

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
BATON ROUGE, LOUISIANA

AUDITED FINANCIAL STATEMENTS
June 30, 2018 and 2017



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Louisiana Health and Rehabilitation Center, Inc.
Baton Rouge, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Louisiana Health and Rehabilitation Center, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the 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 auditor's 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 Louisiana Health and Rehabilitation Center, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years 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 Schedule of Compensation, Reimbursements, Benefits, and Other Payments to Agency Head, Political Subdivision Head, or Chief Executive Officer is required by Louisiana Revised Statute 24:513 (A)(3) and is presented for purposes of additional analysis and is 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, 2019, on our consideration of Louisiana Health and Rehabilitation Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Louisiana Health and Rehabilitation Center, Inc.'s 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 Louisiana Health and Rehabilitation Center, Inc.'s internal control over financial reporting and compliance.

TWRU

CPAs & Financial Advisors
Baton Rouge, Louisiana
January 2, 2019



TWRU

CPAs & Financial Advisors

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

(See Notes to Financial Statements)

June 30, 2018 and 2017

ASSETS

	June 30,	
	2018	2017
CURRENT ASSETS		
Cash	\$ 10,106	\$ 24,854
Restricted cash	1,126	1,610
Receivables	129,863	424,778
Due from Affiliate	-	22,640
Prepaid expenses	39,271	39,511
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	180,366	513,393
PROPERTY AND EQUIPMENT		
Furniture, Fixtures and Equipment	134,375	132,750
Vehicles	93,507	93,507
Building	1,792	1,792
Leasehold Improvements	129,715	129,715
	<hr/>	<hr/>
TOTAL PROPERTY AND EQUIPMENT	359,389	357,764
Less Accumulated Depreciation	(251,764)	(243,329)
	<hr/>	<hr/>
NET PROPERTY AND EQUIPMENT	107,625	114,435
OTHER ASSETS	1,361	1,041
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 289,352</u>	<u>\$ 628,869</u>

LIABILITIES AND NET ASSETS

	June 30,	
	2018	2017
CURRENT LIABILITIES		
Accounts Payable	\$ 36,907	\$ 27,446
Accrued Payroll Liabilities	2,021	5,085
Accrued Insurance	21,884	13,112
Other Accrued Expenses	31,503	39,699
Amounts Held for Others	1,126	1,610
Deferred Revenue	4,500	-
Due to Related Parties	70,657	87,362
Current portion of long term debt	<u>18,456</u>	<u>17,532</u>
TOTAL CURRENT LIABILITIES	187,054	191,846
LONG-TERM LIABILITIES		
Notes Payable, Related Party	72,708	91,869
Less current portion of long term debt	<u>(18,456)</u>	<u>(17,532)</u>
TOTAL LONG-TERM LIABILITIES	54,252	74,337
TOTAL LIABILITIES	241,306	266,183
NET ASSETS		
Unrestricted	<u>48,046</u>	<u>362,686</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 289,352</u>	<u>\$ 628,869</u>

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

STATEMENTS OF ACTIVITIES
(See Notes to Financial Statements)
For the Years Ended June 30, 2018 and 2017

	2018	2017
SUPPORT AND REVENUES		
Public Support:		
Reality House	\$ 622,652	\$ 597,297
Divine Intervention	48,670	247,830
Outpatient Substance Abuse	300,949	462,660
Cooperative Agreement to Benefit Homeless	29,971	18,484
Private Grants	75,000	124,956
Contributions	46,187	34,300
Rent	675	20,000
Interest Income	2	-
Gain on Disposal of Assets	-	94,666
Other	284	886
	<u>1,124,390</u>	<u>1,601,079</u>
TOTAL SUPPORT AND REVENUES		
EXPENSES		
Program Expenses:		
Management Fees	245,080	282,767
Payroll	366,325	349,009
Occupancy	187,523	183,072
Direct Services	79,991	114,956
Supplies	20,952	23,599
Depreciation	5,999	7,699
Professional Services	23,850	4,662
Bad Debt	197,501	40,240
Other	31,201	10,940
General and Administrative	280,608	281,315
	<u>1,439,030</u>	<u>1,298,259</u>
TOTAL EXPENSES		
CHANGE IN NET ASSETS	(314,640)	302,820
NET ASSETS		
BEGINNING OF YEAR	362,686	59,866
END OF YEAR	<u>\$ 48,046</u>	<u>\$ 362,686</u>



LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

STATEMENTS OF CASH FLOWS
(See Notes to Financial Statements)
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (314,640)	\$ 302,820
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	8,060	16,406
Decrease (Increase) in Assets:		
Receivables	294,915	(266,237)
Due from Affiliate	22,640	(22,640)
Prepaid expenses and other assets	(80)	7,689
Increase in Liabilities:		
Accounts payable	9,461	10,958
Payroll liabilities	(3,064)	918
Accrued Insurance	8,772	(1,206)
Deferred Revenue	4,500	-
Other liabilities	(8,680)	12,569
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>21,884</u>	<u>61,277</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,625)	(10,252)
Purchase of building and improvements	-	(41,902)
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,625)</u>	<u>(52,154)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(19,161)	(23,919)
(Repayments) Advances from related parties net	(16,330)	30,187
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	<u>(35,491)</u>	<u>6,268</u>
NET (DECREASE) INCREASE IN CASH	<u>(15,232)</u>	<u>15,391</u>
BEGINNING CASH AND CASH EQUIVALENTS	<u>26,464</u>	<u>11,073</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 11,232</u>	<u>\$ 26,464</u>
RECONCILIATION OF CASH		
Cash, Unrestricted	\$ 10,106	\$ 24,854
Cash, Restricted	1,126	1,610
	<u>\$ 11,232</u>	<u>\$ 26,464</u>



LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Louisiana Health and Rehabilitation Center, Inc. (LHRC) is a non-profit corporation whose purpose is to provide therapeutic psychiatric programs to eliminate inappropriate and maladaptive behaviors. Their services are designed to help persons with developmental disabilities, and severe and persistent behavioral problems reach their maximum functioning level in the community.

All programs are operated in southern Louisiana and are primarily funded by the State of Louisiana agencies through the Department of Health and Hospitals and by the City of Baton Rouge through the Office of Community Development.

Basis of Accounting – The financial statements were prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Financial Statement Presentation – LHRC reports 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, which are described as follows:

Unrestricted Net Assets are net assets that are not subject to donor-imposed stipulations and are available for use at the organization's discretion.

Temporarily Restricted Net Assets are net assets subject to donor-imposed stipulations that may or will be met, either by actions of the organization and/or the passage of time. When a 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.

Permanently Restricted Net Assets are net assets subject to donor-imposed stipulations that the organization maintain the contribution permanently. Generally, the donors of these assets permit the organization to use all or part of the income earned on any related investments for general or specific purposes.

LHRC does not have any temporarily or permanently restricted net assets for the year ended June 30, 2018 and 2017.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition – Revenue from grants and contracts are recognized according to the specific agreement. Generally, revenues from grants are recognized in the period of the grant award while revenues from cost reimbursement contracts are recognized to the extent of services provided.

Cash and Cash Equivalents – For purposes of the statements of cash flows, LHRC considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Restricted Cash – LHRC, as custodial agent, maintains cash for clients in several of its programs. These amounts are segregated from LHRC's cash accounts.

Receivables – Bad debts are charged to operations in the year in which the account is determined uncollectible. If the reserve method of accounting for uncollectible accounts were used, it would not have a material effect on the financial statements. No amounts for an allowance for bad debts have been established as LHRC expects to collect the balance in full.



LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment – Purchased property and equipment is recorded at cost. Acquisitions of land, buildings, and improvements, furniture and equipment in excess of \$1,000 are capitalized. Depreciation is calculated using the straight-line method over the estimated useful life of the assets. Estimated useful lives range from 5 to 15 years for most furniture, equipment, and major improvements and 39 years for buildings.

Depreciation expense was \$8,060 and \$16,406 for years ended June 30, 2018 and 2017, respectively.

Repair and maintenance costs are expensed as incurred. When property and equipment are retired or otherwise disposed, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective year.

Income Taxes – The Organization has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501c(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, no provision for income taxes has been made; however, if the Organization should engage in activities unrelated to the purpose for which it was created, taxable income could result. The Organization has no unrelated business income for the years ended June 30, 2018 and 2017.

Paid Time Off – Although the paid time off benefit was terminated December 31, 2010 there remains a liability balance of \$2,332 at June 30, 2018 and 2017. A maximum of two weeks paid time off could be carried over at each employee's anniversary date.

Advertising – LHRC follows the policy of charging the costs of advertising to expense as incurred. Advertising costs were \$200 and \$403 for the years ended June 30, 2018 and 2017, respectively.

Expense Allocation – Directly identifiable expenses are charges to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

NOTE 2: INCOME TAXES

The Organization follows FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. The guidance prescribes a recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As of June 30, 2018 and 2017, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Generally, the tax years before June 30, 2015 are no longer subject to examination by federal, state, or local taxing authorities.



LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 3: LONG TERM DEBT

Long-term debt consists of a 6% promissory note payable owed to Louisiana Health and Rehab Options, Inc. (LHRO), a related party, in 46 monthly installments of \$2,000, and maturing March 1, 2021.

Maturities of long-term debt for the years succeeding June 30, 2018, are as follows:

<u>Year</u>	<u>Amount</u>
FY19	\$ 18,456
FY20	21,323
FY21	<u>32,929</u>
	72,708
Current portion	<u>(18,456)</u>
Total	<u>\$ 54,252</u>

Interest paid during the year ending June 30, 2018 and 2017 was \$7,487 and \$763, respectively.

NOTE 4: RELATED PARTY TRANSACTIONS

Johnson Management Group, LLC- LHRC contracts with Johnson Management Group, LLC, a company whose managing member is a member of the Board of Directors of LHRC. During the year ending June 30, 2018 and 2017, LHRC paid Johnson Management Group, LLC \$383,813 and \$416,978, respectively, for administrative personnel, management fees, and other various expenses under these agreements. Johnson Management Group provides Transitional Housing cost for LHRC's Divine program. These fees are refunded back to LHRC for providing the actual services at the site. The reimbursement rate is \$40 per day/per client, which includes shelter, substance abuse treatment, recreation and onsite support groups. The amounts received by Johnson Management Group and reimbursed back to LHRC totaled \$0 and \$34,740 during the year ending June 30, 2018 and 2017, respectively. Johnson Management Group, LLC also bills and collects rents on buildings and autos and submits these collections to the corresponding related party. The LHRC amounts collected for the year ending June 30, 2018 and 2017 was \$57,600 and \$50,800, respectively. Additionally, LHRC owed Johnson Management Group, LLC \$50,449 and \$52,712 at June 30, 2018 and 2017, respectively.

Temple Properties, LLC- LHRC leased premises from Temple Properties, LLC, for the year ended June 30, 2018 and 2017. A member of the Board of Directors of LHRC is a member and manager of Temple Properties, LLC. The rental expense incurred under these leases for the year ended June 30, 2018 and 2017 was \$59,400 and \$59,400, respectively. LHRC owed Temple Properties, LLC \$0 and \$34,650 for the year ended June 30, 2018 and 2017, respectively.

Louisiana Health & Rehab Options, Inc. (LHRO) – LHRC leases office space and vehicles to LHRO, a Louisiana corporation owned solely by a member of the Board of Directors of LHRC. LHRC received \$0 and \$20,000 for the lease of office space for the years ending June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, LHRC owed LHRO \$20,208 and \$0, respectively. As of June 30, 2017, LHRO owed LHRC \$22,640 for operating expenses.

Additionally, LHRC leases vehicles and office furniture from LHRO. The amount paid for the year ended June 30, 2018 and 2017 was \$3,250 and \$1,137, respectively. Both leases are on a month-to-month basis.

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 5: OPERATING LEASES

LHRC leases one of its facilities, Reality House, from a related party for \$3,750 per month. The lease expires on June 30, 2019. Future minimum lease payments are \$45,000. Rent expense for June 30, 2018 and 2017 was \$45,000 and \$45,000, respectively.

LHRC leases one of its facilities, Pocahontas location, from a related party for \$1,200 per month. The lease expires on December 31, 2018. Future minimum lease payments are \$7,200. Rent expense for June 30, 2018 and 2017 was \$14,400 and \$14,400, respectively.

LHRC leases one of its facilities, Brookstown location, from a related party for \$3,400 per month. The lease expires on June 30, 2021. Future minimum lease payments are \$40,800. Rent expense for June 30, 2018 and 2017 was \$40,800 and \$34,000, respectively.

LHRC leases office space from a related party for \$1,400 per month. The lease expires on June 30, 2021. Future minimum lease payments are \$16,800. Rent expense for June 30, 2018 and 2017 was \$16,800 and \$16,800, respectively.

LHRC leases a copier on a month to month basis for \$276 and \$494 per month plus additional usage charges for the year ended June 30, 2018 and 2017, respectively. Lease expense was \$3,087 and \$6,869 for the year ended June 30, 2018 and 2017, respectively.

NOTE 6: ECONOMIC DEPENDENCY

LHRC derives its revenues from governmental sources as earned revenue or grants, the loss of which would have a material adverse effect on LHRC. During the year ended June 30, 2018 and 2017, revenue derived from governmental sources accounted for 93% and 91% of support recorded by LHRC, respectively.

NOTE 7: CONCENTRATION OF CREDIT RISK

LHRC has concentrated its credit risk for cash by maintaining deposits in a financial institution in Baton Rouge, Louisiana. As of June 30, 2018, LHRC's deposits were covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC).

NOTE 8: CONTINGENCIES

Grants – LHRC receives federal and state contracts for specific purposes that are subject to audit by the agencies. Such audits could lead to requests for reimbursement to the agency for expenditures disallowed under terms of the contract. It is the opinion of management that LHRC's compliance with the terms of contracts will result in negligible, if any, disallowed costs.

Risk Management – Various lawsuits arise in the normal course of LHRC's business. Management believes that losses resulting from these matters, if any, will not have a material effect on the operations or financial position of LHRC.

NOTE 9: SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through January 2, 2019, the date the financial statements were available to be issued.

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
SCHEDULE OF COMPENSATION, BENEFITS AND OTHER
PAYMENTS TO EXECUTIVE DIRECTOR
For the Year Ended June 30, 2018

Executive Director: Twanda Lewis

Salary	\$ 55,421
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Louisiana Health and Rehabilitation Center, Inc.
Baton Rouge, 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 Louisiana Health and Rehabilitation Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 2, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Louisiana Health and Rehabilitation Center, 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 Louisiana Health and Rehabilitation Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Louisiana Health and Rehabilitation Center, 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 Louisiana Health and Rehabilitation Center, 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.

This report is intended solely for the information and use of management, Louisiana Health and Rehabilitation Center, Inc.'s Board of Directors, others within the entity, the Louisiana Legislative Auditor, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

TWRU

CPAs & Financial Advisors
Baton Rouge, Louisiana
January 2, 2019



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LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

SUMMARY OF FINDINGS AND RESPONSES

Year Ended June 30, 2018

NO FINDINGS NOTED

SUMMARY OF FINDINGS AND RESPONSES

Year ended June 30, 2017

NO FINDINGS NOTED



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INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors of Louisiana Health and Rehabilitation Center, Inc. and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by Louisiana Health and Rehabilitation Center, Inc. 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, 2017 through June 30, 2018. The Entity'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. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
 - a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget
Not Applicable.
 - 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.
Not Applicable.
 - c) **Disbursements**, including processing, reviewing, and approving
Not Applicable.
 - d) **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or 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).
Not Applicable.
 - e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
Not Applicable.

- 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
Not Applicable.
- 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 of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)
Not Applicable.
- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers
Not Applicable.
- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.
Not Applicable.
- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.
Not Applicable.

Board or Finance Committee

- 2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:
 - a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.
Exception: The Board met with a quorum five out of the twelve months.
Management's Response/Corrective Action: LHRC Board meets quarterly in a quorum and this is documented in the LHRC-By Laws and Administrative Binder
 - b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds. Alternately, for those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.
Exception: The board minutes did not reference nor include any monthly budget to actual comparison of general funding.
Management's Response/Corrective Action: There will be a monthly budget to actual comparison prepared and presented to board members.
 - c) For governmental entities, obtain the prior year audit report and observe the unrestricted fund balance in the general fund. If the general fund had a negative ending unrestricted fund balance

in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unrestricted fund balance in the general fund.

Not Applicable.

Bank Reconciliations

3. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:
 - a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);
Exception: Three out of five reconciliations were not prepared within two months of the related statements.
Management's Response/Corrective Action: Additional staff is set to be hired to enable the bookkeeper to reconcile more timely.
 - b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and
No Exceptions Noted.
 - c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.
Not Applicable.

Collections

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).
No Exceptions Noted.
5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:
 - a) Employees that are responsible for cash collections do not share cash drawers/registers.
No Exceptions Noted.
 - b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.

Exception: The accountant prepares the deposit slip and occasionally deposits the funds into the banking institution.

Management's Response/Corrective Action: Additional staff is necessary and a search for a new hire is underway.

- c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.

No Exceptions Noted.

- d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

No Exceptions Noted.

- 6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.

No Exceptions Noted.

- 7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc. Obtain supporting documentation for each of the 10 deposits and:

- a) Observe that receipts are sequentially pre-numbered.

Exception: The entity does not use sequentially pre-numbered receipts.

Management's Response/Corrective Action: LHRC Accounting department will revise its Financial Management Policies to include the copies of checks will be stamped with the date received and attached to the deposit slip showing the date it was deposited. It will be sequential order.

- b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

No Exceptions Noted.

- c) Trace the deposit slip total to the actual deposit per the bank statement.

No Exceptions Noted.

- d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).

Exception: Three out of the six deposits tested did not have collection documentation to compare to the deposit date.

Management's Response/Corrective Action: LHRC will impress upon the accounting department the importance of keeping all documentation accounted for and readily available

- e) Trace the actual deposit per the bank statement to the general ledger.

No Exceptions Noted.

Non-Payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

No Exceptions Noted.

9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

- a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.

No Exceptions Noted.

- b) At least two employees are involved in processing and approving payments to vendors.

Exception: Per inquiry of employee and observation, two employees are not always involved in processing and approving checks.

Management's Response/Corrective Action: Will hire additional staff.

- c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

Exception: The accountant processes payments and is not prohibited from adding and/or modifying vendor files.

Management's Response/Corrective Action: Will hire additional staff.

- d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.

No Exceptions Noted.

10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:

- a) Observe that the disbursement matched the related original invoice/billing statement.

No Exceptions Noted.

- b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

Exception: Five out of the five disbursements tested did not include evidence of segregation of duties. Invoices were not approve for payment.

Management's Response/Corrective Action: Will hire additional staff.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

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

No Exceptions Noted.

12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:
- a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) 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.]
No Exceptions Noted.
 - b) Observe that finance charges and late fees were not assessed on the selected statements.
No Exceptions Noted.
13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).
Exception: Both credit card statements tested had missing receipts.
Management's Response/Corrective Action: LHRC accounting department will do a training with staff on the importance of turning in receipts and will restrict the usage of the credit card to that individual when the receipts are not turned in.

Travel and Travel-Related Expense Reimbursements (excluding card transactions)

14. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:
- a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).
Not Applicable.
 - b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.
No Exceptions Noted.
 - c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).

No Exceptions Noted.

- d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

No Exceptions Noted.

Contracts

15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

- a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

Not Applicable.

- b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

Not Applicable.

- c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.

Not Applicable.

- d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

Not Applicable.

Payroll and Personnel

16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

Exceptions: One of the employees paid salaries was not correctly reflected in the personnel file.

Management's Response/Corrective Action: The Executive Director will verify with the HR Director the employee rate sheet is completed correctly and based upon the budget.

17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:

- a) Observe that 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.)

No Exceptions Noted.

- b) Observe that supervisors approved the attendance and leave of the selected employees/officials.

No Exceptions Noted.

- c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

No Applicable.

18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulative leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.

Not Applicable.

19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

No Exceptions Noted.

Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above, obtain ethics documentation from management, and:

- a. Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.

Not Applicable.

- b. Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

Not Applicable.

Debt Service

21. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.

Not Applicable.

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants.

Not Applicable.

Other

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

Not Applicable.

24. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

Not Applicable.

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. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

TWRU

CPAs & Financial Advisors
Baton Rouge, Louisiana
January 2, 2019