Law offices of
JAMES B. GOTTSTEIN
406 G STREET, SUITE 206
ANCHORAGE, ALASKA 99501
(907) 274-7686
TELECOPIER (907) 274-9493

August 21, 2002

Nancy Fletcher,
Internal Auditor
Department of Health
And Social Services
Division of Administrative
Services, Audit Section
P.O. Box 110602
Juneau, Alaska 99811-0602

Re: Alaska Mental Health Consumer Web Audit

Dear Ms. Fletcher:

I have been provided a copy of your August 15, 2002, transmittal and a report entitled "Audit Report, Alaska Mental Health Consumers (sic) Web Inc., Selected Issues and Concerns, July 25, 2002" (Report). [1] The Report is rife with errors. I will address some of them in this letter and you will also find enclosed a memorandum from Michele Turner, the bookkeeper in my office discussing other errors.[2]

Background Section.

1. Ms. Kenaston was never the Executive Director.

2. I resigned as Supervising Attorney because, at Ms. Jacobson's urging, the board had reinstated the suspended Executive Director who I could not work with because of her demonstrated ethical lapses and other deficiencies. I had informed the board that such was the case when I resigned from the board and I considered the board's reinstatement of the suspended Executive Director a simultaneous decision for my resignation.

3. The Division of Mental Health and Developmental Disabilities (Division) may have had concerns about the board's involvement with the day-to-day operations of the agency, but it was never a condition to FY 02 grant that an Executive Director be hired as far as I am aware. In fact, the grant was approved with the management structure that existed until the hiring of the Executive Director. The Division did, however, outside of any grant conditions, pressure the agency to hire an Executive Director even though the approved budget would not support an Executive Director on an annualized basis. The agency acceded to this extra-

[1] Your letter calls it a "preliminary report," but that is not what the title says.
[2] One suspects that at least some of errors were the result of your talking to Ms. Yvonne Jacobson of the Division who is a font of misinformation.

contractrual requirement from the Division and recruited and ultimately hired the Executive Director, which, as we have seen, fairly quickly led to significant problems.[3]

Objectives, Scope and Methodology

1. You did not examine all the agency records made available to you. Most specifically, you declined to utilize the Quickbooks accounting system, which if you had done so, would have shown that many of your conclusions are inaccurate. I also offered to walk you through any transactions that you may have had questions about, which you never availed yourself of.

2. I did not keep the agency's books through my business, Touch N' Go Systems. There was, of course, a separate entity kept in Quickbooks for the agency. Michele, my law office assistant did provide the bookkeeping for this separate accounting entity, the cost of which I indirectly donated through .

3. Of course there was a general ledger and subsidiary journals available; they are kept in the Quickbooks accounting system.[4] The Quickbooks accounting system provides a completely accurate statement of the financial position of the agency with the possible exception of fixed asset accounting (i.e., depreciation and valuation of donated personal property).[5]

Findings and Recommendations

Finding Number 1 (Accounting System/Internal Controls)

1. Cook Inlet Tribal Council was contracted to do the bookkeeping/accounting only when payroll began. Before that, I had done the bookkeeping/accounting.

2. Your statement that "the lack of a general ledger, . . . made it impossible to assure that funds were spent according to grant terms and conditions" is in error. As previously mentioned all of the information is in Quickbooks. It is true that some of the back up may have been lost. This can be at least partially attributed to the Division's insistence that the former

---

[3] The Executive Director was hired in 2002, not 2001 as (mis)stated in the last paragraph of the Background section.

[4] One of the potential problems with using Quickbooks is that transactions can be changed after the fact. Partly to address this issue frequent backups of the existing file were made, which provides an audit trail to anyone who wishes to do so. During the course of FY 02, we also established a practice of making a backup at the end of every day that changes were made by Ms. Turner and they were e-mailed to the president and myself.

[5] I informed you of this during my interview. As the agency's revenues and expenses grew and its financial situation became more complex, we adjusted accordingly. Thus, we had recently retained the accounting firm of Newhouse and Vogler, which is very experienced in non-profit accounting and these issues would have been addressed in the ordinary course of their work. The strongest recommendation I made as I exited the board and as president was that the agency employ an accounting firm to help with the accounting.

President not terminate the former Executive Director's until the Division decided what the agency should do and the Division, through Yvonne Jacobson, subsequently talking the board into re-instating the still-under-investigation suspended Executive Director. It appears that some records may have disappeared during this time.[6]

3. I am very confused about the claim of lack of records and about the transmittals. First, off, I didn't say all of the records had been transmitted, just specific records as identified in the transmittal. The current Executive Director has asked that we keep some of them until he has a place to secure them. I am also confused about the statements "one of the previous executive directors" and "one of the prior executive directors . . ." as there was only one prior Executive Director.

4. Copies of all payroll checks are available and there are personnel records.

5. There is no actual Wage and Salaries Report discrepancy. *See,* Ms. Turner's memo.

Internal Controls

1. The same individual was not responsible for preparing checks, reconciling bank statements, entering transactions in the accounting records, preparing financial and grant reports and maintaining supporting documentation. Most of this was performed by Ms. Turner, but I prepared financial and grant reports. In addition, I also reviewed the accounting records for accuracy, although not on an exhaustive basis.

2. I agree that an independent accounting firm be employed to help with the bookkeeping/accounting and to perform an annual audit.

Finding Number 2 (Agency Changes)

1. There have not been three Executive Directors during FY 02 and most of the changes were precipated, or insisted upon by the Division.

2. The legality of the arrangement of the board president performing what you considered Executive Director functions has previously been determined. There has never been an employee who was simultaneously on the board of directors.

---

[6] However, it appears some, if not most or all, of the records may have disappeared during the tenure of the former Executive Director. In addition, it is also true that I could have been insistent that backup for the checks written by the President and reported to me, as Treasurer, be provided at the same time. However, I have no doubt that the funds were expended as reported. And, of course, copies of the checks written by the former President are included in all of the bank statements, copies of which were at least available to you.

3. I disagree with your comment about the level of board involvement appropriate in the agency's operations. The level of involvement that is appropriate varies on a number of factors, not the least of which is the size of the organization.

Finding Number 3 (Agency Bank Accounts)

1. All of the agency's bank accounts were shown to you.

2. I understand that all of the funds at Alaska USA Credit have been transferred to the sole control of the agency.

Finding Number 4 (Certificates of Deposit)

1. I agree that the Building Fund monies belong to the agency.

Finding Number 5 (Mini-Grants)

1. No mini-grant checks were voided during my tenure as Treasurer. However, it may be that subsequent to my resignation that the Division directed that it be voided.

Schedule of Income and Expenditures

Note 1

If you had availed yourself of the available records in my office and in Quickbooks, you would have been able to provide an accurate accounting of cash revenues and expenditures. I have attached

(1) a Balance Sheet,
(2) a Profit and Loss (Revenues and Expenditures), and
(3) a Profit and Loss by Class

for the time period of July 1, 2001, to June 28, 2002.[7] These fairly represent the financial condition and operation of the agency for that time period in all material respects, with the possible exceptions, previously noted, of fixed asset accounting (ie, depreciation) and donations of personal property.

Note 2

I do not believe any final budget revisions have ever been signed by the Division. They certainly had not been by June 28, 2002. During my tenure as Treasurer, we were prepared to immediately cut the check and return any funds due as soon as the budget revisions were signed.

---

[7] When I resigned I offered to stay on as Treasurer long enough to close out the grant year and otherwise offered to help with any accounting issues. The board declined the former and my offer of assistance with respect to the latter has been largely not accepted.

Note 4

I am fairly certain that the purpose of all reimbursement checks is contained in Quickbooks.

Note 5

I believe that the purpose and necessity of all checks written to cash is documented in Quickbooks.

Concluding General Comments

I know that you were under a severe time constraint to get something out before an extended absence, but it seems to me that it would have been better to have raised these concerns to us and given us a chance to provide the documentation and answers that you were seeking, rather than produce what is a highly inaccurate report.

Yours truly

Jim Gottstein

cc: Dorrance Collins
Roger Branson
Katsumi Kenaston (with copy of Preliminary Audit Report)
Walter Majoros
Janet Clarke
Bob Wright