

Early Learning Coalition of Southwest Florida, Inc.

FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITOR'S REPORT THEREON

JUNE 30, 2007 AND 2006

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

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ROGERS WOOD HILL STARMAN & GUSTASON

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Early Learning Coalition of Southwest Florida, Inc.
Fort Myers, Florida

We have audited the accompanying statements of financial position of the Early Learning Coalition of Southwest Florida, Inc. (a nonprofit corporation) as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Early Learning Coalition of Southwest Florida, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Early Learning Coalition of Southwest Florida, Inc. as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2008, on our consideration of Early Learning Coalition of Southwest Florida, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Early Learning Coalition of Southwest Florida, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Florida Department of Banking and Finance Rule 3A-5, and Rules of the State of Florida Auditor General, Chapter 10.650 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Rogers Wood Hill Starman & Gustason, PA

ROGERS WOOD HILL STARMAN & GUSTASON, P.A.
Certified Public Accountants
March 21, 2008

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 1,214,588	\$ 2,208,357
Accounts receivable:		
Agency for Workforce Innovation - Office of Early Learning	5,254,738	1,794,323
Other	49,020	934
Prepaid expenses:		
Community Coordinated Care for Children, Inc.	226,658	-
Other	37,820	56,117
Deposits	14,742	14,552
Property and equipment, net of accumulated depreciation of \$76,079 in 2007 and \$52,561 in 2006 - Note 3	<u>99,176</u>	<u>110,184</u>
Total assets	<u><u>\$ 6,896,742</u></u>	<u><u>\$ 4,184,467</u></u>

LIABILITIES AND NET ASSETS

Accounts payable:		
Agency for Workforce Innovation - Office of Early Learning	\$ 3,933,526	\$ 1,446,165
Community Coordinated Care for Children, Inc.	2,138,423	12,500
Child Care of Southwest Florida, Inc.	364,300	2,262,713
Redlands Christian Migrant Association, Inc.	17,576	219,382
Other	87,963	47,052
Accrued payroll and benefits	<u>81,214</u>	<u>26,958</u>
Total liabilities	<u>6,623,002</u>	<u>4,014,770</u>
Net assets:		
Unrestricted	262,635	158,592
Temporarily restricted - Note 4	<u>11,105</u>	<u>11,105</u>
Total net assets	<u>273,740</u>	<u>169,697</u>
Total liabilities and net assets	<u><u>\$ 6,896,742</u></u>	<u><u>\$ 4,184,467</u></u>

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>CHANGES IN UNRESTRICTED NET ASSETS</u>		
REVENUE:		
Agency for Workforce Innovation - Office of Early Learning	\$ 37,984,253	\$ 31,884,088
Investment income	2,006	2,302
Other revenue	41,998	11,313
Total revenue	<u>38,028,257</u>	<u>31,897,703</u>
EXPENSES:		
Program services	36,226,769	31,028,049
Supporting services	1,697,445	953,323
Total expenses	<u>37,924,214</u>	<u>31,981,372</u>
Increase/(decrease) in unrestricted net assets	<u>104,043</u>	<u>(83,669)</u>
<u>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</u>		
Grant revenue	<u>-</u>	<u>11,105</u>
INCREASE/(DECREASE) IN NET ASSETS	104,043	(72,564)
NET ASSETS - BEGINNING OF YEAR	<u>169,697</u>	<u>242,261</u>
NET ASSETS - END OF YEAR	<u>\$ 273,740</u>	<u>\$ 169,697</u>

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

	School Readiness/ Voluntary Pre- Kindergarten	Other Programs	Administration	Total
Pass-through payments to sub-recipients	\$ 35,976,089	\$ -	\$ -	\$ 35,976,089
Contract services	19,231	537	525,355	545,123
Depreciation and loss on disposal	-	-	29,901	29,901
Fiscal agent fee	-	-	167,170	167,170
Insurance expense	-	-	1,454	1,454
Meetings and conferences	21,477	887	125,368	147,732
Office expenses	29,298	785	157,526	187,609
Other expenses	2,621	55	3,969	6,645
Outreach and advertising	17,554	-	3,252	20,806
Program consultants and supplies	38,833	-	-	38,833
Rent expense	6,701	1,937	70,535	79,173
Salaries and benefits	74,123	28,047	564,340	666,510
Travel expense	2,223	2,813	23,662	28,698
Utilities and telephone	2,869	689	24,913	28,471
Total expenses	<u>\$ 36,191,019</u>	<u>\$ 35,750</u>	<u>\$ 1,697,445</u>	<u>\$ 37,924,214</u>

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006**

	School Readiness/ Voluntary Pre- Kindergarten	Other Programs	Administration	Total
Pass-through payments to sub-recipients	\$ 30,584,529	\$ -	\$ -	\$ 30,584,529
Contract services	-	-	65,084	65,084
Depreciation	-	-	25,616	25,616
Fiscal agent fee	-	-	151,456	151,456
Insurance expense	-	-	6,000	6,000
Meetings and conferences	2,117	-	26,797	28,914
Office expenses	-	-	83,594	83,594
Other expenses	-	-	16,692	16,692
Outreach and advertising	21,578	-	34,239	55,817
Program consultants and supplies	329,244	-	-	329,244
Rent expense	-	-	63,793	63,793
Salaries and benefits	75,436	9,519	446,978	531,933
Travel expense	4,388	1,238	13,111	18,737
Utilities and telephone	-	-	19,963	19,963
Total expenses	<u>\$ 31,017,292</u>	<u>\$ 10,757</u>	<u>\$ 953,323</u>	<u>\$ 31,981,372</u>

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from governmental agencies	\$ 37,011,199	\$ 33,299,978
Cash paid to sub-recipients	(35,927,545)	(30,169,237)
Cash paid to suppliers and employees	(2,067,718)	(1,406,570)
Other public support received	7,182	21,484
Investment income received	<u>2,006</u>	<u>2,302</u>
Net cash provided/(used) by operating activities	<u>(974,876)</u>	<u>1,747,957</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(18,893)</u>	<u>(28,164)</u>
Net cash used by investing activities	<u>(18,893)</u>	<u>(28,164)</u>
NET INCREASE/(DECREASE) IN CASH	(993,769)	1,719,793
CASH - BEGINNING OF YEAR	<u>2,208,357</u>	<u>488,564</u>
CASH - END OF YEAR	<u><u>\$ 1,214,588</u></u>	<u><u>\$ 2,208,357</u></u>
RECONCILIATION OF INCREASE/(DECREASE) IN NET ASSETS TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES:		
Increase/(decrease) in net assets	\$ 104,043	\$ (72,564)
Depreciation	27,431	25,616
Loss on disposal of assets	2,470	-
Changes in statement of financial position accounts -		
Accounts receivable	(3,508,501)	(28,244)
Prepaid expenses and deposits	(208,551)	(60,482)
Accounts payable and accrued expenses	<u>2,608,232</u>	<u>1,883,631</u>
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	<u><u>\$ (974,876)</u></u>	<u><u>\$ 1,747,957</u></u>

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007 AND 2006

NOTE 1 - Organization

Early Learning Coalition of Southwest Florida, Inc. (the Organization) was formed exclusively to fulfill the intent of Florida State Statute 411.01 "The School Readiness Act". The Organization recognizes the role of parents as their children's first teachers and the importance of children entering the education system ready to learn. The Organization seeks to assist parents by providing opportunities for the birth-to-kindergarten population to enhance their chances for education success by participating in quality school readiness and voluntary pre-kindergarten programs that can better prepare them for school. The Organization performs services in Lee, Collier, Hendry and Glades Counties, Florida.

During the years ended June 30, 2007 and 2006, the Organization contracted with Child Care of Southwest Florida, Inc. to provide program services required under its contracts with the State of Florida, and with Southwest Florida Workforce Development Board to act as fiscal agent. In 2007 and 2006 the Organization contracted with Redlands Christian Migrant Association, Inc. to provide program services under one contract with the State of Florida. After June 30, 2007, the Organization ended their contract with Child Care of Southwest Florida, Inc. and contracted with Community Coordinated Care for Children, Inc. The Organization's revenues are primarily received through federal and state grants through the Florida Agency for Workforce Innovation - Office of Early Learning.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Donated non-professional services

No amounts have been reflected in these financial statements for donated non-professional services inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the Organization's program services and its administration.

Functional allocation of expenses

The cost of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited as shown in the statements of functional expenses.

Administration

This designation includes the functions necessary to maintain the Organization's programs and activities; to provide coordination and articulation of the Organization's program strategy through the office of the executive director; to secure the proper administrative functioning of the board of directors; and to manage the financial and budgetary responsibilities of the Organization.

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007 AND 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Programs

The following programs are included in the accompanying financial statements:

SCHOOL READINESS - programs to empower parents as a child's first teacher and help them prepare their children to be ready for school.

VOLUNTARY PRE-KINDERGARTEN - program available for every four-year-old in Florida for 540 hours of care in either a traditional school year or a summer program.

PARTNERS IN EDUCATION & RESEARCH FOR KINDERGARTEN SUCCESS ("PERKS") - program to deploy technical assistance specialists to provide targeted assistance to early childhood educators teaching in Voluntary Pre-Kindergarten classrooms.

Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all bank and similar deposits, demand accounts, money market funds and short-term investments with an original maturity of three months or less to be cash equivalents.

Property and equipment

Property and equipment greater than \$5,000 are recorded at cost, or if contributed, at fair value on the date contributed. Depreciation is provided on a straight-line basis over the estimated useful lives of five to ten years.

Use of estimates

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

Reclassifications

Some amounts in the 2006 financial statements have been reclassified to conform with the format of the 2007 financial statements.

NOTE 3 - PROPERTY AND EQUIPMENT

	<u>2007</u>	<u>2006</u>
Furniture, fixtures and equipment	\$ 175,255	\$ 162,745
Less accumulated depreciation	<u>(76,079)</u>	<u>(52,561)</u>
Total	<u>\$ 99,176</u>	<u>\$ 110,184</u>

The terms of the contracts that provided the resources to purchase the property and equipment require that the property and equipment only be used to support the programs defined in the contracts. Title to the property and equipment may revert to the Florida Agency for Workforce Innovation if the program is discontinued. Depreciation expense was \$27,431 and \$25,616 for the years ended June 30, 2007 and 2006, respectively.

NOTE 4 - NET ASSETS

Temporarily restricted net assets consist of funds from the HUBS grant received for a specific purpose and not spent in the year ended June 30, 2007 or 2006.

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007 AND 2006

NOTE 5 - INCOME TAXES

The Organization is exempt from payment of income taxes under Section 501(c)(3) of the Internal Revenue Code.

NOTE 6 - LEASE AGREEMENTS

The Organization has entered into various non-cancelable operating lease agreements for their administrative offices. Total rent expense for the years ended June 30, 2007 and 2006 was \$79,173 and \$63,793, respectively. Future minimum annual rentals under noncancellable operating leases are as follows:

<u>Year Ended</u> <u>June 30,</u>	
2008	\$ 82,988
2009	83,055
2010	83,055
2011	83,055
2012	83,055
Thereafter	6,922
	<u>\$ 422,130</u>

NOTE 7 - CONCENTRATION OF CREDIT RISK

The Organization has its cash on deposit with one bank. The deposits exceed the FDIC insurance coverage limit by \$1,114,088, but management believes that the Organization is not exposed to any significant credit risk at the depository institution. The Organization has not experienced any losses on its cash and cash equivalents.

NOTE 8 - RETIREMENT PLAN

The Organization has established a Section 403(b) retirement plan for all employees who have attained age 18 and have completed one year of service. The Organization does not contribute to the Plan.

NOTE 9 - RELATED PARTIES

The Organization contracted with Child Care of Southwest Florida, Inc. (CCSWFL), which ended in FY fiscal year 2007, and contracted with Community Coordinated Care for Children, Inc., beginning in fiscal year 2007, to provide program services required under its contracts with the State of Florida. The Organization contracted with Southwest Florida Workforce Development Board (SFWDB) to act as fiscal agent. Both the Executive Director of CCSWFL and of SFWDB are legislated as mandatory non-voting members of the Board of Directors of the Organization. The Organization contracted with Redlands Christian Migrant Association, Inc. (RCMA) to provide program services required under one contract with the State of Florida, and the Executive Director of RCMA is a non-voting member of the Board of Directors of the Organization.

SINGLE AUDIT

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2007

<u>EXPENDITURES OF FEDERAL AWARDS</u>	Federal CFDA Number	Contract Number	Federal Funds	State Matching Funds	Total Expenditures	
United States Department of Health & Human Services -						
Florida Agency for Workforce Innovation -						
Office of Early Learning -						
Temporary Assistance for Needy Families	93.558	SR157	\$ 4,008,259	\$ 4,087,893	\$ 8,096,152	(a)
Child Care & Development Block Grant	93.575	SR157	6,821,258	-	6,821,258	(a)
Child Care Mandatory & Matching	93.596	SR157	2,854,143	2,256,651	5,110,794	(a)
Social Services Block Grant	93.667	SR157	27,175	-	27,175	
Total - federal awards			<u>\$ 13,710,835</u>	<u>\$ 6,344,544</u>	<u>\$ 20,055,379</u>	

<u>EXPENDITURES OF STATE FINANCIAL ASSISTANCE</u>	<u>CSFA No.</u>	<u>Contract No.</u>	<u>Expenditures</u>	
Florida Agency for Workforce Innovation -				
Office of Early Learning -				
Voluntary Pre-kindergarten Education Program	75.007	SV157	\$ 16,504,050	(b)
School Readiness Services	75.005	SR157	<u>1,272,074</u>	(b)
Total - state financial assistance			<u>\$ 17,776,124</u>	

Note (a) - Major Federal Program

Note (b) - Major State Project

Basis of Presentation

This schedule has been prepared on the accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Sub-recipients

Of the federal and state expenditures presented in the schedule, the organization provided awards to sub-recipients as follows:

	CFDA or CSFA No.	Child Care of Southwest Florida	Redlands Christian Migrant Asn.	Community Coordinated Care for Children
Temporary Assistance for Needy Families	93.558	\$ 7,128,417	\$ -	\$ 617,518
Child Care & Development Block Grant	93.575	5,395,562	-	467,405
Child Care Mandatory & Matching	93.596	4,515,900	-	391,202
Social Services Block Grant	93.667	24,621	-	2,133
Voluntary Pre-kindergarten Education Program	75.007	13,077,669	2,503,278	600,019
School Readiness Services	75.005	1,152,525	-	99,840
		<u>\$ 31,294,694</u>	<u>\$ 2,503,278</u>	<u>\$ 2,178,117</u>

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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

Board of Directors
Early Learning Coalition of Southwest Florida, Inc.
Fort Myers, Florida

We have audited the financial statements of Early Learning Coalition of Southwest Florida, Inc. (a nonprofit corporation) as of and for the year ended June 30, 2007, and have issued our report thereon dated March 21, 2008. We conducted our 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Early Learning Coalition's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Early Learning Coalition of Southwest Florida, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the fifteen deficiencies described in the accompanying schedule of findings and questioned costs (as items 2006-4 through 2006-6 and items 2007-3 through 2007-14) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Board of Directors
Early Learning Coalition of Southwest Florida, Inc
Page Two

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the two significant deficiencies described in the accompanying schedule of findings and questioned costs (as items 2007-1 and 2007-2) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Early Learning Coalition of Southwest Florida, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2006-8, 2006-9, 2007-7, 2007-8, 2007-13, 2007-15, and 2007-16.

We noted certain matters that we reported to the management of Early Learning Coalition of Southwest Florida, Inc. in a separate letter dated March 21, 2008.

Early Learning Coalition of Southwest Florida, Inc.'s response to the findings identified in our audit are described in the accompanying Management Response and Corrective Action Plan. We did not audit Early Learning Coalition of Southwest Florida, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers Wood Hill Starman & Gustason, PA

ROGERS WOOD HILL STARMAN & GUSTASON, P.A.
Certified Public Accountants
March 21, 2008

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

Board of Directors
Early Learning Coalition of Southwest Florida, Inc.
Fort Myers, Florida

Compliance

We have audited the compliance of Early Learning Coalition of Southwest Florida, Inc. (a nonprofit corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major federal programs and major state projects for the year ended June 30, 2007. Early Learning Coalition of Southwest Florida, Inc.'s major federal programs and major state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and major state projects is the responsibility of the management of Early Learning Coalition of Southwest Florida, Inc. Our responsibility is to express an opinion on Early Learning Coalition of Southwest Florida, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and Chapter 10.650, Rules of the Auditor General. Those standards and OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or major state project occurred. An audit includes examining, on a test basis, evidence about Early Learning Coalition of Southwest Florida, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Early Learning Coalition of Southwest Florida, Inc.'s compliance with those requirements.

In our opinion, Early Learning Coalition of Southwest Florida, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and major state projects for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and Chapter 10.650 and which are described in the accompanying schedule of findings and questioned costs as items 2006-8, 2006-9, 2007-7, 2007-8, 2007-13, 2007-15, and 2007-16.

Internal Control Over Compliance

The management of Early Learning Coalition of Southwest Florida, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered Early Learning Coalition of Southwest Florida, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program or a major state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Early Learning Coalition of Southwest Florida, Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2006-8, 2006-9, 2007-7, 2007-8, 2007-13, 2007-15, and 2007-16 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented or detected by the entity's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Early Learning Coalition of Southwest Florida, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Early Learning Coalition of Southwest Florida, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers Wood Hill Starman & Gustason, PA

ROGERS WOOD HILL STARMAN & GUSTASON, P.A.
Certified Public Accountants
March 21, 2008

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Early Learning Coalition of Southwest Florida, Inc.
2. Two material weaknesses and fifteen significant deficiencies were disclosed during the audit of the financial statements and are reported in the Independent Auditor's Letter to Management.
3. No instances of noncompliance material to the financial statements of Early Learning Coalition of Southwest Florida, Inc. were disclosed during the audit.
4. Seven significant deficiencies were disclosed during the audit of the major federal award programs or the major state projects.
5. The auditor's report on compliance for the major federal award programs and the major state project for Early Learning Coalition of Southwest Florida, Inc. expresses an unqualified opinion on the major federal award programs and major state projects.
6. The auditor's report contained seven findings relating to major programs that the auditor would be required to report under Section 510(a) OMB Circular A-133.

7. Three federal programs were treated as major programs:

	<u>CFDA No.</u>	<u>Contract No.</u>	<u>Amount</u>
Temporary Assistance for Needy Families	93.558	SR157	\$ 8,096,152
Child Care & Development Block Grant	93.575	SR157	\$ 6,821,258
Child Care Mandatory & Matching	93.596	SR157	\$ 5,110,794

- Two state projects were treated as major state projects:

	<u>CSFA No.</u>	<u>Contract No.</u>	<u>Amount</u>
Voluntary Pre-kindergarten Program	75.007	SV157	\$ 16,504,050
School Readiness Services	75.005	SR157	\$ 1,272,074

8. The threshold for distinguishing Types A and B programs was \$601,661 for federal programs and \$533,284 for state projects.
9. Early Learning Coalition of Southwest Florida, Inc. was considered to be a low-risk auditee.

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2007

FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES:

2007 - 1 Provide Adequate Staffing and Oversight for Accounting Functions:

Deficiency: For most of the year, the staff assigned to carry out the accounting functions of the organization was not familiar with the operations of the organization, was not knowledgeable about generally accepted accounting principles, was not trained in operating the accounting software used by the organization, and did not provide reports that met the needs of the organization, both internally and externally. Management did not provide the oversight necessary to compensate for the deficiency.

Criteria: Accounting staff should have the appropriate skills to successfully process the financial data of the organization. And the accounting system should be designed to provide strong internal controls and result in financial reporting that is accurate and informative, for the management of the organization as well as for external reporting requirements.

Effect: The unaudited internally generated financial statements were misstated and the organization was unable to correct the statements by themselves.

Recommendation: Ensure that staffing is appropriate to achieve the goals of strong financial internal controls around processing financial data as well as to provide timely, accurate and meaningful financial reporting.

Numerous Audit Adjustments:

2007 - 2 Deficiency: The preparation of the audited financial statements required over forty audit adjustments.

Criteria: Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, states that the auditor can not be relied upon to correct the financial statements to be in accordance with generally accepted accounting principles.

Effect: The unaudited internally generated financial statements were misstated and the organization was unable to correct the statements by themselves.

Recommendation: Develop a plan to correct all financial accounts as soon as possible.

SIGNIFICANT DEFICIENCIES:

2006 - 4 Inter-fund Receivable or Payable Accounts for Transactions Between Funds:

Deficiency: Transactions between funds were recorded using "cash" as the offset.

Criteria: Transactions between funds generally are recorded using "inter-fund receivable" or "inter-fund payable" as the offset.

Effect: The unaudited cash balance was misstated at June 30, 2006, and again at June 30, 2007.

Recommendation: Utilize inter-fund receivable and inter-fund payable accounts to record transactions between funds.

2006 - 5 Record Transactions with Agency for Workforce Innovation:

Deficiency: The unaudited grants revenue, grants receivable and deferred grants revenue used to record transactions between the organization and the Agency for Workforce Innovation (AWI) were incorrect.

Criteria: The amounts recorded as receivables and revenue did not correlate to the amount on the invoice sent to AWI and the amounts recorded as deferred revenue did not correlate to the advances received from AWI.

Effect: The unaudited internally generated financial statements were misstated.

Recommendation: Record the actual amount billed to AWI as a receivable and the related grant revenue and reconcile accounts monthly to ensure that balances remain current.

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

FINANCIAL STATEMENT FINDINGS - continued

SIGNIFICANT DEFICIENCIES:

2006 - 6 Changes in Amounts Paid to Sub-recipients:

Deficiency: Frequently the amount requested for reimbursement by the sub-recipient was not the amount paid to the sub-recipient and the accounting records were not corrected to reflect these changes.

Criteria: Amounts paid to any vendor should be recorded correctly in all accounting records (whether paid by check or EFT or some other means) and changes to invoices submitted by any vendor should be adequately documented along with the reasons for the changes.

Effect: The vendor history in the accounts payable module of the general ledger software indicates that a substantially larger amount was paid to the sub-recipient than was actually paid to them via EFT.

Recommendation: Improve the record keeping of the amounts paid to sub-recipients and to any vendor when an invoice is not paid exactly as submitted.

2007 - 3 Bank Account Reconciliations:

Deficiency: Bank accounts were not reconciled.

Criteria: All bank accounts should be reconciled on a timely basis by a person independent of the cash receipt and cash disbursement functions, as a basic component of a good system of internal control.

Effect: The unaudited internally generated financial statements were misstated.

Recommendation: Prepare bank account reconciliations on a monthly basis.

2007 - 4 Record Electronic Funds Transfer Receipts and Disbursements in General Ledger:

Deficiency: Many transactions completed by Electronic Funds Transfer (EFT), including both receipts and disbursements, were not recorded in the general ledger.

Criteria: All financial transactions, regardless of the means by which they are completed, should be recorded in the general ledger.

Effect: The unaudited internally generated financial statements were misstated.

Recommendation: Develop a good system of internal control regarding receipts and disbursements transacted by EFT that will ensure all amounts are appropriately recorded on a timely basis.

2007 - 5 Capitalize Fixed Asset Additions:

Deficiency: No fixed assets had been capitalized in fiscal year 2007, although two met the criteria for capitalization.

Criteria: The Accounting & Financial Policy and Procedures call for fixed assets with a value greater than \$5,000 to be capitalized.

Effect: The net operating results were misstated by the overstatement of expenses.

Recommendation: Comply with Policy and capitalize fixed asset purchases greater than \$5,000.

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

FINANCIAL STATEMENT FINDINGS - continued

SIGNIFICANT DEFICIENCIES:

2007 - 6 Record Dispositions of Fixed Assets:

Deficiency: The fixed asset subsidiary contained several items (some fully-depreciated) that the organization no longer had in its possession, and was not aware of what had happened to them.

Criteria: All dispositions of fixed assets should be recorded in the fixed asset subsidiary ledger.

Effect: The unaudited internally generated financial statements were misstated. Failure to maintain control of fixed assets through the fixed asset subsidiary ledger could result in misappropriation of assets of the organization.

Recommendation: Develop a system to keep track of fixed assets and record the disposal of fixed assets when it occurs.

2007 - 7 Maintain Accounts Payable Subsidiary Ledger:

Deficiency: The organization did not maintain an accounts payable subsidiary ledger that reconciled to the general ledger.

Criteria: Financial records maintained on the accrual basis of accounting will nearly always include outstanding accounts payable, and the only way to maintain control of those accounts payable is through a subsidiary ledger.

Effect: There were numerous errors in the accounting records surrounding accounts payable, and some of them resulted in over-billing to the Agency for Workforce Innovation for questioned costs.

Recommendation: Maintain a detailed accounts payable subsidiary ledger that is reconciled to the general ledger.

2007 - 8 Correct Estimates to Reflect Updated Information:

Deficiency: The organization did not adjust accruals that had been recorded based on an estimate, after the actual value was determined.

Criteria: Using estimates to record balances and transactions is only acceptable if the actual value is unknown and the key factors and assumptions are reasonable in relation to the financial statements.

Effect: The liability for incentive pay to employees was overstated at year end resulted in over-billing to the Agency for Workforce Innovation.

Recommendation: Correct any estimates used to record balances and transactions, once an actual value is known. Comply with the terms of the contracts with the Agency for Workforce Innovation to only seek reimbursement for costs incurred.

2007 - 9 Segregate Salaries & Wages Expense from Health Insurance Expense:

Deficiency: The organization uses the same general ledger account to record the expense for salaries and wages paid to employees that it does for health insurance premiums paid to a vendor.

Criteria: For the best management of the expenses of an organization, salaries and wages paid to employees should be segregated from expenses related to vendors.

Effect: Payments to employees is distorted in the financial statements.

Recommendation: Use separate general ledger accounts to record the expense for payments to employees for salaries and wages versus the amount paid to vendors for health insurance.

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

FINANCIAL STATEMENT FINDINGS - continued

SIGNIFICANT DEFICIENCIES:

2007 - 10 Temporarily Restricted Grants and Contributions:

Deficiency: The organization received funds for a temporarily restricted grant in fiscal year 2006 from HUBS and has not maintained control over any of the restricted expenditures related to that grant.

Criteria: The terms of restricted grants and contributions require controls be in place to be certain that the money is spent only for the restricted purpose.

Effect: The organization has temporarily restricted net assets that may be misstated.

Recommendation: Develop a system to keep track of the receipt and disbursement of all restricted grants and contributions.

2007 - 11 Journal Entries:

Deficiency: Several of the journal entries recorded were long, confusing, and comprised of multiple purposes within one journal entry.

Criteria: Journal entries should be clear and logical and supported by a concise description.

Effect: Many general ledger accounts were adjusted more than once for the same reason, because it was not clear to the reader that the first adjustment had been made; and the unaudited internally generated financial statements were misstated because of it.

Recommendation: Prepare clear, logical, concise journal entries as a result of reconciliations prepared on a timely basis, to avoid duplication and confusion.

2007 - 12 Recording Transactions in the Wrong Period:

Deficiency: Several adjustments to record or correct transactions were recorded in the general ledger in the wrong period.

Criteria: Transactions should be recorded in the actual period that the revenue was earned and the expense was incurred, in order to prepare the most accurate reflection of the operations of the organization, and comply with generally accepted accounting principles.

Effect: The unaudited internally generated financial statements were misstated because of it.

Recommendation: Record transactions in the general ledger in the period in which they occur.

2007-13 Employee Paid More than Her Authorized Pay Rate:

Deficiency: An employee's pay rate was increased more than the authorized pay increase, resulting in an overpayment to the employee and an over-billing to the Agency for Workforce Innovation (AWI).

Criteria: Each employee should be paid their authorized pay rate for the number of hours reported on the personnel activity reports.

Effect: There are likely questioned costs related to the overpayment to the employee who was paid an amount greater than her authorized pay rate.

Recommendation: Develop a system to ensure appropriate checks to the calculation of employee pay raises and that only authorized pay rates are used in the processing of payroll.

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

FINANCIAL STATEMENT FINDINGS - continued

SIGNIFICANT DEFICIENCIES:

2007 - 14 Maintain Documentation of Approvals of Changes to Employee's Pay:

Deficiency: During the year one employee was over-paid in error; however, in order to correct the error, the employee was subsequently short-paid. No documentation of approvals to make changes in the employee's pay were obtained.

Criteria: Internal controls surrounding payroll include written approval of pay rates and hours paid.

Effect: Failure to obtain written approvals of changes in an employee's pay is an example of overriding internal controls.

Recommendation: Maintain documentation of approvals of changes to an employee's pay.

FEDERAL AWARDS AND STATE PROJECTS FINDINGS

FINDINGS:

2006 - 8 Some Expenditures were Recorded in Incorrect General Ledger Accounts:

Deficiency: Several expenditures tested were not recorded in the general ledger in accordance with the cost allocation plan.

Criteria: The School Readiness and the Voluntary Pre-Kindergarten contracts require that expenditures be recorded in accordance with the cost allocation plan.

Effect: Failing to record expenditures correctly in the general ledger could result in program costs being recorded as administration costs, and vice versa. Also, this could result in costs related to the School Readiness contract being recorded as Voluntary Pre-Kindergarten costs, and vice versa.

Recommendation: The organization should re-evaluate the chart of accounts in relation to required internal and external financial reporting needs and closely review the monthly financial statements to ensure they are correct.

2006 - 9 Inventory Log of Equipment Did Not Contain All Required Components:

Deficiency: The log is missing: a) the contract number of the resources used to acquire the specific equipment, b) the date of acquisition of the equipment, c) at least one piece of equipment, d) some of the correct acquisition costs of the equipment. At least one piece of equipment is duplicated in the log.

Criteria: OMB Circular A-110 defines the requirements of information to maintained in the log.

Effect: Failing to keep the data in this log correctly could result in equipment purchased with federal and state awards being used for an unapproved reason, or even misappropriated.

Recommendation: The log should be updated to include all the necessary details and should be analyzed against purchases to find corrections.

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

FEDERAL AWARDS AND STATE PROJECTS FINDINGS - continued

FINDINGS:

2007 - 7 Maintain Accounts Payable Subsidiary Ledger:

Deficiency: The organization did not maintain an accounts payable subsidiary ledger that reconciled to the general ledger.

Criteria: Financial records maintained on the accrual basis of accounting will nearly always include outstanding accounts payable, and the only way to maintain control of those accounts payable is through a subsidiary ledger.

Effect: There were numerous errors in the accounting records surrounding accounts payable, and some of them resulted in over-billing to the Agency for Workforce Innovation for questioned costs.

Recommendation: Maintain a detailed accounts payable subsidiary ledger that is reconciled to the general ledger.

2007 - 8 Correct Estimates to Reflect Updated Information:

Deficiency: The organization did not adjust accruals that had been recorded based on an estimate, after the actual value was determined.

Criteria: Using estimates to record balances and transactions is only acceptable if the actual value is unknown and the key factors and assumptions are reasonable in relation to the financial statements.

Effect: The liability for bonuses to employees was overstated at year end resulted in over-billing to the Agency for Workforce Innovation for questioned costs.

Recommendation: Correct any estimates used to record balances and transactions, once an actual value is known. Comply with the terms of the contracts with the Agency for Workforce Innovation to only seek reimbursement for costs incurred.

2007-13 Employee Paid More than Her Authorized Pay Rate:

Deficiency: An employee's pay rate was increased more than the authorized pay increase, resulting in an overpayment to the employee and an over-billing to the Agency for Workforce Innovation (AWI).

Criteria: Each employee should be paid their authorized pay rate for the number of hours reported on the personnel activity reports.

Effect: There are likely questioned costs related to the overpayment to the employee who was paid an amount greater than her authorized pay rate.

Recommendation: Develop a system to ensure appropriate checks to the calculation of employee pay raises and that only authorized pay rates are used in the processing of payroll.

2007-15 Inventory Log of Equipment Did Not Agree to Physical Inventory of Equipment:

Deficiency: The physical inventory of equipment identified differences in the inventory log of equipment that were not resolved.

Criteria: OMB Circular A-110 requires that the inventory log of equipment be maintained and that it reflect the equipment acquired under federal and state awards.

Effect: Failing to maintain the accuracy of the inventory log of equipment could result in equipment purchased with federal and state awards being used for an unapproved reason, or even misappropriated.

Recommendation: Develop a system to maintain the inventory log of equipment accurate for additions and disposition of equipment acquired under federal and state awards

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

FEDERAL AWARDS AND STATE PROJECTS FINDINGS - continued

FINDINGS:

- 2007-16 Notify Federal Awarding Agency of Disposal of Equipment Acquired with Federal Funds:
Deficiency: Equipment acquired with federal awards was disposed of without notifying the Agency for Workforce Innovation (AWI).
Criteria: The organization is required to notify AWI whenever disposing of equipment acquired with federal awards.
Effect: There are likely questioned costs related to equipment that has been disposed of without notifying AWI.
Recommendation: Develop a system to maintain the inventory log of equipment accurate for additions and disposition of equipment acquired under federal and state awards that includes notifying the federal awarding agency of the disposal of equipment acquired with federal funds.

FEDERAL AWARDS QUESTIONED COSTS

	<u>Questioned Costs</u>
2007 - 7 <u>Maintain Accounts Payable Subsidiary Ledger:</u> Deficiency: The organization did not maintain an accounts payable subsidiary ledger that reconciled to the general ledger. Criteria: Financial records maintained on the accrual basis of accounting will nearly always include outstanding accounts payable, and the only way to maintain control of those accounts payable is through a subsidiary ledger. Effect: There were numerous errors in the accounting records surrounding accounts payable, and some of them resulted in over-billing to the Agency for Workforce Innovation for questioned costs. Recommendation: Maintain a detailed accounts payable subsidiary ledger that is reconciled to the general ledger.	\$ 34,464
Total - Department of Health & Human Services -	<u>\$ 34,464</u>

STATE PROJECTS QUESTIONED COSTS

	<u>Questioned Costs</u>
2007 - 7 <u>Maintain Accounts Payable Subsidiary Ledger:</u> Deficiency: The organization did not maintain an accounts payable subsidiary ledger that reconciled to the general ledger. Criteria: Financial records maintained on the accrual basis of accounting will nearly always include outstanding accounts payable, and the only way to maintain control of those accounts payable is through a subsidiary ledger. Effect: There were numerous errors in the accounting records surrounding accounts payable, and some of them resulted in over-billing to the Agency for Workforce Innovation for questioned costs. Recommendation: Maintain a detailed accounts payable subsidiary ledger that is reconciled to the general ledger.	\$ 41,252
Total - Florida Agency for Workforce Innovation -	<u>\$ 41,252</u>

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2007

FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES:

2006 - 1 Approval on Electronic Funds Transfers:

Deficiency: The fiscal agent initiated electronic funds transfers (EFTs) to a sub-recipient without notifying the Executive Director.

Criteria: With no signatures of approval required in order to initiate EFTs, the fiscal agent should notify the Executive Director when EFTs are made, the amount, for which program, and to whom.

Effect: Failure to require the fiscal agent to notify the Executive Director when EFTs are initiated could result in fraudulent disbursements.

Recommendation: All EFTs initiated by the fiscal agent should be supported by notification of the Executive Director.

2006 - 2 Record Audit Adjustments:

Deficiency: The audit adjustments from fiscal year 2005 were not recorded in the general ledger.

Criteria: The adjustments proposed for fiscal year 2005 were recorded in the audited financial statements.

Effect: With none of the fiscal year 2005 audit adjustments recorded, the monthly internal financial statements were misstated for the fixed asset additions, the related accumulated depreciation and any additional depreciation expense in fiscal year 2006. The liability for paid leave time was not recorded and the fund balance was not correct.

Recommendation: All audit adjustments should be recorded in the general ledger.

2006 - 3 Pre-merger Balances on General Ledger:

Deficiency: The balances from before the 1-1-05 merger of the three former coalitions were left remaining on the general ledger.

Criteria: Balances that reflect asset, liabilities, net assets, revenues and expenses of the organization should be recorded in the general ledger - others should not.

Effect: The old balances of the former coalitions could materially misstate the financial statements.

Recommendation: Remove the old balances from before the 1-1-05 merger from the general ledger.

2006 - 4 Inter-fund Receivable or Payable Accounts for Transactions Between Funds:

Deficiency: Transactions between funds were recorded using "cash" as the offset.

Criteria: Transactions between funds generally are recorded using "inter-fund receivable" or "inter-fund payable" as the offset.

Effect: The unaudited cash balance was misstated at June 30, 2006.

Recommendation: Utilize inter-fund receivable and inter-fund payable accounts to record transactions between funds.

2006 - 5 Record Transactions with Agency for Workforce Innovation:

Deficiency: The unaudited grants revenue, grants receivable and deferred grants revenue used to record transactions between the organization and the Agency for Workforce Innovation (AWI) were incorrect.

Criteria: The amounts recorded as receivables and revenue did not correlate to the amount on the invoice sent to AWI and the amounts recorded as deferred revenue did not correlate to the advances received from AWI.

Effect: The unaudited internally generated financial statements were misstated.

Recommendation: Record the actual amount billed to AWI as a receivable and the related grant revenue and reconcile accounts monthly to ensure that balances remain current.

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2007

FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2006 - 6 Changes in Amounts Paid to Sub-recipients:

Deficiency: Frequently the amount requested for reimbursement by the sub-recipient was not the amount paid to the sub-recipient and the accounting records were not corrected to reflect these changes.

Criteria: Amounts paid to any vendor should be recorded correctly in all accounting records (whether paid by check or EFT or some other means) and changes to invoices submitted by any vendor should be adequately documented along with the reasons for the changes.

Effect: The vendor history in the accounts payable module of the general ledger software indicates that a substantially larger amount was paid to the sub-recipient than was actually paid to them via EFT.

Recommendation: Improve the record keeping of the amounts paid to sub-recipients and to any vendor when an invoice is not paid exactly as submitted.

2006 - 7 Reimbursement for All Allowable Costs Incurred:

Deficiency: Some allowable costs were not billed to AWI for reimbursement.

Criteria: AWI will only reimburse costs submitted to them.

Effect: The organization has excess expenses over revenues from operations.

Recommendation: Analyze billings and expenditures to determine if further reimbursement can be received.

FEDERAL AWARDS AND STATE PROJECTS FINDINGS AND QUESTIONS COSTS

FINDINGS:

2006 - 8 Some Expenditures were Recorded in Incorrect General Ledger Accounts:

Deficiency: Several expenditures tested were not recorded in the general ledger in accordance with the cost allocation plan.

Criteria: The School Readiness and the Voluntary Pre-Kindergarten contracts require that expenditures be recorded in accordance with the cost allocation plan.

Effect: Failing to record expenditures correctly in the general ledger could result in program costs being recorded as administration costs, and vice versa. Also, this could result in costs related to the School Readiness contract being recorded as Voluntary Pre-Kindergarten costs, and vice versa.

Recommendation: The organization should re-evaluate the chart of accounts in relation to required internal and external financial reporting needs and closely review the monthly financial statements to ensure they are correct.

2006 - 9 Inventory Log of Equipment Did Not Contain All Required Components:

Deficiency: The log is missing: a) the contract number of the resources used to acquire the specific equipment, b) the date of acquisition of the equipment, c) at least one piece of equipment, d) some of the correct acquisition costs of the equipment. At least one piece of equipment is duplicated in the log.

Criteria: OMB Circular A-110 defines the requirements of information to maintained in the log.

Effect: Failing to keep the data in this log correctly could result in equipment purchased with federal and state awards being used for an unapproved reason, or even misappropriated.

Recommendation: The log should be updated to include all the necessary details and should be analyzed against purchases to find corrections.

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

MANAGEMENT COMMENT

- 2006 - 1 Approval on Electronic Funds Transfers:
Finding was resolved prior to 2007 audit.
- 2006 - 2 Record Audit Adjustments:
Finding was resolved prior to 2007 audit.
- 2006 - 3 Pre-merger Balances on General Ledger:
Finding was resolved prior to 2007 audit.
- 2006 - 4 Inter-fund Receivable or Payable Accounts for Transactions Between Funds:
See inclusion in Management's Response and Corrective Action Plan dated March 21, 2008.
- 2006 - 5 Record Transactions with Agency for Workforce Innovation:
See inclusion in Management's Response and Corrective Action Plan dated March 21, 2008.
- 2006 - 6 Changes in Amounts Paid to Sub-recipients:
See inclusion in Management's Response and Corrective Action Plan dated March 21, 2008.
- 2006 - 7 Reimbursement for All Allowable Costs Incurred:
Finding was resolved prior to 2007 audit.
- 2006 - 8 Some Expenditures were Recorded in Incorrect General Ledger Accounts:
See inclusion in Management's Response and Corrective Action Plan dated March 21, 2008.
- 2006 - 9 Inventory Log of Equipment Did Not Contain All Required Components:
See inclusion in Management's Response and Corrective Action Plan dated March 21, 2008.

CURRENT STATUS

- 2006 - 1 Approval on Electronic Funds Transfers:
No findings in the 2007 audit.
- 2006 - 2 Record Audit Adjustments:
No findings in the 2007 audit.
- 2006 - 3 Pre-merger Balances on General Ledger:
No findings in the 2007 audit.
- 2006 - 4 Inter-fund Receivable or Payable Accounts for Transactions Between Funds:
Included as a finding in the 2007 audit.
- 2006 - 5 Record Transactions with Agency for Workforce Innovation:
Included as a finding in the 2007 audit.

EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

CURRENT STATUS - continued

2006 - 6 Changes in Amounts Paid to Sub-recipients:

Included as a finding in the 2007 audit.

2006 - 7 Reimbursement for All Allowable Costs Incurred:

No findings in the 2007 audit.

2006 - 8 Some Expenditures were Recorded in Incorrect General Ledger Accounts:

Included as a finding in the 2007 audit.

2006 - 9 Inventory Log of Equipment Did Not Contain All Required Components:

Included as a finding in the 2007 audit.

ROGERS WOOD HILL STARMAN & GUSTASON

PROFESSIONAL ASSOCIATION

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INDEPENDENT AUDITOR'S LETTER TO MANAGEMENT

Board of Directors
Early Learning Coalition of Southwest Florida, Inc.
Fort Myers, Florida

We have audited the financial statements of Early Learning Coalition of Southwest Florida, Inc. as of and for the year ended June 30, 2007, and have issued our report thereon dated March 21, 2008.

We conducted our audit 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. We have issued our Independent Auditor's Report on Compliance and Internal Control over Financial Reporting, Independent Auditor's Report on Compliance and Internal Control over Compliance to each Major Federal Program and State Project, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 21, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, Rules of the Auditor General, which requires disclosure in the management letter of violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In addition, for matters that are inconsequential, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements or major state projects; (2) improper expenditures or illegal acts that would not materially affect the financial statements or major state projects; (3) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed the following matters required to be disclosed:

ACCOUNTING STAFF LEVEL OF SKILL AND MANAGEMENT OVERSIGHT WAS NOT ADEQUATE

For most of the year, the staff assigned to carry out the accounting functions of the organization was not qualified to assume the responsibility for the position, and management did not provide the oversight necessary to compensate for the deficiency. The fiscal director died in October 2006 and the accounts payable clerk was left to carry on until the next fiscal director was hired in late April 2007. The Organization contracted with the employer of the staff to provide all accounting services, so the staff was not a direct employee of the Organization and was not familiar with the operations of the Organization, i.e., when changes in the operations occurred, the staff did not understand the impact on accounting that the changes implied. The staff was not knowledgeable about generally accepted accounting principles, and no one who did have knowledge of generally accepted accounting principles was involved in the accounting process. The staff was not well trained in operating the accounting software and could not perform basic functions like record journal entries to reclassify transactions, analyze or change expense allocations of vendor payments through accounts payable, prepare bank or other account reconciliations, or prepare management reports.

ACCOUNTING STAFF LEVEL OF SKILL AND MANAGEMENT OVERSIGHT WAS NOT ADEQUATE - continued

The schedule of findings and questioned costs related to the year ended June 30, 2006, included nine significant deficiencies related to the financial statements and two significant deficiencies related to the federal and state awards. The staff was not capable of addressing most of the significant deficiencies that were found, and those deficiencies continued on into the year ended June 30, 2007. In the final months of the year ended June 30, 2007, the Organization ended the contract with the company that provided the accounting services and hired an in-house fiscal director. We recommend that the Organization ensure that staffing is appropriate to achieve the goals of strong financial internal controls around processing financial data as well as to provide timely, accurate and meaningful financial reporting.

NUMEROUS AUDIT ADJUSTMENTS

The preparation of the audited financial statements required over forty audit adjustments. The Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, states that the auditor can not be relied upon to correct the financial statements to be in accordance with generally accepted accounting principles. The volume of audit adjustments required indicates that the Organization was not able to correct the financial statements by themselves. We recommend that the Organization develop a plan to correct all financial accounts as soon as possible.

BANK ACCOUNT RECONCILIATIONS

The bank accounts were not reconciled at June 30, 2007, and had not been reconciled for many months before that. The accurate and timely reconciliation of all bank accounts by a person independent of the cash receipts and cash disbursement functions is a basic component of a good system of internal control. We recommend that all bank accounts are reconciled on a monthly basis by a person independent of the cash receipts and cash disbursement functions.

RECORD ELECTRONIC FUNDS TRANSFER RECEIPTS AND DISBURSEMENTS IN THE GENERAL LEDGER

We noted that many transactions completed by electronic funds transfer (EFT), including both receipts and disbursements, were not recorded in the general ledger. However, all financial transactions, regardless of the means by which they are completed, should be recorded in the general ledger, otherwise the financial records are incomplete and do not present a true and accurate reflection of the financial status of the Organization. We recommend that the Organization develop a good system of internal control around receipts and disbursements transacted by EFT that will ensure all amounts are appropriately recorded on a timely basis.

CAPITALIZE FIXED ASSETS ADDITIONS

During the year there were two acquisitions of fixed assets that met the Organization's policy for capitalization that had not been capitalized. Failure to capitalize fixed assets results in the Organization's expenses being overstated for the period and also misstates future accounting periods which should recognize some portion of that expense. We recommend that the Organization comply with generally accepted accounting principles and its own policy and capitalize and depreciate fixed asset purchases greater than \$5,000.

RECORD DISPOSITIONS OF FIXED ASSETS

The fixed asset subsidiary ledger contained several items that the Organization no longer had in its possession, and that they were not aware of what had happened to them. Failure to maintain control of fixed assets through the fixed asset subsidiary ledger could result in misappropriation of assets of the organization. We recommend that the Organization develop a system to keep track of fixed assets and record the disposal of fixed assets when it occurs.

MAINTAIN ACCOUNTS PAYABLE SUBSIDIARY LEDGER

At the end of the year there was no complete list of accounts payable, i.e., a subsidiary ledger, that reconciled to the general ledger. The Organization was in the process of migrating to an in-house accounting function and did not record all open invoices into the accounts payable system. The only way to maintain good control over the liabilities of the Organization is through an accounts payable subsidiary ledger, whether that subsidiary ledger is generated by the accounts payable system of the accounting software or whether it is generated manually. There were numerous errors in the accounting records surrounding accounts payable, and some of them resulted in over-billing to the Agency for Workforce Innovation for questioned costs. We recommend that the Organization maintain a detailed accounts payable subsidiary ledger that is reconciled to the general ledger.

CORRECT ESTIMATES TO REFLECT UPDATED INFORMATION

Some accruals were recorded at the end of the year using estimates of the amounts that would be paid. After the actual value of the liability was determined, a lesser amount was paid, but the original accrued estimate was not corrected. The accrued expenses were overstated, and that resulted in an over-billing to the Agency for Workforce Innovation for questioned costs. We recommend that the Organization correct any estimates used to record balances and transactions, once an actual value is known.

SEGREGATE SALARIES & WAGES EXPENSE FROM HEALTH INSURANCE EXPENSE

The Organization uses the same general ledger account to record the expense for salaries and wages paid to employees that it does for health insurance premiums paid to a vendor. By recording the costs together, it is more difficult to read any financial reports prepared from the accounting system and identify the true cost of salaries and wages paid to employees. We recommend that the Organization use separate general ledger accounts to record the expense for payments to employees for salaries and wages versus the amount paid to vendors for health insurance.

TEMPORARILY RESTRICTED GRANTS AND CONTRIBUTIONS

In the prior year the Organization received funds for a temporarily restricted grant from HUBS through Florida Gulf Coast University. In the current year the Organization has not maintained control over any of the restricted expenditures related to that grant. The terms of the grant require that the funds be spent only for their restricted purpose, however the Organization is uncertain whether the funds were spent in compliance with the restricted purpose or not. The temporarily restricted net assets may be misstated. We recommend that the Organization develop a system to keep track of the receipt and disbursement of all restricted grants and contributions and their related expenditures.

JOURNAL ENTRIES

Several of the journal entries recorded were long, confusing, and comprised of multiple purposes within one journal entry. In order to provide the most meaningful documentation, journal entries should be clear and logical and supported by a concise description. Many general ledger accounts were adjusted more than once for the same reason, because it was not clear to the reader that the first adjustment had been made. We recommend that the Organization prepare clear, logical, concise journal entries as a result of reconciliations prepared on a timely basis, to avoid duplication and confusion.

RECORDING TRANSACTIONS IN THE WRONG PERIOD

Generally transactions should be recorded in the actual period that the revenue was earned and the expense was incurred, however we noted that several adjustments to record or correct transactions were recorded in the general ledger in the wrong period. As a result, the financial records do not present the most accurate reflection of the operations of the Organization and do not comply with generally accepted accounting principles on an interim basis. We recommend that the Organization record transactions in the general ledger in the period in which they occur.

EMPLOYEE PAID AT AN UNAUTHORIZED PAY RATE

One employee's pay rate was increased more than the authorized pay increase. This resulted in an overpayment to the employee and an over-billing to the Agency for Workforce Innovation for likely questioned costs. The terms of the federal and state awards dictate that each employee should be paid their authorized pay rate for the number of hours reported on their personnel activity reports. We recommend that the Organization develop a system to ensure that appropriate checks are in place in the calculation of employee pay raises and that only authorized pay rates are used in the processing of payroll.

MISSING DOCUMENTATION OF APPROVALS OF CHANGES TO AN EMPLOYEE'S PAY

During the year one employee was over-paid in error; then, in order to correct the error, the employee was subsequently short-paid. In reviewing the employee's personnel file and in reviewing the support for that payroll, there was no documentation to support the approval of any change to that employee's pay. Individuals who process payroll should not be allowed to make any changes without written approval, and that written approval should be maintained to support the change for future review. Failure to obtain written approvals of changes in an employee's pay is an example of overriding internal controls. We recommend that the Organization require documentation of the approvals for changes in any employee's pay and require that the documentation be maintained.

INVENTORY LOG OF EQUIPMENT DID NOT AGREE TO PHYSICAL INVENTORY OF EQUIPMENT

We noted that the physical inventory of equipment identified differences in the inventory log of equipment that were not resolved. OMB Circular A-110 Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations, requires that the inventory log of equipment be maintained and that it reflect the equipment acquired under federal and state awards. Failing to maintain the accuracy of the inventory log of equipment could result in equipment purchased with federal and state awards being used for an unapproved reason, or even misappropriated. We recommend that the Organization develop a system to maintain the inventory log of equipment accurate for additions and disposition of equipment acquired under federal and state awards.

**NOTIFY FEDERAL AWARDING AGENCY OF DISPOSAL OF EQUIPMENT ACQUIRED WITH
WITH FEDERAL FUNDS**

Equipment acquired with federal awards was disposed of without notifying the Agency for Workforce Innovation (AWI). Because the Organization is required to notify AWI whenever disposing of equipment acquired with federal awards, there are likely questioned costs related to that equipment. We recommend that the Organization develop a system to maintain the inventory log of equipment accurate for the additions and disposition of equipment acquired under federal and state awards that includes notifying the federal awarding agency of the disposal of equipment acquired with federal funds.

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

SOME EXPENDITURES WERE CHARGED TO INCORRECT GENERAL LEDGER ACCOUNTS

Early Learning Coalition of Southwest Florida, Inc. has an approved cost allocation plan which provides a method for charging expenditures (invoices, expense reimbursements, and payroll) for direct costs and for indirect costs in the general ledger. We selected several invoices, expense reimbursements, and payroll disbursements for testing. Several of these expenditures were not charged to the general ledger accounts in accordance with the cost allocation plan. Failing to record expenditures correctly in the general ledger could result in program costs being recorded as administration costs, and vice versa. Also, this could result in costs related to the School Readiness contract being recorded as Voluntary Pre-kindergarten costs, and vice versa. These errors are a consequence of an inadequate chart of accounts, lack of communication of the chart of accounts, inconsistency in the use of the chart of accounts, and inconsistency in the application of allocation methods. Also, a very limited number of people understood the detail behind the financial statements. We recommend that the Organization re-evaluate the chart of accounts in relation to required internal and external financial reporting needs. Additionally, members of management should be provided with financial reports of their individual areas, be trained in how to read these reports, and be held accountable for their expenditures compared to budget.

THE INVENTORY LOG OF EQUIPMENT DID NOT CONTAIN ALL REQUIRED COMPONENTS

The Organization has prepared an inventory log of all the equipment it has purchased as well as the equipment that was purchased by sub-recipients with federal and state grant awards. However, the log does not contain quite all of the information required by OMB Circular A-110. Specifically, the log is missing the contract number of the resources used to acquire the specific equipment. The log is missing the date of the acquisition. In some instances the log has an incorrect amount for the acquisition cost. At least one duplicate of the same equipment is listed in the log. And at least one piece of equipment is missing from the log. Failure to keep the data in this log correctly could result in equipment purchased with federal and state awards being used for an unapproved reason, or even misappropriated. This log was being maintained separately from the accounting function and no reconciliation between the two functions was performed. We recommend that the accounting records be used to update the missing detail in the log and that a periodic reconciliation be performed in order to ensure that the log remains current.

NO INTER-FUND RECEIVABLE OR PAYABLE ACCOUNTS WERE USED TO RECORD TRANSACTIONS BETWEEN FUNDS

We noted that the balance in the cash account on the general ledger did not equal the balance in the cash account that was reported in the bank reconciliation at June 30, 2006. Further review indicated that several transactions were recorded in the cash account subsequent to the preparation of the bank reconciliation. However, none of the transactions were made to record disbursements or deposits. The transactions were made to reclassify expenses between funds. As a result, the cash balance was overstated by nearly \$62,000. Generally these kinds of transactions are recorded using an inter-fund receivable or inter-fund payable account. The current chart of accounts does not include these accounts. We recommend that the Organization utilize inter-fund receivable and inter-fund payable accounts to record transactions between funds.

In the audit for the year ended June 30, 2007, we noted that the inter-fund receivable and inter-fund payable accounts had been added to the chart of accounts and that four transactions had been recorded using these accounts. However, most transactions to reclassify expenses between funds used the cash account as the off-set and the cash account was again misstated. We recommend that the Organization discontinue the use of the cash account as the off-set for transactions between funds.

BALANCES TO RECORD TRANSACTIONS BETWEEN THE ORGANIZATION AND THE AGENCY FOR WORKFORCE INNOVATION WERE NOT CORRECT

The Organization recorded a grant receivable balance and the related grant revenue each month. Additionally, because some payments for the School Readiness and Voluntary Pre-Kindergarten contracts were advanced to the Organization prior to the services being rendered, the Organization recorded deferred grant revenue for these advances from the Agency for Workforce Innovation (AWI). However, the amounts recorded did not always reflect the amount that the Organization billed to AWI. Additionally, the amounts were not corrected to reflect the amount actually paid to the Organization by AWI. As a result, all of these balances were overstated at June 30, 2006. We noted that this same misstatement existed at June 30, 2007. We recommend that the Organization record the actual amount billed to AWI as a receivable and the related grant revenue and that the Organization reconcile its accounts monthly to ensure that balances remain current.

CHANGES IN THE AMOUNTS PAID TO SUB-RECIPIENTS WERE NOT RECORDED CORRECTLY

Each month the sub-recipients send an invoice to the Organization requesting reimbursement of the expenditures they made in relation to the School Readiness and Voluntary Pre-kindergarten contracts. The Organization maintains control over these invoices by recording them in the accounts payable module of the general ledger system. However, on numerous occasions the amount requested by the sub-recipient was not the amount that was paid to the sub-recipient. Sometimes the change was only made to correct the "OCA" (other cost accumulator) used by the sub-recipient. Sometimes the change was to the total dollar amount paid. However, the Organization did not maintain clear documentation regarding these changes and the sub-recipient did not always receive notification regarding the specifics of these changes. Also, the Vendor History in the Organization's general ledger software is overstated for amounts paid to a sub-recipient. This resulted from using the accounts payable system to record the initial invoice received from the sub-recipient but not updating the accounts payable system when a change in that invoice was made. Since the actual disbursement to the sub-recipients was in the form of an electronic funds transfer (EFT), the accounts payable system did not have to be correct to control the amount really paid to the sub-recipients. So the Vendor History in the general ledger system does not agree with the actual amount paid to the sub-recipients.

Board of Directors
Early Learning Coalition of Southwest Florida, Inc.
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CHANGES IN THE AMOUNTS PAID TO SUB-RECIPIENTS WERE NOT RECORDED CORRECTLY - continued

We recommend that the Organization improve the controls surrounding record-keeping of the amounts paid to reimburse the sub-recipients. There should be clear documentation maintained when any invoice is "short paid" or when any other change is made to any vendor invoice. Because of the complexity and large dollar amount of the invoices from the sub-recipients, it is imperative that clear documentation be maintained and also communicated to the sub-recipients. Even though the sub-recipients are actually paid through an EFT, the detail in the accounts payable system, and, therefore, the Vendor History, should correctly reflect the payments to the sub-recipients.

This management letter is intended solely for the information of Early Learning Coalition of Southwest Florida, Inc. and management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Rogers Wood Hill Starman & Gustason, PA

ROGERS WOOD HILL STARMAN & GUSTASON, P.A.
Certified Public Accountants
March 21, 2008



EARLY LEARNING COALITION OF SOUTHWEST FLORIDA, INC.

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TOLL FREE: 1-866-863-1366 ★Office Hours: 8am-5pm Monday - Friday

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN
March 21, 2008

The Early Learning Coalition of Southwest Florida respectfully submits the following corrective action plan for the year ended 2007.

Name and address of independent public accounting firm: Rogers, Wood, Hill, Starman and Gustason, 4099 Tamiami Trail North, Suite 400, Naples, FL 34103

Audit period: July 1, 2006 – June 30, 2007

The findings from the March 21, 2008 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES:

- 2007-1 Provide Adequate Staffing and Oversight for Accounting Functions:
Deficiency: For most of the year, the staff assigned to carry out the daily accounting functions of the organization was not familiar with the operations of the organization, was not knowledgeable about generally accepted accounting principles, was not trained in operating the accounting software used by the organization, and did not provide reports that met the needs of the organization, both internally and externally. Management did not provide the oversight necessary to compensate for the deficiency.
Criteria: Accounting staff should have the appropriate skills to successfully process the financial data of the organization. And the accounting system should be designed to provide strong internal controls and result in financial reporting that is accurate and informative, for the management of the organization as well as for external reporting requirements.
Effect: The unaudited internally generated financial statements were misstated and the organization was unable to correct the statements by themselves.
Recommendation: Ensure that staffing is appropriate to achieve the goals of strong financial internal controls around processing financial data as well as to provide timely, accurate and meaningful financial reporting.
Action Taken: We concur with the recommendation, and have hired a fiscal director since April 2007. We have also brought the accounting function in-house for better financial internal controls. The fiscal director is responsible for providing timely, accurate and meaningful financial reports.

2007-2

Numerous Audit Adjustments:

Deficiency: The preparation of the audited financial statements required over forty audit adjustments.

Criteria: Statement on Auditing Standards (SAS) No. 112, Communicating Internal Control Related Matters Identified in an Audit, states that the auditor can not be relied upon to correct the financial statements to be in accordance with generally accepted accounting principles.

Effect: The unaudited internally generated financial statements were misstated and the organization was unable to correct the statements by themselves.

Recommendation: Develop a plan to correct all financial accounts as soon as possible.

Action Taken: We concur with the recommendation, and have bought the Saga MIP Fund Accounting financial system to process the accounting function in-house. We have changed the structure of the general ledger to correct all financial accounts. The new structure helps the ease of reconciliation and processing of accounting entries. All financial accounts are being reconciled monthly.

SIGNIFICANT DEFICIENCIES:

2006-4

Inter-fund Receivable or Payable Accounts for Transactions between Funds:

Deficiency: Transactions between funds were recorded using "cash" as the offset.

Criteria: Transactions between funds generally are recorded using "inter-fund receivable" or "inter-fund payable" as the offset.

Effect: The unaudited cash balance was misstated at June 30, 2006, and again at June 30, 2007.

Recommendation: Utilize inter-fund receivable and inter-fund payable accounts to record transactions between funds.

Action Taken: We concur with the recommendation, and have setup the inter-fund receivable and inter-fund payable accounts to record transactions between funds. The two accounts we have setup are "Due from other funds" and "Due to other funds". This finding is considered resolved.

2006-5

Record Transactions with Agency for Workforce Innovation:

Deficiency: The unaudited grants revenue, grants receivable and deferred grants revenue used to record transactions between the organization and the Agency for Workforce Innovation (AWI) was incorrect.

Criteria: The amounts recorded as receivables and revenue did not correlate to the amount on the invoice sent to AWI and the amounts recorded as deferred revenue did not correlate to the advances received from AWI.

Effect: The unaudited internally generated financial statements were misstated.

Recommendation: Record the actual amount billed to AWI as a receivable and the related grant revenue and reconcile accounts monthly to ensure that balances remain current.

Action Taken: We concur with the recommendation, and have setup monthly closing procedure to record revenue, receivable and deferred revenue. The fiscal director is responsible for ensuring that actual amount billed to AWI is reconciled monthly. This finding is considered resolved.

- 2006-6 Changes in Amounts Paid to Sub-recipients:
Deficiency: Frequently the amount requested for reimbursement by the sub-recipient was not the amount paid to the sub-recipient and the accounting records were not corrected to reflect these changes.
Criteria: Amounts paid to any vendor should be recorded correctly in all accounting records (whether paid by check or EFT or some other means) and changes to invoices submitted by any vendor should be adequately documented along with the reasons for the changes.
Effect: The vendor history in the accounts payable module of the general ledger software indicates that a substantially larger amount was paid to the sub-recipient than was actually paid to them via EFT.
Recommendation: Improve the record keeping of the amounts paid to sub-recipients and to any vendor when an invoice is not paid exactly as submitted.
Action Taken: We concur with the recommendation, and have setup a control log of all EFT disbursements and all EFT disbursements are recorded through the accounts payable module of the financial system. This process allows for proper recording of reimbursement to sub-recipient and expenditures are properly recorded to the general ledger. This finding is considered resolved.
- 2007-3 Bank Account Reconciliations:
Deficiency: Bank accounts were not reconciled.
Criteria: All bank accounts should be reconciled on a timely basis by a person independent of the cash receipt and cash disbursement functions, as a basic component of a good system of internal control
Effect: The unaudited internally generated financial statements were misstated.
Recommendation: Prepare bank account reconciliations on a monthly basis.
Action Taken: We concur with the recommendation, and have setup a procedure to reconcile the bank accounts on a monthly basis. The bank accounts have been reconciled up-to-date.
- 2007-4 Record Electronic Funds Transfer Receipts and Disbursements in General Ledger:
Deficiency: Many transactions completed by Electronic Funds Transfer (EFT), including both receipts and disbursements, were not recorded in the general ledger.
Criteria: All financial transactions, regardless of the means by which they are completed, should be recorded in the general ledger.
Effect: The unaudited internally generated financial statements were misstated.
Recommendation: Develop a good system of internal control regarding receipts and disbursements transacted by EFT that will ensure all amounts are appropriately recorded on a timely basis.
Action Taken: We concur with the recommendation, and have setup a control log of all EFT disbursements and all EFT disbursements are recorded through the accounts payable module of the financial system. EFT receipts are recorded on a daily basis based on the receipts of the EFT reports. The procedure to reconcile the bank accounts on a monthly basis will ensure all amounts are appropriately recorded.

- 2007-5 Capitalize Fixed Asset Additions:
Deficiency: No fixed assets had been capitalized in fiscal year 2007, although two met the criteria for capitalization.
Criteria: The Accounting & Financial Policy and Procedures call for fixed assets with a value greater than \$5,000 to be capitalized.
Effect: The net operating results were misstated by the overstatement of expenses.
Recommendation: Comply with Policy and capitalize fixed asset purchases greater than \$5,000.
Action Taken: We concur with the recommendation, and it will be implemented as soon as possible.
- 2007-6 Record Dispositions of Fixed Assets:
Deficiency: The fixed asset subsidiary contained several items (some fully-depreciated) that the organization no longer had in its possession, and was not aware of what had happened to them.
Criteria: All dispositions of fixed assets should be recorded in the fixed asset subsidiary ledger.
Effect: The unaudited internally generated financial statements were misstated. Failure to maintain control of fixed assets through the fixed asset subsidiary ledger could result in misappropriation of assets of the organization.
Recommendation: Develop a system to keep track of fixed assets and record the disposal of fixed assets when it occurs.
Action Taken: We concur with the recommendation, and it will be implemented as soon as possible.
- 2007-7 Maintain Accounts Payable Subsidiary Ledger:
Deficiency: The organization did not maintain an accounts payable subsidiary ledger that reconciled to the general ledger.
Criteria: Financial records maintained on the accrual basis of accounting will nearly always include outstanding accounts payable, and the only way to maintain control of those accounts payable is through a subsidiary ledger.
Effect: There were numerous errors in the accounting records surrounding accounts payable, and some of them resulted in over-billing to the Agency for Workforce Innovation for questioned costs.
Recommendation: Maintain a detailed accounts payable subsidiary ledger that is reconciled to the general ledger.
Action Taken: We concur with the recommendation, and have bought the Saga MIP Fund Accounting financial system to process the accounting function in-house. We have changed the structure of the general ledger to correct all financial accounts. The new structure helps the ease of reconciliation and processing of accounting entries. An accounts payable module was purchased to help maintain a detailed accounts payable subsidiary ledger that is reconciled to the general ledger.
- 2007-8 Correct Estimated to Reflect Updated Information:
Deficiency: The organization did not adjust accruals that had been recorded based on an estimate, after the actual value was determined.

Criteria: Using estimates to record balances and transactions is only acceptable if the actual value is unknown and the key factors and assumptions are reasonable in relation to the financial statements.

Effect: The liability for incentive to employees was overstated at year end resulted in over-billing to the Agency for Workforce Innovation.

Recommendation: Correct any estimates used to record balances and transactions, once an actual value is known. Comply with the terms of the contracts with the Agency for Workforce Innovation to only seek reimbursement for costs incurred.

Action Taken: We concur with the recommendation, and have setup monthly closing procedure to reconcile all balance sheet accounts. The fiscal director was hired to perform the accounting function in-house for better financial internal controls.

2007-9

Segregate Salaries & Wages Expense from Health Insurance Expense:

Deficiency: The organization uses the same general ledger account to record the expense for salaries and wages paid to employees that it does for health insurance premiums paid to a vendor.

Criteria: For the best management of the expenses of an organization, salaries and wages paid to employees should be segregated from expenses related to vendors.

Effect: Payments to employees is distorted in the financial statements.

Recommendation: Use separate general ledger accounts to record the expense for payments to employees for salaries and wages versus the amount paid to vendors for health insurance.

Action Taken: We concur with the recommendation, and have setup two separate general ledger accounts for salaries and wages and health insurance. We have been recording the expenses separately since the start of the new fiscal year.

2007-10

Temporarily Restricted Grants and Contributions:

Deficiency: The organization received funds for a temporarily restricted grant in fiscal year 2006 from HUBS and has not maintained control over any of the restricted expenditures related to that grant.

Criteria: The terms of restricted grants and contributions require controls be in place to be certain that the money is spent only for the restricted purpose.

Effect: The organization has temporarily restricted net assets that may be misstated.

Recommendation: Develop a system to keep track of the receipt and disbursement of all restricted grants and contributions.

Action Taken: We concur with the recommendation, and have setup a control log of all receipts and disbursements through the accounts receivable and accounts payable modules of the financial system. The procedure to reconcile the bank statement on a monthly basis will ensure all amounts are appropriately recorded.

2007-11

Journal Entries:

Deficiency: Several of the journal entries recorded were long, confusing, and comprised of multiple purposes within one journal entry.

Criteria: Journal entries should be clear and logical and supported by a concise description.

Effect: Many general ledger accounts were adjusted more than once for the same reason, because it was not clear to the reader that the first adjustment had been made;

and the unaudited internally generated financial statements were misstated because of it.

Recommendation: Prepare clear, logical, concise journal entries as a result of reconciliations prepared on a timely basis, to avoid duplication and confusion.

Action Taken: We concur with the recommendation, and have changed the structure of the general ledger to eliminate the additional required journal entry lines. The new structure helps the ease of reconciliation, processing of accounting entries and will avoid duplication and confusion.

2007-12 Recording Transactions in the Wrong Period:

Deficiency: Several adjustments to record or correct transactions were recorded in the general ledger in the wrong period.

Criteria: Transactions should be recorded in the actual period that the revenue was earned and the expense was incurred, in order to prepare the most accurate reflection of the operations of the organization, and comply with generally accepted accounting principles.

Effect: The unaudited internally generated financial statements were misstated because of it.

Recommendation: Record transactions in the general ledger in the period in which they occur.

Action Taken: We concur with the recommendation, and have bought the Saga MIP Fund Accounting financial system to process the accounting function in-house. We have setup the financial system to automatically close the accounting period to disallow posting into the wrong period without prior approval.

2007-13 Employee Paid More than Her Authorized Pay Rate:

Deficiency: An employee's pay rate was increased more than the authorized pay increase, resulting in an overpayment to the employee and an over-billing to the Agency for Workforce Innovation (AWI).

Criteria: Each employee should be paid their authorized pay rate for the number of hours reported on the personnel activity reports.

Effect: There are likely questioned costs related to the overpayment to the employee who was paid an amount greater than her authorized pay rate.

Recommendation: Develop a system to ensure appropriate checks to the calculation of employee pay raises and that only authorized pay rates are used in the processing of payroll.

Action Taken: We concur with the recommendation, and have setup individual employee personnel files. Annually, staff are receiving their individual salary and benefits report to verify their information. Additionally, bi-weekly payroll reports are reviewed by the director of operation for accuracy.

2007-14 Maintain Documentation of Approvals of Changes to Employee's Pay:

Deficiency: During the year one employee was over-paid in error; however, in order to correct the error, the employee was subsequently short-paid. No documentation of approvals to make changes in the employee's pay was obtained.

Criteria: Internal controls surrounding payroll include written approval of pay rates and hours paid.

Effect: Failure to obtain written approvals of changes in an employee's pay is an example of overriding internal controls.

Recommendation: Maintain documentation of approvals of changes to an employee's pay.

Action Taken: We concur with the recommendation, and have setup individual employee personnel files to maintain approvals of changes to employee's pay. We have created an "Authorization Pay Changed Form" for approval of changes to an employee's pay. This will ensure that any changes will be documented prior to making any changes to an employee's pay.

FEDERAL AWARDS AND STATE PROJECTS FINDINGS

2006-8

Some Expenditures were Recorded in Incorrect General Ledger Accounts:

Deficiency: Several expenditures tested were not recorded in the general ledger in accordance with the cost allocation plan.

Criteria: The School Readiness and the Voluntary Pre-Kindergarten contracts require that expenditures be recorded in accordance with the cost allocation plan.

Effect: Failing to record expenditures correctly in the general ledger could result in program costs being recorded as administration costs, and vice versa. Also, this could result in costs related to the School Readiness contract being recorded as Voluntary Pre-Kindergarten costs and vice versa.

Recommendation: The organization should re-evaluate the chart of accounts in relation to required internal and external financial reporting needs and closely review the monthly financial statements to ensure they are correct.

Action Taken: We concur with the recommendation, and have bought the Saga MIP Fund Accounting financial system to process the accounting function in-house. We have changed the structure of the general ledger to correct all financial accounts. The new structure helps the ease of reconciliation and processing of accounting entries. An accounts payable module was purchased to help maintain a detailed accounts payable subsidiary ledger that is reconciled to the general ledger. This finding is considered resolved.

2006-9

Inventory Log of Equipment Did Not Contain All Required Components:

Deficiency: The log is missing: a) the contract number of the resources used to acquire the specific equipment, b) the date of acquisition of the equipment, c) at least one piece of equipment, d) some of the correct acquisition costs of the equipment. At least one piece of equipment is duplicated in the log.

Criteria: OMB Circular A-110 defines the requirements of information to maintain in the log.

Effect: Failing to keep the data in this log correctly could result in equipment purchased with federal and state awards being used for an unapproved reason, or even misappropriated.

Recommendation: The log should be updated to include all the necessary details and should be analyzed against purchases to find corrections.

Action Taken: We concur with the recommendation, and it will be implemented as soon as possible.

2007-7

Maintain Accounts Payable Subsidiary Ledger:

Deficiency: The organization did not maintain an accounts payable subsidiary ledger that reconciled to the general ledger.

Criteria: Financial records maintained on the accrual basis of accounting will nearly always include outstanding accounts payable, and the only way to maintain control of those accounts payable is through a subsidiary ledger.

Effect: There were numerous errors in the accounting records surrounding accounts payable, and some of them resulted in over-billing to the Agency for Workforce Innovation for questioned costs.

Recommendation: Maintain a detailed accounts payable subsidiary ledger that is reconciled to the general ledger.

Action Taken: We concur with the recommendation, and have bought the Saga MIP Fund Accounting financial system to process the accounting function in-house. We have changed the structure of the general ledger to correct all financial accounts. The new structure helps the ease of reconciliation and processing of accounting entries. An accounts payable module was purchased to help maintain a detailed accounts payable subsidiary ledger that is reconciled to the general ledger.

2007-8

Correct Estimated to Reflect Updated Information:

Deficiency: The organization did not adjust accruals that had been recorded based on an estimate, after the actual value was determined.

Criteria: Using estimates to record balances and transactions is only acceptable if the actual value is unknown and the key factors and assumptions are reasonable in relation to the financial statements.

Effect: The liability for incentive to employees was overstated at year end resulted in over-billing to the Agency for Workforce Innovation.

Recommendation: Correct any estimates used to record balances and transactions, once an actual value is known. Comply with the terms of the contracts with the Agency for Workforce Innovation to only seek reimbursement for costs incurred.

Action Taken: We concur with the recommendation, and have setup monthly closing procedure to reconcile all balance sheet accounts. A fiscal director was hired to perform the accounting function in-house for better financial internal controls.

2007-13

Employee Paid More than Her Authorized Pay Rate:

Deficiency: An employee's pay rate was increased more than the authorized pay increase, resulting in an overpayment to the employee and an over-billing to the Agency for Workforce Innovation (AWI).

Criteria: Each employee should be paid their authorized pay rate for the number of hours reported on the personnel activity reports.

Effect: There are likely questioned costs related to the overpayment to the employee who was paid an amount greater than her authorized pay rate.

Recommendation: Develop a system to ensure appropriate checks to the calculation of employee pay raises and that only authorized pay rates are used in the processing of payroll.

Action Taken: We concur with the recommendation, and have setup individual employee personnel files. Annually, staff are receiving their individual salary and

benefits report to verify their information. Additionally, bi-weekly payroll reports are reviewed by the director of operation for review of accuracy.

- 2007-15 Inventory Log of Equipment Did Not Agree to Physical Inventory of Equipment:
Deficiency: The physical inventory of equipment identified differences in the inventory log of equipment that were not resolved.
Criteria: OMB Circular A-110 requires that the inventory log of equipment be maintained and that it reflect the equipment acquired under federal and state awards.
Effect: Failing to maintain the accuracy of the inventory log of equipment could result in equipment purchased with federal and state awards being used for an unapproved reason, or even misappropriated.
Recommendation: Develop a system to maintain the inventory log of equipment accurate for additions and disposition of equipment acquired under federal and state awards.
Action Taken: We concur with the recommendation, and it will be implemented as soon as possible.
- 2007-16 Notify Federal Awarding Agency of Disposal of Equipment Acquired with Federal Funds:
Deficiency: Equipment acquired with federal awards was disposed of without notifying the Agency for Workforce Innovation (AWI).
Criteria: The organization is required to notify AWI whenever disposing of equipment acquired with federal awards.
Effect: There are likely questioned costs related to equipment that has been disposed of without notifying AWI.
Recommendation: Develop a system to maintain the inventory log of equipment accurate for additions and disposition of equipment acquired under federal and state awards.
Action Taken: We concur with the recommendation, and it will be implemented as soon as possible.

FEDERAL AWARDS QUESTIONED COSTS

- 2007-7 Maintain Accounts Payable Subsidiary Ledger:
Deficiency: The organization did not maintain an accounts payable subsidiary ledger that reconciled to the general ledger.
Criteria: Financial records maintained on the accrual basis of accounting will nearly always include outstanding accounts payable, and the only way to maintain control of those accounts payable is through a subsidiary ledger.
Effect: There were numerous errors in the accounting records surrounding accounts payable, and some of them resulted in over-billing to the Agency for Workforce Innovation for questioned costs.
Recommendation: Maintain a detailed accounts payable subsidiary ledger that is reconciled to the general ledger.
Action Taken: We concur with the recommendation, and have bought the Saga MIP Fund Accounting financial system to process the accounting function in-house. We have changed the structure of the general ledger to correct all financial accounts. The new structure helps the ease of reconciliation and processing of accounting

entries. An accounts payable module was purchased to help maintain a detailed accounts payable subsidiary ledger that is reconciled to the general ledger. Repayment to AWI is scheduled for March 31, 2008.

Total – Department of Health & Human Services \$34,464

STATE PROJECTS QUESTIONED COSTS

2007-7 Maintain Accounts Payable Subsidiary Ledger:
Deficiency: The organization did not maintain an accounts payable subsidiary ledger that reconciled to the general ledger.
Criteria: Financial records maintained on the accrual basis of accounting will nearly always include outstanding accounts payable, and the only way to maintain control of those accounts payable is through a subsidiary ledger.
Effect: There were numerous errors in the accounting records surrounding accounts payable, and some of them resulted in over-billing to the Agency for Workforce Innovation for questioned costs.
Recommendation: Maintain a detailed accounts payable subsidiary ledger that is reconciled to the general ledger.
Action Taken: We concur with the recommendation, and have bought the Saga MIP Fund Accounting financial system to process the accounting function in-house. We have changed the structure of the general ledger to correct all financial accounts. The new structure helps the ease of reconciliation and processing of accounting entries. An accounts payable module was purchased to help maintain a detailed accounts payable subsidiary ledger that is reconciled to the general ledger. Repayment to AWI is scheduled for March 31, 2008.

Total – Florida Agency for Workforce Innovation \$41,252

Sincerely yours,

Gerry Poppe

Gerry Poppe
Board Treasurer
Early Learning Coalitions of SW Florida

Sabra Cecil

Sabra Cecil
Chairperson
Early Learning Coalitions of SW Florida