MEMO

From the desk of Michele Turner
LAW OFFICES OF JAMES B. GOTTSTEIN

TO: Jim Gottstein

FROM: Michele Turner Michele Turner

DATE: August 21, 2002

RE: State's Preliminary Audit Report, dated 08/15/02
Alaska Mental Health Consumer Web, Inc.

This serves to comment on my recent review of the State's Preliminary Audit Report, dated 08/15/02. Roger Branson hand delivered a copy of this report to our office yesterday, 08/20/02. I make note of several statements made in the report that are not correct as respects the accounting practices of AKMHCWeb, Inc.

Beginning with the first line under *Scope and Methodology*, "we examined all the agency records made available to us."

> This is simply not the case. During our meeting with John Bajowski and Nancy Fletcher on 07/25/02, we made our records available for their review at any time they needed. We further explained the original documentation, specifically records needed for FY02 audit, were all in one box and in Roger Branson's possession. Roger picked up this box on 07/18/02 – the audit began on 07/22/02. The offer of access to our records was declined. Instead, they asked for three specific items: 990 Tax Return, Mini-Grant documentation and the Lease for their old facility on 5th Avenue. Ms. Fletcher said if Roger was unable to produce the documentation she was needing, she would come back to our office. She did not come back to our office.

Paragraph 3, under *Scope and Methodology* (Pg. 4), "Prior to his resignation, the board treasurer has been keeping the books for AKMHCW through his business Touch N' Go Systems, Inc."

> Clearly, Ms. Fletcher did not get this information from either one of us. In fact, this question was not asked. This statement is not true.

Same Paragraph 3 (Pg. 4), "He maintained that he had given all the original records, including time sheets to the grantee."

> The first half of this statement is true. However, we never stated we had time sheets. The time sheets were discussed to some length during our 07/25/02 meeting. At no time did we say original time sheets were given to the grantee.

Finding Number I (Pg. 6), "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."

> As you already know, CITC provided accounting services from March 2001 to Mid-October 2001. We took over the books the later part of October 2001. At which time, a complete audit of all accounts was done, as the records in QB we received back from CITC did not reconcile with any of the bank statements and all transactions were entered in QB with journal entries -- not on a check-by-check basis.

"Upon the treasurer's resignation, the record keeping was transferred to AKMHCW's new board treasurer."

> Your resignation was 06/28/02 – two (2) days before end of FY02. In an effort to keep the bookkeeping records as whole as possible, you offered to carry out treasurer duties until FY02 was completed and closed out. The new officers initially accepted your offer. However, we were both met with great resistance, resulting in us handing over everything to the newly elected treasurer and president to close out FY02.

"..[Quickbooks] is adequate to the task of maintaining the accounts of the grantee, however, record keeping was substandard."

> Contrary to our procedures being substandard, the methodology used to conduct this audit was flawed, in that, the individuals that maintained and kept the records were not utilized for the purposes of providing the information needed. I don't understand why officers of the board, who had obtained their positions less than thirty (30) days prior, were solely relied upon to conduct the specifics of this audit. They simply did not have knowledge of the daily accounting methods, nor QB fluency, to properly answer questions & provide information for this audit.

"..lack of a general ledger, subsidiary journals, source documents, payroll records and check carbons, made it impossible to assure that funds were spent according to grant terms and conditions."

Lack of QB fluency by newly seated treasurer and president[1], would explain the various reports not being available. Payroll checks and the emails in which they were issued are all complete. AKMHCWeb kept the time cards, which I requested copies of from the former president at various times – never received them.[2] Checks issued from our office did not have carbons, as they were laser checks. Copies of all checks issued from our office were maintained and attached to all backup documentation. Check carbons from checks that the former president wrote were in the newly seated officers' possession. This was confirmed with Faith Myers at inception of the reorganization.

Paragraph 1 (Pg. 7) "…the few copies of paychecks available…"

Copies of <u>all</u> paychecks were provided to Roger Branson in the box he picked up on 07/18/02. Copies of all documents, including payroll checks, were also maintained in our office. The auditor declined review of our record copies.

"The Wage and Salaries Report submitted to the State Department of Labor did not agree with payroll amount reported on the agency's profit and loss statement."

This is due to the journal entries entered in QB by CITC. The payroll checks issued during their period of record keeping were not issued through QB payroll feature. They were issued through CITC's accounting program and entered into QB via journal entries. A complete detail of these amounts were also included in documents provided to the new treasurer & president and do balance with payroll amounts paid. As you may recall, the line-item detail reconciled the difference with the P&L statement - to the penny.

"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."

This statement is not true. It was a collaboration of three (3) individuals. The former president did the majority of the check writing. I prepared P/R checks, entered transaction in the accounting records and maintained supporting documentation - daily roles of a full charge bookkeeper. You prepared the financial and grant reports. At the time of your report preparation, all QB postings were reviewed - having a second eye on the daily activities and postings.

Finding Number 2 (Pg. 8), I was not directly involved with the "Agency Changes".

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[1] At this time, Roger Branson was the President. It wasn't until later to moved to the employed position of Executive Director.

[2] This situation was all discussed in our 07/25/02 meeting with J. Bajowski & N. Fletcher.

Finding Number 3 (Pg. 9), "Due to lack of accounting records we were unable to determine whether any other bank accounts exist."

> During our meeting with the state auditor on 07/25/02, we confirmed she had knowledge of all bank accounts. Her report lists them in detail. If our records were utilized to their fullest, it would have been noted that appropriate documentation does exist to validate this.

Finding Number 5, Mini-Grants (Pg. 10), "…one check written to Lens Crafter was voided."

> All Mini-Grant checks were given to Roger Branson on 06/28/02, along with the Corporate Minute Book and employee benefit checks. Voiding of any Mini-Grant checks would have been done after accounting was transferred over to Roger & Faith. I have no personal knowledge of any Mini-Grant checks being voided, re-issued, etc.

Finding 6, Records (Pg. 10), "…original records were virtually nonexistent."

> As previously stated, original accounting records were picked up by Roger Branson on 07/18/02. Copies of all records picked up by Roger were maintained in our office.

(Pg. 10) "…it was alleged that other prior employees and/or board members may have taken agency records."

> It was discussed in our 07/25/02 meeting with the auditor that a lot of the former president's records were destroyed when the former E.D. first came on staff. The former president's office was literally gutted out, desk drawers dumped, file folders tossed, etc. etc. Throughout the former president's sorting of the mess of paperwork, she stated several times her records were destroyed and was unable to locate a lot of things.

(Pg. 10) "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."

> This has been your recommendation since the re-organization took place. As far as reconstructing records – accounting records do not need to be reconstructed. Our copies simply need to be utilized.

Schedule of Income and Expenditures Worksheet (Pg. 11). I cannot correctly attest to the amounts listed on that worksheet without looking at the reports the auditor was provided. The QB reports are sorted on class, date and account queries. Without the correct combination of these factors, the reports will not be accurate.

In conclusion, I am completely astounded by the methodology used to conduct this audit and the tone taken through out the report. The majority of the report's content is inaccurate and should not be construed as fact.