

Cornerstones of Care and Affiliates

Required Communications and Management Letter

For the Year Ended December 31, 2014



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May 27, 2015

To the Board of Directors
Cornerstones of Care and Affiliates

We have audited the financial statements of Cornerstones of Care and Affiliates (the Organizations) for the year ended December 31, 2014, and have issued our report thereon dated May 27, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 4, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organizations are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management's estimates of the values of allowances for uncollectible accounts, pension plan obligation, depreciation, and compensated absences. We have evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 27, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organizations' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organizations' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In planning and performing our audit of the financial statements of the Organizations as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Organizations' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organizations' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organizations' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Management's written responses to the deficiencies identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

As part of our annual audit, we try to identify opportunities for improving the management of financial resources and for improving internal controls over financial reporting. We are submitting, for your consideration, our observations and recommendation with regard to these matters.

Current Year Comments

Journal Entries – Control Deficiency

During the current and prior year audit, we noted that a formal policy was designed to ensure that journal entries are being reviewed. This policy lists four types of journal entries that are prepared by the Organizations and identified which of them require approval and which are considered standard or recurring and therefore do not require approval. While we noted improvement with respect to the journal entry process, it was noted during the current year that improvement is still necessary in connection with review and approval of journal entries that require it.

We also continued to note that not all of the journal entries selected for testing included appropriate supporting documentation. Journal entries should always be supported by appropriate documentation where possible. Good documentation serves as an accounting record and facilitates future follow-up as well as additional insight for other users.

We recommend that management continue to review and improve the journal entry process to ensure that all journal entries are properly reviewed and approved when necessary. In addition, journal entries should always be supported by appropriate documentation where possible.

Management's Response

Management acknowledges an opportunity to further improve our journal entry process. Management will revise the journal entry approval process to more clearly specify the documentation that supports journal entries. In addition, Management will develop a master control document to validate Management review activity on those journal entries requiring approval as defined in the journal entry policy. Both of these process enhancements are in progress and will be implemented during the current fiscal year.

Payroll Review and Approval – Control Deficiency

During the prior year audit, it was noted that no one independent of the payroll coordinator reviews and approves the payroll journal prior to submission of the payroll for final processing. However, we did note that the payroll coordinator does review the payroll journal.

We recommended that an independent review of the payroll journal by someone other than the payroll coordinator be implemented prior to the payroll processing. This includes reviewing the payroll journal for any previously authorized changes to personnel pay rates or other payroll related changes. Implementing this secondary review would help mitigate the risk of payroll errors that go unnoticed by the employees of the organization. During the current year, management indicated that they had investigated various methods to address our recommendation but had not yet implemented a change. We continue to recommend that management search for a cost effective way to implement additional review in the payroll process.

Management's Response

Management acknowledges an opportunity to further improve our payroll review and approval process. Management will implement a process through which Human Resources (HR) reviews a report (the "Changes Effective..." report) of payroll-related changes for each payroll cycle. Through this process, HR will provide written verification of new hires, terminations, changes in personnel pay rates, and changes in scheduled hours reflected in each payroll cycle. This process improvement is in development and will be implemented during the current fiscal year.

Account Reconciliations – Control Deficiency

During our audit, we noted differences between the general ledger and supporting documentation for investment activity and net asset roll forward activity. In addition, one bank reconciliation for December was not provided for our review until after our audit fieldwork was completed. Accounting tasks such as timely monthly reconciliations play a key role in proving the accuracy of accounting data and information included in interim financial statements. Therefore, in order to provide more accurate and timely accounting information, we strongly recommend that management establish more effective review and reconciliation policies and procedures as a part of the accounting process. This would involve monthly reconciliations of all significant accounts, and performing more frequent reviews of the general ledger throughout the year, including making any necessary adjustments.

Management's Response

Management acknowledges an opportunity to further improve our account reconciliation process. Management will develop a master control document to validate Management review activity on operating bank account reconciliations. In addition, Management will develop and implement with the Finance Department an enhanced reconciliation template for investment accounts to assist in the accurate mapping of investment activity to the appropriate income statement accounts and to support the resulting net asset roll forward activity. Both of these adjustments are in progress and will be implemented during the current fiscal year.

Property and Equipment Inventory – Control Deficiency

During our audit, we noted that while there are property and equipment listings maintained by the property management department, these listings are not compared to the schedules that the finance department uses to maintain the property and equipment general ledger accounts and to calculate depreciation. We recommend that management review and update policies and procedures to ensure that when property and equipment inventory procedures are performed, the general ledger is updated accordingly.

Management's Response

Management acknowledges an opportunity to further improve our property and equipment inventory process. As prescribed in current policy, Management will conduct a fixed asset review during the fourth quarter of the current fiscal year. In order to reinforce this activity, Management will include this review in the annual budgeting process. Management will ensure that, as part of this review, any property and equipment listings maintained and reviewed by the Facilities Management or other departments are reconciled to the schedules maintained by the Finance Department supporting general ledger balances. These process improvements will be implemented during the current fiscal year.

Prior Year Comments

Prior Year Comment Description	Significance	Current Year Status
Journal Entry Review and Approval	We recommended that management create a policy to ensure all journal entries are properly reviewed and that supporting documentation is maintained for all journal entries.	Comment repeated in the current year.
Payroll Review and Approval	We recommended an independent review of the payroll journal by someone other than the payroll coordinator prior to payroll processing.	Comment repeated in the current year.

Conclusion

We hope the above comments are beneficial. We would welcome the opportunity to provide additional information or assistance regarding internal controls or enhancement of operational efficiency or to assist in the implementation of suggestions or recommendations made during our audit.

Our audit procedures required us to obtain an understanding of controls over primary systems affecting the financial statement amounts. The Organizations may be able to benefit from additional, in-depth reviews of internal controls in other areas. We look forward to discussing opportunities to continue to assist the Organizations.

This information is intended solely for the use of Board of Directors and management of the Organizations and is not intended to be, and should not be, used by anyone other than these specified parties.

