Final Audit Report

Alaska Mental Health Consumers Web, Inc.

Selected Issues and Concerns

July 25, 2002

Department of Health & Social Services

Division of Administrative Services
Audit Section
P.O. Box 110602, Juneau, Alaska 99811

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Background

The State of Alaska, Department of Commerce and Economic Development approved the Alaska Mental Health Consumers Web, Inc. (AKMHCW) as a nonprofit domestic corporation on July 8, 1998. The purposes of this corporation, as stated in the Articles of Incorporation, are to publish a website and related services on the Internet to provide information and support to mental health consumers.

The by-laws further state that the affairs of the Corporation shall be conducted by the board of directors, and in order to be qualified as a board member; a person must be nineteen years of age or older; an Alaskan resident and shall be a past or present consumer of mental health services of such a nature that inpatient care may have been necessary.

The goal and objective of AKMHCW is to use peer support and mental health consumer directed choices to help mental health consumers improve their lives in ways that they desire, particularly recovery from mental illness. AKMHCW provides recovery resources and information of interest to Alaska mental health consumers in a non-treatment oriented environment and provides computer access and computer related training (Clubhouse). AKMHCW also operates a thrift store, which is collocated with the Clubhouse.

Katsumi Kenaston, Jim Gottstein, and Christine Dittrich were the original board of directors and organizers of AKMHCW. Mr. Gottstein and Ms. Kenaston remained active in the Corporation until their resignation on June 28, 2002. Ms. Kenaston had been the president and executive director, and Mr. Gottstein had been the treasurer since inception. AKMCHW was operated entirely by consumer volunteers until the receipt of State Funds in 1999. Ms. Kenaston continued as executive director, in a voluntary capacity, in addition to board president. In February 2002 the agency hired a full time paid executive director.

In addition to his position as board treasurer, Mr. Gottstein, Attorney at Law, was also the volunteer supervisor for the staff attorney. When Mr. Gottstein tendered his resignation, it jeopardized the funding for the Legal Protection and Advocacy grant. Mr. Gottstein has since agreed to continue as a volunteer legal supervisor.

On July 1, 1999, FY 00, the Department of Health and Social Services, Division of Mental Health and Developmental Disabilities awarded AKMHCW a grant for $12,000. In FY 01 the grant was increased to $110,000. This grant was intended to purchase

Internet connected computers for consumer use and to hire Computer Specialists/Peer Mentors. Towards their goals and objectives, to the extent possible, all staff continue to be consumers.

For FY 02 AKMHCW was awarded a $169,100 grant for the operation of the Computer Connection and Clubhouse. In October 2001 they applied for, and received, a $72,000 DMH&DD grant for Legal Protection and Advocacy. This grant provided, free of charge, legal support for mental health consumers. As of June 30, 2002, AKMHCW had underspent their FY 02 awards by a total of $5,390.

The Division of Mental Health and Developmental Disabilities had concerns about the boards involvement with the day-to-day operations of the agency. Consequently, a condition of the FY 02 grant required AKMHCW to hire an executive director separate from the board of directors. An executive director was hired in February 2001 and in Mid June DMH&DD began receiving complaints about the organization. On June 23 the board of directors asked for the executive director's resignation. DMH&DD conducted an investigation to determine AKMHCW's ability to meet the terms and conditions of the grant awards.

Objectives, Scope and Methodology

At the request of the Division of Mental Health & Developmental Disabilities (DMHDD), we examined the available financial records and documents of the Alaska Mental Health Consumers Web, Inc. related to the operation of the DMHDD grants, as well as the general operation of the agency as a whole. The fieldwork was completed on July 25, 2002 in the Anchorage offices of DMHDD.

In addition to examining the financial records, we reviewed the minutes from the meetings of the grantee's Board of Directors for the twenty four-month period preceding this engagement.

The objectives, scope and methodology of our audit were as follows:

Objectives

The objectives of this audit addressed selected issues and concerns developed from the request of the Division of Mental Health & Developmental Disabilities. These objectives are summarized as follows:

1. Evaluate agency accounting records to determine the source and use of funds for the periods 7/1/01 through 6/30/02 (FY 02), and review specific transactions for FY 01. We also assessed the adequacy of internal controls over financial activity.

2. Evaluate effect of changes the agency underwent during fiscal year 2002.

3. Examine all agency bank accounts to determine account balances at date of audit.

4. Determine the funding source(s) for the Certificate of Deposits at Wells Fargo Bank and Alaska USA Federal Credit Union.

5. Determine status of Mini-Grants.

Scope and Methodology

For the objectives listed above, we examined all the agency records made available to us. This included financial records, bank statements, vendor invoices, budget and program documents, board minutes, and a host of miscellaneous documents, letters, memos and emails. Three week prior to the fieldwork, the agency moved to a new location on Gambell Street, and as of the date of this report had not completely moved in. Approximately one month prior to the fieldwork date, the newly hired executive director was fired and a board member assumed the roll.

We were provided personnel records, general accounting files, bank reconciliation's, quarterly federal and state reports and hard copies of statements and schedules produced by their computerized accounting system, *Quick Books Pro*. Most of the records provided were copies, as there were virtually no original records available. The grantee was unable to locate time sheets, leave records, copies of payroll checks or vendor files for FY 02.

Prior to his resignation, the board treasurer had been keeping the books for AKMHCW through his business *Touch N' Go Systems, Inc*. He provided copies of many of the bank statements, e-mails, leases and Income Tax returns. He maintained that he had given all the original records, including time sheets to the grantee. However, the original records were not available at AKMHCW. We examined 100% of the information provided.

In addition to examining the AKMHCW records, we reviewed the DMHDD grant files for the fiscal year 2001 and 2002 grant periods; reviewed transactions made through the Alaska State Accounting System (AKSAS) and interviewed DMH&DD staff.

Due to the lack of accounting records and supporting documentation, the procedures connected with this audit were substantially less in scope than would be considered necessary to express an opinion on the agency's financial position. Accordingly, we do not express such an opinion. Further, our review of the internal controls over cash receipts and disbursements was so severely limited by the lack of accounting records that any matters that might be considered a material weaknesses may not have been detected. In addition to the lack of records, the executive director was uncooperative during our review. He claimed the audit was hostile and attempted to curtail the auditing fieldwork. The Department of Health and Social Service audit requirement as promulgated in grant regulations 7 AAC 78.230 state that a grantee “shall provide the auditor reasonable access to the books, documents, papers and records of the grantee.”

The Schedule of Revenue and Expenditures on page 11 of this report is simply a compilation of the AKMHCW, Inc. checking account activity. Because there was no general ledger or subsidiary journals, and virtually no supporting documentation available, the amounts presented in this report should not be relied upon as reflecting the actual revenue and expenditures of AKMHCW, Inc., and we make no representation as to their accuracy. This report is intended for DHSS program evaluation purposes only.

Findings and Recommendations

The findings of this audit are summarizes below and arranged numerically to correspond to the related objective listed on pages 3 and 4.

Finding Number 1 (Accounting System/Internal Controls)

Accounting System

Prior to February 2002 AKMHCW contracted with Cook Inlet Tribal Council (CITC) to maintain their financial records. In February 2002, the treasurer of the board of directors, began maintaining the accounting records through his business *Touch N' Go, Systems, Inc.* Upon the treasurer's resignation, the record keeping was transferred to AKMHCW's new board treasurer. Newhouse and Vogler CPA's, were also contracted to produce the required Internal Revenue Services tax forms for Calendar Year 01.

AKMHCW uses *Quick Books Pro* accounting software. This software is adequate to the task of maintaining the accounts of the grantee. We were provided hard copies of the check registers, and various subsidiary ledgers. However, because of almost a total lack of source documents, we were unable to corroborate figures on financial statements produced by their accounting software. Therefore it was impossible for us to assure that funds were spent according to grant terms and conditions.

When questioned about the lack of records, the previous board treasurer was insistent that all records, including records of original entry, had been sent to the current executive director. We were provided a memo, addressed to the current board treasurer, listing financial items transferred to her care. The executive director claimed no knowledge of the records in question and suggested that possibly one of the previous executive directors, took the records with them when they left. One of the prior executive directors verbally asserts that she did not take any records when she left, and as of the date of this report, we have been unable to contact the other individual. The accounting records were never produced.

Touch N' Go Systems, Inc. apparently would receive emails from the executive director stating what check was written and why, at which time *Touch N' Go Systems, Inc.* would enter the transaction into *Quick Books Pro*, deposits were handled in much the same manner. Payroll was also handled through emails, hours worked and leave usage was transmitted to *Touch N' Go Systems, Inc.*, where the necessary transactions would be recorded and payroll checks produced. Although the previous board treasurer was able to provide copies of receipts for some of the transactions, adequate supporting documentation was not available for the majority of FY 02 transactions.

Employees appeared to be paid every two week. The few copies of paychecks available indicated that payroll deductions were made and leave accruals maintained. However, since there were no personnel records, we were unable to verify if leave accruals and pay rates complied with the Policy and Procedure Manual (see finding number 2). The Wage and Salaries Report submitted to the State Department of Labor did not agree with payroll amounts reported on the agency's profit and loss statement. Because of the lack of supporting documentation available we were unable to determine the cause or extent of the variance.

Internal Controls

Internal controls over the safeguarding of assets relate to the prevention or timely detection of unauthorized transactions and unauthorized access to assets that could result in material losses. Such controls are designed to help ensure that the use of and access to assets are in accordance with management's authorization. Authorization includes approval of transactions in accordance with policies and procedures established by management to safeguard assets. Internal controls are not limited to preventing or detecting misappropriations, however. They also help prevent or detect other material losses that could result from unauthorized acquisition, use, or disposition of assets. Such control activities would include controls to permit acquisition, use, or disposition of assets only in accordance with management's general or specific authorization, including compliance with established policies and procedures for such acquisition, use, or disposition. They also include comparing existing assets with the related records at reasonable intervals and taking appropriate action with respect to any differences. Finally, controls over the safeguarding of assets against unauthorized acquisition, use, or disposition also involves making available to management the information it needs to carry out its responsibilities related to the prevention or timely detection of such unauthorized activities, as well as mechanisms to enable management to monitor the effective operation of such controls

AKMHCW is a small nonprofit organization that does not have the resources available to provide for adequate separation of duties in the accounting function. Checks from the checking account are written out of sequence, the previous president had a multitude of checkbooks and adequate supporting documentation for expenditures was not always available. Employee timesheets and leave records are unsupported. It appears that the same individual has been responsible for preparing checks, reconciling bank statements, entering transactions in the accounting records, preparing financial and grant reports and maintaining supporting documentation.

At a minimum there should be a segregation of responsibilities for the collection (both cash and mail receipts) and deposit preparation functions from those for recording cash receipts and making computer system entries. All receipts written should be in sequential order, all checks should be restrictively endorsed upon receipt from a payee or as the mail is opened and numbered cash receipts should be reconciled to the bank deposits and reviewed for sequential breaks. All checks written should be in sequential order and logged in the respective check registers immediately. The use of a cash register is a good control for the Thrift store and the agency has recently purchased one for that purpose.

We recommend that AKMHCW develop written fiscal policies and procedures that are adequate to the task of safeguarding the assets of the agency. We further recommend that the agency receive an annual audit from an independent auditing firm. An audit is an allowable grant expense and can be funded through the grant award. DHSS grant regulations 7 AAC 78.230(b) require a grantee agency to have an audit even though they do not meet the minimum threshold required for a State or Federal Single Audit. An audit would identify inconsistencies in the accounting system, and would evaluate internal controls and provide technical training in maintaining and organizing documentation. A consistent and accurate accounting system along with detailed fiscal policies would allow for transition of personnel without major effects.

Finding Number 2 (Agency Changes)

During FY 02 AKMHCW moved to a new location, changed bookkeeping services three times, had three executive directors and experienced a high turn over on the board of directors.

The by-laws of AKMHCW Board of Directors state that the board "shall consist of not less than three nor more than eleven persons"; however, Community Mental Health Services regulation 7 AAC 71.030 states that "a governing board must be composed of at least five members…" Currently the agency is out of compliance with this regulation. It is our recommendation that the board actively recruits more eligible board members. Ideally, the goal should be to recruit more than the minimum members required, so that future resignations will not immediately put the agency out of compliance with the regulations. We further recommend that the by-laws be amended to comply with 7 AAC 71.030.

Many of the transition problems were partly due to the agency not having an implemented Policies and Procedures (P&P) manual. The grantee does have a draft P&P manual but it is outdated and incomplete. For example, the draft P&P manual does not have a job description for an executive director, but rather, the board president is responsible for what would normally be considered the executive director duties. Not only do we question the legality of the board president performing executive director duties (even if unpaid), but having one individual both setting and implementing agency policy is a serious internal control deficiency. DHSS grant regulation 7 AAC 78.170 requires a grantee to have written policies and procedures. Further, 7 AAC 78.170(b) prohibits an employee of the grantee from being a member of the grantee's governing board.

The board of directors is the policy setting and oversight arm of an agency. The executive director is tasked with implementing the board's policy through the effective management of the agency and its staff. Although the board retains oversight responsibility it should not be involved in the agency's normal day-to-day activities.

Records indicated that the Foraker Group provided board training in April 2001. We recommend that the current board of directors consider contacting the Foraker Group and arranging for another training session. We further recommend that the board of directors review the draft P&P manual, make necessary changes and approve it for use by the agency staff.

Finding Number 3 (Agency Bank Accounts)

AKMHCW has a multitude of bank accounts. Agency records we examined indicate they have four accounts with Wells Fargo and one account at Alaska USA Federal Credit Union (Credit Union). Accounts at Wells Fargo labeled Main Savings and Main Checking appear to incorporate the majority of the agency's transactions. The other two Wells Fargo accounts are a Payroll account and a Building Fund account. The account at Alaska USA Federal Credit Union consists of six CD's, a checking and a savings account. Due to the lack of accounting records we were unable to determine whether any other bank accounts exist.

As a founding member of AKMHCW, Katsumi Kenaston established the account at the Credit Union where she was an existing member. The Credit Union listed Ms. Kenaston as the principal and AKMHCW as the co-owner. The named principal is the only person with access to this account. For the agency to have access to this account, Ms. Kenaston needs to be removed as principle account owner. This account contains approximately $21,000.

It is our understanding that the current board of directors do not have to be members of the Credit Union to obtain access and maintain the account. The board needs to provide the Credit Union minutes attesting to the change in personnel and a letter requesting the removal of Ms. Kenaston as principal and complete new signature cards. This information has been relayed to AKMHCW for immediate action. It is our recommendation that the account with Alaska USA Federal Credit Union be closed, and the funds transferred to the existing Wells Fargo accounts.

Finding Number 4 (Certificate of Deposits)

The Building Fund consists of four CD's at Wells Fargo and six CD's in the Credit Union account for an approximate total of $11,000.

DMH&DD has expressed some concern with the Building Funds. Apparently there was some verbal consent from past board members that a significant amount of the Building Fund money originated with the previous board president. The DMH&DD investigative team heard testimony as to the source of these funds, and that the donor wants her money back.

It is our understanding that the donations were made anonymously. We reviewed all of the bank statements, Certificated of Deposits and documents made available to us by the agency and were unable to determine the source of these funds. We further verified that there were no deposits in the building fund that coincided with withdrawals from the Main Checking or Savings accounts.

The Building Fund monies are in accounts that belong to AKMHCW and, in our opinion, belong to the agency.

Finding Number 5 (Mini-Grants)

Mental health consumers apply for mini-grants through a DMH&DD grantee agency. The applicant must identify specific qualifying services or products, and provide estimates from vendors. DMH&DD then evaluates the applications and awards mini-grants. Once the application is approved, the individual is notified and the funds are paid to the appropriate vendor, through the grantee agency. The funds are not awarded to the consumer directly.

Mini-grants for five individuals were awarded through AKMHCW. By the end of June 2002, AKMHCW had received all five Mini-grants approved for the requested services. However, one check written to Lens Crafter was voided. We were unable to determine whether or not this check was re-issued, if the client received the services, or if the funds were returned to the State. It is our recommendation that the agency keep complete records of all mini-grant activity and if requested services are not rendered, return the unspent funds to the State.

Finding 6 (Records)

Our review identified a serious lack of office and accounting records available. Original records were virtually nonexistent. However, copies of various records were located outside the agency office. The previous board treasurer/bookkeeper had copies of many documents in his possession, and it was alleged that other prior employees and/or board members may have taken agency records.

We recommend that the grantee contact prior employees and board members and attempt to recover any original or copied records available. We further recommend that AKMHCW hire or contract with a competent individual or firm to provide bookkeeping services, and possibly reconstruct the business records with any recovered documents.

Alaska Mental Health Consumers Web, Inc.
Special Review
Schedule of Income and Expenditures (See Note 1)
For the Period 7/1/01 to 6/30/02

Revenue

DMHDD Grant Number 06-2908 (See Note 2)	$140,918	
DMHDD Grant Number 06-2936 (See Note 2)	$60,000	
Mini-Grant Receipts	$5,915	
Thrift Store	$11,540	
Miscellaneous	$556	
Amount Due State of Alaska (See Note 2)	($5,390)	
Total Revenue:		$213,539

Expenditures

Personal Services	$107,923		
Travel (See Note 3)	$7,232		
Contracts	$10,650		
Computers/Equipment	$9,764		
Office Lease	$24,078		
Supplies	$5,316		
Publications	$1,216		
Communications	$7,891		
Reimbursement (Note 4)	$4,210		
Facility Expense	$2,104		
Worker Incentives	$1,420		
Insurance	$11,819		
Cash (See Note 5)	$1,229		
Mini - Grants	$5,525		
Miscellanous	$4,606		
Refunds	($358)		
Total Expenditures		$204,625	
Net Income <loss>:			$8,914

Schedule of Revenue and Expenditures Notes

Note 1:

This Schedule of Revenue and Expenditures is simply a compilation of the AKMHCW checking account activity. Because there was no general ledger and virtually no supporting documentation available, the amounts presented in this report should not be relied upon as reflecting the actual revenue and expenditures of AKMHCW. Further, we make no representation as to the accuracy of this schedule.

Note 2:

The final award for grant number 06-2908 was actually $140,703, which was less than the total amount received by $215. The final budget revision for grant number 06-2936 reduced the award to $54,825; $5175 less than amounts already received. As a result the total amount due the state is $5,390.

Note 3:

The travel expenditures include only amounts expended in FY 02. This amount does not include an approved trip to Philadelphia in August for 14 individuals that was funded and paid in FY 01.

Note 4:

The bulk of the reimbursement checks, $2,709, were written to previous board members. Because there were few records, we were unable to determine what these expenses represented. The notes entered into the check register, indicated that some of the reimbursements were for computers.

Note 5:

No source documents were produced to determine the necessity of checks written to "cash".