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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

May 7, 2008

Board of Directors
North Central Community
Action Agencies, Inc.
301 East 8th St.
Michigan City, IN 46360

We have reviewed the audit report prepared by Cullar & Associates, PC, Independent Public Accountants, for the period January 1, 2006 to December 31, 2006. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the North Central Community Action Agencies, Inc., as of December 31, 2006, and the results of its operations for the period then ended, on the basis of accounting described in the report except for the effects, if any, of the resolution of an instance of possible noncompliance.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. Pages 19 through 29 contain sixteen current audit findings and \$14,495 in questioned costs. Pages 30 through 32 contain the status of five prior audit findings. Management's corrective action plan is on pages 33 through 37.

STATE BOARD OF ACCOUNTS

FINANCIAL AND COMPLIANCE REPORT

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.

December 31, 2006



ULLAR & ASSOCIATES, PC

CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

| | <u>Page</u> |
|---|-------------|
| INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS AND SUPPORTING SCHEDULE..... | 1-2 |
| FINANCIAL STATEMENTS | |
| Statement of financial position | 3 |
| Statement of activities | 4 |
| Statement of functional expenses | 5 |
| Statement of cash flows..... | 6 |
| Notes to financial statements..... | 7-11 |
| SUPPORTING SCHEDULE | |
| Schedule of expenditures of federal awards..... | 12 |
| INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 13-14 |
| INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB A-133 | 15-17 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 18-29 |
| SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS | 30-32 |
| AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN | 33-37 |

**INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS
AND SUPPORTING SCHEDULE**

To the Board of Directors
NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
Michigan City, Indiana

We have audited the accompanying statement of financial position of NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC. (the "Organization") as of December 31, 2006, and the related statements of activities, functional expenses, and cash flows for the year 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 *Government 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.

As more fully described in Note 8 to the financial statements, approximately \$112,000 in costs charged to federal awards from 2003 through 2006 have been questioned by audit for noncompliance with the terms of the grants and may have to be returned to the awarding agencies. The ultimate effect of the actions of the awarding agencies relative to these instances of possible noncompliance cannot presently be determined. Accordingly, no provision for any liability that may result upon resolution has been made in the accompanying financial statements.

In our opinion, except for the effects, if any, of the resolution of the instances of possible noncompliance discussed in the preceding paragraph the financial statements referred to above present fairly, in all material respects, the financial position of NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC. as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007 on our consideration of NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards on page 12 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133,

Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As explained in Note 2 to the financial statements, the Organization retroactively changed its method of accounting from a regulatory basis to accounting principles generally accepted in the United States of America as of January 1, 2006.

Cullen & Associates, P.C.

October 31, 2007

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2006

Assets:

Current Assets:

| | |
|-------------------------------------|------------------|
| Cash and cash equivalents | \$ 19,621 |
| Grants and contributions receivable | 1,186,380 |
| Prepaid expenses | <u>73,515</u> |
| <i>Total current assets</i> | <u>1,279,516</u> |

| | |
|------------------------|----------------|
| Property and Equipment | <u>236,187</u> |
|------------------------|----------------|

| | |
|---------------------|---------------------|
| <i>Total assets</i> | <u>\$ 1,515,703</u> |
|---------------------|---------------------|

Liabilities and Net Assets:

Current Liabilities:

| | |
|----------------------------------|------------------|
| Accounts payable | \$ 727,954 |
| Accrued liabilities | 34,875 |
| Deferred revenue | <u>346,205</u> |
| <i>Total current liabilities</i> | <u>1,109,034</u> |

Net Assets:

| | |
|-------------------------|----------------|
| Unrestricted | 327,777 |
| Temporarily restricted | <u>78,892</u> |
| <i>Total net assets</i> | <u>406,669</u> |

| | |
|---|---------------------|
| <i>Total liabilities and net assets</i> | <u>\$ 1,515,703</u> |
|---|---------------------|

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

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2006

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-------------------|
| Revenues and Gains: | | | |
| Governmental grants and contracts | \$ 3,154,201 | \$ - | \$ 3,154,201 |
| Contributions | 2,917 | 20,000 | 22,917 |
| Interest income | 618 | - | 618 |
| Rental income and other | 18,451 | - | 18,451 |
| Net assets released from restrictions | <u>24,722</u> | <u>(24,722)</u> | <u>-</u> |
| <i>Total revenues and gains</i> | <u>3,200,909</u> | <u>(4,722)</u> | <u>3,196,187</u> |
| Expenses: | | | |
| Energy assistance | 1,713,260 | - | 1,713,260 |
| Weatherization | 387,965 | - | 387,965 |
| Women, infants, and children | 356,058 | - | 356,058 |
| Housing | 432,434 | - | 432,434 |
| Arts and recreation | 19,019 | - | 19,019 |
| Community agencies support | 62,974 | - | 62,974 |
| Administrative and general | <u>278,043</u> | <u>-</u> | <u>278,043</u> |
| <i>Total expenses</i> | <u>3,249,753</u> | <u>-</u> | <u>3,249,753</u> |
| Change in net assets | (48,844) | (4,722) | (53,566) |
| Net assets, beginning of year (as restated) | <u>376,621</u> | <u>83,614</u> | <u>460,235</u> |
| <i>Net assets, end of year</i> | <u>\$ 327,777</u> | <u>\$ 78,892</u> | <u>\$ 406,669</u> |

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

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2006

| | Energy Assistance | Weatherization | Women, Infants, and Children | Housing | Arts and Recreation | Community Agencies Support | Administrative and General | Total |
|--------------------------------|---------------------|-------------------|------------------------------|-------------------|---------------------|----------------------------|----------------------------|---------------------|
| Salaries and wages | \$ 109,028 | \$ 58,829 | \$ 206,183 | \$ 44,081 | \$ 13,215 | \$ - | \$ 142,545 | \$ 573,881 |
| Employee benefits | 13,206 | 3,642 | 49,292 | 394 | 251 | - | 27,271 | 94,056 |
| Payroll taxes | 11,416 | 7,965 | 19,749 | 3,364 | 1,335 | - | 22,281 | 66,110 |
| Training | 100 | 1,200 | 125 | 130 | - | - | 360 | 1,915 |
| Contracts | 65,418 | - | - | 636 | - | 62,974 | - | 129,028 |
| Occupancy | 11,055 | 7,562 | 33,490 | 10,549 | 473 | - | 14,974 | 78,103 |
| Telephone | 6,675 | 4,537 | 4,663 | 3,011 | 60 | - | 8,837 | 27,783 |
| Postage | 2,451 | 592 | 138 | 89 | - | - | 962 | 4,232 |
| Equipment and supplies | 25,188 | 24,583 | 21,072 | 26,369 | 592 | - | 20,372 | 118,176 |
| Professional fees | 20 | - | 265 | 217 | - | - | 10,005 | 10,507 |
| Conferences and travel | 6,424 | 10,464 | 1,841 | 6,926 | 1,493 | - | 6,829 | 33,977 |
| Insurance | (2,055) | 6,749 | 14,502 | (555) | - | - | 6,458 | 25,099 |
| Financial and other assistance | 1,462,063 | 257,472 | - | 324,062 | 1,600 | - | 1,365 | 2,046,562 |
| Dues and subscriptions | 1,782 | 638 | 2,655 | 234 | - | - | 3,002 | 8,311 |
| Depreciation | - | 3,075 | - | 12,927 | - | - | 5,346 | 21,348 |
| Other | (8) | 256 | 2,083 | - | - | - | 7,436 | 9,767 |
| Interest expense | 497 | 401 | - | - | - | - | - | 898 |
| Totals | \$ 1,713,260 | \$ 387,965 | \$ 356,058 | \$ 432,434 | \$ 19,019 | \$ 62,974 | \$ 278,043 | \$ 3,249,753 |

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

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2006

Change in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

| | |
|---|------------------|
| Change in net assets | \$ (53,566) |
| Adjustments to reconcile change in net assets to net cash (used in) operating activities: | |
| Depreciation | 21,348 |
| Change in assets and liabilities: | |
| Grants and contributions receivable | (500,843) |
| Prepaid expenses | (53,874) |
| Accounts payable | (88,567) |
| Accrued liabilities | 5,416 |
| Deferred revenue | <u>346,205</u> |
| <i>Net cash (used in) operating activities</i> | <u>(323,881)</u> |

Cash Flows from Financing Activities:

| | |
|--|-----------------|
| Proceeds from bank line of credit | 20,000 |
| Payments on bank line of credit | <u>(20,000)</u> |
| <i>Net cash provided by (used in) financing activities</i> | <u>-</u> |

| | |
|--|------------------|
| Net change in cash and cash equivalents | (323,881) |
| Cash and cash equivalents, beginning of year | <u>343,502</u> |
| <i>Cash and cash equivalents, end of year</i> | <u>\$ 19,621</u> |

Supplemental cash flow information:

| | |
|---------------|---------------|
| Interest paid | \$ <u>898</u> |
|---------------|---------------|

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

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC. (the "Organization") is an Indiana nonprofit corporation that administers programs providing financial and other assistance to low-income persons. Its operations are supported primarily by grants from governmental agencies.

Significant Accounting Policies:

Use of estimates:

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The costs of providing the programs and supporting service have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting service benefited based on management's best estimates.

Net asset classes:

The Organization reports its financial position and activities by the following classes of net assets:

Unrestricted net assets are those currently available for use by the Organization.

Temporarily restricted net assets are those received with donor stipulations that limit the use of the donated assets. When stipulated time restrictions expire or purpose restrictions are accomplished, these net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

Cash and cash equivalents:

The Organization considers all time deposits, certificates of deposit, and all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Gifts and grants:

The Organization reports gifts and grants of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions revenue. Conditional promises to give are not included as revenue until the conditions are substantially met. Gifts and grants received with conditions that have not been substantially met are recorded as liabilities and reported as deferred revenue in the accompanying statement of financial position.

Contributed services:

Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Such services are recorded at their estimated fair market value. No contributed services were recognized as revenue for the year ended December 31, 2006.

Property and equipment:

Property and equipment is generally stated at cost, if acquired, or at fair value at the date of receipt, if donated, less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which are generally as follows:

| | |
|---------------------------|----------|
| Rental properties..... | 20 years |
| Neighborhood centers..... | 20 years |
| Vehicles | 10 years |

Income taxes:

The Organization is exempt from income tax under Internal Revenue Code Section 501(c)(3) and a similar section of the Indiana Code. Consequently, the accompanying financial statements do not include any provision for income taxes. The Internal Revenue Service classifies the Organization as other than a private foundation.

NOTE 2. CHANGE IN METHOD OF ACCOUNTING

During 2006, the Organization changed its method of accounting from a regulatory basis to accounting principles generally accepted in the United States. Management believes the new method is required because of a change in the Organization's primary funding source from Indiana Family and Social Services Agency to Indiana Housing and Community Development Authority, whose contracts require this method of accounting. In addition, management believes the new method more accurately reflects the Organization's financial position and change in net assets. The primary effects of the change are to record prepaid expenses and property and equipment acquired other than with grant funds as assets rather than as expenses.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

The effect of the change was to decrease total expenses and increase the change in net assets by \$55,430 for the year ended December 31, 2006, and to increase current assets by \$23,084, increase property and equipment by \$34,470, and increase unrestricted net assets by \$57,554, as of December 31, 2006. Net assets at the beginning of 2006 have been increased by \$62,532 for the effect of the retroactive application of the new method.

NOTE 3. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consist primarily of reimbursements due under government grants and contracts. All amounts are due within one year, and no allowance for uncollectible amounts is considered necessary.

At December 31, 2006 the Organization had received approximately \$1,100,000 of conditional promises to give in excess of allowable costs incurred under cost-reimbursement grants. Such promises will be recognized as revenue if and when allowable costs are incurred.

NOTE 4. PROPERTY AND EQUIPMENT

The cost of property and equipment and the related accumulated depreciation are as follows at December 31, 2006:

| | |
|-----------------------------------|-------------------|
| Land | \$ 16,200 |
| Rental properties | 235,265 |
| Neighborhood centers | 64,200 |
| Vehicles | <u>52,107</u> |
| | 367,772 |
| Less accumulated depreciation | <u>(131,585)</u> |
| <i>Net property and equipment</i> | <u>\$ 236,187</u> |

Two rental properties with a net book value of \$44,605 at December 31, 2006 were acquired with grants, and their use is restricted for housing for low-income individuals until approximately 2022. If the properties are converted to another use during this period, all or a portion of the grants must be returned to the funding sources. In addition, two other properties with a net book value of \$157,112 at December 31, 2006 have been improved with grants from the Indiana Housing Finance Authority, which are tied to a mortgage on the properties. The mortgage is not payable as long as the Organization uses the properties for low-income housing for fifteen-years, or until approximately 2017. If the properties are converted to another use during this period, all or a portion of the grants must be returned to the funding source.

All of the Organization's vehicles have been purchased with governmental grant funds. Disposition of these vehicles, as well as the ownership of any sales proceeds is subject to funding source and other regulatory directives. Because management expects such vehicles to be used in accordance with the funding sources directives, the cost of the vehicles is recorded as an asset when they are acquired.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 5. BANK LINE OF CREDIT

In 2006, the Organization obtained a line of credit facility with a local bank. The line bears interest at bank prime and is collateralized by substantially all assets of the Organization. There was no outstanding borrowing on the line at December 31, 2006.

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods at December 31, 2006:

| | |
|--|------------------|
| Time restricted for future periods: | |
| Property restricted for low-income housing | \$ 44,605 |
| Purpose restrictions: | |
| Summer recreation program | 11,375 |
| Transitional housing | 17,912 |
| Playground equipment | <u>5,000</u> |
| <i>Total temporarily restricted net assets</i> | <u>\$ 78,892</u> |

Net assets were released from restrictions for the year ended December 31, 2006 as follows:

| | |
|---|------------------|
| Summer recreation | \$ 19,020 |
| Depreciation on low-income housing property | 2,707 |
| Transitional housing | <u>2,995</u> |
| <i>Total net assets released</i> | <u>\$ 24,722</u> |

NOTE 7. LEASE INFORMATION

The Organization leases facilities and equipment under non-cancelable operating leases expiring in various months through August 2008. Minimum future rental payments under these leases as of December 31, 2006 for each of the next two years and in the aggregate are as follows:

| | |
|---|------------------|
| 2007 | \$ 31,157 |
| 2008 | <u>1,102</u> |
| <i>Total minimum future rental payments</i> | <u>\$ 32,259</u> |

Total rent expense was \$49,452 for the year ended December 31, 2006.

NOTE 8. CONTINGENCIES

For the years ended December 31, 2006, 2005, 2004, and 2003, the Organization charged federal awards for the costs of certain personnel based on estimated time spent on the awards, rather than actual time, which is contrary to federal cost principles. The granting agencies may request refunds of some or all of the costs involved, which total approximately \$14,000 in 2006, \$18,000 in 2005, \$29,000 in 2004, and \$51,000 in 2003. The ultimate effect of the actions of the granting agencies relative to these instances of possible noncompliance cannot

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

presently be determined. Accordingly, no provision for liability that may result upon resolution has been made in the accompanying financial statements.

In 2006, the Organization was audited by Indiana Housing and Finance Administration that resulted in questioned costs of approximately \$13,000. The Organization has the option of either paying back the questioned costs or making corrections to the associated project. Management has not completed its determination of the cost of corrections, but estimates those costs to be approximately \$7,500, which are included in accrued liabilities in the accompanying statement of financial position.

Financial instruments that expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents. The Organization has cash on deposit with financial institutions that, at times, may exceed the insurance limit of the Federal Deposit Insurance Corporation. Cash and cash equivalents are maintained at high-quality financial institutions, and the Organization has not experienced any losses on such deposits.

NOTE 9. CONCENTRATIONS

All of the Organization's programs and activities occur in LaPorte, Starke, and Pulaski counties, Indiana. Consequently, its sources of support and revenue may be affected by conditions in that area. Of total 2006 revenues, approximately 63%, 22%, and 12% were received from Indiana Housing and Community Development Authority, Indiana Family and Social Services Administration, and Indiana Department of Health, respectively.

NOTE 10. SUBSEQUENT EVENT

The Organization incurred approximately \$42,000 in costs in 2006 and 2007 under a grant that was terminated by the funding source in 2007. The Organization will only be reimbursed for approximately \$19,000 of these costs, including all costs incurred in 2006. The accompanying financial statements do not include any provision for the approximately \$23,000 of costs incurred in 2007 that will not be reimbursed.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2006

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Contract or Agreement Numbers</u> | <u>Federal Expenditures</u> |
|--|----------------------------|--------------------------------------|-----------------------------|
| <u>United States Department of Agriculture:</u> | | | |
| Passed-Through Indiana State Department of Health: | | | |
| Special Supplemental Nutrition Program for Women, Infants, Children | 10.557 | 3610-572900-142500 WIC 523-1 | \$ 390,320 |
| <u>United States Department of Housing and Urban Development:</u> | | | |
| Passed-through City of Michigan City: | | | |
| Community Development Block Grant/Entitlement Grants | 14.218 | n/a | 11,782 |
| Community Development Block Grant/State's Program | 14.228 | n/a | 24,000 |
| Passed-through Indiana Family and Social Services Administration: | | | |
| Lower Income Housing Assistance Program - Section 8 | 14.856 | 46-02-38-1681-04 | 13,600 |
| Passed-through Indiana Housing and Community Development Authority: | | | |
| HOME Investment Partnerships Program | 14.239 | OR-006-017 | 17,893 |
| Lower Income Housing Assistance Program - Section 8 | 14.856 | SH-006-010 | 311,755 |
| <i>Total United States Department of Housing and Urban Development</i> | | | 379,030 |
| <u>United States Department of Energy:</u> | | | |
| Passed-through Indiana Family and Social Services Administration: | | | |
| Weatherization Assistance for Low-Income Persons | 81.042 | 46-04-OJ-1681-02 | 42,374 |
| Passed-through Indiana Housing and Community Development Authority: | | | |
| Weatherization Assistance for Low-Income Persons | 81.042 | WX-006-017 | 158,036 |
| <i>Total United States Department of Energy</i> | | | 200,410 |
| <u>United States Department of Health and Human Services:</u> | | | |
| Passed-through Indiana Family and Social Services Administration: | | | |
| Low Income Home Energy Assistance | 93.568 | 46-05-0S-1681-02 | 431,100 |
| Low Income Home Energy Assistance | 93.568 | 46-05-1S-1681-02 | 94,549 |
| Low Income Home Energy Assistance | 93.568 | 46-05-4S-1681-02 | 13,623 |
| Community Services Block Grant | 93.569 | 46-04-0R-1681-02 | 123,753 |
| Passed-through Indiana Housing and Community Development Authority: | | | |
| Low Income Home Energy Assistance | 93.568 | LI-007-017 | 1,303,007 |
| Low Income Home Energy Assistance | 93.568 | WL-007-017 | 83,677 |
| Low Income Home Energy Assistance | 93.568 | WL-007-017 | 24,606 |
| Community Services Block Grant | 93.569 | CS-006-017 | 100,963 |
| <i>Total United States Department of Health and Human Services</i> | | | 2,175,278 |
| <u>United States Department of Homeland Security:</u> | | | |
| Passed-Through Emergency Food and Shelter National Board: | | | |
| Emergency Food and Shelter National Board Program | 97.024 | n/a | 9,163 |
| <i>Total federal assistance</i> | | | \$ 3,154,201 |

Notes to Schedule of Expenditures of Federal Awards:

Note 1. Basis of Presentation

This schedule includes the federal, state, and local grant activities of North Central Community Action Agencies, Inc. and is presented in conformity with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Subrecipients

North Central Community Action Agencies, Inc. provided federal awards to subrecipients as follows:

| | |
|--|------------------|
| Low Income Home Energy Assistance, CFDA # 93.568 | \$ 65,418 |
| Community Services Block Grant, CFDA #93.569 | 62,974 |
| | <u>\$128,392</u> |



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

To the Board of Directors
NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
Michigan City, Indiana

We have audited the financial statements of NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC. (the "Organization") as of and for the year ended December 31, 2006, and have issued our report thereon dated October 31, 2007. 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 the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 06-1 through 06-6 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider all the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as findings 06-7, 06-8, 06-10, 06-13, and 06-14.

The Organization's response to the findings identified in our audit is described in the accompanying auditee's response and corrective action plan. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the Organization, the Indiana State Board of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cullen & Associates, P.C.

October 31, 2007

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
Michigan City, Indiana

Compliance

We have audited the compliance of NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC. (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The Organization'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, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we 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 the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

Because the awarding agency would not provide us with recipient information due to privacy laws, we were unable to obtain sufficient documentation supporting the compliance of the Organization with recipient eligibility requirements for Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA #10.557, nor were we able to satisfy ourselves as to the Organization's compliance with those requirements by other auditing procedures.

As described in findings 06-7, 06-10, and 06-13 in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding property and equipment encumbrances for Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA #10.557, Lower Income Housing Assistance – Section 8, CFDA #14.856, and Low Income Energy Assistance Program, CFDA #93.568. Also, as described in findings 06-8 and 06-14 in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding allowability of personnel costs for Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA #10.557 and Low Income Energy Assistance Program, CFDA #93.568. Compliance with such requirements is necessary, in our opinion, to comply with the requirements for those programs.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the Organization's compliance with recipient eligibility requirements of special Supplemental Nutrition Program for Women, Infants, and Children as discussed in the second preceding paragraph; and except for the instances of noncompliance described in the preceding paragraph; the Organization 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 December 31, 2006.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 06-09, 06-11, 06-12, 06-15, and 06-16 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. However, we consider all the significant deficiencies described above to be material weaknesses.

The Organization's response to the findings identified in our audit is described in the accompanying auditee's response and corrective action plan. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the Organization, the Indiana State Board of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cullen & Associates, P.C.

October 31, 2007

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended December 31, 2006

Section 1-Summary of Auditor's Results

Financial Statements

| | |
|---|-----------|
| Type of auditor's report issued | Qualified |
| Internal control over financial reporting: | |
| Significant deficiencies identified? | Yes |
| Material weaknesses identified? | Yes |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|---|-----------|
| Internal control over major programs: | |
| Significant deficiencies identified? | Yes |
| Material weaknesses identified? | Yes |
| Type of auditor's report issued on compliance for major programs | Qualified |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | Yes |

Identification of Major Programs

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--|--|
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children |
| 14.856 | Lower Income Housing Assistance-Section 8 |
| 93.568 | Low Income Home Energy Assistance |
| Dollar threshold used to distinguish between type A and type B programs | \$300,000 |
| Auditee qualified as low-risk auditee? | No |

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

Section 2 - Financial Statement Findings

MATERIAL WEAKNESSES

FINDING 06-1

Condition:

Cash accounts were consistently not properly reconciled to bank statements. Reconciliations of the operating account had variances in ten months (ranging from \$13,596 to \$60,006), and reconciliations of the secondary account had variances in eight months, (ranging from \$276 to \$26,640). The variances were determined to be for unrecorded receipts and disbursements, deleted transactions, unrecorded transfers, and double-recorded entries. In addition, no reconciliations were prepared for two months for the operating account and for four months for the secondary account. Subsequent to December 31, 2006, the Organization retained an outside accountant to reconcile the accounts, and that accountant made seventy-four reconciliation adjustments.

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded.

Effect:

Because cash was not properly reconciled, unrecorded and incorrectly recorded transactions were not timely discovered, and materially misstated financial statements were issued.

Recommendations:

Cash accounts should be reconciled to the general ledger monthly, with any variances investigated and properly accounted for. The reconciliations should be reviewed and approved by the Executive Director or Board Treasurer, and such review should include questioning of any large, old, or unusual reconciling items and verification that the reconciled balances agree to the general ledger.

FINDING 06-2

Condition:

Receivables reported in the claims receivable module were not properly reconciled to the general ledger. Variances occurred because several invoices, journal entries, and receipts were deleted, several receipts were not correctly matched to claims, and several receipts were not recorded at all.

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

Effect:

Because receivables were not properly reconciled, unrecorded and incorrectly recorded transactions were not timely discovered, and materially misstated financial statements were issued.

Recommendations:

Receivables reported in the claims receivable module should be reconciled to the general ledger monthly, with any variances investigated and properly accounted for. The reconciliations should be reviewed and approved by the Executive Director or Board Treasurer, and such review should include questioning of any large, old, or unusual reconciling items and verification that the reconciled balances agree to the general ledger.

FINDING 06-3

Condition:

Many recorded transactions were deleted from the general ledger rather than being corrected with journal entries, making it difficult to determine the reason for variances between supporting detail and the general ledger. These deleted transactions were identified through *QuickBooks*' "audit trail report."

Criteria:

Internal controls should be in place to allow for adequate monitoring of accounting transactions. Deleting transactions prevents such monitoring.

Condition:

The deleted transactions caused cash, claims receivable, and revenue to be materially misstated during the year.

Recommendations:

We recommend that recorded transactions never be deleted, but be corrected by journal entries.

FINDING 06-4

Condition:

Payroll records were not reconciled to tax filings or deposits.

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

Effects:

- Payroll registers, quarterly Form 941's, and annual W-2's for 2006 do not reconcile with each other.
- Forms W-2 for 2006 overstate federal and Social Security wages for all but three employees.
- Forms 941 overstate federal taxable wages by including Section 125 health insurance contributions.

Recommendations:

- Payroll tax deposits should be reconciled to payroll registers after each payroll.
- The reason for variances among the payroll records should be determined and the payroll tax returns should be amended accordingly. In addition, payroll reconciliations should be performed before quarterly and annual payroll returns are filed to prevent inaccurate filings.
- All incorrect W-2's and payroll tax returns should be amended.

FINDING 06-5

Condition:

Monthly bank reconciliation adjustments were posted to net assets rather than to income and expense accounts seven times in 2006.

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded.

Effect:

Bank reconciliation adjustments were not posted to the correct income and expense accounts.

Recommendations:

Bank reconciliation adjustments should be posted to the correct income and expense accounts, never to net assets. Net assets should only be adjusted for the year-end close-out of revenue and expense accounts and, in rare circumstances, for the correction of prior period errors and changes in the method of accounting. A procedure should be added to the monthly financial statement preparation process to verify that net assets properly "rolls forward" from the prior year-end with no changes.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

FINDING 06-6

Condition:

As discussed in findings 06-1 through 06-5 above, material adjustments to several accounts were made subsequent to December 31, 2006 with the assistance of an outside accountant before the audit could be completed. In addition, it was discovered that errors were made in payroll tax filings. These findings indicate a general deficiency in accounting personnel and a lack of management oversight of the financial reporting process.

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded. OMB Circular A-110 Subpart C Section .21(b)(1) requires that a recipient's financial management system provide "accurate, current and complete disclosure of the financial results..." These goals require employees with adequate skills and training. In addition, management must provide sufficient oversight to ensure that these goals are met.

Effect:

The Organization's financial statements were materially misstated during the year

Recommendations:

Management should determine if accounting employees possess adequate skills and training to meet the above goals and take appropriate action. In addition, management should implement procedures to ensure that material accounts are reconciled to supporting detail on a timely basis and that monthly general ledger details are reviewed for proper classifications before financial reports and claims are prepared.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

Section 3 - Federal Award Findings

QUESTIONED
COSTS

**U.S. DEPARTMENT OF AGRICULTURE
Passed-Through Indiana Department of Health
CFDA Number 10.557
Special Supplemental Nutrition Program for Women, Infants, and Children**

FINDING 06-7

Condition:

The Organization's bank line of credit is collateralized by all the Organization's assets, including real estate and equipment acquired with federal awards.

Criteria:

OMB Circular A-110 Subpart C Section .34 (c) prohibits the encumbrance of property and equipment acquired with federal awards without prior approval of the awarding agency.

Effect:

Property and equipment acquired with federal awards is encumbered by the bank line of credit without prior approval of the awarding agency.

Recommendations:

Management should either execute a revised line of credit agreement that excludes from collateral any assets acquired with federal awards or it should obtain approval of the awarding agency for the encumbrance.

FINDING 06-8

Condition:

Costs for three administrative employees were charged to the award based on budgeted or estimated time rather than actual time spent by the employees on the program.

Criteria:

OMB Circular A-122 requires that charges for salaries and wages be supported by personnel activity reports that "...reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e. estimates determined before the services are performed) do not qualify as support for charges to

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

awards.” The Organization’s cost allocation plan states that employee payroll allocations “...are based on time spent on each specific function.”

QUESTIONED
COSTS

Effect:

The costs for these employees were charged to the award in excess of documented time and are, therefore, questioned costs.

\$ 6,621

Recommendations:

We recommend that the Organization charge payroll to each award based on actual documented time spent on that award.

FINDING 06-9

Condition:

As discussed in finding 06-1 the Organization had material unreconciled variances between its general ledger and bank statements for several months and bank reconciliations were not performed for some months. As discussed in finding 06-3, several accounting transactions were deleted from the general ledger rather than corrected with journal entries. As discussed in finding 6-4, payroll records were not reconciled to tax filings or deposits. As discussed in finding 06-5, bank statement reconciling adjustments were posted to net assets rather than to income or expenses. And as discussed in finding 06-6, these findings indicate a general deficiency in accounting personnel and a lack of management oversight of the financial reporting process.

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded such that allowable costs are properly charged to federal awards. In addition, OMB Circular A-110 Subpart C Section .21(b)(1) requires that a recipient’s financial management system provide “accurate, current and complete disclosure of the financial results...”

Effect:

Because of material inaccuracies in the basic accounting records, costs may be under or over-charged to federal awards.

Recommendations:

See our recommendations to findings 06-1, 06-3, 06-4, 06-5, and 06-6.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

**QUESTIONED
COSTS**

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Passed-Through Indiana Family & Social Services Administration (January 1,
2006 through June 30, 2006) and Indiana Housing and Community
Development Authority (July 1, 2006 through December 31, 2006)
CFDA Number 14.856
Lower Income Housing Assistance-Section 8

FINDING 06-10

Condition:

The Organization's bank line of credit is collateralized by all the Organization's assets, including real estate and equipment acquired with federal awards.

Criteria:

OMB Circular A-110 Subpart C Section .32 (a) prohibits the encumbrance of property and equipment acquired with federal awards without prior approval of the awarding agency.

Effect:

Property and equipment acquired with federal awards is encumbered by the bank line of credit without prior approval of the awarding agency.

Recommendations:

Management should either execute a revised line of credit agreement that excludes from collateral any assets acquired with federal awards or it should obtain approval of the awarding agency for the encumbrance.

FINDING 06-11

Condition:

As discussed in finding 06-1 the Organization had material unreconciled variances between its general ledger and bank statements for several months and bank reconciliations were not performed for some months. As discussed in finding 06-3, several accounting transactions were deleted from the general ledger rather than corrected with journal entries. As discussed in finding 6-4, payroll records were not reconciled to tax filings or deposits. As discussed in finding 06-5, bank statement reconciling adjustments were posted to net assets rather than to income or expenses. And as discussed in finding 06-6, these findings indicate a general deficiency in accounting personnel and a lack of management oversight of the financial reporting process.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

QUESTIONED
COSTS

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded such that allowable costs are properly charged to federal awards. In addition, OMB Circular A-110 Subpart C Section .21(b)(1) requires that a recipient's financial management system provide "accurate, current and complete disclosure of the financial results..."

Effect:

Because of material inaccuracies in the basic accounting records, costs may be under or over-charged to federal awards.

Recommendations:

See our recommendations to findings 06-1, 06-3, 06-4, 06-5, and 06-6.

FINDING 06-12

Condition:

The Organization does not maintain its books in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Criteria:

The Organization's grants with Indiana Housing and Community Development Authority state that the "grantee agrees to follow generally accepted accounting procedures and practices which sufficiently and properly reflect all costs incurred by Grantee pursuant to this agreement."

Effect:

The Organization was not in compliance with the IHEDA contracts upon acceptance of those contracts.

Recommendations:

We recommend that the books be kept on a GAAP basis, with claims receivable and accounts payable recorded.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

QUESTIONED
COSTS

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
Passed-Through Indiana Family & Social Services Administration (January 1, 2006 through June 30, 2006) and Indiana Housing and Community Development Authority (July 1, 2006 through December 31, 2006)
CFDA Number 93.568
Low Income Energy Assistance Program

FINDING 06-13

Condition:

The Organization's bank line of credit is collateralized by all the Organization's assets, including real estate and equipment acquired with federal awards.

Criteria:

OMB Circular A-110 Subpart C Section .32 (a) prohibits the encumbrance of property and equipment acquired with federal awards without prior approval of the awarding agency.

Effect:

Property and equipment acquired with federal awards is encumbered by the bank line of credit without prior approval of the awarding agency.

Recommendations:

Management should either execute a revised line of credit agreement that excludes from collateral any assets acquired with federal awards or it should obtain approval of the awarding agency for the encumbrance.

FINDING 06-14

Condition:

Costs for three administrative employees were charged to the award based on budgeted or estimated time rather than actual time spent by the employees on the program.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

QUESTIONED
COSTS

Criteria:

OMB Circular A-122 requires that charges for salaries and wages be supported by personnel activity reports that "...reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e. estimates determined before the services are performed) do not qualify as support for charges to awards." The Organization's cost allocation plan states that employee payroll allocations "...are based on time spent on each specific function."

Effect:

The costs for these employees were charged to the award in excess of documented time and are, therefore, questioned costs.

\$7,874

Recommendations:

We recommend that the Organization charge payroll to each award based on actual documented time spent on that award.

FINDING 06-15

Condition:

As discussed in finding 06-1 the Organization had material unreconciled variances between its general ledger and bank statements for several months and bank reconciliations were not performed for some months. As discussed in finding 06-3, several accounting transactions were deleted from the general ledger rather than corrected with journal entries. As discussed in finding 6-4, payroll records were not reconciled to tax filings or deposits. As discussed in finding 06-5, bank statement reconciling adjustments were posted to net assets rather than to income or expenses. And as discussed in finding 06-6, these findings indicate a general deficiency in accounting personnel and a lack of management oversight of the financial reporting process.

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded such that allowable costs are properly charged to federal awards. In addition, OMB Circular A-110 Subpart C Section .21(b)(1) requires that a recipient's financial management system provide "accurate, current and complete disclosure of the financial results..."

Effect:

Because of material inaccuracies in the basic accounting records, costs may be under or over-charged to federal awards.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

QUESTIONED
COSTS

Recommendations:

See our recommendations to findings 06-1, 06-3, 06-4, 06-5, and 06-6.

FINDING 06-16

Condition:

The Organization does not maintain its books in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Criteria:

The Organization's grants with Indiana Housing and Community Development Authority state that the "grantee agrees to follow generally accepted accounting procedures and practices which sufficiently and properly reflect all costs incurred by Grantee pursuant to this agreement."

Effect:

The Organization was not in compliance with the IHEDA contracts upon acceptance of those contracts.

Recommendations:

We recommend that the books be kept on a GAAP basis, with claims receivable and accounts payable recorded.

Total questioned costs

\$14,495

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2006

FINANCIAL STATEMENT FINDINGS

FINDING 05-1:

Condition:

Fourteen reclassifications of revenue and expenses were proposed in the 2005 audit for items posted to incorrect accounts. Although these reclassifications did not affect net assets at December 31, 2005 or the change in net assets for the year then ended, it did cause individual line-items to be misstated.

Recommendation:

We recommended that more care be taken in assigning account numbers to revenues and expenses when they are recorded. We also recommended that monthly general ledger details be reviewed by management for proper classifications of revenue and expense before financial reports or billings are prepared.

Current Status:

See finding 06-6 for the same finding noted in 2006 audit.

FINDING 05-2:

Condition:

Bank reconciliation adjustments for interest income, service charges, and other month-end reconciling items were not recorded until the month following the actual activity. In addition, adjustments for service charges and other reconciling items were posted to net assets rather than to the correct income and expense accounts. Such postings to net assets occurred none times in 2005.

Recommendation:

We recommended that bank reconciliation adjustments be recorded in the month incurred and should be posted to the correct income and expense account, never to net assets. Net assets should only be adjusted for the year-end close-out of revenue and expense accounts and, in rare instances, for correction of prior period errors.

Current Status:

See finding 06-5 for the same finding noted in the 2006 audit.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2006

FEDERAL AWARD FINDINGS

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
Passed-Through Indiana Family & Social Services Administration
CFDA Number 93.568
Low Income Home Energy Assistance

FINDING 05-3:

Condition:

Personnel costs for three administrative employees were charged to the award based on budgeted or estimated time rather than on actual time spent on the program.

Recommendation:

We recommended that the Organization charge its payroll to programs based on actual documented time spent on the program.

Current Status:

See finding 06-14 for the same finding noted in the 2006 audit.

FINDING 05-4:

Condition:

As noted in Finding 05-1 and 05-2, material reclassifications of revenue and expenses were proposed and bank statement reconciling items were posted to net assets and were posted in the period after the actual activity

Recommendation:

See our recommendations previously listed.

Current Status:

See finding 06-11 for the same findings noted in the 2006 audit.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2006

U.S. DEPARTMENT OF AGRICULTURE
Passed-Through Indiana Department of Health
CFDA Number 10.557
Special Supplemental Nutrition Program for Women, Infants, and Children

FINDING 05-5:

Condition:

Personnel costs for three administrative employees were charged to the award based on budgeted or estimated time rather than on actual time spent on the program.

Recommendation:

We recommended that the Organization charge its payroll to programs based on actual documented time spent on the program.

Current Status:

See finding 06-8 for the same finding noted in the 2006 audit.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN
Year Ended December 31, 2006

To United States Department of Health and Human Services

North Central Community Action Agencies, Inc. respectfully submits the following response and corrective action plan for the year ended December 31, 2006.

Contact Information of Independent Public Accounting Firm:

Richard J. Cullar, CPA
Cullar & Associates, PC, Certified Public Accountants
209 North Main Street, Suite 200
South Bend, IN 46601
(574)-288-8320
RCullar@Cullar.com

Contact Information of Auditee:

Daniel J. Pishkur, Executive Director
North Central Community Action Agencies, Inc.
301 E. 8th Street
Michigan City, IN 46360
(219) 872-0351
dap@nccomact.org

Financial Statement Findings

Finding 06-1

Management response - In addressing these issues the new accounting staff is fully aware of the problems created in the past and is now operating with a greater understanding of the accounting software. The secondary account, which was a separate account for WIC program funds, has now been closed and all agency funds are being deposited in the main agency account. This account is now being reconciled to the trial balance every month and variances are being properly posted to correct accounts. The executive director is reviewing the reconciled statements monthly and fiscal staff will review the reconciled statements with the Board treasurer monthly.

Finding 6-2

Management response - Issues with the improper receivable postings were discovered in the transition of financial management staff. The software is now being used correctly to properly record receivables and accounts are being reconciled to the general ledger monthly with variances properly accounted for. These reconciliations are being reviewed and approved by the executive director and fiscal staff will review the reconciliations with the Board treasurer monthly.

Finding 6-3

Management response - Currently any recorded transactions are not being deleted but are being tracked and corrected by proper journal entries.

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN
Year Ended December 31, 2006

Finding 6-4

Management response-Payroll taxes are being reconciled to payroll registers after each payroll and any variances are amended and reconciled before quarterly and annual payroll returns are filed. In the future, these will be reviewed by the executive director and Board treasurer monthly for accuracy. 2006 Payroll W-2, s, 941's and other required reports have been corrected, amended and filed accordingly. Notification will be given to all staff in writing, including those no longer employed with the agency, regarding the reason for the revised W-2 forms and their need to file amended tax returns. Fiscal software will be reviewed by a qualified Certified Public Accountant to verify that employee payroll deductions are set up properly for future reporting requirements.

Finding 6-5

Management response-The Bank reconciliation adjustments are now being posted to the correct income and expense accounts and therefore net assets are not being adjusted incorrectly. Staff is aware of the proper procedures to reconcile and reconciliation statements and a trial balance will be produced monthly and reviewed by the executive director and board treasurer.

Findings 6-6

Management response-Accounting staff that was employed in 2006 and prior years have been replaced as of January 2007. New staff has received the following training throughout 2007 relating to several fiscal issues: Claim processing by IHEDA staff; weatherization program funds utilization by INCAA staff; general accounting and cost allocation procedures by neighboring community action agency; accounting and audit issues by the Non-Profit Resource Center conducted in Indianapolis; audit preparation and procedures roundtable sponsored by INCAA, and grant funded accounting, cost allocation and OMB Circular review training provided by Howard Gesbeck of WIPFLI in Chicago.

Procedures have been put into place to properly record receivables and payables, reconciling journal entries are being recorded and not deleted, bank reconciliation's are being completed timely with variances being posted to the proper accounts, and monthly general ledger details are reviewed for proper classifications before financial reports and claims are prepared. These procedures will be reviewed by the executive director and board treasurer on a monthly basis.

Federal Award Findings

Finding 6-7

Management response-The current line of credit agreement has been closed as of December 12, 2007. Management will research establishing a new agreement that does not collateralize the loan by all of the organizations assets. If this cannot be achieved, no new agreement will be established.

Finding 6-8

Management response-In reviewing payroll charges for the three administrative staff noted it appears the majority of the salaries in question are due to charging portions of their salary to a fiscal year that brings an appearance of a discrepancy. The discrepancy may be in the reporting processes. The audit is done on a calendar-year basis and the funding sources are on a fiscal year basis which may overlap and call into question certain salaries. The remainder of the administrative staff's time was properly recorded and staff is currently recording their time accurately to insure that time sheets reflect actual time spent on each program. These are

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN
Year Ended December 31, 2006

reviewed by the staff person's immediate supervisor and/or the executive director for proper payroll charges.

Finding 6-9

Management response- 01-In addressing these issues the new accounting staff is fully aware of the problems created in the past and is now operating with a greater understanding of the accounting software. The secondary account, which was a separate account for WIC program funds, has now been closed and all agency funds are being deposited in the main agency account. This account is now being reconciled to the trial balance every month and variances are being properly posted to correct accounts. The executive director is reviewing the reconciled statements monthly and fiscal staff will review the reconciled statements with the Board treasurer monthly. 03- Currently any recorded transactions are not being deleted but are being tracked and corrected by proper journal entries.

04-Payroll taxes are being reconciled to payroll registers after each payroll and any variances are amended and reconciled before quarterly and annual payroll returns are filed. In the future, these will be reviewed by the executive director and Board treasurer monthly for accuracy. 2006 Payroll W-2, s, 941's and other required reports have been corrected, amended and filed accordingly. Notification will be given to all staff in writing, including those no longer employed with the agency, regarding the reason for the revised W-2 forms and their need to file amended tax returns. Fiscal software will be reviewed by a qualified Certified Public Accountant to verify that employee payroll deductions are set up properly for future reporting requirements.

05-The Bank reconciliation adjustments are now being posted to the correct income and expense accounts and therefore net assets are not being adjusted incorrectly. Staff is aware of the proper procedures to reconcile and reconciliation statements and a trial balance will be produced monthly and reviewed by the executive director and board treasurer.

06-Accounting staff that was employed in 2006 and prior years have been replaced as of January 2007. New staff has received the following training throughout 2007 relating to several fiscal issues: Claim processing by IHADA staff; weatherization program funds utilization by INCAA staff; general accounting and cost allocation procedures by neighboring community action agency; accounting and audit issues by the Non-Profit Resource Center conducted in Indianapolis; audit preparation and procedures roundtable sponsored by INCAA, and grant funded accounting, cost allocation and OMB Circular review training provided by Howard Gesbeck of WIPFLI in Chicago.

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Finding 6-10

Management response-The current line of credit agreement has been closed as of December 12, 2007. Management will research establishing a new agreement that does not collateralize the loan by all of the organizations assets. If this cannot be achieved, no new agreement will be established.

Finding 6-11

Management response-01-In addressing these issues the new accounting staff is fully aware of the problems created in the past and is now operating with a greater understanding of the accounting software. The secondary account, which was a separate account for WIC program funds, has now

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN
Year Ended December 31, 2006

been closed and all agency funds are being deposited in the main agency account. This account is now being reconciled to the trial balance every month and variances are being properly posted to correct accounts. The executive director is reviewing the reconciled statements monthly and fiscal staff will review the reconciled statements with the Board treasurer monthly.

03- Currently any recorded transactions are not being deleted but are being tracked and corrected by proper journal entries.

04-Payroll taxes are being reconciled to payroll registers after each payroll and any variances are amended and reconciled before quarterly and annual payroll returns are filed. In the future, these will be reviewed by the executive director and Board treasurer monthly for accuracy. 2006 Payroll W-2, s, 941's and other required reports have been corrected, amended and filed accordingly. Notification will be given to all staff in writing, including those no longer employed with the agency, regarding the reason for the revised W-2 forms and their need to file amended tax returns. Fiscal software will be reviewed by a qualified Certified Public Accountant to verify that employee payroll deductions are set up properly for future reporting requirements.

05-The Bank reconciliation adjustments are now being posted to the correct income and expense accounts and therefore net assets are not being adjusted incorrectly. Staff is aware of the proper procedures to reconcile and reconciliation statements and a trial balance will be produced monthly and reviewed by the executive director and board treasurer.

06-Accounting staff that was employed in 2006 and prior years have been replaced as of January 2007. New staff has received the following training throughout 2007 relating to several fiscal issues: Claim processing by IHEDA staff; weatherization program funds utilization by INCAA staff; general accounting and cost allocation procedures by neighboring community action agency; accounting and audit issues by the Non-Profit Resource Center conducted in Indianapolis; audit preparation and procedures roundtable sponsored by INCAA, and grant funded accounting, cost allocation and OMB Circular review training provided by Howard Gesbeck of WIPFLI in Chicago.

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Finding 6-12

Management response-We are now currently keeping our books on a GAAP basis with claims receivable and accounts payable recorded. Prepaid expenses are properly accounted for.

Finding 6-13

Management response- The current line of credit agreement has been closed as of December 12, 2007. Management will research establishing a new agreement that does not collateralize the loan by all of the organizations assets. If this cannot be achieved, no new agreement will be established.

Finding 6-14

Management response- Staff is currently properly recording time spent on each program so salaries may be properly charged to each grant as necessary.

Finding 6-15

01-In addressing these issues the new accounting staff is fully aware of the problems created in the past and is now operating with a greater understanding of the accounting software. The

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.
AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN
Year Ended December 31, 2006

secondary account, which was a separate account for WIC program funds, has now been closed and all agency funds are being deposited in the main agency account. This account is now being reconciled to the trial balance every month and variances are being properly posted to correct accounts. The executive director is reviewing the reconciled statements monthly and fiscal staff will review the reconciled statements with the Board treasurer monthly.

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05-The Bank reconciliation adjustments are now being posted to the correct income and expense accounts and therefore net assets are not being adjusted incorrectly. Staff is aware of the proper procedures to reconcile and reconciliation statements and a trial balance will be produced monthly and reviewed by the executive director and board treasurer.

06-Accounting staff that was employed in 2006 and prior years have been replaced as of January 2007. New staff has received the following training throughout 2007 relating to several fiscal issues: Claim processing by IHCDA staff; weatherization program funds utilization by INCAA staff; general accounting and cost allocation procedures by neighboring community action agency; accounting and audit issues by the Non-Profit Resource Center conducted in Indianapolis; audit preparation and procedures roundtable sponsored by INCAA, and grant funded accounting, cost allocation and OMB Circular review training provided by Howard Gesbeck of WIPFLI in Chicago.

Procedures have been put into place to properly record receivables and payables, reconciling journal entries are being recorded and not deleted, bank reconciliation's are being completed timely with variances being posted to the proper accounts, and monthly general ledger details are reviewed for proper classifications before financial reports and claims are prepared. These procedures will be reviewed by the executive director and board treasurer on a monthly basis.

Finding 6-16

Management response-We are now currently keeping our books on a GAAP basis with claims receivable and accounts payable recorded. Prepaid expenses are properly accounted for.