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February 2, 2010

Board of Directors
Healthy Families of
Hamilton County, Inc.
1355 South 8th St.
Noblesville, IN 46060

We have reviewed the audit report prepared by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period July 1, 2006 to June 30, 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 Healthy Families of Hamilton County, Inc., as of June 30, 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 15 through 18 contain four current audit findings.

STATE BOARD OF ACCOUNTS

HEALTHY FAMILIES OF HAMILTON COUNTY, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

June 30, 2007 and 2006

KATZ, SAPPER & MILLER
Certified Public Accountants

HEALTHY FAMILIES OF HAMILTON COUNTY, INC.

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Independent Auditors' Report

Board of Directors
Healthy Families of Hamilton County, Inc.

We have audited the accompanying statements of financial position of Healthy Families of Hamilton County, Inc. (an Indiana not-for-profit organization) as of June 30, 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 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 Healthy Families of Hamilton County, Inc. as of June 30, 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.

In accordance with *Governmental Auditing Standards*, we have also issued our report January 11, 2008, on our consideration of Healthy Families of Hamilton County, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 *Governmental Auditing Standards* and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Healthy Families of Hamilton County, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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.

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The accompanying financial statements have been prepared assuming the Organization will continue as a going concern. As discussed in Note 1 to the financial statements, the Organization had a deficit in net assets of $80,572 at June 30, 2007, and negative cash flows from operating activities of $69,484 for the year then ended. These conditions raise substantial doubt about the Organization's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
January 11, 2008

HEALTHY FAMILIES OF HAMILTON COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

	2007	2006
ASSETS		
Cash	$ 6,121	$ 868
Accounts receivable-grants	62,994	50,992
Prepaid expenses	10,018	4,294
Property and equipment, net	7,465	2,709
TOTAL ASSETS	$ 86,598	$ 58,863
LIABILITIES		
Line of credit borrowings	$ 120,000	$ 45,263
Accounts payable	2,152	7,725
Accrued payroll and related liabilities	45,018	25,047
Total Liabilities	167,170	78,035
NET DEFICIT- UNRESTRICTED	(80,572)	(19,172)
TOTAL LIABILITIES AND NET DEFICIT	$ 86,598	$ 58,863

See accompanying notes.

HEALTHY FAMILIES OF HAMILTON COUNTY, INC.

STATEMENTS OF ACTIVITIES
Years Ended June 30, 2007 and 2006

	2007	2006
REVENUES AND SUPPORT - UNRESTRICTED		
Grants	$ 611,312	$ 666,272
Parenting coalition funds	3,125	9,901
Contributions	26,898	22,962
In-kind contributions	34,077	22,900
Interest income	10	8
Total Revenues and Support - Unrestricted	675,422	722,043
EXPENSES		
Program services	676,990	687,546
Fundraising	40,114	34,641
Management and general	19,718	9,567
Total Expenses	736,822	731,754
DECREASE IN NET ASSETS	(61,400)	(9,711)
NET DEFICIT		
Beginning of Year	(19,172)	(9,461)
End of Year	$ (80,572)	$ (19,172)

See accompanying notes.

HEALTHY FAMILIES OF HAMILTON COUNTY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2007 and 2006

	Program Services					
	Healthy Families State Grants		OFC Fund		Other Programs	
	2007	2006	2007	2006	2007	2006
Personnel salaries	$ 414,608	$ 404,233	$ 47,855	$ 44,721		
Personnel fringe benefits	30,657	38,568				
Payroll taxes	31,852	32,830	2,612	2,463		
Contract services	10,575	9,988			$ 4,209	$ 4,600
Rents and utilities	40,201	45,949			600	400
Supplies	17,319	9,080			8,155	432
Telephone	14,540	13,526				
Equipment	3,984	4,378				
Other costs	23,025	44,839			1,413	2,388
Travel	17,709	23,633				
Insurance	7,676	5,518				
Depreciation						
Interest						
TOTAL EXPENSES	$ 612,146	$ 632,542	$ 50,467	$ 47,184	$ 14,377	$ 7,820

See accompanying notes.

Program Services Total		Fundraising		Management and General		Total	
2007	2006	2007	2006	2007	2006	2007	2006
$ 462,463	$ 448,954	$ 29,027	$ 28,255			$ 491,490	$ 477,209
30,657	38,568					30,657	38,568
34,464	35,293	3,049	2,195			37,513	37,488
14,784	14,588					14,784	14,588
40,801	46,349	2,061				42,862	46,349
25,474	9,512	1,145	1,634			26,619	11,146
14,540	13,526	320	501			14,860	14,027
3,984	4,378					3,984	4,378
24,438	47,227	4,080	1,556	$ 6,875	$ 2,879	35,393	51,662
17,709	23,633	432	500	1,048		19,189	24,133
7,676	5,518					7,676	5,518
				1,948	1,616	1,948	1,616
				9,847	5,072	9,847	5,072
$ 676,990	$ 687,546	$ 40,114	$ 34,641	$ 19,718	$ 9,567	$ 736,822	$ 731,754

HEALTHY FAMILIES OF HAMILTON COUNTY, INC.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2007 and 2006

	2007	2006
OPERATING ACTIVITIES		
Decrease in net assets	$ (61,400)	$ (9,711)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:		
Depreciation	1,948	1,616
In-kind contributions of property and equipment	(6,703)	
(Increase) decrease in certain assets:		
Accounts receivable	(12,002)	4,802
Prepaid expenses	(5,724)	(1,181)
Increase (decrease) in certain liabilities:		
Accounts payable	(5,573)	(5,071)
Accrued payroll and related liabilities	19,970	9,183
Net Cash (Used) by Operating Activities	(69,484)	(362)
FINANCING ACTIVITIES		
Net increase (decrease) in line of credit borrowings	74,737	(678)
Net Cash Provided (Used) by Financing Activities	74,737	(678)
NET INCREASE (DECREASE) IN CASH	5,253	(1,040)
CASH		
Beginning of Year	$ 868	1,908
End of Year	$ 6,121	$ 868
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	$ 9,847	$ 5,072
Noncash investing and financing transactions:		
In-kind contributions of property and equipment	6,703	

See accompanying notes.

HEALTHY FAMILIES OF HAMILTON COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Healthy Families of Hamilton County, Inc. (the Organization), an Indiana not-for-profit corporation, was established in 1997 to promote supportive environments that optimize child growth and development and encourage resilient and healthy families. The Organization receives substantially all of its funding from one federal grant passed through the Indiana Family and Social Service Administration.

Estimates: Management uses estimates and assumptions in preparing financial statements in conformity with accounting principles generally accepted in the United States. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Financial Statement Presentation follows the requirements of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All funds over which the Organization's board of directors has discretionary control have been included in the unrestricted fund. No funds have been restricted by donors; therefore, no balances are reflected as temporarily or permanently restricted net assets.

The accompanying financial statements have been prepared on a going-concern basis, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business. The Organization had a deficit in net assets of $80,572 and negative cash flows from operations of $69,484 for the year then ended. These conditions raise substantial doubt the Organization will be able to continue as a going concern.

The Organization has a bank line of credit which expires on March 1, 2008, with outstanding borrowings of $120,000 at June 30, 2007 (See Note 2). Ultimately, the Organization's ability to continue as a going concern is dependent upon the success of additional fundraising activities, obtaining additional grant funding from non-governmental agencies, reducing expenses by taking steps such as, but not limited to reducing the number of employees, and obtaining an extension of the line of credit.

Accounts Receivable are recorded at the estimated net realizable amount such that an allowance for uncollectible amounts is deemed by management to be unnecessary. Receivables are due from approved grants for services rendered and are usually collected by the twentieth day of the month following the provision of services.

Property and Equipment are recorded at cost and depreciated over estimated useful lives ranging from 3 to 5 years, using both straight-line and accelerated methods.

In-Kind Contributions: In addition to cash contributions, the Organization receives donated goods and services. Donations of services are recognized if the services received (a) create or enhance non-financial assets or (b) required specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated goods are recorded at estimated fair value. During the years ended June 30, 2007 and 2006, in-kind contributions aggregated $34,077 and $22,900, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status: The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is also exempt from state income taxes. Accordingly, no provision for federal and state income taxes on revenue and income has been recorded in the financial statements.

Reclassifications: Certain amounts in the 2007 financial statements have been reclassified to conform to the 2006 presentation.

NOTE 2 - LINE OF CREDIT

The Organization has a $160,000 bank line of credit for short-term borrowings which mature on March 1, 2008. The interest rate is equal to the Bank's prime lending rate (8.25% at June 30, 2007). Borrowings are secured by the Organization's accounts receivable, chattel paper, property and equipment and general intangibles. The outstanding balance at June 30, 2007 and 2006, was $120,000 and $45,263, respectively.

NOTE 3 - COMMITMENTS

The Organization leases its facility pursuant to a noncancellable operating lease. Rent expense incurred in connection with all long-term operating lease agreements aggregated $36,949 and $43,263 during the years ended June 30, 2007 and 2006, respectively.

Future minimum annual rental payments under noncancellable operating leases are as follows:

Payable In Year Ending June 30	Rental Payments
2008	$ 41,892
2009	41,892
2010	10,392
2011	4,092
2012	2,217
Total	$100,485

NOTE 4 - RETIREMENT PLAN

The Organization sponsors a SIMPLE IRA plan (the Plan) for all employees meeting certain Plan requirements. Plan participants may defer a percentage of their annual compensation up to $7,000. The Organization makes a contribution to the Plan equal to 2% of compensation for each eligible employee. A participant's interest in employer contributions is 100% vested at all times. The Organization contributed $7,103 and $8,078 for the years ended June 30, 2007 and 2006, respectively.

NOTE 5 - CONCENTRATION

The Organization received 82.1% in fiscal year 2007 and 91.5% in fiscal year 2006 of its total revenues and support from one Federal grant passed through the Indiana Family and Social Service Administration.

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Independent Auditors' 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

Year Ended June 30, 2007

Board of Directors
Healthy Families of Hamilton County, Inc.

We have audited the financial statements of Healthy Families of Hamilton County, Inc. (the Organization) as of and for the year ended June 30, 2007, and have issued our report thereon dated January 11, 2008, which appears on page 1. Our report on the financial statements includes an explanatory paragraph describing conditions discussed in Note 1 to the financial statements, that raise substantial doubt about the Organization's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 described below we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies and one deficiency which we consider to be a material weakness.

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 combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We considered the deficiencies described in the accompanying schedule of findings and questioned costs as Items 07-01, 07-02 and 07-03 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 entity'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 or material weaknesses. However, of the significant deficiencies described above, we consider Item 07-03 to be a material weakness.

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 certain 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 Item 07-04.

We noted certain matters that we reported to the management of the Organization in a separate letter dated January 11, 2008.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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, 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.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
January 11, 2008

HEALTHY FAMILIES OF HAMILTON COUNTY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

	CFDA Number	Pass-Through Grantor's Number	Grant Period	Revenue Recognized	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Passed through Indiana Family and Social Service Administration					
Healthy Families Indiana Project	93.558	29-05-60-1578	9/1/06-8/31/07	$ 555,156	$ 555,156
TOTAL FEDERAL AWARDS				$ 555,156	$ 555,156

HEALTHY FAMILIES OF HAMILTON COUNTY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. 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

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Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Year Ended June 30, 2007

Board of Directors
Healthy Families of Hamilton County, Inc.

Compliance

We have audited the compliance of Healthy Families of Hamilton County, 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 June 30, 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.

In our opinion, 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 June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Item 07-04.

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 Organization'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.

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 deficiency in internal control over compliance described in Section III of the accompanying schedule of findings and questioned costs as Item 07-04 to be a significant deficiency.

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. . We do not consider any of the significant deficiencies described in Section III of the accompanying schedule of findings and questioned costs to be material weaknesses.

The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses 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, 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.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
January 11, 2008

HEALTHY FAMILIES OF HAMILTON COUNTY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SUMMARY OF AUDITOR'S RESULTS

Katz, Sapper & Miller, LLP has issued an unqualified opinion on the statement of financial position of Healthy Families of Hamilton County, Inc. as of June 30, 2007, and the related statements of activities, functional expenses and cash flows for the year then ended. Our report on the financial statements includes an explanatory paragraph describing conditions discussed in Note 1 to the financial statements, that raise substantial doubt about the Organization's ability to continue as a going concern.

Katz, Sapper & Miller, LLP has also issued an unqualified opinion on the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of Healthy Families of Hamilton County, Inc.'s major federal programs for the year ended June 30, 2007.

Healthy Families of Hamilton County, Inc. has one major program:

U.S. Department of Health and Human Services, Temporary Assistance for Needy Families Grant, CFDA#93.558

The dollar threshold used to distinguish between type A and type B programs was $300,000.
The auditee qualified as a low risk auditee.

SECTION II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Item 07-01

Lack of Segregation of Duties Over Cash Disbursements

Criteria: An employee approving invoices for payments should not be allowed to sign disbursement checks for those same invoices.

Statement of Condition: For checks below $25,000, employees who approve invoices for payment are also allowed to sign checks.

Cause and Effect: This practice weakens the internal controls over cash by vesting complete disbursement authority in one person. This is a significant control deficiency as it opens the way for the possibility of fraudulent purchases and disbursements.

Recommendation: We recommend that management implement stronger controls over cash disbursements by implementing a policy that the same individual approving an invoice for payment should be not allowed to sign checks regardless of the dollar amount.

Management Response: Due to the few number of personnel assigned to administrative duties, at this time, it is not practical to segregate duties any further. In order to provide further safeguards,
Management will recommend to the Board of Directors a change in policy to require two signatures on checks amounting to $5000 or more. Further the Audit/Finance Committee of the Board of Directors and/or the Treasurer of the Board will begin reviewing the checking account statement monthly, beginning January of 2008

SECTION II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

Item 07-02

Limit Access and Change Password on Computers Periodically

Criteria: Doors to the room containing server and data files should be locked. Passwords on Organization-owned laptop and desktop computers should be changed periodically.

Statement of Condition: No controls over computer access are in place, and desktop and laptop computers are not password protected. There is a lack of physical controls over computer hardware and data files.

Cause and Effect: Not password protecting computers could result in unauthorized entries or adjustments being made. It could also lead to computers being accessed by unauthorized personnel. Lack of physical controls over rooms containing the computer server could lead to data loss, as well as misappropriation of valuable computer hardware.

Recommendations: We recommend that management implement controls over computer access such as better physical controls (locked doors to the room containing the server and data files), and the use of passwords. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the Organization institute a policy that requires passwords to be changed on a regular basis. The Organization may also wish to investigate building into its software, automatic expiration of passwords to ensure that they are changed periodically.

Management Response: The Organization will initiate password changes on an annual basis and begin the process of moving the server to a locked area.

Item 07-03

Material Adjusting Journal Entries were Recorded During the Year End Audit

Criteria: Material misstatement of the Organization's financial statements should be detected and prevented by the Organization's internal control.

Statement of Condition: During the course of our audit, we proposed audit journal entries to correct previously undetected material misstatements related to accrued vacation and in-kind contributions in the Organization's accounting records.

Cause and Effect: Accrued vacation expense and in-kind contributions were not correctly recorded by the Organization. These audit adjustments indicate a weakness in internal control over financial reporting at the Organization.

SECTION II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

Recommendations: We recommend that the accrual of vacation expense should be calculated and recorded on the general ledger at the end of each quarter or year-end as desired by management. All in-kind contributions should be tracked and recorded in accordance with written policies of the Organization.

Management's Response: The organization has relied on the auditors to make these annual corrections to the financial statement in prior years, i.e. vacation accrual and in-kind contributions. It was not viewed by the organization to be misstatements. Due to the changes in audit standards, the organization will begin accruing the vacation expense and all in-kind contributions starting with the current fiscal year.

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED IN OMB CIRCULAR A-133

Item 07-04

Inadequate Support of Salaries and Wages.

Criteria: According to *OMB Circular No. A-122 Cost Principles for Non-Profit Organizations*, charges toward federal awards for salaries and wages, whether treated as direct costs or indirect costs, must be based on documented payrolls, approved by a responsible official(s) and supported by personnel activity reports. Reports reflecting the distribution of activities of each employee must be maintained for all staff members whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involve two or more functions or activities if a distribution of their compensation between such functions or activates is needed in the determination of the Organization's indirect cost rates.

Statement of Condition: Time cards were not maintained for all employees to support charges towards federal programs for salaries and wages.

Cause and Effect: Payroll expenses were not charged to federal programs based on actual activity reports. Payroll reports and time cards were not prepared and approved in accordance with *OMB Circular No. A-122, Cost Principles for Non-Profit Organizations.*

Recommendations: Payroll reports maintained by the Organization must meet the following standards:

a) The reports must 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.

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED IN OMB CIRCULAR A-133 (CONTINUED)

b) Each report must account for the total activities for which employees are compensated and which are required in fulfillment of their obligations to the Organization.

c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

Management's Response: Starting in September 2007, the Organization started maintaining time cards in accordance with *OMB Circular No. A-122, Cost Principles for Non-Profit Organization.*