

**Audubon Area Community Service, Inc.**  
***Audit Review Committee Meeting***

***MINUTES***  
**November 6, 2008**

Mr. Jerry Manning, Board Chairperson, called the November 6<sup>th</sup>, 2008 meeting of the Audit Review Committee of the AACCS, Inc. Board of Directors to order at 11:25 a.m.

***Members Present (3):***

Mr. Jerry Manning

Mr. M. Douglas Smith

Judge Larry Whitaker

***Staff Present (4):***

Mr. Ronald Logsdon, Executive Director  
Ms. Denise Marcum, Executive Assistant  
Mr. Byron Mayes, Chief Financial Officer  
Mr. Brad Trivett, Internal Auditor

***Alternate Present (1):***

Mr. Frank Craig

***Guests Present (1):***

Ms. Jennifer Estes, Alexander & Company

***NEW BUSINESS.***

Mr. Manning thanked everyone for attending and introduced AACCS' new Chief Financial Officer, Mr. Byron Mayes and the internal auditor, Mr. Brad Trivett. Mr. Manning then turned the meeting over to Mr. Logsdon.

**General Summary on FY2008 Audit Progress.** Mr. Logsdon stated that he was uncertain as to the specific progress of the FY2008 audit. He said that he was aware that the Finance department has yet to get the FY2008 financial statement data to BKD, which will prepare them according to Alexander & Company's requirements. BKD will get them to Alexander & Company and the preparation of the audit schedules will then proceed. Mr. Logsdon also stated that AACCS has signed a contract with BKD and that he had talked with CPA Ms. Becky Whitehead the past Monday about the project. Mr. Logsdon said that presently, according to his understanding, Alexander & Company's audit work revolves around its continuing fraud investigations and background compliance work.

**New Chief Financial Officer.** Mr. Logsdon presented Mr. Byron Mayes to further introduce himself and give the Committee more of his background. Mr. Mayes gave a review of his financial background and stated that his initial focus as CFO was to get better two-way communication going *within* AACCS Finance Department and between the Finance Department and the agency's other departments and staff. Mr. Mayes stated that he and Mr. Trivett have been interviewing the respective program/department directors. He said that his and the new Internal Auditor's focus would be to better educate the "outside" employees on required financial policies and procedures.

Mr. Mayes acknowledged to the Committee that the FY2008 financials had yet to be turned over to Ms. Whitehead, but he does not have a time frame of getting the data to her within the next week and, hopefully, getting the Alexander-formatted financial statements finished by Friday, December 5<sup>th</sup>. Mr. Mayes stated that by the end of November he should have a much better handle on where the Finance Department currently stands.

Mr. Mayes noted that Ms. Karen Barrow, who works in payroll, along with Fiscal manager Ms. Maryanne Mountain have been doing the work for that BKD-related data process. Mr. Mayes stated that he and Alexander & Company are trying to assemble as much information as they can to “tighten the gaps” that need to be addressed. Mr. Mayes also stated that he will implement processes to close those gaps relative to his department and each other agency department. He also mentioned that, based on a significant finding from the FY2008 Lincolnshire audits, his department was working toward monthly closeouts and posting the agency’s current journal entries.

**FY2008 IRS 990.** Mr. Manning stated that he was very concerned about the new 990 form. Inasmuch as the IRS now requires the governing board to review and approve the 990 prior to its submission, he stressed the importance of completing that in time for the Board’s February 17, 2009, meeting.

**Payroll Withholding.** Mr. Manning asked Mr. Mayes if he was going to be in charge of assuring the timely and accurate payroll tax withholding for the agency. Mr. Mayes stated that he has talked to the payroll personnel about the matter. Mr. Manning stated that he wanted to make sure that somebody was held accountable for the timely and accurate withholding payments. AACS can’t handle any more \$10,000 IRS penalties. Mr. M. Douglas Smith asked if there was a person assigned to that task. Mr. Mayes said that he would be meeting with the payroll staff later that afternoon to go over their job tasks and that issue would be addressed. Plus, he would make sure there is no miscommunication which might result in any such future lapse and penalty.

**Internal Auditor.** Mr. Logsdon presented the agency’s new Internal Auditor, Mr. Trivett. He informed the Committee that Mr. Trivett had requested time for a brief presentation to the Audit Review Committee, that he would like to discuss with the Committee what he’s now seeing and where he wants to go with his work as internal auditor. Mr. Trivett introduced himself. He stated that his focus will help assure that the agencies’ checks and balances are, in fact, “in check”. Mr. Trivett said that his direction was to build on Mr. Mayes’ focus on enhancing the agency’s internal controls, and further to ensure that those controls are actually working out in the field.

Among his initial observations and immediate concerns are that the IT department has no formally adopted IT policy and procedure manual. There is a draft internal IT security manual that has been in the works for quite some time, but none yet finished, adopted and implemented throughout the agency. Mr. Trivett stated that he is currently working on an Internal Audit Policy and Procedure Manual to guide and direct his own work. But Mr. Trivett stated that his next policy-related goals are to look at assessing the agency’s inventory controls and property risk and then with the involvement of the “IT” Department to address the needed Information Systems Security Policies and Procedures Manual. Mr. Manning asked if he sees that policy also addressing back up systems, which Mr. Trivett said he did.

Mr. Trivett said that he would develop, test and set up internal auditing programs; he would then run “tests” against agency systems, processes, and operations to see what was working as designed and what refinements needed to be put in place. Mr. Mayes stated there is not presently a guiding *internal auditing* document or standard reference, but there is the recently approved Financial Policies and

Procedures Manual, so that reference will serve his needs for internal auditing guidance in the short run.

Mr. Trivett said that another focus of concern for him had to do with key positions/functions' "turnover or succession folders." This refers to when a new employee is hired and there is a written, itemized, step-by-step statement (beyond the position descriptions) as to the specific job elements – or in case someone has to be away and there would be a reference piece for a co-worker not to be "in the dark" about performing that job in the assigned worker's absence. Mr. Manning asked when he thought that could be done. Mr. Trivett was unable to give a time limit. Mr. Mayes suggested that in his department he could come up with a "flow chart" of what needs to be done to accomplish the discrete functions required.

Finally, Mr. Trivett said that his role would include being a principal liaison between the AACCS and the independent auditors, Alexander & Company. Mr. Trivett stated that the auditing firm would also be looking at everything he had done in conjunction with his *internal* auditing work during the year. He said that he would be setting up numerous and varied "tests" on his own, and these would be a set up for each agency department/program. Mr. Craig asked if he has set a time limit of accomplishing this task. Mr. Trivett said no, and that he has only been here for a month. Mr. Manning suggested to Mr. Trivett his providing a "progress report" for each year's Annual Board meeting.

Ms. Estes suggested that Mr. Trivett needs to continue reporting to the Audit Review Committee what he's doing in terms of internal audits, whether he attends the meetings or not.

**Information Systems Security and Coordination with HR/Finance.** Again, there is a draft document in print for the IT-related security needs. But Mr. Mayes interjected that the IT policy manual should also specify the timely and secure interactions between the Human Resources Department *and* his payroll staff *and* IT because there will be questions like, *What are the specific HR-IT steps for regulating the hiring and termination of staff? How quickly is the agency responding when an employee quits?* It is so Mr. Trivett can have a guidance to work off of. Mr. Mayes said that he, too, would work with IT to develop an IT "systems security" manual that encompassed all agency security needs and issues.

Mr. Smith asked how close he was working with IT Director/CIO Dennis Hagan. Mr. Mayes stated that he had talked with Mr. Hagan. Mr. Hagan has banking experience, so his knowledge of their security issues will be put in the manual.

**Independent Auditor's Report.** Ms. Estes stated that her firm didn't yet have the financials. Ms. Estes stated that she needs the financials as soon as possible. Mr. Mayes stated that in the agency's financial accounting system, *Logos*, some reports can be exported to Excel and some can not. But he also stated that he was working with New World Systems on the matter and that he hopes that together they can find a way for *Logos* to provide a quick solution to that Excel data export need.

Mr. Logsdon stated again that he also needs this information back from BKD by the first Friday in December for the *2008 Annual Report*. So getting the complete *Logos* data export is an important time sensitive issue all around.

Ms. Estes stated that her firm really felt it this year needing the *Logos* system to export the entirety of the financial data into Excel. She stated that Alexander and Company is trying to get bids on deep analysis software that will thoroughly analyze that exported data relative to certain cues, algorithms and standards to "red flag" any transactions the auditors should further inspect. Ms. Estes stated that her firm had received a rather high bid from BKD/St. Louis, so they were looking elsewhere. Such a

software program should help cut their auditing time down, she said. There are calls to other CPA firms that yet have to be made before an appropriate service vendor can be selected.

**Restitution Sought from Mr. Terry Payne.** Mr. Logsdon asked Ms. Estes if anything further had emerged from her analysis of the AACS bank accounts. Ms. Estes stated that she researched all the way back to when Mr. Payne first started his employment with AACS in February 2006, nothing more had been found.

Mr. Logsdon noted, though, that the auditors were now looking for fraud that may have been committed in many other ways. For example, he's received a call the previous week from Kenergy regarding a request from the auditors to verify every single Low-Income Home Energy Assistance Program (LIHEAP) transaction the previous year. The Kenergy representative complained that such verification would take hours. Mr. Logsdon then talked with Mr. Tony Byrne at Alexander & Company about the request. Mr. Byrne intimated that the independent auditors were exploring that area in case bogus vendors had been established by Mr. Payne and perhaps others and thereby further fraudulent sums received.

Mr. Mayes stated that when new vendors are to be added, there needs to be an accounts payable listing. Ms. Estes suggested going through the current extensive vendor list, validating current vendors, deleting those vendors that are not currently being used.

Mr. Mayes stated that an employee list will be run and the program directors will go through the list of employees in their department and sign off on it. Mr. Manning said the Finance Department should know of how many payroll checks go out versus how many employees are eligible to receive a check.

Mr. Mayes suggested that a related area, access rights in *Logos*, needs to be limited and that he needs to be more with reports and statements. Mr. Mayes stated that payroll now has access to enter new hires, along with HR, which enters most employees, but he would like to take away that access for payroll.

Mr. Manning asked where Alexander & Company was at as far as the agency-wide fraud investigation. Ms. Estes stated that as far as the fraud issue goes, more testing has been done with an employee other than Mr. Payne, but she is still concerned about the original allegations.

**Lincolnshires' Audits.** Mr. Mayes informed the Committee that there was a "deficiency" noted in the Lincolnshire and Lincolnshire North audits. Alexander & Company has previously provided the agency the annual depreciation expense to be recorded. But under current auditing standards AACS now needs to apply depreciation with its monthly closings. Then at the end of the year there will be a more complete and accurate financial statement.

Mr. Logsdon asked Ms. Estes if other agencies were facing the same kinds of challenges that AACS was in regards to new auditing standards. Ms. Estes said yes, but some agencies don't have the staff to really comply with the new standards, with things like segregation of duties, for example. Ms. Estes also said that Alexander and Company has to go by the AICPA guidelines currently in effect. Those agencies are given the best case scenarios for the segregation of duties.

**Internal Controls.** Mr. Logsdon stated that Mr. Mayes and Mr. Trivett want to get the agency's internal controls beefed up in accordance with all current standards. Once they are established it is then necessary to get them out to the field staff, to drive it deeper into the agency's DNA, and to get it working operationally. Mr. Trivett said that from his current perspective, he sees that in all

departments there is that one person who knows the ins and outs of the department and how things function and should work. That needs to be broadened and deepened. Judge Whitaker stated that if there is resistance at perhaps the mid-level management due to implementing the requisite internal controls, the agency needed to be suspicious about that employee.

Ms. Estes suggested setting up an agency hotline so that if employees notice or see something suspect or potentially fraudulent going on within the agency or a department, that employee can call the hotline and remain anonymous. But this will need to be done sooner than later, she said; and this can be put in their testing procedures. Mr. Logsdon said that this topic would probably need to be put in the next issue of *The Curious Journal*. Ms. Estes also suggested to also include that Alexander & Company could be contacted if the employee is not comfortable in calling the hotline. Mr. Logsdon noted that the Personnel Manual already provided several “anonymous” telephone call number options to state-designated entities such as the Kentucky Attorney General’s office and others.

**Planned Projects Timetable.** Mr. Craig suggested to the Committee that there needed to be a timetable on certain projects to make sure all the discussed and planned projects are covered at that point.

Mr. M. Douglas Smith suggested that a follow-up report be given at the next Audit Review Committee on December 4, 2008.

Mr. Trivett said that he intended to have progress reports at that time, along with long-range planning.

Mr. Manning asked if there were any more questions. There were none.

#### **ADJOURNMENT.**

There being no further business,

*The meeting was adjourned at 12:40 p.m.*

Mr. Jerry Manning  
Committee Chairperson