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January 20, 2010

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

We have reviewed the audit report prepared by Cullar & Associates, PC, Independent Public Accountants, for the period January 1, 2007 to December 31, 2007. 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, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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 20 through 25 contain eleven current audit findings. Pages 26 through 33 contain the status of sixteen prior audit findings. Management's corrective action plan is on pages 34 and 35.

STATE BOARD OF ACCOUNTS

*FINANCIAL AND COMPLIANCE REPORT*

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**

December 31, 2007 and 2006

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**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 statements of financial position of NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC. (the "Organization") as of December 31, 2007 and 2006, 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 audits.

We conducted our audits 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 audits provide 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 NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC. as of December 31, 2007 and 2006, 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.

As more fully explained in Note 7 to the financial statements, the Organization has questioned costs that are unsettled with awarding agencies. The awarding agencies may request refunds of some or all of the costs involved. The ultimate effect of the actions of the Organization and 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 accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2008 on our consideration of the Organization'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 important for 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 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 audits 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.

*Cullen & Associates, P.C.*

September 18, 2008

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2007 and 2006

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<b>Assets:</b>	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash and cash equivalents	\$ 578,683	\$ 19,621
Grants and contributions receivable	391,663	1,186,380
Prepaid expenses	<u>58,929</u>	<u>73,515</u>
<i>Total current assets</i>	<u>1,029,275</u>	<u>1,279,516</u>
Property and Equipment	<u>220,506</u>	<u>236,187</u>
<i>Total assets</i>	<u>\$ 1,249,781</u>	<u>\$ 1,515,703</u>
<b>Liabilities and Net Assets:</b>		
Current Liabilities:		
Accounts payable	\$ 680,689	\$ 727,954
Accrued liabilities	24,058	34,875
Deferred revenue	<u>227,324</u>	<u>346,205</u>
<i>Total current liabilities</i>	<u>932,071</u>	<u>1,109,034</u>
Net Assets:		
Unrestricted	273,587	327,777
Temporarily restricted	<u>44,123</u>	<u>78,892</u>
<i>Total net assets</i>	<u>317,710</u>	<u>406,669</u>
<i>Total liabilities and net assets</i>	<u>\$ 1,249,781</u>	<u>\$ 1,515,703</u>

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

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**STATEMENTS OF ACTIVITIES**  
Years Ended December 31, 2007 and 2006

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenues and Gains:</b>						
Governmental grants and contracts	\$ 3,291,807	\$ -	\$ 3,291,807	\$ 3,154,201	\$ -	\$ 3,154,201
Contributions	13,097	2,500	15,597	2,917	20,000	22,917
Interest income	880	-	880	618	-	618
Rent and other income	26,304	-	26,304	18,451	-	18,451
Net assets released from restrictions	<u>37,269</u>	<u>(37,269)</u>	<u>-</u>	<u>24,722</u>	<u>(24,722)</u>	<u>-</u>
<i>Total revenues and gains</i>	<u>3,369,357</u>	<u>(34,769)</u>	<u>3,334,588</u>	<u>3,200,909</u>	<u>(4,722)</u>	<u>3,196,187</u>
<b>Expenses:</b>						
Energy assistance	1,576,763	-	1,576,763	1,713,260	-	1,713,260
Weatherization	361,638	-	361,638	387,965	-	387,965
Women, infants, and children	338,756	-	338,756	356,058	-	356,058
Housing	776,659	-	776,659	432,434	-	432,434
Arts and recreation	17,525	-	17,525	19,019	-	19,019
Community agencies support	56,461	-	56,461	62,974	-	62,974
Administrative and general	<u>295,745</u>	<u>-</u>	<u>295,745</u>	<u>278,043</u>	<u>-</u>	<u>278,043</u>
<i>Total expenses</i>	<u>3,423,547</u>	<u>-</u>	<u>3,423,547</u>	<u>3,249,753</u>	<u>-</u>	<u>3,249,753</u>
<b>Change in net assets</b>	(54,190)	(34,769)	(88,959)	(48,844)	(4,722)	(53,566)
Net assets, beginning of year	<u>327,777</u>	<u>78,892</u>	<u>406,669</u>	<u>376,621</u>	<u>83,614</u>	<u>460,235</u>
<i>Net assets, end of year</i>	<u>\$ 273,587</u>	<u>\$ 44,123</u>	<u>\$ 317,710</u>	<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, 2007

	<u>Energy Assistance</u>	<u>Weatherization</u>	<u>Women, Infants, and Children</u>	<u>Housing</u>	<u>Arts and Recreation</u>	<u>Community Agencies Support</u>	<u>Administrative and General</u>	<u>Total</u>
Salaries and wages	\$ 89,128	\$ 71,547	\$ 207,658	\$ 84,371	\$ 12,164	\$ -	\$ 145,091	\$ 609,959
Employee benefits	4,915	5,999	30,684	18,388	-	-	10,486	70,472
Payroll taxes	7,635	6,391	21,505	6,750	982	-	18,145	61,408
Training	-	1,050	209	300	-	-	1,509	3,068
Contracts	43,398	3,643	8,798	485	-	56,461	-	112,785
Occupancy	6,439	12,538	35,253	30,543	228	-	15,006	100,007
Telephone	4,568	4,641	3,380	1,190	-	-	9,189	22,968
Postage	1,920	780	1,019	94	-	-	391	4,204
Equipment and supplies	12,044	9,564	22,282	4,870	2,408	-	12,559	63,727
Professional fees	-	2,171	-	-	-	-	16,881	19,052
Conferences and travel	5,425	11,158	4,287	7,813	537	-	9,072	38,292
Insurance	161	2,563	1,119	1,264	-	-	15,961	21,068
Financial and other assistance	1,400,837	224,808	-	607,352	-	-	28,958	2,261,955
Dues and subscriptions	151	2,050	2,487	312	426	-	992	6,418
Depreciation	-	2,583	-	12,927	780	-	5,346	21,636
Other	142	152	75	-	-	-	5,992	6,361
Interest	-	-	-	-	-	-	167	167
<i>Totals</i>	<u>\$ 1,576,763</u>	<u>\$ 361,638</u>	<u>\$ 338,756</u>	<u>\$ 776,659</u>	<u>\$ 17,525</u>	<u>\$ 56,461</u>	<u>\$ 295,745</u>	<u>\$ 3,423,547</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

	<u>Energy Assistance</u>	<u>Weatherization</u>	<u>Women, Infants, and Children</u>	<u>Housing</u>	<u>Arts and Recreation</u>	<u>Community Agencies Support</u>	<u>Administrative and General</u>	<u>Total</u>
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
<i>Totals</i>	<u>\$ 1,713,260</u>	<u>\$ 387,965</u>	<u>\$ 356,058</u>	<u>\$ 432,434</u>	<u>\$ 19,019</u>	<u>\$ 62,974</u>	<u>\$ 278,043</u>	<u>\$ 3,249,753</u>

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

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**

**STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2007 and 2006

<b>Change in Cash and Cash Equivalents:</b>	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (88,959)	\$ (53,566)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	21,636	21,348
Change in assets and liabilities:		
Grants and contributions receivable	794,717	(500,843)
Prepaid expenses	14,586	(53,874)
Accounts payable and accrued liabilities	(58,082)	(83,151)
Deferred revenue	<u>(118,881)</u>	<u>346,205</u>
<i>Net cash provided by (used in) operating activities</i>	<u>565,017</u>	<u>(323,881)</u>
Cash Flows from Financing Activities:		
Payments for purchase of equipment	<u>(5,955)</u>	<u>-</u>
Cash Flows from Financing Activities:		
Proceeds from bank line of credit	20,000	20,000
Payments on bank line of credit	<u>(20,000)</u>	<u>(20,000)</u>
<i>Net cash provided by (used in) financing activities</i>	<u>-</u>	<u>-</u>
<b>Net change in cash and cash equivalents</b>	559,062	(323,881)
Cash and cash equivalents, beginning of year	<u>19,621</u>	<u>343,502</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 578,683</u>	<u>\$ 19,621</u>
<i>Supplemental cash flow information:</i>		
Interest paid	<u>\$ 167</u>	<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, 2007 and 2006

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**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 statements 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 statements of activities as net assets released from restrictions.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2007 and 2006

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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 statements 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 in either year ended December 31, 2007 or 2006.

*Property and equipment:*

Property and equipment is 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
Playground equipment.....	7 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 under Internal Revenue Code Section 509(a)(1).

**NOTE 2. 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, 2007, the Organization had received approximately \$1,200,000 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.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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**NOTE 3. PROPERTY AND EQUIPMENT**

The cost of property and equipment and the related accumulated depreciation are as follows at December 31, 2007 and 2006, respectively:

	<u>2007</u>	<u>2006</u>
Land	\$ 16,200	\$ 16,200
Rental properties	235,265	235,265
Neighborhood centers	64,200	64,200
Vehicles	52,107	52,107
Playground equipment	<u>5,955</u>	<u>-</u>
	373,727	367,772
Less accumulated depreciation	<u>(153,221)</u>	<u>(131,585)</u>
<i>Net property and equipment</i>	<u>\$ 220,506</u>	<u>\$ 236,187</u>

Two rental properties with a net book value of \$41,898 and \$44,605 at December 31, 2007 and 2006, respectively, 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 \$146,892 and \$157,112 at December 31, 2007 and 2006, respectively, 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.

**NOTE 4. BANK LINE OF CREDIT**

The Organization maintains a \$20,000 line of credit facility with a local bank, bearing interest at bank prime. At December 31, 2006, the line was collateralized by substantially all assets of the Organization, while at December 2007 the line was uncollateralized. There were no outstanding borrowings on the line at either December 31, 2007 or 2006.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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**NOTE 5. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes or periods at December 31, 2007 and 2006, respectively:

	<u>2007</u>	<u>2006</u>
Time restricted for future periods:		
Property restricted for low-income housing	\$ 41,898	\$ 44,605
Purpose restrictions:		
Transitional housing	2,225	17,912
Summer recreation program	-	11,375
Playground equipment	-	5,000
<i>Total temporarily restricted net assets</i>	<u>\$ 44,123</u>	<u>\$ 78,892</u>

Net assets were released from restrictions for the years ended December 31, 2007 and 2006 as follows:

	<u>2007</u>	<u>2006</u>
Summer recreation	\$ 13,875	\$ 19,020
Depreciation on low-income housing property	2,707	2,707
Transitional housing	15,687	2,995
Playground equipment	5,000	-
<i>Total net assets released</i>	<u>\$ 37,269</u>	<u>\$ 24,722</u>

**NOTE 6. LEASE INFORMATION**

The Organization leases facilities and equipment under non-cancelable operating leases expiring in various months through September 2008. Minimum future rental payments under these leases as of December 31, 2007 are \$30,547, all of which are due in 2008. Total rent expense was \$50,484 and \$49,452 for the years ended December 31, 2007 and 2006, respectively.

**NOTE 7. CONTINGENCIES**

For the years ended December 31, 2003 through 2006, 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 \$112,000 (\$51,000 in 2003, \$29,000 in 2004, \$18,000 in 2005, and \$14,000 in 2006). The ultimate effect of the actions of the granting agencies relative to these instances of possible noncompliance cannot presently be determined. Accordingly, no provision for liability that may result upon resolution has been made in the accompanying financial statements.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2007 and 2006

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**NOTE 8. CONCENTRATIONS**

Financial instruments that expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and grants and contributions receivable. 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. At December 31, 2007, the Organization had cash on deposit with one financial institution that exceeded the federal insurance limit by approximately \$664,000. All the Organization's grants and contributions receivable are due from agencies of the State of Indiana, which represents a concentration of credit risk.

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. In addition, of total 2007 revenues, approximately 84% and 11% were received from Indiana Housing and Community Development Authority and Indiana Department of Health, respectively, and 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 9. SUBSEQUENT EVENTS**

Subsequent to December 31, 2007, the Organization was notified by its primary funding source, Indiana Housing and Community Development Authority, that its Weatherization programs would be temporarily reassigned to another agency. Revenues from those programs were approximately \$381,000 for the year ended December 31, 2007, or 11% of total revenues. The Organization is to receive approximately \$153,000 to rebuild the programs and to hire new employees, and the Organization expects to re-start the programs in April 2009.

Also subsequent to December 31, 2007, the Organization mutually agreed with Indiana Housing and Community Development Authority to reassign its Section 8 housing program to another agency. Revenues from that program were approximately \$610,000 for the year ended December 31, 2007, or 18% of total revenues.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended December 31, 2007

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<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, and Children	10.557	A70-8-070102	\$ <u>369,614</u>
<u>United States Department of Housing and Urban Development:</u>			
Passed-through City of Michigan City:			
Community Development Block Grants/Entitlement Grants	14.218	n/a	38,870
Community Development Block Grants/State's Program	14.228	n/a	45,000
Passed-through Indiana Housing and Community Development Authority:			
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	SH-006-010	<u>610,624</u>
<i>Total United States Department of Housing and Urban Development</i>			<u>694,494</u>
<u>United States Department of Energy:</u>			
Passed-through Indiana Housing and Community Development Authority:			
Weatherization Assistance for Low-Income Persons	81.042	WX-007-017	<u>141,058</u>
<i>Total United States Department of Energy</i>			<u>141,058</u>
<u>United States Department of Health and Human Services:</u>			
Passed-through Indiana Housing and Community Development Authority:			
Low Income Home Energy Assistance	93.568	LI-007-017	1,590,609
Low Income Home Energy Assistance	93.568	WL-007-017	203,946
Low Income Home Energy Assistance	93.568	WL-007-017	32,393
Community Services Block Grant	93.569	CS-007-017	<u>229,787</u>
<i>Total United States Department of Health and Human Services</i>			<u>2,056,735</u>
<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	27200-009	<u>9,734</u>
<i>Total federal assistance</i>			<u>\$ 3,271,635</u>

The accompanying notes are an integral part of this schedule.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended December 31, 2007

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**NOTE 1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal 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 the schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2. SUBRECIPIENTS**

The Organization provided federal awards to subrecipients under the following programs during the year ended December 31, 2007:

Low Income Home Energy Assistance, CFDA #93.568	\$ 47,041
Community Services Block Grant, CFDA #93.569	<u>56,461</u>
<i>Total</i>	<u>\$ 103,502</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, 2007, and have issued our report thereon dated September 18, 2008. 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 07-1 through 07-6 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, of the significant deficiencies described above, we consider findings 07-3 through 07-6 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 07-7 and 07-8.

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.

*Cullen & Associates, P.C.*

September 18, 2008



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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, 2007. 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.

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.

As described in findings 07-9, 07-10, and 07-11 in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding data collection for rent reasonableness, family reports, information disclosure reports, wait list maintenance, and tenant reexamination due dates for Lower Income Housing Assistance-Section 8 Moderate Rehabilitation, CFDA #14.856. Compliance with such requirements is necessary, in our opinion, to comply with the requirements for that program.

In our opinion, 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, 2007.

**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 07-9, 07-10, and 07-11 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. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider findings 07-9, 07-10, and 07-11 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.

*Cullen & Associates, P.C.*

September 18, 2008

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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**Section 1-Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued	Unqualified
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 Moderate Rehabilitation
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, 2007

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**Section 2 – Findings in Financial Statements Audit**

SIGNIFICANT DEFICIENCIES

FINDING 07-1

*Condition:*

Voided checks are not mutilated to prevent them from being cashed.

*Criteria:*

Internal controls should be in place to prevent misappropriation of assets.

*Effect:*

Voided checks could be cashed.

*Recommendations:*

We recommend that all voided checks have their routing numbers ripped off or be otherwise mutilated to prevent them from being cashed.

FINDING 07-2

*Condition:*

The payroll module of the accounting software was incorrectly set-up so that accruals of state unemployment tax continues on compensation above the \$7,000 per employee limit. Accounting personnel did not review the accuracy of the accrual on a periodic basis.

*Criteria:*

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

*Effect:*

Accrued state unemployment and unemployment tax expense were overstated and the Organization over-charged its federal programs by immaterial amounts.

*Recommendations:*

We recommend that the payroll module be corrected to limit accruals of state unemployment tax on compensation of only up to \$7,000 per employee per year. We also recommend that the set-up options in the accounting software be routinely reviewed by an individual familiar with payroll tax

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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and other accounting rules. In addition, accounting personnel should review the unemployment tax accrual along with other accruals at each month-end to determine the accuracy of those accruals.

**MATERIAL WEAKNESSES**

*FINDING 07-3*

*Condition:*

The year-end bank statement reconciliation was not properly prepared by accounting staff or reviewed by the Executive Director. The reconciliation contained variances of approximately \$15,000 for a receipt that was incorrectly dated in 2007 rather than 2008, and \$29,700 for checks incorrectly dated in 2008 rather than 2007.

*Criteria:*

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded and that balances reconcile to the general ledger.

*Effect:*

The cash balance and related transactions were materially misstated.

*Recommendations:*

Bank statements 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 07-4*

*Condition:*

The Fiscal Manager makes deposits, reconciles bank statements, and maintains the general ledger.

*Criteria:*

Accounting duties should be segregated so that no one individual has access to both assets and the related accounting records.

*Effect:*

Duties over cash receipts are not adequately segregated so that the Fiscal Manager is in a position to perpetrate and conceal a defalcation.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

---

*Recommendations:*

We recommend that an individual other than the Fiscal Manager make bank deposits and that the Fiscal Manager not have access to receipts.

FINDING 07-5

*Condition:*

The Organization loaned another organization \$9,000 without Board approval. The Organization does not have a policy permitting loans to other organizations.

*Criteria:*

Internal controls should be in place to provide reasonable assurance that only authorized transactions are executed.

*Effect:*

The Organization granted a loan for an unapproved purpose.

*Recommendations:*

We recommend that the Organization adopt and follow a policy concerning loans to other entities and employees.

FINDING 07-6

*Condition:*

Material adjustments to several accounts were proposed during the audit to record grants receivable, accounts payable, prepaid expenses, accrued liabilities, and depreciation. Additionally, management relied on its external auditor to prepare its financial statements, including the related footnotes.

*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.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

---

*Effect:*

The Organization's financial statements were not in conformity with generally accepted accounting principles at year-end. Additionally, interim financial statements reflected large swings in profitability for most grants due to not using full accrual accounting.

*Recommendations:*

Management should implement procedures to ensure that material accruals are recorded monthly, 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.

**NONCOMPLIANCE**

*FINDING 07-7*

*Condition:*

The Organization does not maintain its books during the year completely 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 IHCDA requirements.

*Recommendations:*

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

*FINDING 07-8*

*Condition:*

As further discussed in findings 07-9 through 07-11, the Organization did not comply with requirements to maintain certain tenant forms, purge its tenant wait list, and maintain a system for tracking various due dates for its Lower Income Housing Assistance program.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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**Section 3 – Findings in Major Federal Awards Program Audit**

QUESTIONED  
COSTS

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
**Passed-Through Indiana Housing and Community Development Authority**  
**CFDA Number 14.856**  
**Lower Income Housing Assistance-Section 8 Moderate Rehabilitation**

**FINDING 07-9**

*Condition:*

There is no procedure in place to monitor compliance with required documentation of tenant files. Of 40 Section 8 tenant files tested, four were missing rent reasonableness analysis forms, six were missing Form 50058 "Family Report," and five were missing Form 9886 "Release of Information/Privacy Act."

*Criteria:*

24 CFR 982.4, 982.54(d)(15), 982.158(f)(7), and 982.507 summarizes that the LSA must maintain records to document the basis for the determination that rent to owners is a reasonable rent (initially and during the term of the HAP contract).

24 CFR part 908 and 24 CFR section 982.158 states that LSAs are required to submit HUD-50058, Family Report, electronically to HUD each time the LSA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit or family.

24 CFR 5.230 states that all adult family members are required to sign the HUD 9886 "Release of Information/Privacy Act" form.

*Effect:*

The Organization is not complying with basic state and federal regulations.

*Recommendations:*

We recommend the Organization develop and maintain a checklist for each tenant file documenting receipt of the required documents.

**FINDING 07-10**

*Condition:*

There is no procedure in place to purge the Section 8 wait list, and the Organization has never purged that list.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

---

**QUESTIONED  
COSTS**

*Criteria:*

The State of Indiana's Housing Choice Voucher Program Administrative Plan states that annually the LSA will purge the waiting list, at which time letters will be mailed to applicants who have been on the list for more than six months. The letter requires the household to respond to the LSA within 15 business days in order to remain on the list. All non-responding applicants will become inactive on the waiting list and will not appear on the next wait list.

*Effect:*

The Organization has never purged its waiting list, which has 528 names on it going back to 1999.

*Recommendations:*

We recommend that the Organization comply with the state regulations and immediately notify those on the waiting list in accordance with those regulations.

*FINDING 07-11*

*Condition:*

The Organization has no system for tracking due dates of annual tenant recertifications, inspections, and completion of other forms.

*Criteria:*

The State of Indiana's Housing Choice Voucher Program Administrative Plan states that the LSA must have a system for tracking due dates for annual recertification.

*Effect:*

As noted in findings 07-9 and 07-10, the Organization does not have a systematic means to monitor its program compliance.

*Recommendations:*

We recommend the Organization comply with federal and state regulations regarding this matter. The Organization should develop a tickler list that includes the names of all tenants and the due dates of all tenant recertifications. The tickler list should also include the due date for all inspections and other forms that must be completed for each tenant.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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*Total questioned costs*

None

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

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**FINANCIAL STATEMENT FINDINGS**

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.

*Recommendations:*

We recommended that cash accounts 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.

*Current status:*

See finding 07-1 for year-end bank reconciliation variances caused by incorrect dating of transactions. No errors were noted in the other eleven months of bank reconciliations.

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.

*Recommendations:*

We recommended that receivables reported in the claims receivable module 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.

*Current Status:*

See finding 07-6 which includes comments regarding this matter. The Organization does not keep its financial statements on a full accrual method of accounting.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

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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.

*Recommendations:*

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

*Current status:*

The recommendation was adopted. No similar finding was noted in the 2007 audit.

FINDING 06-4

*Condition:*

Payroll records were not reconciled to tax filings or deposits.

*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-2s and payroll tax returns should be amended.

*Current status:*

The recommendations were adopted. No similar finding was noted in the 2007 audit.

FINDING 06-5

*Condition:*

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

*Recommendations:*

We recommended that bank reconciliation adjustments 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

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

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statement preparation process to verify that net assets properly rolls forward from the prior year-end with no changes.

*Current status:*

The recommendations were adopted. No similar finding was noted in the 2007 audit.

*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.

*Recommendations:*

We recommended that management 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.

*Current status:*

See finding 07-6 for a repeat finding.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

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**FEDERAL AWARD FINDINGS**

**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.

*Recommendations:*

We recommended that management 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.

*Current status:*

The recommendation was adopted. No similar finding was noted in the 2007 audit.

*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.

*Recommendations:*

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

*Current status:*

The recommendation was adopted. No similar finding was noted in the 2007 audit.

*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

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

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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.

*Recommendations:*

See our recommendations previously listed.

*Current status:*

See current status for findings 06-1 through 06-6 listed above.

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
**Passed-Through Indiana Housing and Community Development Authority**  
**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.

*Recommendations:*

We recommended that management 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.

*Current status:*

The recommendation was adopted. No similar finding was noted in the 2007 audit.

*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,

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

---

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.

*Recommendations:*

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

*Current status:*

See current status for findings 06-1 through 06-6 listed above.

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).

*Recommendations:*

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

*Current status:*

This is a repeat finding. See finding 07-7.

**U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES**  
**Passed-Through Indiana Housing and Community Development Authority**  
**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.

*Recommendations:*

We recommended that management 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.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

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*Current status:*

The recommendation was adopted. No similar finding was noted in the 2007 audit.

*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.

*Recommendations:*

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

*Current status:*

The recommendation was adopted. No similar finding was noted in the 2007 audit.

*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.

*Recommendations:*

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

*Current status:*

See current status for findings 06-1 through 06-6 listed above.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

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*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).

*Recommendations:*

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

*Current status:*

This is a repeat finding. See finding 07-7.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN**  
Year Ended December 31, 2007

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NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC. respectfully submits the following response and corrective action plan for the year ended December 31, 2007.

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](mailto:RCullar@Cullar.com)

Contact Information of Auditee:

Cynthia T. Davis, Executive Director  
North Central Community Action Agencies, Inc.  
301 E. 8th Street  
Michigan City, IN 46360  
(219) 872-0351  
cdavis@nccomact.org

**Findings in the Financial Statement Audit**

Finding 07-01:

We agree this is a valid finding. Since the audit exit interview, the fiscal manager has implemented the proper mutilation of voided checks as recommended.

Finding 07-2:

We agree the payroll module of the accounting software was incorrectly set up by the previous fiscal manager that resulted in the accruals of state unemployment tax above the \$7,000 per employee limit. The payroll module was discovered, corrected and adjustments to the payroll by the fiscal manager who was hired in January 2007.

Finding 07-3:

We agree this is a valid finding. Bank statements are reconciled to the general ledger monthly with any variances investigated and accounted for. The reconciliations are reviewed monthly by the Executive Director or Board Treasurer, and such review includes any questioning of large, old or unusual reconciling items and verifications that the reconciled balances and agree to the general ledger.

Finding 07-4:

We agree this is a valid finding. Since the audit, an administrative staff other than the Fiscal Manager now makes all bank deposits.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN**  
Year Ended December 31, 2007

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*Finding 07-5:*

We agree this is a valid finding. A new Executive Director has been hired as of 03/31/2008 that developed new policies and procedures that have been adopted by the Board of Directors to follow concerning loans to other entities and employees.

*Finding 07-6:*

We agree with this finding. Management has instituted new accounting documents that include a Cost Allocation Plan and an Accounting Procedures Manual that will be implemented to ensure that material accruals are recorded monthly, material accounts are reconciled to supporting detail on a timely basis, and monthly general ledger details are reviewed for proper classifications before financial reports and claims are prepared.

*Finding 07-7:*

We agree this is a valid finding. The agency will be kept on a GAAP basis through the year, with claims, receivables and accounts payables being recorded.

**Findings in Major Federal Awards Program Audit**

*Findings 07-8, 07-9, 07-10, 07-11:*

We agree these are valid findings. As of September 30, 2008, the agency has agreed to the mutual termination of the Section 8 Housing Choice Voucher Administrative Agreement between IHEDA and NCCAA. In the future should NCCAA prove to IHEDA it has the ability to comply with this program's requirements, the agency would comply with all the program's requirements, regulations and procedures.