Audubon Area Community Services, Inc.

Audit Review Committee

MINUTES

February 16, 2010

The Audit Review Committee convened at 4:00 p.m. in Conference Room A of the AACS Central Office building.

Members Present:

Rev. David Combs	Ms. Daisy B. James	Mr. M. Douglas Smith
Hon. Reid Haire	Rev. Jerry Manning	

Independent Auditors:

Mr. Tony Byrne, CPA, Supervising Partner	Mr. Pat Mulligan, Lead Auditor

Staff Present:

Mr. Ronald Logsdon, Executive Director	Ms. Maryanne Mountain, Fiscal Manager	Mr. Brian Schneider, Fiscal Support Manager

Acting Committee chair Douglas Smith called the meeting to order. It was noted that the Chief Financial Officer (CFO) was unable to attend due to having slipped on ice early in the day, broken his left arm, and was perhaps at that time in surgery to repair the damage.

The executive director called on Alexander & Company partner Tony Byrne to proceed with the FY2009 organization-wide audit.

FY2009 Audit Review. Mr. Byrne began noting their review had gone much better than the prior year. His firm presented and "unqualified" (clean) audit, as stated on the first two pages of the audit. He referred members to the auditor's notes in the back of the audit, advising that the only current write-up on pages 63 and 64 of the audit had to do with bank reconciliations.

Bank Reconciliations. The auditors issue was that during the July 1, 2008 to June 30, 2009 audit period, and particularly at the beginning of the audit year, the bank reconciliations were not completed in a *timely* manner. These should always be completed in the thirty-day month following their receipt. Mr. Mulligan did note that the reconciliations were performed much better late in the audit year. He added that it was unclear exactly when the reconciliations were done. There were some carry-over issues/adjustments from the prior year that had yet to be "cleaned up." Mostly, these were minor, but one involved a $34,000 check—which has recently been determined to be a double parking garage construction payment which was never cashed, and has recently been identified and cleared out. However, it had simply been carried forward from the prior audit year, and not resolved *within* the FY2009 audit year.

Ms. Mountain reviewed matters early in the audit year in which AACS was still using the third-party vendor recommended by BB&T, but which had only resulted in slowing down the reconciliation process. Utilization of that third party was terminated, which helped speed up the reconciliations. Too, she and the CFO had worked with the agency's financial software vendor, New World Systems, to effect positive changes in that system to good effect with its bank reconciliation module. Insofar as the minor items left to be cleaned up, Ms. Mountain said that time was the issue—that it was quite time consuming to "backtrack" items of that nature, so they had sometimes gotten left undone.

Mr. Byrne said that it was pretty fair to say that the bank reconciliations had, in fact, been done and mostly cleaned up, just not in a timely way. He noted that his staff had commended Ms. Mountain for her work with them. Too, he acknowledged that the CFO had instituted a number of new processes that will help.

Rev. Manning asked what was needed to put this issue behind the agency. Ms. Mountain said that what was needed was time. Mr. Byrne replied that he felt it should not take much time to clear away the reconciliation-related issues, probably not more than a day. Mr. Smith asked what that day's work to straighten things out would consist of. Mr. Byrne said that it was merely looking at the unresolved items, resolve them if the means could be clearly determined, or, if not, "write them off."

Judge Haire responded that much of what the auditors see are items that don't neatly fit into their AICPA standards. He felt that it was up to the Board to resolve those items with no other means to be resolved than a write-off. He said that the CFO should be consulted and asked for a clear target date by when these matters can be cleared up and caught up. He said that he hoped that the FY2010 audit year, which will close on June 30th, was that time and that the FY2010 audit would show that the bank reconciliations and related matters would then be shown to be cleared up and performed in a timely manner.

Ms. Mountain said that she did not feel matters were quite that cut-and-dried within the *Logos* system. She noted the example of Owensboro Regional Recovery (ORR) in which the checks are run through Logos but ORR's accounts are external to the *Logos* system.

Judge Haire asked the executive director if he felt that the Finance Department had sufficient manpower. His answer was perhaps not. Ms. Mountain said that "a lot of items need to be fixed," and that the CFO was instituting a lot of new processes that will accomplish that. The executive director asked the auditors if they could give the agency that "day" to clear away the remaining reconciliation issues. Judge Haire said that there had to be good systems in place and that he felt the agency was moving in the right direction.

Prior Audit Write-ups. Mr. Byrne noted that the FY2008 previous audit's write-ups were all satisfactorily resolved. All the independent auditors' responses of those previously identified issues were positive, he said.

Audit Committee Member Summary. Judge Haire said that the "most grievous finding" (on page 64) regarding the bank reconciliations was now resolved in improved practice. Ms. Mountain agreed, saying that it was much, much better this year (FY2010).

Everyone also agreed that the audit process itself was so much better this year. Mr. Mulligan said that it was largely better because the auditors were at AACS performing the audit rather than back at their office receiving e-mail attachments. AACS staff also applauded the on-time work of the auditors and the excellent relationships that were enjoyed all around. The executive director requested that the firm never again try the off-site/e-mail/telephone approach to the agency's audit. He asked if there were anything more that could be done on the AACS end to improve the auditing process. Mr. Byrne said that there was.

AACS-to-Alexander & Company Virtual Private Network. Mr. Byrne said that there were times when the auditors needed to work from the firm's office and that this past year they had no remote access (online) to the agency's *Logos* system. Could that matter be resolved prior to the next audit? Mr. Logsdon assured him that it could through a Virtual Private Network (VPN) connection between their two offices. He assured Mr. Byrne that he would have the agency's Chief Information Officer to install, test, prove and maintain a VPN connection so that the Alexander & Company auditors could access the agency's *Logos* system (and File Magic) when needed.

Concluding Discussions. Judge Haire said that the FY2009 audit contained a lot of good information, but he wondered whether Alexander and Company could also provide some trend data or a trend analysis. Rev. Manning suggested that if that could be done it would be nice to have it in a chart format. Mr. Byrne said that such information could be put together, but he doubted that it would really be useful. Unlike a county government or private business, AACS' finances, with its largely cost-reimbursement-only funding scheme, are money in/money out. Other than GRITS' Medicaid Brokerage, Indirect on a short-term (one year) basis, and donor gifts, there's little way to create any excess revenues.

> ***Management Directive.*** Judge Haire suggested that the CFO provide the Board a report in April 2010 of the agency's status in terms of full compliance with timely bank reconciliations and the resolution of any "carry-over" issues and adjustments.
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> > *The Committee received Judge Haire's suggestion (above stated) and gave its unanimous consent to make that a directive to the executive director and he, in turn, to the CFO.*

Finance Department Manpower. Rev. Combs inquired about the department's manpower needs and asked if there were something the Board could do. Further, he suggested looking toward "temps" to assist and support as needed. Judge Haire noted that this was within the responsibility of the executive director to resolve. But he suggested that the executive director within the next thirty days assess the need to bring in additional/temporary help.

When asked, Ms. Mountain said that presently the department was one (1) month behind on its bank reconciliations. As "point person" for the reconciliations she was working with New World Systems to coax better reconciliation support out of the *Logos* system. Currently, she said, she was working, on average, forty-five hours per week. Mr. Logsdon said that new fiscal staff had been hired, but their role was primarily in support of accounting support and reporting for the American Recovery and Reinvestment Act (ARRA) grants. Rev. Manning asked about authorizing overtime. Mr. Logsdon advised that exempt-level staff do not qualify for or acquire overtime. Ms. James asked for staff's suggestions how best to resolve the bank reconciliations issue, adding that she felt like the CFO knew ways this could be resolved.

> *Judge Haire requested that the Audit Review Committee receive via e-mail by the end of March 2010 an update on the status of resolutions in the agency's bank reconciliations process. All members agreed.*

In closing the FY2009 audit review, Rev. Combs said that he appreciated the work of the auditors and staff. He thanked them all for the productive relationships that were established.

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US Bank-BB&T Bank Bond Issues "Parity" Review. The executive director explained that the effort to obtain a parity agreement between the two banks' bond issues had failed when the audit firm could not issue the required 1.05 debt ratio certification. The problem was that the dictated method of calculation was strictly based on money in/money out each given year. AACS operates essentially on a cost reimbursement basis. Unlike taxing jurisdictions, AACS has extremely limited means of generating significant revenues over expenditures. Thus, the 1.05 ratio could not be met.

He noted that the US Bank bond issue (for the agency's new Central Office) specifically recognized the prior BB&T (Christian County Fiscal Court) bond issue on the Christian County Head Start Center. However, BB&T, whose staff were fully informed and involved throughout the US Bank (Daviess County Public Improvement Corporation) bond issue, had (their bond counsel) taken the position that the agency was in technical default of BB&T's related Letter of Credit's Reimbursement Agreement, so they sought "parity" with US Bank for AACS' "gross receipts."

That parity agreement was now off the table, said the executive director. Some other means must be found to satisfy BB&T's concerns. The current Letter of Credit will expire on April 5, 2010. AACS pays BB&T a 2%-per-year assessment for that Letter of Credit, which essentially secures the bond holders' interests.

The executive director said that he and the Head Start director had assembled a package of documents concerning AACS Head Start's federal approvals for the Christian County center, the grant awards that pay the annual payment on the bond, and the federal regulations pertaining to the federal/grantee obligation for repayment. He has given a copy to Mr. Byrne and will deliver a copy to the Board's counsel that evening. Both professionals will review the materials and then a meeting will be convened to plan an approach to BB&T to seek another means to allay their concerns over the Head Start bond issues and their reservations about issuing a long-term Letter of Credit.

Mr. Logsdon also said that he did not believe there was any concern or basis for one on the part of US Bank due to the failure of the parity agreement. AACS had violated no covenants in the US Bank/Daviess County bond issue, as the 1.05 debt ratio provision pertained only to *new* (future) borrowing.

ADJOURNMENT

There being no further business before the committee,

The Audit Review Committee adjourned at 5:05 p.m.