

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

***MINUTES***  
**December 4, 2008**

Mr. Jerry Manning, Board Chairperson, called the December 4<sup>th</sup>, 2008 meeting of the Audit Review Committee of the AACCS, Inc. Board of Directors to order at 10:15 a.m.

***Members Present (2):***

Rev. Jerry Manning

Mr. M. Douglas Smith

Judge Larry B. 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

***Guests Present (2):***

Mr. Tony Byrne, Alexander & Company  
Ms. Jennifer Estes, Alexander & Company

***NEW BUSINESS***

**General Overview of Staff Work Progress.** Mr. Logsdon informed the Committee that he had met briefly with the internal auditor the day before. Mr. Trivett had brought Mr. Logsdon up to date on some of the organizational work that he'd been doing, which is developing some manuals that outline the various internal auditing procedures that he will deploy in the year ahead.

Mr. Logsdon stated that the CFO had been working almost tirelessly, working late every day by looking at a lot of systems and changes in the agency. Mr. Logsdon also stated that he would have Mr. Mayes and Mr. Trivett later give their own brief summary of their work the past month.

**Grant Management Process — *Review and Reference.*** In a recent Audit Review Committee meeting, Mr. Logsdon noted, Ms. Estes had pointed out that one of the Senior Managers didn't seem to appropriately conceive the full range of her responsibility to manage a particular grant. So Senior Staff have their past two staff meetings been thoroughly discussing and drafting the overview and summary piece to assure that all senior managers have a full understanding of their grant management responsibilities. Mr. Logsdon said that given the independent auditor's comment, the executive director thought it useful to perform this work and have the discussions to develop the "Grant Management Process" document as a training opportunity and reference piece.

**Fraud Investigation Update.** So far as is known, said Mr. Logsdon, the agency experienced fraud involving six specific improper acts committed by the former CFO and totaling \$15,159.05. Ms. Estes, independent auditor, confirmed that no further fraudulent acts have been discovered to date. To date, \$7,411.71 of the money has been recovered, with \$7,747.34 remaining to be repaid.

**Internal Auditor's Report.** Mr. Trivett stated that within the past month, he had been in the process of working on the audit worksheets for the various AACCS programs and departments. He said that he has completed the checklists for the "IT" department, Human Resources, and payroll and accounts payable;

he is in the process of developing the checklist for Head Start. Mr. Trivett said he has to get all of those done before he can actually start going into these different departments.

**Chief Financial Officer's Report.** Mr. Mayes stated that one of the major concerns he has found is the need that monthly closeouts and financial statements be prepared for each agency program. The monthly closing process hopefully will close some major gaps, he said.

A meeting was scheduled with the Alexander & Company and BKD auditors for Monday to go over the agency's FY2008 numbers and financials. If the AACS/BKD schedules are approved as ready, then Mr. Mayes will turn those financials over to the Alexander & Company auditors for them to do their work.

A meeting has also been scheduled with *Logos* representatives on December 10<sup>th</sup>. Hopefully, Mr. Mayes said, he hoped to gain better insights into the way the *Logos* software program works. It will take an effort on the part of the *Logos* representatives to lay out some sort of a plan as to what the agency needs to address in future months' scheduled staff training sessions.

**Agency Risk Management Systems and Initiatives.** Judge Whitaker stated that with the focus on finance, the bottom line is protecting the agency — namely the agency's reputation as well as the dollars. Judge Whitaker also stated that he wondered if the agency should begin to roll into "loss control," not just with workman's compensation claims, but looking at all other areas of operation.

Mr. Logsdon informed the Committee that AACS was just named in a suit in Logan County Circuit Court: A GRITS subcontractor was transporting a woman to Nashville for Medicaid services and the woman was somehow thrown out of the bus. That suit is being defended by the subcontractor's insurance company and AACS' insurance company is "on notice," he said.

**Loss-control and Risk Management.** Judge Whitaker said he thinks the agency is being "corrective" in how it now addresses financial concerns and allegations prior to their reaching outside interests. Finance is certainly one of the three legs of the agency, he said. There are other potential claims or loss-control issues that may result in agency dollars or programs at risk, he said.

Ms. Estes stated that's one of the things Alexander & Company is now actually suppose to start looking at as auditors is the agency's "risk management committee," or whoever does that. How does the agency look at its risks? How does it determine where the risks are — not after something has happened, but proactively and how the agency works to prevent potential risks from becoming actual ones. This is a whole-agency matter; it's not just a finance issue. It has led to some companies forming a Risk Committee, she said. Mr. Logsdon asked if the thought was of the Audit Review Committee might be sort of a combination of an Audit Review and a Risk Management Committee.

Judge Whitaker stated the Committee needs to look at ways to discover or at least look into the risks of the agency. This Committee seems to represent a good template that is working here at the agency, he said. Mr. Manning stated that he thought it was a good idea to put the "two committees" together.

**Staff Counsel.** Judge Whitaker asked Mr. Logsdon if there was a benefit to having an internal legal counsel that might help shape up some of the issues, not just issues that are "at risk," but just day to day operations. Mr. Logsdon stated that he didn't know if the agency could afford a staff attorney.

Judge Whitaker suggested that an on-staff attorney might save the agency from having to send many matters to other attorneys. Mr. Logsdon stated his honest opinion is that AACS had adequate legal support. As the agency has gone through the years, it had become a growing cost to AACS through the years to where legal expenses are now a big cost item, he said.

Mr. Byrne asked if McLean County has internal legal counsel. Judge Whitaker said yes. When you're the size we are, at some point you are either hiring a staff attorney or you're hiring outside legal counsel

for everything. Mr. Logsdon said the agency certainly is big enough for a staff attorney, but his only reservation was is paying for it.

Judge Whitaker said although AACS may “know” an issue and may have understood it for 20-25 years, when it comes to being able to sign off staff members don’t have a law degree. Judge Whitaker stated he thinks the agency is going to see more of that someone with a certificate above their desk *has* to state legal validity on behalf of the agency; even though a document looks good, sometimes it will have to pass through the eyes of someone more certified.

**General Summary on FY2008 Audit Progress.** Ms. Estes stated she and her staff were still working on the same things that they were before. She said she would like to see some of the 6/30 backup material for all the accounts receivable and accounts payables numbers. Ms. Estes said her firm didn’t have any of that information yet and there were several things she needed but hadn’t yet received.

Mr. Mayes said that everything in the agency’s finances is going through one server. When Ms. Estes asked his staff to run a monthly transaction list it took thirty minutes or more to run that job. There have been some delays due to the system of locking up when several jobs run at one time.

Ms. Estes stated that her staff is working on the accounts payable testing. They don’t look at everything, but they look at things that the agency has paid for after the end of the year obviously not minute amounts. The bigger dollar amounts are picked out, looked at, determined what should be in there and to make sure that nothing has been missed.

Ms. Estes stated that her staff is also doing asset testing to see what should be put on the schedule so they can compare that to what you do put on the schedule. Judge Whitaker asked if AACS complies with GASB and how that was done. Ms. Estes said yes, but AACS always has complied with GASB. AACS has always had their assets on there, she said. But, Ms. Estes stated, they were told that *Logos* had the capability to actually maintain the asset program in it, but it doesn’t at this point.

Ms. Estes stated that her firm’s work the “major programs” is virtually done. The ones that have actually been selected are almost done. Head Start, SCP and FGP are clustered together as a “major program;” CCAP was a major program; Weatherization, which also has LIHEAP, is also clustered together.

Mr. Byrne reminded Ms. Estes of a journal entry issue. Ms. Estes said there is a journal entry that is moving money between the two programs and there is no back up for it, and Mr. Payne is not here to ask. For example, there is one transaction moving \$38,000 from CSBG to Family Preservation Program (FPP). Auditors have to look at that, but now they don’t have anything to back it up. Mr. Byrne noted that it was \$38,000 of *expenses*, not cash.

**LKLP Debt to AACS/GRITS.** Mr. Logsdon informed the Committee of another matter in which the LKLP Community Action Agency, Hazard, Kentucky, owes AACS \$127,000. LKLP has denied payment.

Mr. Logsdon reported that GRITS director Dan Lanham had said there may be some financial difficulty at LKLP and it doesn’t have the money. He had also indicated that the “word on the street” is that there may be substantial fraud issues at LKLP regarding the HSTD director.

Mr. Logsdon stated that he had met with Mr. Mountjoy and his recommendation was that the contract provides two avenues: arbitration and mediation. Mr. Mountjoy had suggested to Mr. Logsdon and Mr. Lanham to contact the OTD, Kentucky Transportation Cabinet, and asked if they would invite both parties to come in for mediation.

## ***NEXT COMMITTEE MEETING***

There was discussion on the matter of when to hold the next Audit Review Committee meeting. Everyone decided on January 15, 2009 at 10:00 a.m. — and to have the Administrative Support Committee meeting no later than February 3<sup>rd</sup> or 4<sup>th</sup>, 2009.

## ***ADJOURNMENT.***

There being no further business,

*The meeting was adjourned at 11:45 a.m.*

Mr. Jerry Manning  
Committee Chairperson