

Audubon Area Community Service, Inc.
Audit Review Committee Meeting

MINUTES
September 4, 2008

Mr. Jerry Manning, Board Chairperson, called the September 4, 2008 meeting of the Audit Review Committee of the AACCS, Inc. Board of Directors to order at 11:00 a.m.

Members Present (3):

Rev. David Combs *

Mr. Jerry Manning

Mr. M. Douglas Smith

* Alternate representing Rev. Jesse Johnson

Staff Present (3):

Mr. Ronald Logsdon, Executive Director

Ms. Maryanne Mountain, Fiscal Manager

Guests Present (3):

Mr. Tony Byrne, CPA, Alexander & Company

Ms. Jennifer Estes, CPA, Alexander & Company

NEW BUSINESS.

CFO Improprieties. The chairman turned the meeting over to Mr. Logsdon to update the Committee on further discovered improprieties involving the part of the former CFO.

Additional Improper Bank Drafts. The executive director apprised the Committee that the independent auditors had found five additional instances in which the former CFO had charged the agency bank account for his personal credit card payments. The five newly discovered instances were all in the FY2006 audit year, but not discovered in that audit. They were uncovered after the independent auditors requested newly produced statements covering the period Terry Payne was employed at AACCS, Inc. At Audubon's request and its expense, BB&T did the research, produced the bank statements from February 2006 forward and provided them to the auditors. The earliest fraud occurred December 26, 2006, and there were two fraudulent charges that date. The latest was June 28, 2007. Altogether, the five newly discovered and documented incidents totaled \$7,747.34 in improper transactions, bringing the total amount obtained by the former CFO in that manner to \$15,159.04. The incident that exposed his improper activity was a July 9, 2007, incident involving \$7,411.71, which was the last one done through electronic transfer of funds from AACCS' account into the CFO's. The auditors stated that the July 9, 2007, transaction was the last one found in the bank statements, so all six improper transactions had occurred over the eight-month span between December 26, 2006, and July 9, 2007.

Request for Restitution. The executive director shared with the Committee a September 2nd e-mail to the Board's counsel, Jesse Mountjoy, asking that he draft and send a demand letter to the former CFO for the \$7,747.34 now known to still be owed back to the agency by Mr. Payne. The e-mail handout also included a response from Mr. Mountjoy advising that following a talk with the Commonwealth's attorney the previous evening he was inclined not to send the requested letter. Mr. Logsdon asked the Committee's advice on the matter, saying that he felt that his stewardship responsibility as he saw it was primarily to take whatever

timely action necessary to see that the agency was again made “whole” from the thefts, therefore he preferred to issue the demand letter to Mr. Payne for immediate restitution of the \$7,747.34 not yet repaid. This could be done notwithstanding the fact that additional liabilities continue to accrue to Mr. Payne for the agency’s legal, auditing and research fees that continue to mount as a result of his fraudulent activity.

An “apology” letter dated September 2, 2008, postmarked locally, and received the following day was also shared with the attendees. It had no bearing on the matter at hand, but the executive director wanted the members to have full possession of all current information in his possession.

A lengthy discussion ensued. The pros and cons of issuing the demand letter were freely discussed, and there was a wide divergence of views. However, in the end the following action was taken:

Mr. Smith moved that via the Board’s attorney the agency demand restitution for the full restitution for the known sum of \$15,159.04 to have been improperly taken from the agency, and inasmuch as only \$7,741.71 of that amount had been recouped from the former CFO’s final two paychecks that the remaining \$7,747.34 be remitted by him to the AACS, Inc., thus repaying in full the documented \$15,159.04 thus far know to have been improperly received from the agency; and further that the remaining remittance be received in full within thirty days of the date of the demand letter; and further that the former CFO fully and voluntarily disclose, list and repay any other funds improperly taken from the agency via any other means than the direct withdrawal of funds from agency accounts into his personal credit card accounts; and further that the former CFO’s attorney also receive a notice copy of the demand letter. The motion was seconded by Rev. Combs and passed without objection.

It was noted in discussion by one present that there was word that Mr. Pat Flaherty was the attorney that had been retained by Mr. Payne in connection with these AACS matters.

New World Systems Service Agreement. Mr. Logsdon shared with the Committee New World Systems’ 2008-2009 service agreement billing. That billing was for \$22,535. Discussion followed. Ms. Mountain gave a brief overview of the usage and benefit of the on-call support services from New World, indicating that she and her staff consulted with them quite often during any given week and that the service, though expensive, was both necessary and helpful.

Finance Department Vacant Positions Update. The executive director updated the Committee on the status of filling both the internal auditor and chief financial officer positions. He stated that the human resources director had reported to him earlier in the day:

Internal Auditor. She and Ms. Mountain were interviewing seven (7) applicants for the internal auditor position. They will be done with the first round of interviews Friday morning, September 5th. They will then select and call back two or three candidates for a second interview with the executive director, and the successful candidate will be selected following those interviews.

Chief Financial Officer. AACS currently has nineteen (19) resumes submitted for the position; eight (8) of them appear to be very strong applicants. Ms. Cheryl Gatton, HR director, is constructing interview questions for use when interviewing for this position. The job posting will end on September 11th and at that time a three-member team of Senior Staff persons along with the executive director will screen the applicants and select an appropriate

number for scheduled interviews. Perhaps as many as four or five candidates will be recommended for a final round of interviews with the Audit Review Committee and the executive director. The Committee later set the date for those interviews to be Thursday, October 9, 2008. The successful candidate will be selected following those interviews and, hopefully, presented at the Board's October Board meeting on October 21, 2008.

FY2007 Audit Progress Review. Ms. Mountain began by speaking on where the June 30, 2007, audit stood from her staff perspective. A good deal of material is being prepared and submitted to Alexander & Company for their audit review purposes. Some of that may be a bit later that she would like, but she and the staff are working as diligently and as promptly as possible.

Consulting Contract with BKD. AACS, Inc. will be executing a contract with BKD, a CPA firm, to assist AACS in the preparation of its FY2007 financial statements for Alexander & Company's audit. Ms. Becky Whitehead, CPA with BKD, will be assisting Ms. Mountain with that work. The requisite contract has been received, but the executive director has requested that an estimate of the cost of BKD's services be rendered prior to his executing the contract for services.

Alexander & Company's Audit Progress. Ms. Estes stated that she and her staff were busily engaged on the FY2007 organization-wide audit. Thus far, though, that activity was mainly in the area of required "testings," and those primarily related to designated "major" programs.

Anticipated Forensic Accounting Services. Mr. Byrne stated that his firm had been in contact with BKD's forensic accounting department in St. Louis, Missouri. He indicated that he expected to establish a contract/relationship with that office to run an assessment on AACS' FY2007 books. A complete electronic copy of the agency's prior year accounting files would be made and submitted to BKD for analysis. BKD has a sophisticated system that will run tests against AACS' data files and highlight any questionable transactions for Alexander & Company's further investigation.

Update on Other Investigations of Possible Fraudulent Activity. Rev. Combs asked if there were any other matters involving potential fraud presently under investigation.

KISP Year-end Purchases. Mr. Logsdon reported that there was the previously reported matter of some FY2007 year-end questionable purchases under the Kentucky Intensive Services Program (KISP). That matter had been reported last September or so by two employees in the Counseling Services Department and had been investigated, he thought thoroughly, by himself, the HR director and the CFO last October and were found to be without merit. However, the independent auditors had apparently received renewed allegations concerning that matter and they were investigating it again as part of their FY2008 audit review.

Family Member Cellphone. There was also a matter of the Counseling Services Department's spouse having received a cellular phone in a "piggy-back" arrangement through Cingular/AT&T. Family members receiving discounted cellphones and service as part of ATT&T's "piggy-back" promotions are certainly allowable as long as the agency's money is not involved. The cellphone in question should have been obtained totally apart from any direct connection with the agency, but it was somehow acquired with a connection to the agency's Cingular/ATT&T account, but its year-one fee privately paid by Ms. Lamar's personal check, as has now been documented. However, the second and third years' annual fees were not billed to Ms. Lamar, but have since been, according to the director's

understanding, repaid. And the personal phone contract was terminated earlier this year. The error, and that was the way the director said he saw it, was perhaps two-fold: 1) The phone should have not been on the agency's contract even if it were paid for personally, and 2) the agency should have on a current and timely basis billed Ms. Lamar for the subsequent years' service fees and/or instructed her to make other private arrangements for the phone.

KISP Funding for Non-KISP Services. Ms. Estes stated that presently the auditors' focus was on the question of whether KISP funding had been used to support other non-KISP-related services in the agency. She stated that Ms. Lamar had stated that there was sufficient flexibility under the KISP contract to allow that, but the auditors have not reached that conclusion. There followed a discussion about the "categorical" nature of most AACS, Inc. grants and that the respective funding streams must only be used for purposed designated in the legislation and/or contracts pertaining to those categorical funds.

NEXT AUDIT REVIEW MEETING

The Committee set its next meeting date to be Thursday, October 9, 2008. CFO candidate interviews will be conducted during both the morning and the afternoon that day. The "audit review" meeting will take place at 11:30 a.m., with lunch being provided.

ADJOURNMENT

There being no further business, the Audit Review Committee adjourned at 1:05 p.m.

Rev. Jerry Manning
Chairman