u>139,840</u>
Total Property and Equipment	<u>151,547</u>	<u>150,026</u>
Other Assets		
Deposits	1,075	1,075
Other Receivable	<u>5,609</u>	<u>5,609</u>
Total Other Assets	<u>6,684</u>	<u>6,684</u>
Total Assets	\$ <u>427,473</u>	\$ <u>552,946</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 19,425	\$ 12,460
Accrued Liabilities	24,815	16,579
Client Trust Deposits	<u>19,265</u>	<u>16,117</u>
Total Current Liabilities	<u>63,505</u>	<u>45,156</u>
Total Liabilities	<u>63,505</u>	<u>45,156</u>
Net Assets		
Unrestricted	190,929	220,225
Temporarily Restricted	<u>173,039</u>	<u>287,565</u>
Total Net Assets	<u>363,968</u>	<u>507,790</u>
Total Liabilities and Net Assets	\$ <u>427,473</u>	\$ <u>552,946</u>

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

SOUTHWEST LOUISIANA LEGAL SERVICES SOCIETY, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2005 and 2004

	2005			2004
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	TOTAL
PUBLIC SUPPORT AND REVENUES				
Government Grants	\$ 236,430	\$ -	\$ 236,430	\$ 182,379
Other Grants	17,850	-	17,850	-
Contributions	-	-	-	238,719
United Way Contributions	-	50,000	50,000	50,000
In Kind Contributions (Note C)	40,377	-	40,377	70,377
Operating Income - Fees	135,544	-	135,544	223,170
Interest Income	697	-	697	-
Miscellaneous Income	2,557	-	2,557	66
Net Assets Released From Restrictions	164,526	(164,526)	-	-
Total Public Support and Revenues	597,981	(114,526)	483,455	764,711
EXPENSES				
Program Service	457,035	-	457,035	412,526
Supporting Services:				
Management and General	170,242	-	170,242	109,301
Total Expenses	627,277	-	627,277	521,827
CHANGE IN NET ASSETS	(29,296)	(114,526)	(143,822)	242,884
NET ASSETS AT BEGINNING OF YEAR, AS ORIGINALLY REPORTED	220,225	287,565	507,790	261,488
PRIOR PERIOD ADJUSTMENTS (Note H)	-	-	-	3,418
NET ASSETS AT BEGINNING OF YEAR, AS RESTATED	220,225	287,565	507,790	264,906
NET ASSETS AT END OF YEAR	\$ 190,929	\$ 173,039	\$ 363,968	\$ 507,790

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

SOUTHWEST LOUISIANA LEGAL SERVICES SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2005 and 2004

	Program Services	Supporting Services	Total Program and Supporting Service Expense	
			2005	2004
Salaries	\$ 209,544	\$ 118,946	\$ 328,490	\$ 295,595
Payroll Taxes	16,765	9,517	26,282	19,892
Employee Benefits	37,960	21,547	59,507	52,054
Contractual Services	37,955	-	37,955	9,988
Advertising	1,319	147	1,466	1,720
Bad Debt	6,476	-	6,476	-
Bank and Retirement Plan Fees	95	-	95	2,248
Computer Maintenance	11,750	1,306	13,056	-
Equipment Rental and Maintenance	8,990	999	9,989	13,425
Insurance	8,116	1,629	9,745	7,124
Library Maintenance	1,799	-	1,799	2,289
Litigation Cost	6,027	-	6,027	2,532
Membership Fees	1,908	-	1,908	2,238
Other Costs	266	46	312	1,829
Office Supplies & Expense	10,902	1,211	12,113	9,331
Penalties	-	3,604	3,604	-
Postage and Shipping	3,095	344	3,439	3,796
Professional Fees	8,575	-	8,575	7,000
Rent	48,828	8,617	57,445	56,655
Taxes and Licenses	-	300	300	-
Telephone	6,033	1,065	7,098	5,945
Travel & Training	25,302	24	25,326	17,949
Total Before Depreciation	451,705	169,302	621,007	511,610
Depreciation	5,330	941	6,270	10,217
Total Expenses	\$ 457,035	\$ 170,242	\$ 627,277	\$ 521,827

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

SOUTHWEST LOUISIANA LEGAL SERVICES SOCIETY, INC.
 STATEMENT OF CASH FLOWS
 For the Year Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash Flows From Operating Activities		
Change in Net Assets	\$ (143,822)	\$ 242,884
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation Expense	6,270	10,217
(Increase) Decrease in Assets:		
Restricted Cash - Client Escrow Funds/Arcadian Funds	(126,304)	9,197
Receivables	1,121	1,768
Receivable - Arcadian Settlement	237,565	(237,565)
Due from Employees	(175)	187
Prepaid Expenses	(397)	(1,878)
Increase (Decrease) in Liabilities:		
Accounts Payable	6,965	508
Accrued Liabilities	8,236	7,607
Client Trust Deposits	<u>3,148</u>	<u>(9,196)</u>
Net Cash Provided by Operating Activities	(7,393)	23,729
Cash Flows From Investing Activities		
Purchase of Equipment	<u>(7,791)</u>	<u>(2,477)</u>
Net Cash Used by Investing Activities	<u>(7,791)</u>	<u>(2,477)</u>
Net Decrease in Cash and Cash Equivalents	(15,184)	21,252
Cash and Cash Equivalents, Beginning January 1, 2003	<u>40,031</u>	<u>18,779</u>
Cash and Cash Equivalents, Ending December 31, 2004	<u>\$ 24,847</u>	<u>\$ 40,031</u>

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

Southwest Louisiana Legal Services Society, Inc.
Lake Charles, Louisiana

Notes to the Financial Statements
December 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization and Purpose
Southwest Louisiana Legal Services Society, Inc. (SWLLS) is a non-profit corporation organized for the purpose of providing legal assistance in non-criminal proceedings or matters to persons unable to afford such services. The following describes briefly certain significant accounting policies.

2. Basis of Accounting
The financial statements have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

3. Financial Statement Presentation
The financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117 "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117 Southwest Louisiana Legal Services Society, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represent the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represent resources restricted by donor's as to purpose or by the passage of time; and permanently restricted net assets, which represent resources whose use by the organizations is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization did not have any permanently restricted net assets this year.

4. Restricted Cash
Client Escrow Funds
Monies deposited with Southwest Louisiana Legal Services Society, Inc. by its clients are deposited into separate cash accounts to be used only in connection with the related litigation. The amount of these funds at December 31, 2005 were \$18,685.
Arcadian Settlement Funds
Southwest Louisiana Legal Services Society, Inc. received a payment of \$237,565, as a result of a judgment from the Arcadian Settlement on December 20, 2004. These funds are deposited in three (3) savings accounts with the Organization and totaled \$123,039 at December 31, 2005.

5. Concentration of Revenue and Support
For December 31, 2005, the Organization received approximately 28% of its revenue and support from fees generated for legal services from the geographic region of Southwest Louisiana encompassing five parishes. Approximately 49% of the Organization's funding was provided by various government grants, specifically the Department of Justice. If the Organization were no longer able to generate fees for legal services, or funding from this Department was no longer available, the operations of the Organization could be adversely impacted.

**Southwest Louisiana Legal Services Society, Inc.
Lake Charles, Louisiana**

**Notes to the Financial Statements
December 31, 2005**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Public Support and Revenue

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor or the grantor.

The Organization receives funding primarily from various federal, state and local grants, as well as the United Way of Southwest Louisiana.

7. Income Taxes

Southwest Louisiana Legal Services Society, Inc. is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income taxes is included in the financial statements. In addition, Southwest Louisiana Legal Services Society, Inc. has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509 (a) (2) of the Code.

8. Property and Equipment

Property and equipment are recorded at cost, when purchased, or if donated, at the estimated fair value on the date of donation. All acquisitions in excess of \$250 and all expenditures for repairs, maintenance, renewals, and betterment that materially prolong the useful lives of assets are capitalized. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method and amounted to \$6,270 for the year ended December 31, 2005. The following is a summary of the estimated useful lives used:

Furniture and equipment	3-10 years
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9. Law Library

Southwest Louisiana Legal Services Society, Inc. capitalizes the costs of books, reference materials, and multiple volume sets of law books. Southwest Louisiana Legal Services Society, Inc. estimates that the salvage value of its law library approximates the original cost and, accordingly, depreciation expense is not recorded.

10. Cash and Cash Equivalents

For reporting purposes, cash and cash equivalents include demand deposits and certificates of deposit with an original maturity of 90 days or less.

11. Accounts Receivable

Accounts receivable are stated at unpaid balances for services of which a contract has been signed and/or a statement has been issued. The Agency provides for losses on accounts receivable using the direct write-off method which management believes to closely approximate GAAP. GAAP requires the allowance method to provide for doubtful accounts. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Agency's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

**Southwest Louisiana Legal Services Society, Inc.
Lake Charles, Louisiana**

**Notes to the Financial Statements
December 31, 2005**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

12. Promises to Give
Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.
13. 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 balance sheet date and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.
14. Advertising Costs
Advertising costs are charged to operations when incurred. Total advertising costs for the year ended December 31, 2005 were \$1,466.
15. Contingency Fees
Revenue and the associated accounts receivable for cases contracted on a contingency basis are recognized in the statements when a judgment is rendered by the courts and an amount is measurable.

NOTE B - ACCRUED LIABILITIES

Included in accrued liabilities is annual leave, which vests with the employee and is payable upon termination totaling \$8,270 at December 31, 2005. Maximum annual leave amounts, which can be carried over to subsequent years, are 7.5 days per employee without board approval. Also included in accrued liabilities is \$13,340 of accrued wages and salaries at December 31, 2005. The remaining balance in accrued liabilities represents payroll taxes and payroll withholdings.

NOTE C - IN KIND CONTRIBUTIONS

Contributed services and space are recognized both as support and expenses and therefore do not affect Southwest Louisiana Legal Services Society, Inc.'s net assets. Contributed services have been recognized for legal and supervisory services provided by the director of the Agency and are valued at the rate normally charged in this area for similar services. Contributed space is valued at rates normally charged for comparable space. Contributed materials are valued at fair market value at the date of donation.

In Kind Contributions received during the year ended December 31, 2005 were valued as follows:

Donated Space	\$ 40,377
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Southwest Louisiana Legal Services Society, Inc.
Lake Charles, Louisiana

Notes to the Financial Statements
December 31, 2005

NOTE C - IN KIND CONTRIBUTIONS (continued)

In Kind Contributions received during the year ended December 31, 2004 were valued as follows:

Contract Services	\$ 30,000
Donated Space	<u>40,377</u>
Total	\$ 70,377

NOTE D - LEASE OF FACILITIES

Southwest Louisiana Legal Services Society, Inc. entered into a one-year lease agreement on January 8, 2004, beginning January 1, 2004 until December 31, 2004, with an optional continuance on a month-to-month basis beginning January 1, 2005 for the rental of office space in Magnolia Life Building, Lake Charles, Louisiana for \$1,250 per month. Rent expense for the year ended December 31, 2005 was \$15,000.

NOTE E - RETIREMENT PLAN

Effective April 1, 1995, Southwest Louisiana Legal Services Society, Inc. established a 403 (b) retirement plan for those employees who meet the eligibility requirements set forth in the plan. The amount of employer contributions to the plan is equal to fifty percent of the basic employee contribution made by each participant during the plan year (up to 3% match). No contributions were made to the plan for the year ended December 31, 2005.

NOTE F - GRANT FUNDS RECEIVABLE

The following details grant funds receivable as of December 31, 2005:

Funding Source

Calcasieu Council on Aging, Inc.	\$ 6,375
Jeff Davis Council on Aging, Inc.	<u>4,000</u>
Total	\$ 10,375

NOTE G - OPERATING LEASE COMMITMENT

Southwest Louisiana Legal Services Society, Inc. leases office equipment under a non-cancelable operating lease with a term of 60 months. Rent expense for the year ended December 31, 2005 was \$8,304. The following is a schedule by years of future minimum rentals under the lease at December 31, 2005:

Due December 31, 2006	\$ <u>2,768</u>
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**Southwest Louisiana Legal Services Society, Inc.
Lake Charles, Louisiana**

**Notes to the Financial Statements
December 31, 2005**

NOTE H - PRIOR PERIOD ADJUSTMENTS

During the year ended December 31, 2004, Southwest Louisiana Legal Services Society, Inc. discovered errors made in the prior period. The Organization erroneously understated grants receivable and revenues by \$3,418. Adjustments correcting these errors resulted in an increase of that amount to unrestricted net assets as of December 31, 2004.

NOTE I - UNCONDITIONAL PROMISE TO GIVE

During the year ended December 31, 2005, the Organization received its United Way allocation. This allocation is temporarily restricted as to time of receipt and is properly reflected in the accompanying Statement of Activities as an increase in temporarily restricted net assets. The amount to be received in less than one year is \$50,000.

NOTE J - RECEIVABLE - ARCADIAN SETTLEMENT

On December 20, 2004, a court order was issued by the 14th Judicial District Court, Parish of Calcasieu, State of Louisiana awarding Southwest Louisiana Legal Services Society, Inc. a judgment to provide for legal services in the Westlake, LA and North Lake Charles, LA areas as well as to develop offices in those areas. The judgment amount, \$237,565.41 was disbursed to the Organization on December 29, 2004, and is properly reflected in the accompanying Statement of Activities as an increase in temporarily restricted net assets, and in the accompanying Statement of Financial Position as a receivable at December 31, 2004.

NOTE K - CONCENTRATION OF RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of promises to give receivable. Amounts receivable from promises to give at December 31, 2005 consists of \$50,000 from the United Way of Southwest Louisiana.

The Organization also has exposure for risk as the book balances of its accounts held at the same institution are \$153,945, exceeding the \$100,000 of federal deposit insurance.

NOTE L - FUNCTIONAL ALLOCATION OF EXPENSES

Expenses were allocated in the accompanying financial statements to program and support services functional expense groups. The methods of allocation were based on the Organization's estimates of the relative proportion of various staff members' time and effort between program and support services as well as the Organization's estimates of the amount of each expense utilized for program or support service functions.

NOTE M - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2005 consisted of the following:

Arcadian Settlement	\$123,039
United Way Allocation	<u>50,000</u>
Total	\$173,039

McMullen and Mancuso
Certified Public Accountants, LLC

P.O. Box 202

Lisa F. McMullen, CPA
Pamela C. Mancuso, CPA

3600 Maplewood Drive
Sulphur, Louisiana 70663

Telephone (337) 625-5054
Fax (337) 625-5849

**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***

Board of Directors
Southwest Louisiana Legal Services Society, Inc.
Lake Charles, Louisiana

We have audited the financial statements of Southwest Louisiana Legal Services Society, Inc. (a nonprofit corporation) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated April 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Southwest Louisiana Legal Services Society, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Southwest Louisiana Legal Services, Inc.'s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings.

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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions to be material weaknesses. However, of the reportable conditions described above, we consider item 2005-1 to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Southwest Louisiana Legal Services Society, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions

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of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2005-2.

This report is intended solely for the information and use of the board of directors, management, and the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

McMullen and Mancuso, CPAs

McMullen and Mancuso, CPAs
April 27, 2006

Southwest Louisiana Legal Services Society, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2005

We have audited the financial statements of The Southwest Louisiana Legal Services Society, Inc. as of and for the year ended December 31, 2005, and have issued our report thereon dated April 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of December 31, 2005 resulted in an unqualified opinion.

Section I Summary of Auditor's Reports

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

Internal Control

Material Weaknesses Yes No Other Conditions Yes No

Compliance

Compliance Material to Financial Statements Yes No

Section II Financial Statement Findings

- 2005-1 The Organization should maintain adequate controls over accounts receivable for client fees. We found that they have not implemented control procedures over accounts receivable for client fees. Accounts receivable and revenue is not properly safeguarded, which makes it susceptible to misappropriation or loss without the Organization's knowledge. Billing of trade accounts receivable has not been done in a timely or consistent manner. The centralized accounts receivable records are not complete. The Organization had purchased software that can be utilized to properly maintain accounts receivable; however, they have not utilized the software. We recommend the management adopts and implements billing software and they review billing and time reports on a weekly basis to determine that time has been entered accurately and that bills to clients are sent and recorded in the general ledger in a timely manner.
- 2005-2 The Organization should monitor the Federal Legal Assistance for Victims Grant Program and track the costs that have been allocated to the grant along with each reimbursement request. Inaccurate reporting on the quarterly status resulted from not having accurate monitoring of the grant expenditures. The Organization needs to maintain a spreadsheet to monitor all expenses allocated to the grant as well as all reimbursements requested from the grant.
- 2005-3 General ledger entries need to be recorded in a timely manner and financial reports should be generated and presented to management on a monthly basis.
- 2005-4 The Organization should strengthen its controls on cash disbursements. In our expenditures testing we noted several requisition requests not signed by the Executive Director. All requisition reports should be approved and signed by the Executive Director.

Southwest Louisiana Legal Services Society, Inc.

SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended December 31, 2005

SECTION I - INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS	
2004-1 The Organization has not implemented control procedures over accounts receivable for client fees.	Unresolved.
2004-2 The Organization incorrectly calculated their drawdown requests on a federal grant, causing an excess Federal cash on hand.	Unresolved.
SECTION II - MANAGEMENT LETTER	
MC-1 Improve the effectiveness of the Board of Directors.	Partially Resolved.
MC-2 Close inactive trust bank accounts.	Unresolved.
MC-3 Abatement of penalty.	Unresolved.
MC-4 Contract audit requirement.	Resolved.
MC-5 Employee disbursement procedures.	Resolved.
MC-6 Formal cost allocation plan.	Unresolved.
MC-7 Improve accounting for grants.	Unresolved.

THIS SCHEDULE HAS BEEN PREPARED BY MANAGEMENT

McMullen and Mancuso
Certified Public Accountants, LLC

P.O. Box 202

Lisa F. McMullen, CPA
Pamela C. Mancuso, CPA

3600 Mapleswood Drive
Sulphur, Louisiana 70663

Telephone (337) 625-5054
Fax (337) 625-5849

April 27, 2006

To the Management and
The Board of Directors of
Southwest Louisiana Legal Services Society, Inc.

In planning and performing our audit of the financial statements of Southwest Louisiana Legal Services Society, Inc. for the year ended December 31, 2005, we considered the Organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding these matters. We previously reported on the Organization's internal control in our report dated April 27, 2006. This letter does not affect our report dated April 27, 2006 on the financial statements of Southwest Louisiana Legal Services Society, Inc.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

MC-1 - Improve the Effectiveness of the Board of Directors

We noted that the Board of Directors does not meet regularly. The corporate by-laws require the Board to meet at least quarterly. We believe that the Board's effectiveness could be improved by considering the responsibilities of a Board and evaluating the Board member's performance in areas, such as regular attendance and participations at Board meetings.

The following are some ways in which the Board meetings could be made more productive:

- Meet regularly, at least quarterly if not monthly.
- Adhere to the agenda and defer to the next meeting matters not on the agenda or not urgent.
- Prepare written minutes with enough detail about discussions, decisions, and authorizations, and make them available to Board members before the next meeting.
- Solicit active participation in discussions of agenda items from all Board members.

The Board's effectiveness and efficiency could also be improved by establishing committees composed of members with the relevant knowledge and skills to work in key areas such as finance, facilities, personnel, and long-range planning.

MC-2 - Close Inactive Trust Bank Accounts

At present, the Organization maintains trust accounts that have not had any activity in the last few years. Inactive bank accounts can be susceptible to misuse by someone seeking to misappropriate cash. Thus, we recommend that management appraise the need for the existing bank accounts and as soon as legal guidance is available, distribute the monies in these accounts accordingly.

Members

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

MC-3 - Abatement of Penalty

During the previous audit, we noted that the Organization paid a considerable amount in penalties for Form 941 taxes that were not paid timely in previous years. As it is a large amount of money to the Organization, and reasonable cause for late payment appears to exist, we recommend the filing of Form 843 for possible abatement of penalties.

MC-4 - Formal Cost Allocation Plan

Although the Organization does have a method for cost allocation, they have not adopted a formal cost allocation plan. The growth the Organization has experienced within the past couple of years dictates that a formal plan for cost allocation be adopted and implemented. This would allow costs to be directly charged to the program to which they belong.

MC-5 - Improve Accounting for Grants

The Organization does not always charge the direct salaries and other expenses to the grant for which they were incurred. The failure to do this makes monitoring of grants and the drawdown requests for grants difficult. We recommend that procedures be implemented to ensure all direct costs are captured in each grant and the Executive Director review the financial statements monthly to ensure compliance.

We wish to thank the Executive Director and the Bookkeeper for their support and assistance during our audit.

The preceding comments and recommendations are intended solely for the information and use of the Board of Directors and management, and is not intended to be used by anyone other than the specified parties.

McMullen and Mancuso, CPAs

McMullen and Mancuso, CPAs

Southwest Louisiana Legal Services Society, Inc.

MANAGEMENT'S CORRECTIVE ACTION PLAN

Year Ended December 31, 2005

SECTION I - INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS	
<p>2005-1 The Organization has not implemented control procedures over accounts receivable for client fees.</p>	<p>The Board President will take an active role with Executive Director and Bookkeeper in evaluating software applications and instituting specific procedures to ascertain all attorney time is recorded accurately and timely and billing is done on a regular basis.</p>
<p>2005-2 The Organization should monitor the Federal Legal Assistance For Victims Grant Program and track costs allocated to the grant.</p>	<p>Management will implement procedures to ensure that costs are properly allocated to the grant and reported accurately.</p>
<p>2005-3 General ledger entries need to be recorded on a timely manner and financial reports reviewed by management on a monthly basis.</p>	<p>Management will ensure that general ledger entries are recorded and financial reports are reviewed on a timely basis.</p>
<p>2005-4 The Organization should strengthen its controls on cash disbursements.</p>	<p>All requisition requests will be approved and signed by the Executive Director.</p>
SECTION II - MANAGEMENT LETTER	
<p>MC-1 Improve the effectiveness of the Board of Directors.</p>	<p>The Organization has recruited new members and believes the Board will be more effective.</p>
<p>MC-2 Close inactive trust bank accounts.</p>	<p>Management is waiting on legal guidance on distribution of funds.</p>
<p>MC-3 Abatement of penalty.</p>	<p>The bookkeeper will file Form 843 for possible abatement of penalties.</p>
<p>MC-4 Formal cost allocation plan.</p>	<p>Management will implement new software in combination with industry specific (nonprofit accounting) software.</p>
<p>MC-5 Improve accounting for grants.</p>	<p>The Executive Director will take a more active role in grant accounting.</p>

THIS SCHEDULE HAS BEEN PREPARED BY MANAGEMENT