

CHILDNET, INC. AND AFFILIATE
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2007

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2007
AND FOR THE YEAR THEN ENDED

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March 5, 2008

INDEPENDENT AUDITORS' REPORT

Board of Directors of
ChildNet, Inc. and Affiliate
Fort Lauderdale, Florida

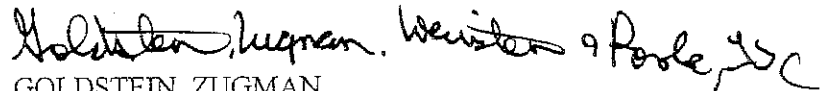
We have audited the accompanying consolidated statement of financial position of ChildNet, Inc. and Affiliate (a non-profit organization), (the "Organizations") as of June 30, 2007 and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The prior year summarized comparative information has been derived from the Organization's 2006 consolidated financial statements and in our report dated December 20, 2006 we expressed an unqualified opinion on those consolidated financial statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 the significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ChildNet, Inc. and Affiliate as of June 30, 2007, and the changes in their net assets and their cash flows for the year 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 5, 2008 on our consideration of ChildNet, Inc. and Affiliate's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 important for assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of ChildNet, Inc. and Affiliate taken as a whole. The schedule of functional expenses (page 14) is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance (page 15) and notes to the schedule of expenditures of federal awards and state financial assistance (page 16) are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, Rules of the Auditor General, and are also not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.


GOLDSTEIN, ZUGMAN,
WEINSTEIN & POOLE, LLC

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2007
(with summarized comparative financial information as of June 30, 2006)

	<u>2007</u>		<u>2006</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$2,449,670		\$ 668,651
Funds for clients – Social Security benefits	613,687		601,267
Receivable from funding sources	35,634		2,643,362
Other receivables	255,628		90,228
Prepaid expenses	<u>428,563</u>		<u>477,264</u>
Total Current Assets	3,783,182	\$ 0	4,480,772
PROPERTY AND EQUIPMENT -			
Net of accumulated depreciation	<u>68,988</u>	<u>1,121,447</u>	<u>1,572,196</u>
TOTAL ASSETS	<u>\$3,852,170</u>	<u>\$1,121,447</u>	<u>\$6,052,968</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 720,578		\$1,444,739
Accounts payable - Providers	2,331,046		2,134,647
Accrued salaries and annual leave	1,601,542		832,018
Funds due to clients – Social Security benefits	613,687		601,267
Deferred revenue	<u>117,759</u>		<u>145,380</u>
Total Liabilities	<u>5,384,612</u>	<u>\$ 0</u>	<u>5,158,051</u>
NET (DEFICIT)/ASSETS			
Unrestricted	(1,532,442)		(642,491)
Temporarily restricted		<u>1,121,447</u>	<u>1,537,408</u>
Total Net (Deficit)/Assets	<u>(1,532,442)</u>	<u>1,121,447</u>	<u>894,917</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$3,852,170</u>	<u>\$1,121,447</u>	<u>\$6,052,968</u>

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

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007
(with summarized comparative financial information
for the year ended June 30, 2006)

	2007			2006
	Unrestricted	Temporarily Restricted	Total	Total
Changes in Net Assets:				
Support and Revenues				
Contracts	\$65,628,217	\$ 115,784	\$65,744,001	\$64,655,523
Contributions	105,072		105,072	92,070
Interest and dividend income	2,191		2,191	0
Net assets released from restrictions	<u>531,745</u>	<u>(531,745)</u>	<u>0</u>	<u>0</u>
Total Support and Revenues	<u>66,267,225</u>	<u>(415,961)</u>	<u>65,851,264</u>	<u>64,747,593</u>
Expenses				
Program services	66,861,399		66,861,399	64,404,770
Supporting services	254,566		254,566	118,042
Loss on disposal of assets	<u>41,211</u>		<u>41,211</u>	<u>2,751</u>
Total Expenses	<u>67,157,176</u>	<u>0</u>	<u>67,157,176</u>	<u>64,525,563</u>
(DECREASE)/INCREASE IN NET ASSETS	(889,951)	(415,961)	(1,305,912)	222,030
Net (Deficit)/Assets - Beginning of Year	<u>(642,491)</u>	<u>1,537,408</u>	<u>894,917</u>	<u>672,887</u>
NET (DEFICIT)/ASSETS - END OF YEAR	<u>\$ (1,532,442)</u>	<u>\$ 1,121,447</u>	<u>\$ (410,995)</u>	<u>\$ 894,917</u>

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

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007
(with comparative financial information
for the year ended June 30, 2006)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease)/increase in net assets	\$(1,305,912)	\$ 222,030
Adjustments to reconcile (decrease)/increase in net assets to net cash provided by operating activities:		
Depreciation	489,699	386,018
Loss on disposal of assets	41,211	2,751
Decrease in receivables from funding sources	2,607,728	276,099
Increase in other receivables	(165,400)	(19,983)
Decrease/(increase) in prepaid expenses	48,701	(70,840)
(Decrease)/increase in accounts payable and accrued expenses	(724,161)	517,733
Increase in accounts payable - Providers	196,399	48,179
Increase/(decrease) in accrued salaries and annual leave	769,524	(625,234)
(Decrease)/increase in deferred revenue	<u>(27,621)</u>	<u>125,585</u>
Net Cash Provided By Operating Activities	<u>1,930,168</u>	<u>862,338</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(163,887)	(532,575)
Proceeds from the sale of property and equipment	<u>14,738</u>	<u>0</u>
Net Cash Used In Investing Activities	<u>(149,149)</u>	<u>(532,575)</u>
INCREASE IN CASH	1,781,019	329,763
Cash - Beginning of Year	<u>668,651</u>	<u>338,888</u>
CASH - END OF YEAR	<u>\$2,449,670</u>	<u>\$ 668,651</u>

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

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Community Based Solutions, Inc. was incorporated on July 25, 2001. On October 10, 2002, Community Based Solutions, Inc. changed its name to ChildNet, Inc., d/b/a ChildNet ("ChildNet").

ChildNet is a non-profit organization devoted to the development of community-based services and support for children and families served by the Broward County child protection and foster care system. ChildNet's mission is to develop and manage a comprehensive, community-based, coordinated system of care for abused, neglected, and abandoned children and their families and for children and families who are at risk of maltreatment and/or placement in the foster care system.

Broward Cares for Kids Foundation, Inc. ("Broward Cares for Kids") was incorporated on October 7, 2004 and created to be a fundraising arm of ChildNet. Broward Cares for Kids was approved as a private, tax-exempt organization with the IRS, under Section 501(c) (3) effective October 7, 2004. The purpose of Broward Cares for Kids is to provide alternative source of funding which will facilitate the implementation of services not currently eligible from State and Federal funding to ChildNet.

ChildNet's support and revenue was received substantially from a grant evidenced by a contract with its funding source, Florida Department of Children and Families ("DCF"). ChildNet also had non-contractual grants designated for certain projects or programs as well as a contract with the Children's Services Council of Broward County ("CSC").

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting to conform with accounting principles generally accepted in the United States of America.

Consolidated Financial Statements

The accompanying consolidated financial statements reflect the financial position, statement of activities, and cash flows of ChildNet and its affiliated supporting organization, Broward Cares for Kids, collectively referred herein as the ("Organization"). For the year ended June 30, 2007, Broward Cares for Kids' activity was immaterial. All interorganizational transactions have been eliminated in the consolidated financial statements.

Comparative Financial Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2006, from which the summarized information was derived.

Basis of Presentation

The Organization's financial statements are presented in accordance with Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by action of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The income from the assets is available for either general operations or specific purposes in accordance with donor stipulations. The Organization had no permanently restricted net assets at June 30, 2007.

Cash and Cash Equivalents

The Organization consider cash and all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents include checking and money market accounts held in two federally insured financial institutions. At times, the balances in these accounts may exceed federally insured limits. The Organization has not experienced any losses in these accounts and believes they are not exposed to any significant credit risk with respect to cash.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Contract revenue is recognized as revenue in the period in which it is expended for cost-reimbursed agreements. Amounts that have not yet been spent are recorded as deferred revenue.

Contributions and grants are recognized as revenue when received and recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

All other revenues are recognized when earned.

Contributions of Services, Facilities and Materials

In-kind contributions of services, facilities and materials are recorded at their estimated fair value.

Functional Expense Allocation

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

Estimates

The preparation of consolidated 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. Accordingly, actual results could differ from those estimates.

Income Tax

ChildNet and Broward Cares for Kids have qualified as tax-exempt organizations under Section 501(c)(3) of the U.S. Internal Revenue Code, and, accordingly, are not subject to federal or state tax.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 2 - CONTRACTS

On July 1, 2003, DCF awarded ChildNet a contract in the amount of \$176,640,367 which was in effect until June 30, 2006. Effective July 1, 2006, DCF renewed this contract in the amount of \$195,497,016 through June 30, 2009. The contract was amended on October 24, 2007, increasing the payments for contractual services to \$198,661,451. ChildNet is to coordinate and administer certain child welfare services in Broward County including emergency shelter, residential group care, in-home protection services, relative care placements, foster care, case management, post-placement supervision, independent living, family reunification and preservation and adoption services. The contract can be terminated by either party with 180 days notice in writing. The contract requires ChildNet to comply with certain performance measures on a monthly basis and may be terminated in the event of non-compliance.

ChildNet entered into a contract with CSC in the amount of \$265,000 which expired on June 30, 2006. The contract was to provide innovative foster placement options for children ages 13-17.

NOTE 3 - CONTRACTS WITH OUTSIDE PROVIDERS

ChildNet has contractual agreements with various non-profit agencies ("Providers") to provide foster care and intervention and family support services for them.

The foster care contracts specify the responsibility of the Provider to arrange for expedient shelter of children, monitor licensing of foster homes in accordance with Florida state statutes and report certain performance measures to ChildNet on a monthly basis. ChildNet pays the Providers a specified amount per licensed foster home each month up to a set maximum amount.

Intervention and family support services' contracts specify that the Providers shall deliver certain services to children and families as needed and report regularly to ChildNet. ChildNet pays the Providers based on the number of children or families served each month up to a set maximum amount.

Contracts are for a period of one year. Under these contracts, ChildNet paid approximately \$22,000,000 and \$20,000,000 to outside Providers for the years ended June 30, 2007 and 2006, respectively.

NOTE 4 - MATCHING FUND REQUIREMENTS

ChildNet and its Providers allocated matching funds of cash and in-kind services in the amounts of \$597,818 to the Promoting Safe and Stable Families Program and \$395,560 to the Purchase Therapeutic Services, Child Community Support Services Program for the fiscal year ended June 30, 2007, and \$614,839 to the Promoting Safe and Stable Families Program for the fiscal year ended June 30, 2006.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 4 - MATCHING FUND REQUIREMENTS (Continued)

ChildNet received matching funds from the DCF in the amount of \$7,620,051 and \$13,986,825 for fiscal years ended June 30, 2007 and 2006, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment acquisitions are recorded at cost. Donated property and equipment is recorded at the estimated fair market value at the date of the donation. Property and equipment with a useful life of more than one year and a cost or donated value of \$1,000 or more is capitalized. In addition, all computers including desktops and laptops are capitalized. Depreciation is provided for furniture and equipment over the estimated useful lives of three to seven years of the assets on a straight-line basis.

Property and equipment is summarized as follows:

Furniture and equipment	\$2,473,785
Less: Accumulated depreciation	<u>(1,283,350)</u>
Net Property and Equipment	<u>\$1,190,435</u>

Depreciation expense for the year ended June 30, 2007 was \$489,699 and is recorded in Program Services on the Consolidated Statement of Activities.

NOTE 6 - ACCOUNTS PAYABLE - COMMUNITY-BASED CARE PROVIDERS

ChildNet reimburses the providers for both case management and foster care management services. The payable represents amounts invoiced to ChildNet for services provided prior to June 30, 2007. These amounts were paid subsequent to year-end.

NOTE 7 - LINE OF CREDIT

One May 17, 2007, ChildNet obtained a \$1,000,000 line of credit from SunTrust Bank. The line of credit is secured by substantially all of the Organization's assets and revenues. The line of credit bears a variable interest rate equal to the SunTrust Prime Rate minus 1.00% per annum. The line of credit matures on February 29, 2008, and management anticipates that the agreement will be renewed at that time. As of June 30, 2007, no amounts were outstanding on the line of credit.

Subsequently, \$200,000 of the line of credit was pledged to the lease of office space in the form of a Letter of Credit to serve as a security deposit, leaving \$800,000 available.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 8 - ACCRUED PAID TIME OFF AND SICK LEAVE

The Organization accrues paid time off ("PTO") hours for employees over 26 pay periods. PTO hours are based on the number of years of service up to 29 days. Employees may carry forward a maximum of four weeks (160 hours) to the next fiscal year. Major Illness Account ("MIA") hours are accrued over 26 pay periods up to a maximum of 320 hours. Upon termination, employees will be paid for all accrued PTO hours. Employees are not paid for unused MIA hours. As of June 30, 2007, PTO hours were accrued in the amount of \$838,605.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of nonexpendable property (i.e. tangible personal property of a nonconsumable nature) in which DCF, the grantor, maintains title upon completion or termination of the contract.

For the year ended June 30, 2007, \$470,919 of net assets were released from restrictions as a result of depreciation.

NOTE 10 - EMPLOYEE RETIREMENT PLAN

The Organization has adopted a 403(b) tax-deferred annuity retirement plan (the "Plan"), covering all of their employees meeting the minimum eligibility requirements. The Organization, at its discretion, will contribute a percentage of compensation on behalf of each eligible employee. For the year ended June 30, 2007, the Organization's discretionary percentage was 2% of eligible employee compensation. In addition, the Organization matches 50% of the elective employee deferrals up to 6% of compensation. The Organization contributed \$487,725 to the Plan for the year ended June 30, 2007.

NOTE 11 - LEASE COMMITMENTS

ChildNet has entered into the following office lease agreements for its facilities:

Sublease from DCF expiring May 2007. Rent payments for the year ended June 30, 2007 were approximately \$98,384.

Sublease from DCF on a month to month basis expired June 30, 2007. The current year's rent was \$648,815.

On May 25, 2007, the Company subleased from DCF for 84 months through May 31, 2014 at \$89,507.82 per month. The current year's rent was \$109,719.

Lease for 60 months expiring March 31, 2008. Current year's rent was \$307,668.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 11 - LEASE COMMITMENTS (Continued)

Lease for 51 months expiring March 31, 2008 with two one-year renewal options. Current year's rent was \$48,939.

Lease for 60 months expiring June 30, 2009 at \$19,809 per month. Current year's rent was \$237,705.

Lease for 62 months expiring March 31, 2010. Current year's rent was \$227,312.

Future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	
2008	\$1,866,740
2009	1,605,733
2010	1,053,978
2011	896,424
2012	921,969
Thereafter	<u>1,841,682</u>
Total	<u>\$8,186,526</u>

Total rent expense for the year ended June 30, 2007 was \$1,678,542.

ChildNet entered into various non-cancelable leases for office equipment. The leases are for a period of two to three years.

Future minimum lease payments are as follows:

<u>Years ending June 30,</u>	
2008	\$48,915
2009	31,736
2010	<u>1,847</u>
Total	<u>\$82,498</u>

NOTE 12 - CONTINGENCIES

Amounts received from contracting agencies are subject to audit and potential adjustment by the contracting agencies. Any disallowed costs, including amounts already collected, would become a liability of the Organization if so determined in the future. While it is management's belief that no material liability will result from future audits of such activities, \$113,093 of disallowed costs from prior years activity were recognized in the year ended June 30, 2007.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 12 - CONTINGENCIES (Continued)

On February 15, 2007, ChildNet's management engaged the services of a private investigator to conduct an investigation of the theft of approximately \$8,000 of Wal-Mart gift cards. The investigation uncovered a number of other issues that called into question controls over inventory, information technology, and confidential information. On April 13, 2007, the Federal Bureau of Investigation executed a search and seized files from the Organization, as well as copies of data from the Organization's servers as part of an investigation into ChildNet's activities. As a result of these investigations, the President and CEO, CFO, and three other ChildNet employees either resigned or were asked to resign by the Board of Directors. All were subsequently replaced with new employees from outside the Organization. All seized files and computers were returned to ChildNet in December 2007. This investigation remains open, and the Organization has no knowledge as to whether it or any current or former employees are subjects of the investigation.

NOTE 13 - RELATED PARTY TRANSACTIONS

ChildNet contracted with Family Central, Inc. to provide child abuse and parent education services. During the year ended June 30, 2007, ChildNet paid \$186,996 for these services. Family Central, Inc. employs two members of the Board of Directors of ChildNet.

NOTE 14 - CONCENTRATIONS OF CREDIT RISK

Cash

The Organization maintains its cash balances with two financial institutions covered under the Federal Deposit Insurance Corporation (FDIC). The accounts are insured by the FDIC up to \$100,000. At June 30, 2007, the Organization had an uninsured cash balance of \$2,358,405.

Revenues

During the year ended June 30, 2007, substantially all of ChildNet's contract revenues were received through the DCF. The operations of ChildNet are dependent upon the funding from this entity.

NOTE 15 - FUNDS FOR CLIENTS/DUE TO CLIENTS -- SOCIAL SECURITY BENEFITS

ChildNet acts as a representative payee for social security benefits on behalf of children who are in custody of the State of Florida because either their parents are deceased or disabled and/or lost their parental rights or the child is disabled. The benefits are managed by ChildNet to ensure that the children's current and foreseeable needs are being provided. The benefits in excess of current needs requirements are held in escrow and invested in highly liquid, risk free government securities with the State Treasury and monitored by the DCF.

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

	Program Services			Supporting Services	Total
	Florida Dept. of Children and Families #JJ100	Florida Dept of Children and Families #JH270	Children's Services Council of Broward County #05-2773	General and Administrative	Total
	Community Based Care	Substance Abuse and Mental Health	Supportive Services for Professional Foster Parents	Total Program Services	Total
Personnel costs	\$21,058,912	\$252,862		\$ 31,005	\$21,342,779
Contract and other services	39,771,507	89,000	\$ 40,802		39,901,309
Occupancy and utilities	1,750,740	11,040			1,761,780
Telephone	586,134	1,680		49,067	636,881
Insurance	544,908			17,865	562,773
Office and computer supplies	420,094	4,800		32,984	457,878
Postage	105,337	1,200		11	106,548
Professional fees	206,609			4,319	210,928
Staff training and recruitment	217,310			3,500	220,810
Travel	631,694	1,375		4,925	637,994
Dues and subscriptions	58,721			5,161	63,882
Equipment and leases	177,090				177,090
Data communications	201,147			3,578	204,725
Maintenance	257,518			16,192	273,710
Depreciation	470,919			18,780	489,699
Donation				47,958	47,958
Hurricane Relief				19,221	19,221
TOTAL	\$66,458,640	\$361,957	\$ 40,802	\$254,566	\$67,115,965

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

Federal/State Grantor, Pass-Through Grantor Federal Program/ State Project	CFDA/ CFSA Number	Contract/ Grant Number	Expenditures	Transfers to Subrecipients
U.S. Department of Health and Human Services:				
Pass-Through Florida Department of Children and Families:				
Adoption Assistance	93.659	JJ208	\$ 4,725,610	\$ 173,215
Medical Assistance Program (Medicaid; Title XIX)	93.778	JJ208	47,573	
Temporary Assistance for Needy Families (TANF)	93.558	JJ208	5,546,264	900,600
Foster Care – Title IV-E	93.658	JJ208	11,681,211	7,316,848
Child Welfare Services – State Grants	93.645	JJ208	1,223,688	144,475
Social Services Block Grant	93.667	JJ208	4,483,704	2,718,811
Promoting Safe and Stable Families	93.556	JJ208	1,773,087	1,606,873
Chafee Foster Care Independence Program	93.674	JJ208	725,984	
Chafee Education and Training Vouchers Program (ETV)	93.599	JJ208	352,672	
Grants to States for Access and Visitation Programs	93.597	JJ208	31,519	31,519
Child Abuse and Neglect State Grants	93.669	JJ208	<u>80,055</u>	<u>41,294</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$30,671,367</u>	<u>\$12,933,635</u>
Florida Department of Children and Families:				
Community Based Care Supports	60.094	JJ208	\$27,092,937	\$16,203,714
Purchase Therapeutic Services, Child Community Support Services	60.047	JH270	<u>369,705</u>	<u> </u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$27,462,642</u>	<u>\$16,203,714</u>

The accompanying notes are an integral part of this schedule.

CHILDNET, INC. AND AFFILIATE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of ChildNet, Inc. and Affiliate and is presented on the accrual basis of accounting. 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* and Chapter 10.650, Rules of the Auditor General. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - SUBRECIPIENTS

ChildNet, Inc. and Affiliate provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Adoption Assistance	93.659	\$ 173,215
Temporary Assistance for Needy Families (TANF)	93.558	900,600
Foster Care – Title IV-E	93.658	7,316,848
Social Services Block Grant	93.667	2,718,811
Promoting Safe and Stable Families	93.556	1,606,873
Grants to States for Access and Visitation Programs	93.597	31,519
Child Abuse and Neglect State Grants	93.669	41,294
Child Welfare Services - State Grants	93.645	<u>144,475</u>
Total Federal Awards Provided to Subrecipients		<u>\$12,933,635</u>

ChildNet, Inc. and Affiliate provided state financial assistance to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFSA Number</u>	<u>Amount Provided</u>
Community Based Care Supports	60.094	<u>\$16,203,714</u>

CHILDNET, INC. AND AFFILIATE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FEDERAL PROGRAMS AND STATE PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2007

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the consolidated financial statements of ChildNet, Inc. and Affiliate.
2. No significant deficiencies relating to the audit of the consolidated financial statements are reported in the 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.
3. No instances of noncompliance material to the consolidated financial statements of ChildNet, Inc. and Affiliate were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs, and state financial assistance projects are reported in the Report on Compliance With Requirements Applicable to Each Major Federal Program and State Project and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General.
5. The auditors' report on compliance for the major federal award programs and state financial assistance projects for ChildNet, Inc. and Affiliate expresses an unqualified opinion on all major federal programs and state projects.
6. No audit findings relative to the major federal award programs and state financial assistance projects for ChildNet, Inc. and Affiliate which would be required to be reported in accordance with Section 510(a) of OMB Circular A-133, and Rule 10.656 of Chapter 10.650, Rules of the Auditor General, are reported in this Schedule.
7. The thresholds used for distinguishing between Type A and B federal programs and state projects were \$920,141 and \$823,879, respectively.
8. ChildNet, Inc. and Affiliate qualified as a low-risk auditee.
9. The federal programs and state projects tested as major programs and major projects were as follows:

<u>CFDA</u>		<u>Amount</u>
<u>Number</u>	<u>Name of Major Federal Program</u>	<u>Expended</u>
93.645	Child Welfare Services – State Grants	\$1,223,688
93.556	Promoting Safe and Stable Families	1,773,087
93.667	Social Services Block Grant	4,483,704
93.674	Chafee Foster Care Independence Program	725,984
<u>CFSA</u>		<u>Amount</u>
<u>Number</u>	<u>Name of Major State Project</u>	<u>Expended</u>
60.094	Community Based Care Supports	\$27,092,937
60.047	Purchase Therapeutic Services, Child Community Support Services	369,705

CHILDNET, INC. AND AFFILIATE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007

The prior year audit of the consolidated financial statements of ChildNet, Inc. and Affiliate disclosed no findings relating to the consolidated financial statements and no findings nor questioned costs relating to federal awards or state projects.

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March 5, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
ChildNet, Inc. and Affiliate
Fort Lauderdale, Florida

We have audited the consolidated financial statements of ChildNet, Inc. and Affiliate as of and for the year ended June 30, 2007, and have issued our report thereon dated March 5, 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 ChildNet, Inc. and Affiliate's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ChildNet, Inc. and Affiliate'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.

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.

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.

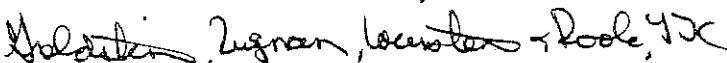
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ChildNet, Inc. and Affiliate's consolidated 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of ChildNet, Inc. and Affiliate in a separate management letter dated March 5, 2008.

This report is intended solely for the information and use of the Board of Directors and management of ChildNet, Inc. and Affiliate, 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.


GOLDSTEIN, ZUGMAN,
WEINSTEIN & POOLE, LLC

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March 5, 2008

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

To the Board of Directors
ChildNet, Inc. and Affiliate
Fort Lauderdale, Florida

Compliance

We have audited the compliance of ChildNet, Inc. and Affiliate, 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 state projects for the year ended June 30, 2007. ChildNet, Inc. and Affiliate's major federal programs and state projects are identified in the summary of auditors' 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 state projects is the responsibility of ChildNet, Inc. and Affiliate's management. Our responsibility is to express an opinion on ChildNet, Inc. and Affiliate'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, 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 state project occurred. An audit includes examining, on a test basis, evidence about ChildNet, Inc. and Affiliate'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 ChildNet, Inc. and Affiliate's compliance with those requirements.

In our opinion, ChildNet, Inc. and Affiliate complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state projects for the year ended June 30, 2007.

Internal Control Over Compliance

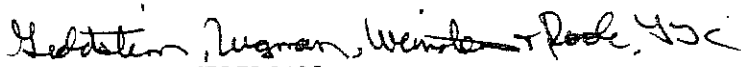
The management of ChildNet, Inc. and Affiliate is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs and state projects. In planning and performing our audit, we considered ChildNet, Inc. and Affiliate's internal control over compliance with requirements that could have a direct and material effect on a major federal program or 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 ChildNet, Inc. and Affiliate's internal control over compliance.

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.

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.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors and management of ChildNet, Inc. and Affiliate, 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.


GOLDSTEIN, ZUGMAN,
WEINSTEIN & POOLE, LLC



**GOLDSTEIN, ZUGMAN,
WEINSTEIN & POOLE, LLC**

Certified Public Accountants and Consultants

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March 5, 2008

MANAGEMENT LETTER

To the Board of Directors of
ChildNet, Inc. and Affiliate
Plantation, FL

We have audited the financial statements of ChildNet, Inc. and Affiliate as of and for the year ended June 30, 2007, and have issued our report thereon dated March 5, 2008.

We conducted our audit in accordance with United States generally accepted auditing standards; 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 Auditors' Report on Compliance and Internal Control over Financial Reporting, Independent Auditors' Report on Compliance and Internal Control over Compliance Applicable 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 5, 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 that we address certain compliance and other matters in the management letter, if not already addressed in the auditors' reports on Internal Control over Financial Reporting and on Compliance and Other Matters, Compliance with Requirements applicable to each Major Federal Program and State Project, and Internal Control over Compliance in accordance with OMB Circular 133 and Chapter 10.650, or Schedule of Findings and Questioned Costs. In planning and performing our audit of the financial statements of ChildNet, Inc and Affiliate as of and for the year ended June 30, 2007, we considered ChildNet, Inc. and Affiliate's internal controls in order to determine the scope of our audit procedures for the purpose of expressing opinions on the financial statements and not to provide an opinion on internal control over financial reporting. While our purpose was not to provide an opinion on internal control over financing or on compliance, certain matters came to our attention that we want to report to you. These matters, along with our recommendations, and the communications required by the Rules of the Auditor General are as follows.

1. **Property and Equipment**

- A. In performing our audit procedures of fixed assets (observation) we noted that in some instances assets at workstations were moved to another location. Auditor noted that there are no procedures or forms if furniture is moved. ChildNet should have a trail of all tagged tangible property and equipment, including computers. Currently, the only trail is done annually, when tagging is done.

Recommendations:

Any additions or deletions to any workstation or work area should be documented on an exchange form. The exchange form should be filed in the employee's file with original Company Property Agreement (CPA) form and if employee moves or is terminated, IT and HR should ensure that assets on CPA and exchange form agree to asset that employee had at their workstation or in their possession.

Also, finance department should be notified by IT and facilities whenever an asset is disposed of to ensure that the fixed asset schedule reflects the dispositions throughout the year.

These procedures should be done through a computer and not manually.

Exchange form should have a line to reflect that IT personnel input change into tagged assets system.

Inventory sheets should have page numbers and locations.

CPA form and exchange forms should have a space on the forms to indicate that appropriate IT facilities or HR personnel signed their name indicating that the assets were returned, disposed of, or exchanged.

B. In observing the tangible property and equipment at workstations, we found the following:

- 1) A personal computer (PC) was recorded as a monitor and a monitor as a PC. The serial numbers were correct.

Recommendation:

We recommend that personnel who perform the tagging of tangible property and equipment be rotated and errors should be noted and addressed.

- 2) A cell phone was observed at a workstation but was not on the CPA form. We were told that the employee was not there when the tagging process was being performed.

Recommendation:

In the future all personnel should be notified when the tagging process will be performed and to have their assets at their workstations.

Management Response:

ChildNet installed this new process for inventory in recent months. We will consider all recommendations as we fine tune and revise our processes in order to strengthen our controls.

2. **Property & Equipment Purchases**

During our analysis of certain expense accounts we found that ChildNet purchased various individual assets that were under the threshold for capitalization, but were tagged tangible property and equipment.

Recommendation:

Items expensed in the general ledger should be counted in the tagging of tangible property and equipment and be referenced on the schedules of tagged tangible property and equipment as to the date acquired, vendor and invoice number and amount.

Management Response:

We will be establishing a category within our inventory records for items that are to be inventoried but fall below capitalization thresholds to separately identify these assets and allow for easier reconciliation of the inventory to the general ledger.

3. **Property & Equipment Disposals**

Auditor analyzed fixed asset general ledger accounts and noted a journal entry to record the write-off of various assets. The accounting department was unable to provide the back-up for the entry.

Recommendation:

Any disposals or write-offs of fixed assets should be properly supported and specifically identified. If the assets are temporarily restricted, the grantor should be notified beforehand.

Management Response:

We will put processes in place to insure appropriate back-up is available to support any asset disposition, and grantors will be notified in accordance with the provisions of the grant.

4. **Disaster Recovery**

In our discussions with the assistant director of IT, it was noted that ChildNet does not have an adequate off-site disaster recovery program. Files and programs used by ChildNet are not saved to an off-site location. If the servers at ChildNet were damaged there would be no way to retrieve the files and programs that ChildNet uses.

Recommendation:

ChildNet needs to address implementing a disaster recovery system.

Management Response:

Establishment of a disaster recovery plan is a key element of the recently completed Information Technology Strategic Plan.

5. **Mileage Reimbursements**

- A. In performing audit procedures of local mileage reimbursement, auditor reconciled the account coordinator for ICWSIS schedule of employee reimbursements to payroll reimbursements paid. Payroll manager noted that she only gets a payroll total after payroll is done.

Recommendation:

Auditor recommends that the payroll reimbursements have a total before payroll is issued and that should be reconciled to account coordinator for ICWSIS schedules, which are the summaries of each employee's mileage reimbursement form for the month. Thus, the payroll manager will not have to trace each of her postings to the account coordinator's schedule of reimbursements, which she does twice because the payroll is done manually.

Management Response:

Management is in the process of awarding a contract to outsource payroll. The tools available from the new provider will mechanize this process and permit more timely and complete reconciliations of this item.

- B. In performing tests of local mileage reimbursement, auditors found the following:

In several instances, the employee mileage log forms were not completed in sufficient detail to verify the accuracy of information including destination (i.e. to and from destinations and their addresses) and purposes of travel (i.e. name of child or facility).

Recommendation:

Destination and purpose on employee mileage log need to be more specific so that mileage can be verified.

Management Response:

Management agrees with this recommendation and will change the existing mileage logs.

- C. Auditor reconciled employee monthly mileage log total reimbursement amounts to payroll report to posting in general ledger. Auditor noted small un-reconciled differences.

Recommendation:

The payroll department should reconcile monthly the total of reimbursement amounts per payroll to the total amounts prepared by account coordinator.

Management Response:

The new payroll tool will permit more timely and complete reconciliations. We will implement this recommendation once the outsourcing is complete.

6. **Voluntary Insurance**

In inquiries with the Accounting Manager, it was found that ChildNet withholds from employees for voluntary insurance benefits. ChildNet does not communicate with the administrator of the benefit. As a result, ChildNet does not reconcile the employees' balances in this benefit.

Recommendation:

ChildNet should get monthly statement/invoice and reconcile the Voluntary insurance account (what is being paid out by the administrator and what is being paid by ChildNet through withholdings or payments directly by ChildNet).

Management Response:

Management is currently exploring changes to benefits administration in conjunction with the changes to the payroll process. This recommendation will be considered and implemented with these changes.

7. **Payroll**

In testing the payroll, we noted the following:

- A. In analyzing payroll activity, the auditor noted that the quarter ended 6/30/07 Form 941 showed an overpayment. ChildNet recorded a journal entry to reflect a balance due instead of an overpayment as reported on the Form 941.

Recommendation:

The Payroll Manager and Finance Department personnel should communicate so that journal entries are properly recorded, and the journal entries should be reviewed and signed by the Accounting Manager and Director of Finance.

- B. The pay increases for certain employees were not in their files.

Recommendation:

ChildNet should document all pay increases in the respective employees' files.

- C. Auditor was unable to trace for certain employees the health insurance, dental insurance, healthcare spending (FSA), and prepaid legal deductions as shown on the employee paychecks to the authorization in employee file or in Ivantage (HR computer system).

Recommendation:

ChildNet should implement procedures to keep employee records for a certain number of years before the records are destroyed.

Management Response:

Management agrees with these recommendations and will implement.

- D. The payroll and benefit accounts are not reconciled.

Recommendation:

Payroll and benefit accounts should be reconciled to general ledger activity, payroll tax returns, and third-party administrator reports.

Management Response:

Management agrees with these recommendations and will implement.

8. **Chafee/Independent Living**

- A. Some of the eligibility requirements for this program include proof of age, proof of income (if applicable) and an updated Needs Assessment Form when the child's school or income status changes. During test work, auditor observed the following items:

One file contained a pay-stub showing 32.75 hours (22.75 regular and 10 training). The hours posted to the needs assessment form by ChildNet were 30. Per the Director of Teen Permanency, the amount was rounded.

Recommendation:

ChildNet should record the exact amount and possibly obtain a second pay-stub without training to have an accurate proof of income.

Management Response:

Management agrees that greater care should be taken in entering information on the spreadsheet. The importance of precision in this process has been communicated to employees involved.

- B. Another file contained a CIS provider Information Form obtained from DCF for proof of age. This is sufficient per the Director of Teen Permanency. There was no Needs Assessment Form for the year ended June 30, 2007 in the file. The most recent form was for 2005. The Director of Teen Permanency was unable to find a current form.

After meeting with the Director of Teen Permanency, she was able to obtain a birth certificate to meet the proof of age requirement. In regards to the outdated Needs Assessment Form, per the Director of Teen Permanency, even though the child changed schools, it was a change from one vocational school to another and the amount paid would not have changed.

- C. Another file had no proof of age. There was no updated Needs Assessment Form. January 2006 was the most current. This was sufficient per the Director of Teen Permanency because nothing had changed in the file. There was no proof of income in the file either.

After meeting with the Director of Teen Permanency, she obtained a birth certificate display from Vital Statistics. There was no proof of income available; however, because the child is working for tips only.

Recommendation:

Although a spreadsheet is prepared and shows when a needs assessment form needs to be updated, auditor recommends a stronger follow up by someone other than the employee recording the information, to be sure they are done.

Management Response:

While management understands and cannot argue with the recommendation, the realities of ChildNet's funding do not always allow for redundant controls. We will continue to communicate the need for greater care in this process and rely on fiscal monitor examinations to point up areas where we are falling short.

Per the Director of Teen Permanency, all cases are now being tracked to see that Needs Assessment Forms are updated according to the contract requirements.

Recommendation:

Auditor recommends a system to check the files for required documents (proof of age, income, etc) such as a cover sheet requiring ChildNet employees to initial when documents are obtained and put into the files. In addition, updated Needs Assessment Form should be on this checklist.

Management Response:

While management understands and cannot argue with the recommendation, the realities of ChildNet's funding do not always allow for redundant controls. We will continue to communicate the need for greater care in this process and rely on fiscal monitor examinations to point up areas where we are falling short. We will also look to establish some level of independent management reviews, as funding permits, to insure that all payments made are appropriately justified.

9. **Monitoring (COI)**

During the monitoring testwork, the auditor noted the following findings and recommendations:

- A. The financial analyst did not maintain a list of all providers to determine that ChildNet was receiving annual financial statements.

Recommendation:

The financial analyst should be maintaining a list of all providers to see that ChildNet is receiving annual financials and reports and follow up on any findings, questioned costs and reportable items.

- B. On monitoring site visits, monitors verified the providers had insurance by observing their insurance policy.

Recommendation:

Insurance verification should include a confirmation of insurance with the insurance company or agent. Only looking at the policy does not guarantee the insurance policy is in force.

- C. The financial analyst and the monitoring department maintained their own separate monitoring reports.

Recommendation:

Administrative/financial work papers should be made part of the annual monitoring. Currently, only the administrative/financial summary report is included in the annual monitoring file.

Site visit reports should be made a part of the annual provider monitoring report.

Management Response:

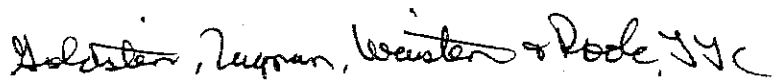
Management is in the process of redesigning the fiscal monitoring process for subcontractors. These recommendations will be considered and implemented as appropriate in the new process.

Other Matters

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. Except as reported in this management letter, our audit for the year ended June 30, 2007, disclosed none of the foregoing matters that are required to be disclosed.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with you, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information of ChildNet, Inc. and Affiliate and management, and the Florida Auditor General, 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.


GOLDSTEIN, ZUGMAN,
WEINSTEIN & POOLE, LLC