

# Pathways in Education – Louisiana, Inc.

## FINANCIAL STATEMENTS

June 30, 2017



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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees  
Pathways in Education - Louisiana, Inc.  
Shreveport, Louisiana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Pathways in Education - Louisiana, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017 and the related statements of activities and cash flows for the year then ended and the related notes to financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pathways in Education - Louisiana, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Compensation Paid to the Board of Trustees and the Schedule of Compensation, Benefits and Other Payments to Agency Head are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2018, on our consideration of Pathways in Education - Louisiana, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pathways in Education - Louisiana, Inc.'s internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*

**CARR, RIGGS & INGRAM, LLC**

Shreveport, Louisiana  
January 2, 2018

**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**

To the Board of Trustees  
Pathways in Education - Louisiana, Inc.  
Shreveport, Louisiana

We have audited, in accordance with the 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, the financial statements of Pathways in Education - Louisiana, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to financial statements and have issued our report thereon dated January 2, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Pathways in Education - Louisiana, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pathways in Education - Louisiana, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Pathways in Education - Louisiana, Inc.'s internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pathways in Education - Louisiana, Inc.'s financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Carr, Riggs & Ingram, L.L.C.*

**CARR, RIGGS & INGRAM, LLC**

Shreveport, Louisiana  
January 2, 2018

**Pathways in Education - Louisiana, Inc.**  
**Statement of Financial Position**

<i>June 30,</i>	<b>2017</b>
<b>Assets</b>	
Current assets	
Cash	\$ 1,329,975
Prepaid expenses	11,475
Total current assets	<b>1,341,450</b>
Property and equipment	
Leasehold improvements	1,780,473
Furniture, fixtures and equipment	140,963
Less: accumulated depreciation	(583,209)
Net property and equipment	<b>1,338,227</b>
Deposits	
Total assets	<b>\$ 2,691,477</b>
<b>Liabilities and Net Assets</b>	
Current liabilities	
Accounts payable	\$ 1,827
Due to related parties	116,633
Accrued expenses	135,570
Total current liabilities	<b>254,030</b>
Long-term liabilities	
Due to related parties	1,521,386
Total long-term liabilities	<b>1,521,386</b>
Total liabilities	<b>1,775,416</b>
Net assets	
Unrestricted	916,061
Temporarily restricted	-
Permanently restricted	-
Total net assets	<b>916,061</b>
Total liabilities and net assets	<b>\$ 2,691,477</b>

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

**Pathways in Education - Louisiana, Inc.**  
**Statement of Activities**

<i>For the year ended June 30, 2017</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Minimum Foundation Program	\$ 4,215,515	\$ -	\$ -	\$ 4,215,515
Contributed materials and services	76,148	-	-	76,148
Total support and revenue	4,291,663	-	-	4,291,663
Expenses				
Program services				
Regular program expenditures	-	-	-	-
Special education programs	1,701	-	-	1,701
Other instructional programs	1,842,744	-	-	1,842,744
Pupil support services	-	-	-	-
Instructional staff services	-	-	-	-
School administration	103,639	-	-	103,639
Operation and maintenance of plant services	490,612	-	-	490,612
Food service operations	-	-	-	-
Debt service	67,780	-	-	67,780
Management and general				
Business services	-	-	-	-
General administration	846,105	-	-	846,105
Central services	24,301	-	-	24,301
Total expenses	3,376,882	-	-	3,376,882
Change in net assets	914,781	-	-	914,781
Net assets, beginning of year	1,280	-	-	1,280
Net assets, end of year	\$ 916,061	\$ -	\$ -	\$ 916,061

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

**Pathways in Education - Louisiana, Inc.**  
**Statement of Cash Flows**

<i>For the year ended June 30, 2017</i>	<b>2017</b>
Cash flows from operating activities	
Change in net assets	\$ 914,781
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	296,351
(Increase) decrease in Prepaid expenses	6,240
Increase (decrease) in Accounts payable	( 10,640)
Accrued expenses	65,412
Net cash provided by operating activities	<b>1,272,144</b>
Cash flows from financing activities	
Advances from related parties	955,597
Repayments to related parties	(1,961,326)
Net cash used in financing activities	<b>(1,005,729)</b>
Net increase in cash	266,415
Cash - beginning of year	1,063,560
Cash - end of year	\$ 1,329,975
 <b>Supplemental Disclosure of Cash Flow Information</b>	
Cash paid during the period for interest	\$ 115,759

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

**NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Pathways in Education - Louisiana, Inc. (“the Charter School”) was originally formed August 29, 2008, under the name of Pathways in Education – New Orleans, Inc. Effective July 23, 2012, Pathways in Education – New Orleans, Inc. changed its corporate name to Pathways in Education – Louisiana, Inc. The corporation was dormant until February 10, 2014.

The Charter School is a Louisiana not-for-profit corporation, formed exclusively for educational purposes. On July 1, 2014, the Charter School entered into a Type 1 charter school contract with Caddo Parish School Board (CPSB) to operate an alternative school for students from ninth to twelfth grade in Caddo Parish, Louisiana. The charter agreement with CPSB is for an initial term of five years, contingent upon the results of the reporting requirements at the end of the third year as provided in LA R.S. 17:3998 (A)(2) and may be renewed at the discretion of CPSB. The Charter School opened its first campus in Shreveport for the 2014/2015 school year. The Charter School opened its second campus in Shreveport for the 2015/2016 school year.

The Charter School is an independent nonprofit entity, separate and distinct from the Caddo Parish School Board, the primary government and reporting entity. However, the Charter School is a component unit of CPSB and the Charter School’s financial statements are included in the CPSB’s basic financial statements as a component unit.

A summary of the Charter School’s significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

***Financial Statement Presentation***

The Charter School follows the guidance of the *Not-for-Profit Entities* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Charter School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the donor-imposed time or purpose restrictions. Restricted contributions, for which the restriction is met in the same year, are classified as unrestricted.

***Basis of Accounting***

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. The financial statements of the Charter School are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

**NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

***Statement of Cash Flows***

For purposes of the statement of cash flows, the Charter School considers all investments purchased with an original maturity of three months or less to be cash equivalents. The Charter School did not have any cash equivalents at June 30, 2017.

***Public Support and Revenue***

The Charter School's primary source of funding is through the Minimum Foundation Program (MFP), passed through from CPSB and funded by the State Public School Fund. For the year ended June 30, 2017, the Charter School received \$4,215,515 from CPSB based on eligible students in attendance paid on a monthly basis. CPSB withheld \$84,310 for administrative expenses for the year ended June 30, 2017.

***Contributed Materials and Services***

Contributions of donated non-cash assets are recorded at their fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

***Restricted and Unrestricted Revenue and Support***

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

***Property and Equipment***

Property and equipment is capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated property and equipment is recorded at fair market values as of the date received. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets (five years) for furniture, fixtures and equipment. Leasehold improvements are depreciated over the lesser of the useful life of the asset or the lease term.

**NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

All assets acquired with Louisiana Department of Education funds are owned by the Charter School while used in the purpose for which they were purchased. The Louisiana Department of Education, however, has a reversionary interest in these assets. Should the charter not be renewed, title in any assets purchased with those funds will transfer to the appropriate agency. Assets purchased with private funds remain the property of the Charter School.

Depreciation expense incurred for the year ended June 30, 2017, was \$296,351.

***Income Taxes***

The Charter School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Charter School is also exempt from Louisiana state income taxes. However, income, if any, from certain activities not directly related to the Charter School's tax-exempt purpose is subject to taxation as unrelated business income.

The Charter School follows the provisions of the *Accounting for Uncertainty in Income Taxes* Topic of the FASB ASC, which clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Charter School's income tax returns. Management evaluated the Charter School's tax positions and concluded that they had taken no uncertain tax positions that required adjustments to the financial statements to comply with the provisions of this guidance.

***Compensated Absences***

The Charter School's policy permits employees to accumulate earned but unused paid time off up to 80 hours.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Pathways in Education - Louisiana, Inc.**  
**Notes to Financial Statements**

**NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

***Advertising Costs***

Advertising costs are charged to expense when incurred. Advertising expense for the year ended June 30, 2017, was approximately \$24,301.

***Date of Management's Review***

Management has evaluated subsequent events through January 2, 2018, the date the financial statements were available to be issued, concluding there were no events requiring disclosure.

**NOTE 2: CONCENTRATIONS AND CREDIT RISK**

The Charter School received the majority of its total revenues from the State of Louisiana, subject to its charter school contract with CPSB for the year ended June 30, 2017.

Demand deposit balances, as reflected in the bank's records, are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2017, the Charter School had approximately \$1,170,000 in uninsured deposits. Management believes the risk associated with these excess deposits is minimal.

**NOTE 3: ACCRUED EXPENSES**

<b>June 30,</b>	<b>2017</b>
Payroll and benefits	\$ 96,570
Accrued compensated absences	32,485
Other	6,515
<b>Total accrued expenses</b>	<b>\$ 135,570</b>

**Pathways in Education - Louisiana, Inc.**  
**Notes to Financial Statements**

**NOTE 4: RELATED PARTY TRANSACTIONS**

Due to related parties consists of the following:

<b>June 30,</b>	<b>2017</b>
Pathways Management Group line of credit	\$ 1,521,386
Pathways Management Group operating advances	54,977
Pathways Management Group management fees payable	53,848
Prep for Success special education services	(3,941)
Pathways in Education, Inc.	7,840
Farm Stay Inn at BlackBird Farm	3,909
<b>Total Due to Related Parties</b>	<b>1,638,019</b>
<b>Less Due to Related Parties Long-Term Portion</b>	<b>(1,521,386)</b>
<b>Due to Related Parties Current Portion</b>	<b>\$ 116,633</b>

On March 28, 2014, the Charter School entered into a \$2,500,000 line of credit with Pathways Management Group, Inc. (PMG), a related party. PMG and the Charter School share similar officers. Interest and principal are due March 27, 2024. Interest shall accrue on the principal sum, or any other advances made at the lowest published Applicable Federal Rates (AFR) in the month in which any disbursements are made. The line of credit is secured by program fees and revenues received by the Charter School. Amounts advanced including interest earned, but not paid on the line of credit as of June 30, 2017, totaled \$1,521,386. Interest expense for the year ended June 30, 2017, related to this line of credit was \$67,780.

The Charter School has entered into a management services and property agreement with PMG, a related party. The agreement states that PMG shall be entitled to a management fee for its services. The management fee is set at \$127 per student served per month. For the year ended June 30, 2017, management fee expense totaled \$629,031.

PMG made \$79,327 in noninterest-bearing advances to the Charter School during the year ended June 30, 2017, respectively. The Charter School repaid \$74,469 to PMG during the year ended June 30, 2017.

The Charter School reimburses PMG for lease expenses paid for the school campuses under PMG's leasing agreements with third parties. Total lease expense for the year ended June 30, 2017, totaled \$136,040.

The Charter School has entered into a special education services agreement with Prep for Success, Inc. (PFS), a related party. PFS and the Charter School share similar officers. For the years ended June 30, 2017, special education consulting expense totaled \$1,701.

The Charter School received \$39,225 and repaid \$31,385 in non-interest bearing advances from Pathways in Education, Inc., a related party. Pathways in Education, Inc. and the Charter School share similar officers.

**NOTE 4: RELATED PARTY TRANSACTIONS (CONTINUED)**

The Charter School utilizes the services of Rocky Mountain Pathways, Inc. (RMP), a related party to provide activities for select students. RMP and the Charter School share similar officers. The Charter School has made payments totaling \$103,488 and recorded \$103,488 in expenses, respectively, during the year ended June 30, 2017.

The Charter School utilizes the services of Blackbird Farm (BBF), a related party to provide activities for select students. BFF and the Charter School share similar officers. The Charter School has made payments totaling \$0 and recorded \$2,420 in expenses, respectively, during the year ended June 30, 2017.

The Charter School has recorded contributed service revenue and expense related to consulting and enrollment billing provided by Education Dynamics, Inc. (EDI), a related party. EDI and the Charter School share similar officers. The Charter School has recorded \$7,230 in contributed service revenue and expense during the year ended June 30, 2017. The fair value of the services was provided by the related party.

The Charter School has recorded contributed service revenue and expense related to computer hardware consulting services provided by AllTech Enterprises, LLC (AllTech), a related party. AllTech and the Charter School share similar officers. The Charter School has recorded \$7,890 in contributed service revenue and expense during the year ended June 30, 2017. The fair value of the services was provided by the related party.

The Charter School has recorded contributed service revenue and expense related to development services for curriculum/ instructional materials and events, material and supplies, and other services that were provided by Education Management Systems, III, Inc. (EMS), a related party. EMS and the Charter School share similar officers. The Charter School has recorded \$61,028 in contributed service revenue and expense during the years ended June 30, 2017. The fair value of the services was provided by the related party.

**NOTE 5: CONTRIBUTED MATERIALS AND SERVICES**

The Charter School received contributed professional consulting services and materials from related parties of \$76,148 at fair value as determined by the donors, for the year ended June 30, 2017. See Note 4.

**NOTE 6: RISK MANAGEMENT**

The Charter School is exposed to various risks of loss from torts; thefts of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. In the opinion of management, insurance coverage is adequate to cover any material anticipated losses.

There were no settled claims that exceeded this commercial coverage during the year ended June 30, 2017.

**NOTE 7: COMMITMENTS AND CONTINGENCIES**

*Management Agreement*

The Charter School entered into a management agreement effective July 1, 2014, with Pathways Management Group, Inc. (PMG), a California nonprofit corporation, to provide school, facilities, and financial management, and provide accounting, student achievement, reporting and human resource services. The term of the agreement is for an initial term consistent with the term of the charter contract with CPSB.

*Leasing Agreements*

PMG has entered into various agreements with unrelated parties to lease real estate and buildings for the operation of the Charter School. The Charter School is responsible for reimbursing PMG for payments made under the leasing agreements. The Charter School is committed to pay PMG the following lease payments: \$137,690 (2018), \$131,705 (2019), \$60,381 (2020) under these agreements subsequent to June 30, 2017.

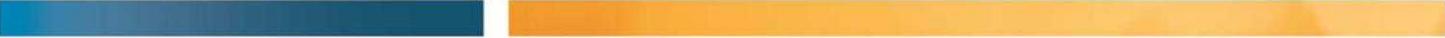
*Line of Credit*

The Charter School has entered into a \$2,500,000 line of credit with PMG. At June 30, 2017, the balance due on the line of credit, including accrued interest, was \$1,521,386. See Note 4.

*CPSB Contract Contingency*

The Charter School contract with CPSB is effective upon complete execution for an initial period of five years contingent upon the results of a review conducted at the end of the third year. The Charter School's contract will be extended for the remainder of the period if the charter school is meeting the student, financial and legal and contract standards set forth in the Charter School Evaluation Framework.

## **Supplemental Information**



**Pathways in Education - Louisiana, Inc.**  
**Schedule of Compensation Paid to the Board of Trustees**  
**For the year ended June 30, 2017**

No compensation was paid to the Board of Trustees for the year ended June 30, 2017.

See Independent Auditors' Report.

**Pathways in Education - Louisiana, Inc.**  
**Schedule of Compensation, Benefits and Other Payments to Agency Head**  
**For the year ended June 30, 2017**

**Agency Head Name: Jonathan Keith**

<b>Purpose</b>	<b>Amount</b>
Salary	\$ 77,721
Benefits - other (incentive)	22,905
Reimbursements	3,013

See Independent Auditors' Report.

**Pathways in Education - Louisiana, Inc.**  
**Schedule of Findings and Questioned Costs**

**Section I – Summary of Auditors’ Results**

Financial Statements

Type of auditors’ report issued: Unmodified

Compliance and internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? No

Noncompliance material to financial statements noted? No

Federal Awards

N/A

**Section II – Financial Statement Findings Reported in Accordance with *Governmental Auditing Standards***

**Current Year Findings and Responses**

None

**Section III – Federal Award Findings and Questioned Costs**

N/A

**Prior Year Findings**

None

**Pathways in Education - Louisiana, Inc.  
Shreveport, Louisiana**

**STATEWIDE AGREED-UPON PROCEDURES REPORT**

June 30, 2017



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**INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Trustees of Pathways in Education - Louisiana, Inc.  
and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by Pathways in Education - Louisiana, Inc. ("PIE-LA") and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period July 1, 2016 through June 30, 2017. PIE-LA's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

***Written Policies and Procedures***

1. We obtained the entity's written policies and procedures and reported whether those written policies and procedures address each of the following financial/business functions (or reported that the entity does not have any written policies and procedures), as applicable:
  - a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.
  - b) ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
  - c) ***Disbursements***, including processing, reviewing, and approving.
  - d) ***Receipts***, including receiving, recording, and preparing deposits.
  - e) ***Payroll/Personnel***, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
  - f) ***Contracting***, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
  - g) ***Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)***, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage.

- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

**Comment:** *Management of Pathways in Education-Louisiana, Inc. represented that there are no written policies and procedures.*

**Board (or Finance Committee, if applicable)**

- 2. We obtained and reviewed the board/committee minutes for the fiscal period, and:
  - a) We reported whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.

**Comment:** *We noted that the board met (with a quorum) at least quarterly.*

- b) We reported whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).
  - If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, we reported whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, we reported whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.

**Comment:** *No budget-to-actual comparisons were referenced in any of the five board meetings in the fiscal period. We noted that the statement of financial position as of June 30, 2017 did not reflect a fund balance deficit.*

- c) We reported whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

**Comment:** *We noted that the minutes referenced non-budgetary financial information for at least one meeting during the fiscal period.*

**Bank Reconciliations**

- 3. We obtained a listing of client bank accounts from management and management's representation that the listing is complete.

**Comment:** *We noted no exceptions while performing the procedure above.*

- 4. Using the listing provided by management, we selected all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). For each of the bank accounts selected, we obtained bank statements and reconciliations for all months in the fiscal period and reported whether:

- a) Bank reconciliations have been prepared;

**Comment:** *Management represented to us that PIE-LA only has one bank account. We noted that bank reconciliations were prepared monthly for this bank account.*

- b) Bank reconciliations included evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation;

**Comment:** *We noted there was no evidence that a member of management or a board member reviewed bank reconciliations.*

- c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

**Comment:** *We noted no reconciling items that have been outstanding for more than 6 months on the June 30, 2017 bank reconciliation.*

### **Collections**

- 5. We obtained a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

**Comment:** *Management represented that cash deposits are not collected due to the population served by Pathways in Education – Louisiana, Inc. Management represented that checks/money orders, if any, are collected and processed by the entity's management company. We reviewed the entity's bank statements for the period from July 1, 2016 through June 30, 2017 and noted no cash/checks/money orders were deposited during the 12 month period ended June 30, 2017.*

- 6. Using the listing provided by management, we selected all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). For each cash collection location selected:

- a) We requested existing written documentation (e.g. insurance policy, policy manual, job description) and reported whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.

**Comment:** *We were unable to obtain written documentation from the entity's management company to perform the procedures listed above. The divisional controller of the management company verbally confirmed to us that the management company has procedures in place to ensure that the person responsible for collecting cash is not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account. We were unable to determine whether each person responsible for collecting cash is bonded and is not required to share the same cash register or drawer with another employee.*

- b) We requested existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and reported whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.

**Comment:** *We were unable to perform the procedures above because PIE-LA collected no cash/checks/money orders in the fiscal period.*

c) We selected the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:

- Using entity collection documentation, deposit slips, and bank statements, we traced daily collections to the deposit date on the corresponding bank statement and reported whether the deposits were made within one day of collection. If deposits were not made within one day of collection, we reported the number of days from receipt to deposit for each day at each collection location.
- Using sequentially numbered receipts, system reports, or other related collection documentation, we verified that daily cash collections are completely supported by documentation and reported any exceptions.

**Comment:** We were unable to perform the procedures above because PIE-LA collected no cash/checks/money orders in the fiscal period.

7. We requested existing written documentation (e.g. policy manual, written procedure) and reported whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation) by a person who is not responsible for collections.

**Comment:** Over 99% of PIE-LA's collections are minimum foundation payments (MFP) received via electronic transfer from the Caddo Parish School Board. There were no written policies and procedures to document the process to determine the completeness of all collections, including electronic transfers. However, management provided an electronic spreadsheet that is prepared monthly to estimate expected MFP collections by multiplying number of students enrolled times expected rate per student. The spreadsheet includes a comparison of expected collections to the actual amounts deposited into the bank with differences documented.

**Disbursements – General (excluding credit card/debit card/fuel card/P-Card purchases or payments)**

8. We obtained a listing of entity disbursements from management or, alternately, obtained the general ledger and sorted/filtered for entity disbursements. We obtained management's representation that the listing or general ledger population is complete.

**Comment:** No exceptions noted in the procedures performed.

9. Using the disbursement population from #8 above, we randomly selected 25 disbursements (or randomly selected disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. We obtained supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and reported whether the supporting documentation for each transaction demonstrated that:

a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.

**Comment:** Of the 25 disbursements selected, we noted that 18 of the disbursements did not require a requisition or purchase order because they were either for routine, recurring charges such as utilities or they were incurred under an approved contract such as monthly lease payments, management fees or insurance payments. Of the remaining 7 disbursements, we noted that

*purchases were initiated using a requisition/purchase order system or an equivalent electronic system for 3 of the disbursements. No requisition/purchase order or equivalent electronic documentation was provided for the other 4 disbursements.*

- b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.

**Comment:** *Of the 3 requisitions/purchase orders observed in a) above, all were approved by a person who did not initiate the purchase.*

- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

**Comment:** *As noted above, 18 of the selected disbursements did not require an approved requisition/purchase order, nor did these 18 disbursements require a receiving report because they were not for the purchase of goods. Of the 7 remaining disbursements, 4 did not have an approved requisition/purchase order and 6 did not have a receiving report. All 25 disbursements were supported by an approved invoice.*

- 10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), we reported whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.

**Comment:** *No written documentation was available to perform the procedure noted above. However, we inquired of the divisional controller who indicated that the person responsible for adding vendors is also the person responsible for paying invoices. The controller stated that any added vendors are verified, approved and authorized by the controller before any disbursements can be made to that vendor.*

- 11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), we reported whether the persons with signatory authority or who makes the final authorization for disbursements have no responsibility for initiating or recording purchases.

**Comment:** *No exceptions noted in the procedures performed.*

- 12. We inquired of management and observed whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and reported any exceptions. Alternately, if the checks were electronically printed on blank check stock, we reviewed entity documentation (electronic system control documentation) and reported whether the persons with signatory authority have system access to print checks.

**Comment:** *No exceptions noted in the procedures performed.*

- 13. If a signature stamp or signature machine is used, we inquired of the signer whether his or her signature was maintained under his or her control or was used only with the knowledge and consent of the signer. We inquired of the signer whether signed checks were likewise maintained under the control of the signer or authorized user until mailed. We reported any exceptions.

**Comment:** *No exceptions noted in the procedures performed.*

### **Credit Cards/Debit Cards/Fuel Cards/P-Cards**

14. We obtained from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. We obtained management's representation that the listing is complete.

**Comment:** *No exceptions noted in the procedures performed.*

15. Using the listing prepared by management, we randomly selected 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. We obtained the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. We selected the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, selected the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a) We reported whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]

**Comment:** *Management represented to us that there were two active credit cards. We observed evidence that the both the selected statements and supporting documentation were reviewed and approved, in writing, by someone other than the authorized card holder.*

We reported whether finance charges and/or late fees were assessed on the selected statements.

**Comment:** *No finance charges and/or late fees were assessed on the selected statements.*

16. Using the monthly statements or combined statements selected under #15 above, we obtained supporting documentation for all transactions for each of the 2 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).

- a) For each transaction, we reported whether the transaction is supported by:
- An original itemized receipt (i.e., identifies precisely what was purchased)
  - Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
  - Other documentation that may be required by written policy (e.g., purchase order, written authorization.)

**Comment:** *No exceptions noted in the procedures performed.*

- b) For each transaction, we compared the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and reported any exceptions.

**Comment:** *The entity has no written purchasing/disbursement policies. None of the transactions selected were subject to the Louisiana Public Bid Law.*

- c) For each transaction, we compared the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and reported any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). If the

nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, we reported the transaction as an exception.

**Comment:** *No exceptions noted in the procedures performed.*

### **Travel and Expense Reimbursement**

17. We obtained from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtained the general ledger and sorted/filtered for travel reimbursements. We obtained management's representation that the listing or general ledger is complete.

**Comment:** *No exceptions noted in the procedures performed.*

18. We obtained the entity's written policies related to travel and expense reimbursements. We compared the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration ([www.gsa.gov](http://www.gsa.gov)) and reported any amounts that exceed GSA rates.

**Comment:** *PIE-LA has no written policies on travel and expense reimbursements.*

19. Using the listing or general ledger from #17 above, we selected the three persons who incurred the most travel costs during the fiscal period. We obtained the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and chose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

a) We compared expense documentation to written policies and reported whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, we compared to the GSA rates (#18 above) and reported each reimbursement that exceeded those rates.

**Comment:** *No exceptions noted in the procedures performed.*

b) We reported whether each expense is supported by:

- An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]
- Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
- Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)

**Comment:** *No exceptions noted in the procedures performed.*

c) We compared the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and reported any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, we reported the transaction as an exception.

**Comment:** *No exceptions noted in the procedures performed.*

d) We reported whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

**Comment:** Three expense reports selected had no evidence that the expense report was reviewed and approved, in writing, by someone other than the person receiving reimbursement. No other exceptions were noted.

## **Contracts**

20. We obtained a listing of all contracts in effect during the fiscal period or, alternately, obtained the general ledger and sorted/filtered for contract payments. We obtained management's representation that the listing or general ledger is complete.

**Comment:** No exceptions noted in the procedures performed.

21. Using the listing above, we selected the four contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to Carr, Riggs & Ingram, LLC). We obtained the related contracts and paid invoices and:

a) We reported whether there is a formal/written contract that supports the services arrangement and the amount paid.

**Comment:** The list obtained in #20 only contained four contracts. Formal written contracts were in place to support the services arrangement and the amount paid for each of the four contracts listed.

b) We compared each contract's detail to the Louisiana Public Bid Law or Procurement Code. We reported whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:

- If yes, we obtained/compared supporting contract documentation to legal requirements and reported whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder)
- If no, we obtained supporting contract documentation and reported whether the entity solicited quotes as a best practice.

**Comment:** The contracts were not subject to the Louisiana Public Bid Law or Procurement Code. PIE-LA did not solicit quotes as a best practice for any of the four contracts.

c) We reported whether the contract was amended. If so, we reported the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.

**Comment:** No contracts were amended during the fiscal period.

d) We selected the largest payment from each of the four contracts, obtained the supporting invoice, compared the invoice to the contract terms, and reported whether the invoice and related payment complied with the terms and conditions of the contract.

**Comment:** We performed the procedure above for each of the four contracts listed in #20 above. No exceptions noted in the procedures performed.

e) We obtained/reviewed contract documentation and board minutes and reported whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

**Comment:** *There was no documentation of board approval. However, there is no indication that the contracts required approval by policy or law.*

### **Payroll and Personnel**

22. We obtained a listing of employees (and elected officials, if applicable) with their related salaries, and obtained management's representation that the listing is complete. We randomly selected five employees/officials, obtained their personnel files, and:

- a) We reviewed compensation paid to each employee during the fiscal period and reported whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.

**Comment:** *No exceptions noted in the procedures performed.*

- b) We reviewed changes made to hourly pay rates/salaries during the fiscal period and reported whether those changes were approved in writing and in accordance with written policy.

**Comment:** *There are no written policies and management did not provide written approval for changes to hourly pay rates/salaries. Management did provide a copy of their payroll rate structure and we noted that all increases were within the payroll rate structure for the employee's position.*

23. We obtained attendance and leave records and randomly selected one pay period in which leave has been taken by at least one employee. Within that pay period, we randomly selected 25 employees/officials (or randomly selected one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:

- a) We reported whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)

**Comment:** *We inquired of the divisional controller who informed us that the entire payroll system (timesheets, approval, accruals for leave) are all done electronically through a program called Workday. We obtained a copy of the payroll register for the period ended January 20, 2017, and noted that hours for the 25 randomly selected employees were reported separately for regular salary, holidays, and paid time off.*

- b) We reported whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.

**Comment:** *We inquired of the divisional controller who informed us that the entire payroll system (timesheets, approval, accruals for leave) are all done electronically through a program called Workday. We obtained a copy of the payroll register for the period ended January 20, 2017 but there was no written evidence that supervisors approved the attendance and leave of the selected employees. We were unable to observe the electronic approval process as payroll is performed by an out-of-state management company.*

- c) We reported whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

**Comment:** *No exceptions noted in the procedures performed.*

24. We obtained from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, we selected the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtained the personnel files for the two employees/officials. We reported whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

**Comment:** *No exceptions noted in the procedures performed.*

25. We obtained supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. We reported whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

**Comment:** *No exceptions noted in the procedures performed.*

#### **Other**

26. We inquired of management whether the entity had any misappropriations of public funds or assets. If so, obtained/reviewed supporting documentation and reported whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

**Comment:** *Management represented that there had been no misappropriations of public funds or assets during the fiscal period.*

27. We observed and reported whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at [www.la.la.gov/hotline](http://www.la.la.gov/hotline)) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

**Comment:** *The entity has not posted on its premises and website the notice required by R.S. 24:523.1.*

28. If the practitioner observed or otherwise identified any exceptions regarding management's representations in the procedures above, we reported the nature of each exception.

**Comment:** *No exceptions noted in the procedures performed.*

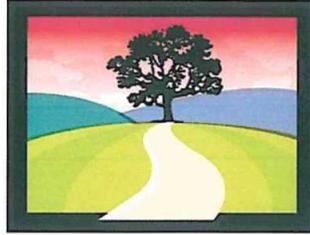
We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information and use of the board and management of Pathways In Education – Louisiana, Inc. and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS, & INGRAM, LLC  
Shreveport, Louisiana  
January 2, 2018



January 2, 2018

Louisiana Legislative Auditor  
1600 North 2<sup>nd</sup> Street  
P.O. Box 94397  
Baton Rouge, LA 70804-9397

and

Carr, Riggs & Ingram  
1000 East Preston Avenue  
Suite 200  
Shreveport, LA 71105

Re: Management Response to Agreed-Upon Procedures

The Management Team has reviewed the Independent Accountant's Report on Applying Agreed-Upon Procedures. The Management Team is in agreement with the report as provided by Carr, Riggs & Ingram. In addition, we will be implementing changes or additional to policy and procedures where necessary to meet the expectation identified in the report.

Respectfully,

A handwritten signature in blue ink, appearing to read "Cynthia Harsen". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Cynthia Harsen  
Divisional Controller