

Audubon Area Community Service, Inc.
Audit Review Committee Meeting

MINUTES
May 9, 2008

Mr. Jerry Manning, Board Chairperson, called to order the May 9, 2008 meeting of the Audit Review Committee of the AACS, Inc. at 2:10 p.m.

Members Present (4):

Rev. Jesse Johnson

Mr. Jerry Manning
Hon. Larry Whitaker

Mr. M. Douglas Smith

Staff Present (3):

Mr. Ronald Logsdon, Executive Director
Ms. Denise Marcum, Executive Assistant
Mr. Terry Payne, , CPA, Chief Financial Officer

Alternate Present (1):

Mr. Frank Craig

Guests Present (3):

Ms. Theresa Batliner, CPA, Senior Accountant of Chilton & Medley, Louisville
Mr. Tony Byrne, CPA, Alexander & Company, Owensboro
Mr. Greg Isaacs, CPA, Partner of Chilton & Medley, Louisville
Ms. Becky Phillips, CPA, Accountant of Chilton & Medley — via telephone conference

NEW BUSINESS.

The purpose of the meeting was to interact directly with the two auditing firms the Committee has selected on May 2, 2008 for further review and consideration.

Rev. Jesse Johnson made a motion to accept the Audit Review Committee minutes from May 2, 2008. Mr. M. Douglas Smith seconded the motion. Motion accepted.

Session I — Review Meeting with Prospective Candidate *Chilton & Medley*

The Audit Review Committee met with three employees of Chilton and Medley. Ms. Phillips, Ms. Batliner and Mr. Isaacs. Batliner and Isaacs were both present in the room. Ms. Phillips, via telephone, stated that she was the audit engagement partner. Mr. Payne began the session by stating that the Committee has questions and invited the two firms, Chilton and Medley, and Alexander and Company in to talk to each of them. He advised that the Committee wanted to ask questions and get an idea of the Chilton and Medley firm and the assets and experience they would bring to the AACS audit.

Ms. Phillips stated on behalf of the firm that they were pleased to be under active consideration for the AACS audit contract. She also stated that Chilton and Medley was a fairly large practice that spends almost of its time working for non-profit organizations.

Mr. Isaacs explained that Chilton and Medley work with large church organizations, private school systems, and in the health care area. Mr. Payne focused some questions on the firm's experience with

non-profits who operate under indirect cost rates. Mr. Isaacs stated that the firm was familiar with that process, having done several hospital audits.

Mr. Logsdon asked questions about the firm's experience auditing the Kentucky Association of Counties (KACo), which was noted in their portfolio. He invited KACo's past president, Judge Whitaker, to join in that line of inquiry, he being familiar with KACo's finances.

Chairman Manning noted to everyone that the number of hours from Chilton & Medley's proposal seems to be lower than everybody else's for the AACCS work. He wanted to know how and why Chilton & Medley had arrived at its hours estimate. Ms. Batliner stated that their firm looked at the AACCS audit fees from the past and other comparable audit engagements the firm had. The quoted fee was set, she said, and the firm didn't expect it to change. She also noted that Chilton & Medley used a "risk based approach" in performing its audits. Ms. Phillips stated that their organization concentrated and focused on the major areas of risk as they were identified during the audit.

Mr. Manning emphasized that the AACCS Audit Review Committee's concern was to ensure good communication and open lines with its auditors. That is much better than waiting until the very end of the audit for feedback and a finished report. Ms. Batliner said that would not be a problem.

Other topics and lines of questioning were pursued during the forty-five minute interaction between the Committee and the Chilton & Medley representatives. At the end of the appointed time, Mr. Manning thanked Ms. Batliner, and Mr. Isaacs for attending and Ms. Phillips for joining in from San Francisco via telephone.

Session II — Review Meeting with Prospective Candidate Alexander & Company

Mr. Payne began the second session stating that one of the concerns that the Committee had was about the amount billed for services over the past two years and the firm's bid the last time services were bid. The amount Alexander & Company bid two or three years back was \$49,000.00, but each subsequent year's billing was for \$110,000.00. Admittedly, some of the billing might be considered a carry-over from the previous year rolled over in the subsequent year. However, Mr. Payne asked Mr. Byrne how much could the Committee rely on the number.

Mr. Byrne stated that if his firm could get the information it asked for in the way they asked for it and in timely fashion, AACCS can rely on the quoted bid price, 100%! Mr. Byrne shared with the Committee an example of the format in which his firm needed the agency's numbers, but further explained the gyrations his firm had to go through to assemble the numbers from AACCS' system into their firm's required format. He also dealt at length with the problem of disparate fiscal years, combining numbers from two agency fiscal years for each respective agency fund/program, and finally arriving at precise numbers for all respective AACCS funds for the agency's July-to-June fiscal year.

Mr. Payne committed to do all of the preparation work as much as possible as the auditor had stated for his firm's requirements.

Discussions also revolved around the AACCS's need for a timely audit product and timely billings from the audit firm. Each of the past two year's audits had been received in February, some two months after they were needed by the agency. Timely billings from Alexander were also at issue. This year, for example, AACCS has had the audit now for two months and still has not received a bill for the FY2007 audit services, and that issue was particularly of concern as the agency is proceeding with its re-bid for audit services not knowing what Alexander & Company was actually charging for the previous year's audit.

The Committee and Mr. Byrne engaged in an extensive dialog about each entity's respective concerns and the need for much improved communication between the auditors and AACS staff and auditors and the Audit Review Committee. The Committee and the auditor talked about possible solutions to improve the communication process.

After the Committee was finished with discussing all questions and concerns with Mr. Byrne, he left the meeting.

Post-presentation Committee Review Session

The Audit Review Committee conducted an extensive discussion of the two firms and presentations. When all was said and done...

Rev. Jesse Johnson made a motion that the Audit Review Committee recommended that an offer for audit engagement be made to Alexander & Company, but that a letter of stipulations be prepared outlining AACS' needs, concerns, and requirements relative to that offer. Mr. M. Douglas Smith seconded the motion.

The motion was discussed but never accepted.

Mr. Payne stated that he would prepare a proposed letter to Alexander and Company outlining the award or audit with certain conditions. Mr. Payne stated that he would have to work with the firm, especially pertaining to the financial statements in the format that Mr. Byrne had specified.

Mr. Logsdon suggested another Audit Review Committee meeting at 11:00 a.m. and the Administrative Support Committee at 11:30 a.m. on May 23rd.

The Audit Review Committee had resolved to table the motion until May 23rd at 11:00 a.m.

ADJOURNMENT.

There being no further business,

The meeting was adjourned at 4:30 p.m.

Mr. Jerry Manning
Committee Chairperson