

Audubon Area Community Service, Inc.
Audit Review Committee Meeting

MINUTES
January 15, 2009

Mr. M. Douglas Smith, Board Vice Chair, called the January 15^h, 2009 meeting of the Audit Review Committee of the AACCS, Inc. Board of Directors to order at 10:00 a.m.

Members Present (3):

Rev. David Combs

Rev. Jerry Manning

Mr. M. Douglas Smith

Alternate Present (1):

Mr. Frank Craig

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

Mr. Smith welcomed everyone to the meeting.

PRIOR MEETING MINUTES

The minutes of the Committee's previous meeting were provided as a handout. Mr. Smith asked if there were any questions or corrections pertaining to the December 4, 2008 minutes of the last Audit Review Committee meeting. There were none.

Rev. Jerry Manning made a motion to accept the December 4, 2008 Audit Review Committee minutes. Rev. David Combs seconded the motion. Motion approved.

NEW BUSINESS

General Status Overview. Mr. Smith asked the executive director if he had any general remarks or anything in particular to report to the Committee. Mr. Logsdon said that he did not and suggested that the Committee get right into the audit progress review.

General Summary on FY2008 Audit Progress. Ms. Estes stated that she did not yet have the financials and is unable to report a great deal. Ms. Estes also stated that she still did not have all of the requested information from staff for the "6/30" fiscal year end (FYE). She said that she was still doing the main testing that she had been doing. The major programs' testings are done, she said.

Mr. Logsdon asked if there was anything he could do to help get the needed financials to Alexander & Company. Ms. Estes stated that Ms. Becky Whitehouse, BKD, LLP, had been working through the numbers, but the delay, in part, was that she wants to make sure that the BKD financials provide them

“good numbers” before the financials are completed. Too, Ms. Whitehouse does not want to give Alexander & Company something and then have them to have to re-do the financials all over again.

Ms. Estes and Mr. Logsdon agreed that Ms. Estes would e-mail him a checklist of what is needed in order to finish the financials.

Other audit-related matters discussed were:

IRS “990” Report. Rev. Manning inquired about the “990” and when that report to the IRS might be completed. He noted that it will need to be approved by the Board prior to its submission to the IRS, and the next Board meeting will be February 17th. Ms. Estes stated that the “990” can’t be done until the financials are done, but if those are not done in time for the February Board meeting that the “990” could be filed and then be subsequently amended. Ms. Estes said the “990” does not actually have to be in until May 2009, so its submission can be extended up to that point without any penalties.

FY2008 Financials. Ms. Estes told the Committee that the only thing that had been received for the 6/30 FYE was just a few of the financial status reports. Ms. Estes said that she would send Mr. Mayes and Mr. Logsdon an updated checklist. Some members of the Committee expressed their frustration on the financials not having yet been done. Ms. Estes agreed to get in touch with Ms. Whitehouse to find out what information she still needed in order to complete the FY2008 financials.

Ms. Estes stated that the previous CFO had provided her a binder for the previous year’s audit that had all of its ending trial balances, plus all of his journal entries for the FY2007 audit. This is what she needed for the FY2008 fund balance reconciliation, she said.

Mr. Mayes and Ms. Estes then briefly went over their joint checklist with each other to see if Ms. Estes had received the items referenced that she needed and had requested. Mr. Mayes asked Ms. Estes if she had a copy of all the fiscal year-end bank reconciliations and year-end accounts receivables. Ms. Estes stated that she did but still needed the backup documentation for both of those items.

Mr. Mayes asked Ms. Estes what she meant by needing a backup. Ms. Estes stated that that would be the final invoices (original documentation), but that if she or her staff had to go through AACS’ books to get that backup that it would take Alexander & Company a lot more time. So the best thing to do, she said, is for every number that AACS had a grant receivable to locate and copy for her a final invoice. The *backup* she wants is the original document. Ms. Estes said that she also had not yet received the agency’s most recent bank reconciliation.

After much discussion of what Ms. Estes had and didn’t have, what had allegedly been sent and allegedly not received on the other end, Rev. Manning suggested that Mr. Mayes, Ms. Mountain, Ms. Whitehouse and Ms. Estes all get together for a meeting to sit down and discuss precisely what’s needed to get those financials done.

Mr. Mayes stated that there were some *prior entries* that are “hanging out there”. There is one account relating to assets for which this is a particular problem. Ms. Estes noted that the previous CFO had said that he was going to begin AACS doing its own financials, but that had not been done under his tenure.

Mr. Mayes also noted that there were items still on the agency’s balance sheet, e.g., KACCRRRA (Kentucky Association of Child Care Resource and Referral Agencies) for \$85,000 due from the Cabinet for Health and Family Services, that to funds/programs that AACS no longer had. Mr. Logsdon said that the agency was going to have to write off \$85,000 claim because AACS had

pleaded to the Cabinet for three years running for that money and the Cabinet had simply ignored paying it. The \$85,000 reimbursement claim had come about, Mr. Logsdon said, when the Cabinet has asked AACS to continue for three extra months as the KACCRRRA fiscal agent to close out that statewide contract. That sum represents the agency's cost/claim for those three months' work while closing down KACCRA contract. AACS was KACCRRRA's fiscal agent some three years, and continued in that role after KACCRRRA failed to obtain its contract renewal. The \$85,000 claim was for AACS expenses for services rendered between the 6/30 FYE and the time University of Kentucky took over the contract at the first of October that transition year.

Ms. Estes stated that she would ordinarily need backup for the \$85,000 claim, but if there was not any then there was no need for the backup. She agreed that it simply needed to be written off if there was no hope of reimbursement claim being realized. Still, there needs to be an explanation of why that amount is being written off.

Fraud Investigation Update. Ms. Estes informed the Committee that she has received the reports back from Chilton and Medley's "forensic audit" of AACS' *Logos* financial management software files. There were numerous "flags" to be checked out, she said. The "forensic audit" uses computer formulas to analyze and isolate any items within the *Logos* data files that she should check out, although many of them don't really mean anything, she said.

Mr. Logsdon advised that he had talked to the Commonwealth Attorney in December and had been advised that their fraud investigation had been completed and that the Commonwealth's Attorney was going to take the matter to the January 2009 Grand Jury. The Commonwealth's Attorney said that he did expect an indictment to come out of that Grand Jury. Mr. Byrne advised that, in fact, the former AACS CFO, Mr. Terry Payne, was indicted and that the report had appeared in the *Messenger-Inquirer* as the very last entry under court news in the Friday, January 15th newspaper. The *Messenger-Inquirer* indicates that on January 5, 2009, Mr. Payne was indicted on *five counts* of "theft by unlawful taking of property valued at \$300 or more." Mr. Logsdon stated that the Commonwealth's Attorney had advised him that the matter would likely go to trial in October 2009.

Grants Management Process. Mr. Logsdon said the Senior Staff had finished its work on the AACS Grants Management Process. That document was presently posted on the agency's public website. It was being recommended to the Administrative Support Committee for that statement to be incorporated into the agency's Financial Policies and Procedures Manual.

Internal Auditor's Report. Mr. Trivett stated that he would begin an internal audit on the agency's Human Resources Department on Tuesday, January 20th.

Chief Financial Officer's Report. Mr. Mayes stated that his biggest priority right now was the FY2008 Audit. He stated that he wants to make sure that BKD has all that they need in order to get the financials finished. Mr. Mayes also stated he was also talking with his staff about getting timely monthly closings done within his department, which would negate the need for an outside contractor to do them the following years.

Mr. Smith inquired about the *Logos* capabilities to generate agency- and auditor-needed reports. Mr. Mayes stated a representative was coming in from New World Systems, the *Logos* vendor, on February 26th to examine those needed processes within his department and advise him what he will need to do so that the Finance department will be able to produce the financials using the *Logos* system. Mr. Smith stated that it did appear that if the agency could get *Logos* to working the way the Finance Department needs it to, then there will be no future need of having services from BKD or any other outside contractor.

Ms. Estes stated that had been the goal when Mr. Payne was still employed, but to date that the *Logos* system was still incapable of doing the steps in order for the agency to do its own financials. Allegedly, though, there is a *Logos* software update that would allow the system to be able to do the financials.

Mr. Mayes stated that after the training sessions from *Logos*, he would make a progress report for the next Audit Review Committee meeting.

OTHER NEW BUSINESS

Agency Risk Management Systems and Initiatives. Mr. Smith also inquired about the previous meeting's discussion of the Committee perhaps assuming the expanded role of risk management overseer for the Board. Mr. Logsdon reminded the Committee that he supported the notion but there was no motion made at the previous meeting to recommend that change and expanded role for the Audit Review Committee.

Rev. David Combs made a motion to recommend to the necessary committee(s) and the Board the expanded role of "risk management oversight" for the Audit Review Committee and to change the committee's name to Audit Review and Risk Management Committee. Rev. Jerry Manning seconded the motion. Motion approved.

This matter will go before the Administrative Support Committee, said Mr. Logsdon, for their recommendation to the Board of Directors. Mr. Logsdon also informed the Committee that the Department of Health and Human Services, Administration for Children and Families/Head Start Bureau had some really good risk management information that could provide a skeleton or road map for what the Committee might want to do in the risk management oversight arena.

Staff Counsel. Mr. Logsdon said that he did not favor AACS hiring in-house staff counsel because the agency could not afford to have a lawyer on staff. Mr. Logsdon also said that AACS now has five different lawyers advising it right now, and each of them have a certain area of expertise. He said that he preferred having attorneys who are expert in their respective areas rather than a "generalist" attorney on staff. Mr. Logsdon said that he did agree that having attorneys do more legal reviews of agency documents was a keen idea.

LKLP Debt to AACS/GRITS. Mr. Logsdon stated that AACS, in consultation with Board Attorney Jesse Mountjoy, was in the process of preparing to request arbitration with LKLP on the \$127,000 owing to AACS for GRITS' FY2008 end-of-contract Medicaid transportation services. AACS has authorized Mr. Mountjoy to nominate Judge Benjamin Dickinson, from Hart County, he believes, as AACS' named arbitrator. AACS is working on the preparation to make that request.

QUESTIONS AND COMMENTS

Mr. Smith asked if there were any questions or comments. Mr. Byrne asked Mr. Logsdon if he would sit in on the next week's meeting of Mr. Mayes, Ms. Mountain, Ms. Becky and Ms. Estes concerning the FY2008 Audit. Mr. Logsdon said that he would.

NEXT MEETING

There was discussion on the matter of when to hold the next Audit Review Committee meeting. Everyone decided on February 12, 2009 at 10:30 a.m.

ADJOURNMENT.

There being no further business,

The meeting was adjourned at 11:10 a.m.

Mr. M. Douglas Smith
Acting Committee Chairperson