

COMMUNITY ACTION ORGANIZATION, INC.  
WASHINGTON COUNTY, OREGON

1996-97  
MANAGEMENT REPORT

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February 6, 1998

To the Board of Directors  
Community Action Organization  
Washington County, Oregon

In planning and performing our audit of the financial statements of Community Action Organization for the year ended June 30, 1997, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The Organization's internal control structure consists of policies and procedures established by management to provide reasonable, but not absolute, assurance that financial data are recorded, processed, summarized, and reported consistent with the assertions embodied in the financial statements. In establishing those policies and procedures, management assesses their expected benefits and related costs. Because of the inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any assessment of the internal control structure to future periods is subject to the risk that policies or procedures may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

We noted the following:

1. CAO should work to create a complete and detailed fixed asset register. We recommend taking a comprehensive fixed asset inventory making sure all fixed assets have been tagged and listed in the fixed asset register. The listing for each asset should include its tag number and a brief description of the asset.
2. We noted that there are no prenumbered receipts completed when income is received. Good internal control procedures require that prenumbered receipts be used to document income received by CAO and that these prenumbered receipts be kept in chronological order. We recommend that CAO implement a system of receiving income which includes completing prenumbered receipts.
3. There was no documentation of vacation being authorized by someone other than the person taking leave. Also, there was no documentation of sick leave being monitored. We found some instances of employees taking more vacation and/or sick leave than permitted by the personnel manual. We recommend that a policy be implemented which requires that vacation be approved prior to the leave being taken and that sick leave be monitored.
4. Immunization records and income verifications were not kept for students who are not part of the Head Start program for 1997-98. As part of our testing of the Head Start program, we are required to review these records, so it is imperative that they are kept on hand even after the students are no longer part of the program. We recommend that these records be kept on hand and made available for the audit.

5. We noted that there were accounting and reconciliation problems due to changes in personnel and retirements. These changes resulted in delays in closing the books and completing the audit, and resulted in us making extensive audit adjustments.
6. There are several funds which have deficit fund balances. We are aware that CAO has implemented a plan to eliminate this deficit and we recommend that CAO carefully monitor this plan to eliminate the current deficits and to prevent deficits in the future.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization.

PAULY, ROGERS AND CO., P.C.

BY: \_\_\_\_\_  
Sherman R. Pauly, Shareholder