

VERNON COMMUNITY ACTION COUNCIL, INC.
Leesville, Louisiana

Financial Statements
December 31, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Vernon Community Action Council, Inc.
Leesville, Louisiana

Report on the Financial Statements

I have audited the accompanying statement of financial statements of Vernon Community Action Council, Inc., (a non-profit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses, 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vernon Community Action Council, Inc. as of December 31, 2013, 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.

Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 10 to the financial statements, the Organization has suffered significant reductions in grant revenues and has a net deficiency in net assets that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. My opinion is not modified with respect to that matter.

Other Matters

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 my 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, I have also issued my report dated June 30, 2014, on my consideration of Vernon Community Action Council, Inc.'s internal control over financial reporting and on my 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 my 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 Vernon Community Action Council, Inc.'s internal control over financial reporting and compliance.

Steven M. DeRouen & Associates

Lake Charles, Louisiana
June 30, 2014

VERNON COMMUNITY ACTION COUNCIL, INC.
Statement of Financial Position
As of December 31, 2013

Assets

Current Assets:

Cash	\$	917
Grant receivables		54,134
Prepaid insurance		12,346
		67,397

Noncurrent Assets:

Fixed assets		146,976
Accumulated depreciation		(128,271)
		18,705

Total Assets

\$ 86,102

Liabilities and Net Assets

Current Liabilities:

Accounts payable	\$	51,199
Accrued payroll liabilities		119,125
Line of credit		57,151
		227,475

Net Assets - Unrestricted

(141,373)

Total Liabilities and Net Assets

\$ 86,102

VERNON COMMUNITY ACTION COUNCIL, INC.
Statement of Activity
For The Year Ended December 31, 2013

Support:	
Government Grants	\$ 854,668
Miscellaneous Revenues	161,405
	1,016,073
Expenses:	
Local	49,808
HUD Supportive Housing	34,454
ESG	10,272
Charitable Gaming	89,315
WAP	344,083
WAP - ARRA	36,943
CSBG	134,051
LIHEAP	304,453
	1,003,379
Change in Net Assets	12,694
Net Deficit - Unrestricted, Beginning of Period	(154,067)
Net Assets - Unrestricted, End of Period	\$ (141,373)

The accompanying notes are an integral part of this statement.

VERNON COMMUNITY ACTION COUNCIL, INC.
Statement of Cash Flows
For the Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from supporters, grants, programs, fees	\$ 998,643
Cash paid to employees, suppliers, and for programs	<u>1,036,279</u>
Net Cash Used by Operating Activities	<u>(37,636)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from the sale of assets	<u>11,000</u>
Net Cash Provided by Financing Activities	<u>11,000</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(26,636)
CASH AT BEGINNING OF YEAR	<u>27,553</u>
CASH AT END OF YEAR	<u>\$ 917</u>
RECONCILIATION OF INCREASE IN UNRESTRICTED	
NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Increase (decrease) in unrestricted net assets	\$ 12,694
Adjustments to reconcile changes in excess of revenue and support over expenses to net cash provided by operating activities:	
Depreciation	19,450
Gain on sale of fixed assets	(8,309)
Forgiveness of loan	(27,000)
(Increase) decrease in receivables and prepaid expenses	(17,430)
Increase (decrease) in accounts payable and payroll liabilities	<u>(17,041)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (37,636)</u>

The accompanying notes are an integral part of this statement.

VERNON COMMUNITY ACTION COUNCIL, INC.
Statement of Functional Expenses
For The Year Ended December 31, 2013

	Local Funds	HUD Supportive Housing	ESG
Salaries	\$ 8,808	21,212	5,345
Payroll taxes	674	1,623	409
Insurance	4,576	2,015	2,793
Utility assistance	-	-	-
Rental assistance	-	-	-
Operations	21,143	1,449	-
Professional fees/contracts	-	-	-
Miscellaneous	3,396	-	-
Rent	-	-	-
Repairs and maintenance	-	2,207	-
Seminars and workshops	-	-	-
Supplies and materials	1,358	341	-
Telephone	1,345	-	-
Travel	327	-	-
Utilities	77	5,607	1,725
Penalties and interest	6,357	-	-
Depreciation	1,747	-	-
	<hr/>	<hr/>	<hr/>
Total Expenses	\$ <u>49,808</u>	\$ <u>34,454</u>	\$ <u>10,272</u>

VERNON COMMUNITY ACTION COUNCIL, INC.
Statement of Functional Expenses
For The Year Ended December 31, 2013

	<u>Charitable</u> <u>Gaming</u>	<u>WAP</u>	<u>WAP -</u> <u>ARRA</u>
Salaries	-	151,515	16,751
Payroll taxes	-	11,591	1,281
Insurance	-	7,684	1,243
Utility assistance	-	-	-
Rental assistance	-	-	-
Operations	44,724	19,694	4,195
Professional fees/contracts	2,100	-	5,940
Miscellaneous	-	-	-
Rent	41,355	1,767	928
Repairs and maintenance	-	-	-
Seminars and workshops	-	482	-
Supplies and materials	1,136	132,374	6,232
Telephone	-	373	-
Travel	-	-	-
Utilities	-	900	373
Penalties and interest	-	-	-
Depreciation	-	17,703	-
	<hr/>	<hr/>	<hr/>
Total Expenses	\$ <u>89,315</u>	\$ <u>344,083</u>	\$ <u>36,943</u>

The accompanying notes are an integral part of this statement.

VERNON COMMUNITY ACTION COUNCIL, INC.
Statement of Functional Expenses
For The Year Ended December 31, 2013

	<u>CSBG</u>	<u>LIHEAP</u>	<u>Total</u>
Salaries	82,260	6,454	\$ 292,345
Payroll taxes	6,293	471	22,342
Insurance	7,423	1,217	26,951
Utility assistance	-	273,608	273,608
Rental assistance	-	-	-
Operations	6,960	21,418	119,583
Professional fees/contracts	2,785	-	10,825
Miscellaneous	-	-	3,396
Rent	9,312	455	53,817
Repairs and maintenance	-	-	2,207
Seminars and workshops	1,862	-	2,344
Supplies and materials	2,765	-	144,206
Telephone	1,791	70	3,579
Travel	4,647	-	4,974
Utilities	7,953	760	17,395
Penalties and interest	-	-	6,357
Depreciation	-	-	19,450
	<hr/>	<hr/>	<hr/>
Total Expenses	\$ <u>134,051</u>	\$ <u>304,453</u>	\$ <u>1,003,379</u>

VERNON COMMUNITY ACTION COUNCIL, INC.
Notes to Financial Statements
December 31, 2013

Note 1 - Nature of Organization and Summary of Significant Accounting Policies:

Nature of Organization

The Vernon Community Action Council, Inc., (Council) is a non-profit corporation incorporated to strengthen and preserve the dignity and economic mix of the parish. The work of the corporation significantly affects three levels of community life: helping individuals and families with housing and social services; establishing other programs designed to meet pressing community needs. The Council is exempt from state and federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Council's open audit periods are from 2010 through 2013.

The Council operates as a community action agency administering various federal and state funded programs designed to provide assistance to the poor, disadvantaged, and unemployed in Vernon Parish. The Council administers the following programs shown for the year ended December 31, 2013:

Community Services Block Grant (CSBG) Administers various programs to fulfill responsibilities and provide assistance to the poor, disadvantaged, and unemployed through housing services, community projects, nutrition services, emergency assistance, employment services, transportation services and other services. Funding is provided by federal funds passed through the State of Louisiana, Department of Labor.

Supportive Housing Grant (HUD) Provides housing and services to assist homeless persons in the transition from homelessness and enable them to live independently. Funding is provided through federal funds from the U.S. Department of Housing and Urban Development.

Weatherization Assistance Program (WAP) Provides assistance to weatherize (insulate) the dwellings of low-income persons, particularly the elderly and handicapped low-income, in order to conserve needed energy and aid those persons least able to afford higher utility costs. Funding is provided by federal funds passed through the Louisiana Housing Finance Council and the Louisiana Community Action Partnership.

Low-Income Energy Assistance (LIHEAP) Program provides assistance in the form of an energy payment to a vendor on behalf of hardship households and energy conservation education. Funding is provided by federal funds passed through the Louisiana Housing Finance Council and the Louisiana Community Action Partnership.

Emergency Shelter Grants Program (ESG) Program is designed to help improve the quality of existing emergency shelters for homeless individuals and families, make available additional emergency shelters, and meet the costs of operating emergency shelters and of providing essential social services to homeless individuals and families.

VERNON COMMUNITY ACTION COUNCIL, INC.
Notes to Financial Statements (Continued)
December 31, 2013

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued):

Method of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with principles generally accepted in the United States of America. The Council is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Council does not have any temporarily or permanently restricted net assets. Grants restricted by grantor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the grants are recognized.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Council considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment

It is the Council's policy to capitalize property and equipment over \$500. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Council reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Council reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method.

Funding Policies

The Council receives their monies through basically three methods of funding. Most of the funds are obtained through grants. Under this method, funds are received on a monthly allocation of the total budget in advance of the actual expenditure. The Council also receives funds as a reimbursement of actual expenditures. The other method by which the Council receives funding is through private and in-kind contributions.

VERNON COMMUNITY ACTION COUNCIL, INC.
Notes to Financial Statements (Continued)
December 31, 2013

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued):

Compensated Absences

Employees accrue vacation leave based on years of service. Up to 240 hours of annual leave can be carried over to the next year. All accrued leave in excess of 240 hours may be compensated at the rate of pay of the year end at the discretion of the Executive Director. Accrued vacation leave totaled \$9,805 as of December 31, 2013.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Deposits with Financial Institutions

The Council's bank balances of deposits with financial institutions at December 31, 2013 were fully insured by the Federal Deposit Insurance Corporation.

Note 2 - Board Members

During the period covered by our audit, there were no payments made to or on behalf of board members.

Note 3 - Claims and Contingencies

The Council receives revenues from various Federal and State grant programs which are subject to final review and approval as to allow ability of expenditures by the respective grantor agencies. Any settlements or expenses arising out of a final review are recognized in the period in which agreed upon by the agency and the Council.

Note 4 - Economic Dependency

The Council receives the majority of its revenue from funds provided through grants. The grant amounts are appropriated each year by the Federal and State governments. The significant budget cuts are made at the Federal and/or State level, the amount of funds the association receives could be reduced significantly and have an adverse impact on its operations. Management is not aware of any actions that will adversely affect the amount of funds the Council will receive in the next fiscal year.

VERNON COMMUNITY ACTION COUNCIL, INC.
Notes to Financial Statements (Continued)
December 31, 2013

Note 5 - Grants Receivable

Grants receivable represent amounts that have been expended for grant purposes and are to be reimbursed by the grantor. Management considers all receivables to be collectible. Therefore, no allowance for doubtful accounts has been established.

Grants receivable at December 31, 2013 consisted of the following:

LIHEAP	\$ 7,384
HUD Supporting Housing	2,804
Local	12,471
WAP	21,575
CSBG	<u>9,900</u>
	<u>\$54,134</u>

Note 6 - Property and Equipment

Property and equipment consist of the following:

Land	\$ 4,000
Buildings	39,000
Equipment	33,873
Furniture and fixtures	7,231
Vehicles	89,779
Less: Accumulated depreciation	<u>(155,804)</u>
	<u>\$18,079</u>

Property and equipment acquisitions are capitalized at cost, if purchased, or at estimated fair market value if donated. Depreciation of property and equipment is computed principally by the straight-line method over 5 – 27 years. Depreciation expense totaled \$19,450 for the year ending December 31, 2013.

Note 7 - Risk Management

The Council is exposed to various risks of loss related to torts, theft or damage and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Council carries commercial insurance for these risks.

Note 8 - Fair Values of Financial Instruments

The Council has a number of financial instruments, none of which is held for trading purposes. The Council estimates that the fair value of all financial instruments at December 31, 2013 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position.

VERNON COMMUNITY ACTION COUNCIL, INC.
Notes to Financial Statements (Continued)
December 31, 2013

Note 8 - Fair Values of Financial Instruments (continued)

The estimated fair value amounts have been determined by the Council using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Council could realize in a current market exchange. The recorded values of cash, receivables, prepaid expenses, accounts payable, and accrued expenses approximate their fair values based on their short-term nature. The recorded values of notes payable approximate their fair value, as interest is insignificant.

Note 9 - Line of Credit

The Council has a demand bank line of credit totaling \$60,000 dated December 26, 2012 which is secured by the Council's cash accounts. As of December 31, 2013, the balance on the line of credit equaled \$57,151. Monthly interest only payments at a rate of 6.75% are required until January 29, 2015, at which time the principal is due in full.

Note 10 - Going Concern

During 2013, the Organization experienced a net loss during 2012 totaling \$164,776 as a result of significant reductions in grant revenue. At December 31, 2013, the Organization had a net deficiency in net assets totaling \$141,373 which raises substantial doubt about its ability to continue as a going concern. Management's plans to eliminate the Organization's deficit include: (1) continued reductions in hours of certain staff; (2) the Organization will also sell equipment and property that is no longer needed to operate; and (3) the Organization will increase the level of fund raising events. Management is of the opinion that these steps will eliminate the deficit of the Organization in less than one year.

Note 11 - Building Lease

The Council entered into a lease of a building for a period of three years with an effective date of April 2012. The lease amount is \$1,000 per month with an option to renew for three years at \$1,100 per month for an additional three years. Future minimum lease payments at December 31, 2013 are \$12,000 for year 2014 and \$3,000 for year 2015.

Note 12 - Subsequent Events

The Council evaluated its December 31, 2013 financial statements for subsequent events through June 30, 2014, the date the financial statements were available to be issued. The Council is not aware of any subsequent events which would require recognition or disclosure in the financial statements, other than those matters in the preceding paragraph.

VERNON COMMUNITY ACTION COUNCIL, INC.
Schedule of Expenditures and Federal Awards
Year Ended December 31, 2013

Federal Grantor/ <u>Pass Through Grantor Program Title</u>	Federal <u>CFDA No.</u>	Revenues <u>Recognized</u>	<u>Expenditures</u>
<u>U. S. Department of Health and Human Services</u>			
Passed through the Louisiana Dept. of Labor Community Services Block Grant	* 93.569	\$ 126,977	\$ 134,051
Passed through the La. Housing Finance Agency Low Income Home Energy Assistance	* 93.568	<u>310,246</u>	<u>304,453</u>
Totals for the U.S. Department of Health and Human Services		<u>437,223</u>	<u>438,504</u>
<u>U. S. Department of Energy</u>			
Passed through LACAP Weatherization Assistance Program	* 81.042	319,243	344,083
Passed through LACAP Weatherization Assistance Program ARRA	* 81.042	<u>40,310</u>	<u>36,943</u>
Totals for U. S. Department of Energy		<u>359,553</u>	<u>381,026</u>
<u>U. S. Department of Housing and Urban Development</u>			
Supportive Housing Program	14.235	42,715	34,454
Passed through Vernon Parish Police Jury Emergency Shelter Grants Program	14.231	<u>15,177</u>	<u>10,272</u>
Totals for U. S. Department of Housing		<u>57,892</u>	<u>44,726</u>
		<u>\$ 854,668</u>	<u>\$ 864,256</u>

* Denotes major program.

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Vernon Community Action Council, Inc., and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Certain costs have been allocated to the federal program in accordance with OMB Circular A-122, Cost Principles for Non-Profit Organizations. The amounts presented in this schedule do not differ from the amounts presented in, or used in the preparation of the financial statements.

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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*

The Board of Directors
Vernon Community Action Council, Inc.
Leesville, Louisiana

I 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 Vernon Community Action Council, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, 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 or report thereon dated June 30, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Vernon Community Action Council, Inc.'s internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Vernon Community Action Council, Inc.'s internal control. Accordingly, I do not express an opinion on the effectiveness of Vernon Community Action Council, Inc.'s internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

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 on a timely basis. I consider Item 2013-01 in the schedule of findings and questioned costs to be a material weakness.

Board of Directors
Vernon Community Action Council, Inc.
Leesville, Louisiana
Page 2

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. I consider the deficiencies described as Items 2013-02, 2013-03, 2013-04 and 2013-05 in the schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vernon Community Action Council, Inc.'s financial statements are free of material misstatement, I 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, I do not express such an opinion. The results of my test disclosed no instances of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

Vernon Community Action Council, Inc's Response to Findings

Vernon Community Action Council, Inc's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Vernon Community Action Council, Inc's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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 *Governmental Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Steven M. DeRouen & Associates

Lake Charles, Louisiana
June 30, 2014

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Directors
Vernon Community Action Council, Inc.
Leesville, Louisiana

Report on Compliance for Each Major Federal Program

I have audited Vernon Community Action Council, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Vernon Community Action Council, Inc.'s major federal programs for the year ended December 31, 2013. Vernon Community Action Council, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Vernon Community Action Council, Inc.'s major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Vernon Community Action Council, Inc.'s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Vernon Community Action Council, Inc.'s compliance

Board of Directors
Vernon Community Action Council, Inc.
Leesville, Louisiana
Page 2

Opinion on Each Major Federal Program

In my opinion, Vernon Community Action Council, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of Vernon Community Action Council, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Vernon Community Action Council, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Vernon Community Action Council, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Steven M. DeRouen & Associates

Lake Charles, Louisiana
June 30, 2014

VERNON COMMUNITY ACTION COUNCIL, INC.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS

1. The auditor’s report issued expresses and unqualified opinion on the financial statements of Vernon Community Acton Council, Inc.
2. Internal control over financial reporting disclosed material weaknesses and significant deficiencies required to be reported in accordance with generally accepted governmental auditing standards in Section II.
3. There was one compliance finding required to be reported in accordance with generally accepted governmental auditing standards in Section II.
4. No deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
5. The auditor’s report on compliance for the major federal award programs expresses an unqualified opinion on all major programs.
6. No audit findings relative to the major federal award programs are reported in this schedule.
7. The major programs identified in the Schedule of Expenditures and Federal Awards were:
U.S. Department of Health and Human Services CFDA 93.569 and 93.568
U.S. Department of Energy CFDA 81.042
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as low-risk auditee? ___ Yes x No

VERNON COMMUNITY ACTION COUNCIL, INC.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

SECTION II – FINDINGS

(2013-01) Financial Statement Reporting

The Organization maintains its books and records on the modified cash basis of accounting. The Organization relies on the auditing firm to prepare the external financial statements and related disclosures. Under U. S. generally accepted auditing standards, the auditing firm cannot be considered part of the Organization's internal control structure and because of the limitations of the accounting staff, the design of the Organization's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

Management has considered this weakness and determined that it would not be cost effective at this time to employ or contract the appropriate personnel to remove this deficiency.

(2013-02) Segregation of Duties

Due to the small number of employees, the Council did not have adequate segregation of functions within the accounting system.

Management has considered this weakness and determined that it would not be cost effective at this time to employ or contract the appropriate personnel to remove this deficiency.

Management concurs with this recommendation.

(2013-03) Late Payroll Tax Payments

Due to periods of cash shortages, payments of federal payroll taxes were paid late various times throughout 2013. There were no remittances of state income tax withholdings during 2013. These late payments resulted in penalties and interest. This is a repeat finding.

I recommend that management accurately forecasts cash needs in the future to avoid the late payment of payroll taxes and withholdings.

Management concurs with this recommendation.

VERNON COMMUNITY ACTION COUNCIL, INC.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

SECTION II – FINDINGS (Continued)

(2013-04) Bank Account Reconciliation

During the audit it was noted that various cash balances reported on the Council's general ledger did not agree with their respective bank reconciliations. After further analysis it was concluded that various reconciling items were missing between the operating, emergency food and shelter, and payroll bank reconciliations and the general ledger. This occurred due to the failure to agree the bank reconciliation balance to the general ledger.

I recommend that the Council implement procedures to insure that all bank accounts of the Council are reconciled monthly and that any un-reconciled variances are investigated and remedied in a timely manner. In addition, we recommend that reconciliations be reviewed and approved monthly by someone other than the preparer.

Management concurs with this recommendation and will implement procedures for someone other than the preparer of the bank reconciliation to review and approve the bank reconciliations. Any variances identified in the reconciliation process will be promptly and timely investigated.

(2013-05) Preparation of Payroll Tax Reports

During the audit it was noted that the 2013 Form 941 payroll tax returns gross wages did not agree with the Council's Form W-2 reports or the wage records per the general ledger. After further analysis it was concluded that the Form 941 payroll reports were understated by approximately \$20,000 in wage reporting. This occurred due to the failure to reconcile the payroll tax reporting remittances to the wage records per the general ledger or the Form W-2's. This underreporting of wages on the Form 941 will result in penalties and interest.

I recommend that the Council implement procedures to insure that all payroll tax reporting remittances be reconciled to the general ledger and wage records and any variances to be investigated and remedied in a timely manner. In addition, I recommend that the payroll tax reports be reviewed and approved monthly by someone other than the preparer.

Management concurs with this recommendation and will implement procedures for someone other than the preparer of the payroll tax reports to review and approve the documents. Any variances identified in the reconciliation process will be promptly and timely investigated. In addition, management will amend the 2013 Form 941 reports to agree with the Council's wage records.

VERNON COMMUNITY ACTION COUNCIL, INC.
Prior Year Findings and Questioned Costs
Year Ended December 31, 2013

SECTION III – PRIOR YEAR FINDINGS

(2012-01) Financial Statement Reporting

The Organization relies on the auditing firm to prepare the external financial statements and related disclosures. Under U. S. generally accepted auditing standards, the auditing firm cannot be considered part of the Organization's internal control structure and because of the limitations of the accounting staff, the design of the Organization's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

Management has considered this weakness and determined that it would not be cost effective at this time to employ or contract the appropriate personnel to remove this deficiency.

(2012-02) Segregation of Duties

Due to the small number of employees, the Council did not have adequate segregation of functions within the accounting system.

Management has considered this weakness and determined that it would not be cost effective at this time to employ or contract the appropriate personnel to remove this deficiency.

(2012-03) Late Payroll Tax Payments

Payments of federal payroll taxes were paid late for the second, third, and fourth quarter of 2012. These late payments resulted in penalties and interest in excess of \$18,000.

These liabilities were paid through an installment agreement with the Internal Revenue Service.

(2012-04) Late Filing of Audit Report

The audit was not issued within six months of the close of its December 31, 2012 fiscal year-end. This is in violation of LSA R.S. 24:513 (A)(5).

The audit was issued on July 9, 2013.