

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

2010 OCT 20 PM 8:57

JULIA BROGDON PURNELL,

Plaintiff,

v.

ALPHA KAPPA ALPHA SORORITY, INC.,

Defendant.

CIRCUIT COURT OF COOK
COUNTY, ILLINOIS
CHANCERY DIV.

CLERK

Case No. 10 CH 10972

Judge Daniel A. Riley

**PLAINTIFF'S SUPPLEMENT TO HER MOTION TO COMPEL ANSWERS TO
HER FIRST SET OF INTERROGATORIES**

Plaintiff, Julia Brogdon Purnell, through counsel, seeks an order compelling Defendant to answer Plaintiff's First Set of Interrogatories and in support thereof, states as follows:

Throughout the course of this litigation Ms. Purnell has encountered unjustified and unwarranted obstacles in her attempt to review the books and records of the non-profit sorority to which she has belonged for more than 60 years. As this Court is aware, and as is supported in the pleadings and transcripts of proceedings, the obstacles have included denying Ms. Purnell's agents access to the records and then refusing to comply with this Court's order based on a litany of excuses. When Ms. Purnell's agents were then given access, there were repeated disputes concerning which documents had been made available and which had not. Indeed, Defendant's have gone to great lengths to avoid addressing the issues in this case in a meaningful manner, instead deploying diversion tactics which include regularly and dramatically feigning outrage and routinely making disparaging and unprofessional comments to Plaintiff's counsel, both outside of court and even before this Court.

To avoid the ongoing disputes concerning what was and was not made available, Ms.

Purnell issued interrogatories which would allow the parties to confirm the records which should have been made available. Although responding to the interrogatories should have been a relatively easy task, Defendant instead chose to first ignore the requests, contrary to the Illinois Supreme Court Rules, and to then respond, after a motion to compel was filed, by refusing to answer a single interrogatory.

Aside from the fact that the objections have been waived as not having been timely made, the objections have no merit. During the course of the preliminary inspection of the books and records, there were numerous issues relating to the documents produced which make answering these interrogatories necessary to this litigation. One example includes the production of the American Express bills (which amount to over \$2 million in a four year period). *See Investigation Letter from Edward R. Kirby & Associates, Inc., dated September 20, 2010, attached hereto as Exhibit A, p. 6 (account numbers redacted).* The initial production of bills was not coded to correspond to the nature of the expense. When asked, coded documents were then produced the next day. The investigators found this problematic, raising questions concerning when the bills were coded and from what source the un-coded documents were copied. There is no explanation as to why the coded documents were not produced during the initial production.

Another example includes a document that was produced to the investigators only after extensive questioning during the examination. Specifically, when the investigators brought to the attention of the Director of Finance Eric Salstrand the fact that the tax return for 2008 does not appear to accurately reflect the more than \$600,000 paid to Barbara McKinzie and the financial statements do not reveal the extent of such payments either, Mr. Salstrand produced a document that he represented recapped his 2008 treatment of the McKinzie retirement payments.

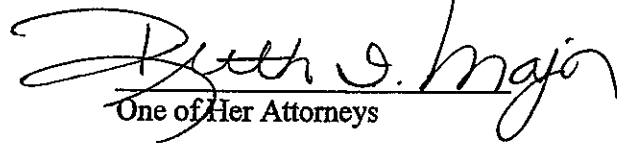
The document showed that 2008 retirement cash payments from the AKA General Fund bank account to McKinzie totaled \$638,158.19 and were charged/debited to eight General Ledger accounts. The 2009 retirement cash payments to McKinzie were reflected as coming from the AKA General Fund bank account and were identified to three accounts, presented on four lines with four subtotal dollar amounts. (See Ex. A, p 10). For 2008, the accounts to which the retirement cash payments for McKinzie were attributed include investment life insurance, accrued expenses, Supreme Basileus expenses, pre-Boule planning, professional services-other, endowment/building expenses, payroll tax expenses and fringe benefits. For 2009 the accounts were investment life insurance (listed twice for two values), accrued accounts payable-Boule, and retirement plan. When Salstrand was questioned further about this matter, he explained that the payments were initially charged (coded) to some temporary type of account, offering that it may have been accounts receivable or payable accounts, and then re-classed at the ends of 2008 and 2009 based on meetings between himself, the outside auditor, Betty James, and McKinzie. When asked how one would be able to discern these payments from a review of the financial statements since the information was not clearly identified, Salstrand responded that it would appear in the 1099 Misc Income forms, which he then refused to produce. Thus, documents that laid out the transactions to McKinzie were either not made available at the examination until AKA was pressed for information (the Salstrand re-cap documents) or were not made available at all (1099 Misc Income Forms). AKA's failure to produce all responsive documents relating to the payments to McKinzie is the reason that the interrogatories here are necessary.

There are many more instances in the investigators' report that raise questions about the reliability of the information provided by AKA. While ideally it may have been appropriate to proceed without the use of interrogatories, in this case it is most clearly necessary.

WHEREFORE, for the foregoing reasons, Plaintiff Julia Brogdon Purnell respectfully requests that the Defendant Alpha Kappa Alpha Sorority, Inc. be ordered to respond to Plaintiff's First Set of Interrogatories and be required to pay the attorney's fees associated with this motion to compel.

Respectfully submitted,

JULIA BROGDON PURNELL



One of Her Attorneys

Dated: October 20, 2010

Ruth I. Major
Laura M. Rawski
John P. Chase
The Law Offices of Ruth I. Major, PC
225 West Washington Street, Suite 2200
Chicago, IL 60606
Tel: (312) 893-7544
Fax: (312) 698-9867
Firm Number: 45037

EDWARD R. KIRBY & ASSOCIATES, INC.

PROFESSIONAL INVESTIGATORS

783 N. YORK ROAD

ELMHURST, ILLINOIS 60126-1313

PHONE (630) 941 - 1700

FAX (630) 941 - 1750

www.kirbyinvestigations.com

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VICE PRESIDENT

KAY M. HALL
SENIOR INVESTIGATOR

KEITH R. KOPINSKI

THOMAS O. KIRBY

OF COUNSEL
GLENN P. EIDEN
U.S. CUSTOMS RET.

September 20, 2010

Ruth I. Major, Esq.
Law Office of Ruth Major
225 W. Washington Suite 2200
Chicago IL 60606

Re: Review of AKA Records

Dear Ms. Major:

On August 26, 27, 30, & 31, 2010, Steven L. Kirby of Edward R. Kirby & Associates, John Burke of Jack Burke & Associates and Brett Starr, of Burke & Associates (collectively referred to as the investigators), conducted an examination and review of certain records of Alpha Kappa Alpha Sorority, Inc., (AKA) 5658 S. Stony Island Avenue, Chicago IL 60637, accumulated between June 2006 and June 2010. Pursuant to a court order entered by Cook County Circuit Court Judge Daniel K. Riley in the matter of Julie Purnell vs. Alpha Kappa Alpha Sorority Inc. (10 CH 10972), access to those specific records was limited to the four above listed days, at the offices of AKA. It is noted that an outside accountant, Bob Brooks and/or his associate was present on behalf of AKA during the times that the investigators were with the records in question.

Due to the time constraints in the court order, as well the voluminous amount of records to be reviewed, the investigators focused their review on the following areas:

- AKA checks made payable to Barbara McKinzie from the general account # 866 ;
- American Express statements;
- Expense reports filed by Barbara McKinzie;
- Retirement compensation with Ohio National Life Insurance Company;
- Tax payments made to Internal Revenue Service and Illinois Department of Revenue for Barbara McKinzie by AKA;
- Benefits paid directly to or on behalf of Barbara McKinzie;
- Missing checks in excess of \$10,000;
- Payments to vendors in excess of \$25,000.

To: Ruth I. Major, Esq.
Re: Review of AKA records
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Summary

The review showed that during the four year period under investigation, Barbara McKinzie had received from the AKA combined payments for compensation, retirement, taxes, and expenses in excess of 2.2 million dollars. In addition, there were life insurance payments found to have been paid by AKA on behalf of Ms. McKinzie in excess of \$1,70,000. It is noted that these payments were just from a review of the general account and the American Express charge account. There were several other AKA bank accounts that were not examined due to time and budget constraints from which additional funds were paid to Barbara McKinzie.

The examination revealed several questionable transactions and/or bookkeeping issues, among them:

- Fourteen missing checks, each for over \$10,000, (total in excess of \$327,000) that were also not listed in the check register;
- Several duplicate expenses submitted by McKinzie's that were paid by the AKA American Express account;
- Quarterly expense reports submitted by McKenzie with receipts from previous years;
- Numerous reimbursements to McKinzie for lost luggage and lost items;
- Several thousand dollars for clothing charged by McKenzie from high fashion stores;
- Over \$35,000 for purchases listed as "gifts" with limited or no detail;
- Payment of McKenzie's home and cell phone bills in excess of \$13,000;
- No coding of expensed items on at least half of the American Express expenses;
- Questionable coding and treatment of retirement compensation for Barbara McKinzie.

All of above listed concerns are discussed in detail throughout this report.

Review of general account.

During the course of this review, it was determined that AKA has a least six checking accounts. Preliminary analysis revealed that the majority of money flows through what is listed as the "general account", # 866. According to the bank statements, between June 2006 and June 2010 over 9600 checks were written from that account and there were over 800 debits. (The exact number could not be determined as the checks from December 2008 were missing and the bank statement from February 2010 was incomplete). Every check drawn against that account was inspected, front and back, and in many instances, the investigators checked the files supplied to locate a corresponding bill. Eventually, due to time and budget constraints, it was decided to focus on checks made payable to Barbara McKinzie. A review of checks drawn against the primary general account revealed the following was paid to Barbara McKinzie during the years listed:

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
18 checks	38 checks	30 checks	25 checks	9 checks	120 checks
\$16,293	\$241,935	\$423,565	\$590,523	\$55,027	\$1,327,343

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Of particular note were several high dollar checks payable to McKinzie as follows:

# 21391	December 20, 2007	\$175,000
# 21931	March 18, 2008	\$175,000
# 24607	December 30, 2008	\$ 95,000
# 24608	December 30, 2008	\$ 55,739
#29463	June 19, 2009	\$175,000
# 25964	June 19, 2009	\$ 96,000
# 26217	July 28, 2009	\$ 89,900
# 26219	July 28, 2009	\$ 43,769
# 60125	April 27, 2010	\$ 13,170

In addition to which, the following payments were found made to the Internal Revenue Service and the Illinois Department of Revenue as tax payments on behalf of Barbara McKinzie by AKA.

	<u>Internal Revenue Service</u>	<u>Illinois Department of Revenue</u>	<u>Total</u>
2006	\$0	\$0	\$ 0
2007	\$65,000	\$6,000	\$ 71,000
2008	\$110,000	\$13,000	\$123,000
2009	\$61,000	\$7,000	\$ 68,000
2010	\$0	\$0	\$ 0
			<u>\$262,000</u>

A review of the bank statements for the general account showed that the following wire transfers were made to J.P. Morgan Chase Account # 111 , which on internal documents were listed as retirement fund payments regarding Barbara McKinzie:

10/31/07	\$ 96,000
03/08/08	\$ 96,000
7/29/2009	<u>\$104,419</u>
	\$296,419

There were two additional wire transfers listed on AKA internal wire transfer recaps, dated 1/31/07 and 3/31/07, both for \$96,000, however they could not be found on the corresponding general account bank statements, therefore it could not be determined at this time, whether or not those two payments were also made to the McKinzie retirement fund. The exam for irregularities in other payments did not reveal obvious instances of fraudulent payments in checking account wire transfers and checks over the exam team's threshold of \$10,000.

In summary, a review of the general account revealed the following compensation having been paid to Barbara McKinzie between June 2006 and June 2010:

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• Checks payable to Barbara A. McKinzie	\$1,327,343
• Tax payments	262,000
• Wire transfers for retirement	<u>296,419</u>
TOTAL	\$1,885,762

The year to year breakdown is as follows compared to what is listed on 990 tax returns:

<u>Year:</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Checks	\$16,293	\$241,935	\$423,565	\$590,523	\$55,027
Wire transfer		\$ 96,000	\$ 96,000	\$104,419	
Taxes Paid		<u>\$ 71,000</u>	<u>\$123,000</u>	<u>\$ 68,000</u>	
Total	\$16,293	\$408,935	\$642,565	\$762,942	\$55,027
990 Returns	\$17,635	\$375,000	\$308,158	Not filed	Not filed

It is important to note that the amount of compensation listed above, paid to Barbara McKinzie, is only from the general account. It is known that monies were paid to her from at least the Boule Fund account (866) and possibly others. However, budget and time constraints did not allow for a review of all accounts and the EAF account was not made available by the AKA. Therefore, without a complete review of all accounts the full amount of monies paid to McKinzie is unknown.

Due to the large volume of almost 10,000 checks written during the past four years, the investigators looked for missing checks (checks listed on the bank statement but not found with the cancelled checks for that particular month) in the amounts of \$10,000 or greater. That review found that there were a total of fifty-nine (59) checks written in excess of \$10,000 that could not be found. Of those fifty-nine, forty-five (45) were found listed in the check register provided by the AKA, leaving fourteen (14) checks that were both missing and not in the register. Those fourteen checks total \$327,668.78 and are as follows:

27114	1/27/2010	\$30,000.00
27301	2/9/2010	\$10,000.00
60134	5/27/2010	\$10,593.83
No.#	3/11/2009	\$25,000.00
27040	11/18/2009	\$14,427.00
18712	1/2/2007	\$10,000.00
18701	1/4/2007	\$27,302.68
18728	1/5/2007	\$37,160.28
18764	1/11/2007	\$13,930.64
18690	1/12/2007	\$18,611.70
18777	1/16/2007	\$24,793.94
18763	1/18/2007	\$13,557.88
18751	2/7/2007	\$10,390.83
21048	11/21/2007	\$81,900.00

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Review of Barbara A. McKinzie Expenses

Documents that were provided by AKA for review regarding Barbara McKinzie expenses were confusing. According to Bob Brooks, she received a quarterly expense stipend of approximately \$6,500. Indeed, a review of payments made to Barbara McKinzie for each year (2006-2010) revealed four checks for \$6589 each paid to her in 2007 and 2008; two checks for that amount in 2009; and three checks for that amount in 2010. Brooks identified those as her expense stipend. The total of those thirteen checks is \$85,657.

However, the folders for McKinzie's expense vouchers were for different amounts totaling \$88,584.68. Those expense reports, which Brooks identified as being filled out in McKinzie's handwriting, were for various amounts as follows:

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
1st Q - \$6,660.77	1 st Q - \$6,724.96	1 st Q - \$6,636.26	1 st Q - \$8,550.96
2 nd Q - \$6,660.77	2 nd Q - \$6,630.51	2 nd Q - \$7,364.56	
3 rd Q - \$6,927.63	3 rd Q - \$8,161.87	3 rd Q - \$6,575.86	
4 th Q - <u>\$7,400.00</u>	4 th Q - <u>\$4,017.14</u>	4 th Q - <u>\$6,246.39</u>	
\$27,649.17	\$25,534.48	\$26,852.07	<u>Grand total \$88,557.68</u>

It is noted that no checks were found issued to McKinzie from the general account corresponding to these amounts. Therefore, at this time it is undermined whether or McKinzie was reimbursed for these expense voucher amounts in addition to the quarterly \$6,589 stipend; whether that \$6589 amount was for something else; or whether these vouchers were compiled to justify the stipend amount.

Of interest is that the receipts attached to these expense reports do not correspond whatsoever with the periods of the reports. The receipts for the four quarterly reports filed in 2007 are from 2003 to 2006, with the majority from 2005; the receipts for the 2008 quarterly reports are from 2006 and 2007; the receipts for the quarterly 2008 reports are from 2007 and 2008; and the receipts for the 2010 1st quarter report are from 2005 to 2009.

A further review of those receipts revealed numerous unusual and/or duplicated expense submissions. Among those most questionable are:

- \$7400 listed as "sweat equity" with no receipts attached (4th Quarter 2007);
- Twenty-seven (27) submissions for lost and/or damaged clothing or luggage over a four year period totaling \$9,941 including eight claims totaling \$2,397 in the 1st Quarter of 2010;
- Reimbursement for numerous receipts from high end stores for "gifts", recipient usually not specified, totaling \$15,752;
- Home phone bills and internet payments over four years totaling \$7,475;
- \$4,891 T-Mobile phone bills from March – December 2006 (3rd Quarter 2007);

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- Duplicate home phone bills totaling \$954 (1st and 2nd Quarter 2007);
- Duplicate submission of \$718.69 bill from Atlantis Hotel (for spa and room service charges) that was actually paid by the AKA American Express account (1st & 2nd Quarters 2007);
- Reimbursement for cash tips totaling \$5,201;
- Large number of receipts from south suburban fast food outlets and grocery stores near where McKinzie resides;
- \$1,485 reimbursement for "installation formal (dress)" (2nd Quarter 2008);
- A \$200 reimbursement for a personal contribution made to the EAF (3rd Quarter 2008);
- Thirteen (13) for dry cleaning receipts of which eight (8) are under Deborah Dangerfield's name (1st Quarter 2010);
- \$581.39 charges from Nordstrom listed as "gifts" but shipped to McKinzie's home address;
- Two purchases for woman's clothing from Lula's Closet in Mouton AL totaling \$1,225;
- Expense receipt from Lula's in the amount of \$721 paid for by the AKA American Express account;
- \$796 charge at Wyndham Hotel that was paid for on the AKA American Express Account (1st Quarter 2010);
- \$458 charge at the Hyatt Hotel in Chicago that was paid for on the AKA American Express Account (1st Quarter 2010);
- \$2,085 reimbursement with no receipt, only listed as "hostess reception and tips - would not accept" dated July 2008 (2nd Quarter 2009);
- 4 charges totaling \$526.73 paid for on the AKA American Express Account (1st Quarter 2009)
- Replacement sunglasses costing \$381.50 (1st Quarter 2009);
- \$1,117 purchase of luggage in Senegal due to "overweight bags" (2nd Quarter 2009).

Review of American Express Charges

A review of the AKA American Express account bills from July 2006 through June 2010 showed total charges on the account of \$2,164,816.01. The majority of those charges (\$1,837,109) were charged to the card belonging to the Executive Director, Betty James (through September 2009) and subsequently Deborah Dangerfield (September 2009 to June 2010). In her position as Supreme Basileus, Barbara McKinzie charged \$326,560.09 over a four year period. It was noted that the first set of American Express bills provided by AKA had no coding or writing on them. When Bob Brooks was questioned about the lack of coding, he claimed that the records were later coded and that the investigators were given the wrong set (un-coded). The next morning he had copies of the same American Express bills, this time with some of the entries (but not all) now coded. This begs the question as to when the coding were done on the American Express bills and when and from what source the un-coded bills were copied.

A review of Barbara McKinzie's charges revealed several questionable transactions, aside from the bills already found to be duplicate expense submissions (see previous section of this report dealing with McKinzie expense reports). Those are as follows:

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- \$2,832.00 for clothing. \$2,517 was for items purchased from Lula's Closet in Moulton AL (both coded 5125-10) and one for a \$315 jacket purchased while on the Anchorage Leadership; Conference in May 2008. The coding for that item read, "Jacket - cool weather";
- Three purchases for panties in June 2008 totaling \$379;
- \$3,214.13 covering four charges for lost luggage / replacement merchandise. This, coupled with the expense submissions, totals thirty-one (31) in lost luggage claims for over \$13,000;
- Eight dinner charges, most with little or no detail, totaling \$14,033. Of special note are a \$582 dinner for two and \$1,583 dinner for eight;
- 28 charges from high end department stores and specialty shops listed as "gifts" with limited explanation, totaling \$19,565. This entry, coupled with the expense submissions, totals "gift purchases" of in excess of \$35,000;
- Three purchases totaling \$2,053 coded as "office supplies." One charge was \$1,100 from California Closets (listed as office shelving); the second was from Kuivato Gallery in Sedona AZ in the amount of \$904;
- Eight purchases from Mont Blanc totaling \$2,481 classified as supplies and/or gifts;
- Purchases from specialty and boutique stores in Paris totaling \$2,989;
- Four (4) executive limo charges in Paris totaling \$1,694;
- Home phone and cellular phone bills totaling \$999;
- Entertainment charges of \$9,344;
- Expensive hotel charges:
 - 2 night stay 6/3 - 6/5 at New York Marriott - \$1,297.32;
 - 2 night stay 11/12 - 11/14 at Hilton Washington DC - \$1,421.30;
 - 2 night stay 12/9 - 12/11 at Marriott Washington DC - \$1,061.16;
 - 4 night stay June 2009 at Marriott Washington - \$2,625.41;
 - 2 night stay September 2009 at Lowes Hotel - \$1,221.42;
- Two un-coded jewelry purchases at Tiffany and Nordstrom totaling \$1,093;
- \$3,550 payments to the Illinois CPA Foundation. Coded as dues but listed on the American Express bill as tickets / tours;
- \$1,400 Nordstrom charge dated December 19, 2007 with no code or explanation.

The review revealed that on the July 2006 American Express statement there were 716,510 Membership Award Points available for redemption. In reviewing the American Express bills it was noted that points were redeemed for a 26" LCD HDTV, Bose headphones, a Bowflex tread climber, Bowflex home gym with bench, 2 Danby 6 bottle platinum wine cooler, Panasonic portable DVD player with 8.5 LCD, Toshiba DVD player, and a 46" HDTV. The point reductions were noted as follows:

November 06 - 966,288 points	December 06 - 415,318 points	550,097 redemption
May 07 - 695,130 points	June 07 - 226,139 points	468,991 redemption
March 08 - 551,806 points	April 08 - 260,510 points	291,296 redemption
October 08 - 679,855 points	November 08 - 294,326	385,529 redemption

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Wax statue and painting purchase

It was reported that Barbara McKinzie had a wax statue of her made for and displayed at the National Great Blacks in Wax Museum. Three checks were found made payable to that organization totaling \$35,000. Those checks are as follows:

# 24947	2/24/09	\$10,000
#26015	6/30/09	\$17,500
#28040	4/9/10	\$ 7,500

A review of the checks issued from the general account revealed that on March 28, 2008 Betty James and Barbara McKinzie commissioned a painting of Barbara A. McKinzie by Mr. Simmie Knox of Silver Springs MD costing \$19,500. Two checks issued to Knox for these paintings were as follows:

# 21388	12/20/07	\$ 6,500
# 23397	8/19/08	\$14,500

There was apparently a second painting of McKinzie by the same artist. Two additional check request documents were found one for \$5,000 requested 10/3/08 and the second for \$1,800 requested on or about October 2, 2008.

The total amount for the painting(s) and wax statue is \$56,000.

Retirement annuities purchased from Ohio National Life Insurance Company

The examination revealed that AKA purchased a life insurance policy for Barbara McKinzie from Ohio National Life Insurance, policy # 161. The policy was invoiced through Endow Inc., at 35 W. Wacker, Chicago. Thomas McLeary was referenced on the invoices.

A review of checks payable on the policy for McKinzie revealed the following:

# 21400	12/21/07	\$ 4,742.33
# 21441	1/02/08	\$ 202.12
# 22049	4/2/08	\$ 4,944.45
#23129	6/24/08	\$26,394.31
# 23186	7/5/08	\$ 4,192.65
# 23673	9/22/08	\$ 4,192.65
# 24624	1/6/09	\$ 4,192.65
# 24871	2/12/09	\$60,384.35
# 60063	1/5/10	<u>\$64,577.00</u>
		\$170,822.51

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At the initial review at the AKA offices, an invoice from McLeary / Endow dated November 25, 2009 for the purchase of an annuity for Betty James costing \$206,393.03 was noted. Check number 1003 from the Retirement Account was made for that amount (signed by Deborah Dangerfield) and then voided. Because of time and initial budget constraints, the Retirement Account was not reviewed.

A third invoice for an annuity was found, this one for Maurice Thomas in the amount of \$40,913.33, which was dated November 25, 2009, also from McLeary / Endow. A check stub for check # 1004 was found attached to this request. This check would have also been drawn on the Retirement Fund Account. The words "stop payment" were written on the invoice.

Questionable treatment of retirement compensation

The examination included the review of recent AKA Audited Financial Statements by James Williams & Associates, the 2006-2008 Federal 990 Tax Returns prepared by (Bob) Brooks, Collette & Robertson (the 2009 return has not been filed) and the 2007 AKA Board Minutes of July 14 and 15.

The July minutes show two actions relating to payments to Barbara A. McKinzie. Particular attention was directed toward the treatment of the approximate \$1,400,000 cash retirement compensation payments made to McKinzie in 2008 and 2009. Investigator Jack Burke focused his attention on this portion of the examination and attempted to question Bob Brooks and Eric Salstrand about issues raised in this review of the audited financial statements.

The first McKinzie compensation action was the Board authorizing a \$250,000 payment to compensate McKinzie for her past work referencing a savings from a federal tax assessment against AKA. These compensated funds seem to have been disbursed to her in 2007 following the Board's action. The 2007 AKA tax return seems to report sufficient McKinzie compensation to cover those payments to her.

The second Board action was to approve retirement compensation for McKinzie. It called for AKA to make \$4,000 monthly payments to McKinzie, beginning in July and retroactive from the beginning of McKinzie's Supreme Basileus term until that term's end. These payments would seem to be for a total of forty-eight months and seemingly would amount to a total of \$192,000 in payments. The brief text of the Board minutes for this second action contains some vague language about capitalizing those payments. The payments directly to McKinzie and for the benefit of McKinzie (US Treasury estimated tax payments), however, amounted to about \$1.4mm. In 2008, these cash payments exceed \$600,000 and in 2009 they exceed \$700,000. The 2008 tax return does not seem to accurately report that year's AKA retirement cash payments to McKinzie. Additionally, the financial statements did not reveal to Burke the extent of the cash payments to McKinzie. An AKA shareholder/member would be at a loss to discern from reviewing the tax returns and the audited financial statements that AKA's elected Supreme Basileus was compensated to such levels.

Access to outside independent auditor James Williams was not possible during the brief exam period. Access to AKA's tax return preparer Bob Brooks was possible, since his firm was being paid by AKA for

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him or his associate Monique to continuously sit in the exam room during the review. When asked about the above McKinzie compensation reporting issues on Friday morning, August 27, Brooks merely pointed to the tax returns he prepared but offered no explanation as to the apparent inconsistency. When Burke insisted on an explanation for the account coding for what the Burke expressed as a deficiency in the clarity and fairness of AKA management's reporting on McKinzie's retirement cash payments, Brooks said he would inquire of AKA management and he promptly left the examination room.

On Tuesday afternoon, August 31, AKA Director of Finance ("CFO") Eric Salstrand finally came to the exam room and furnished the requested management explanation not long before the end of the day. This happened only after Burke pestered him with voicemail messages. Salstrand produced his recap late Tuesday, the afternoon of the final exam day authorized by the court, even though the investigators made the request on Friday morning (via Bob Brooks). He merely came into the exam room and furnished one piece of paper which he said represented his 2008 Recap and his 2009 Recap for what he said were the McKinzie retirement monies paid. This page shows that 2008 retirement cash payments from the AKA General Fund bank account ("operating account") to McKinzie totaled \$638,158.19 and were charged/debited to eight G/L ("general ledger") accounts. The McKinzie retirement payments totaled \$767,472.35 for the year 2009 and were charged/debited to three accounts, presented on four lines with four subtotal dollar amounts. The specific dollar amounts, listed in a column next to each listed G/L account number, were subtotaled by year. The G/L account descriptions from the Chart of Accounts are as follows:

- 2008 investment life insurance (1404-10), accrued expenses – GF (2007-10), Supreme Basileus expenses (5125-10), pre-Boule planning (5149-10), professional services-other (5365-10), endowment/building expenses (5399-10), payroll tax expenses (5410-10), fringe benefits (5427-10);
- 2009 investment life insurance (listed twice for two values 1404-10), accrued accounts payable – Boule (2006-10) and retirement plan (5415-10).

[The G/L account extension '10' on all the above account codes mean the credits to cash for the McKinzie retirement payments were all charged to the AKA operating account at Bank of America.]

With limited exam time remaining, the investigator was only able to compare the CFO's furnished recaps page for one line, the last line for his 2009 recap, the retirement plan account (#541), against activity from the 2009 G/L detail report, requested of and furnished by AKA management for the exam. The retirement plan account year-end balance from a series of entries on the G/L report was \$344,284.35, the exact same dollar amount listed on Eric's recap document for McKinzie's retirement plan payments. The recap presentation from Salstrand and the brief G/L report review caused the investigator to be skeptical of the accounting treatment. The CFO was summoned back to the exam room Tuesday afternoon and questioned about management's treatment of the McKinzie retirement payments.

Salstrand said the payments to McKinzie throughout 2008 and 2009 were charged (coded) initially to some temporary type of account, offering that maybe to accounts receivable or payable accounts, and then re-classed at the ends of 2008 and 2009. When asked, Salstrand said that at the end of each of those years

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the amounts were "re-classed into these accounts listed on the recap" document furnished. Responding to queries about this re-classing process, Salstrand said that the 2008 and the 2009 year end process each came out of discussions held at meetings at which McKinzie, then Executive Director Betty James, the outside auditor James Williams and himself were all present. The investigator then asked how the balance at 2009 year end in the retirement plan account 541 , as appearing on the G/L detail report which dollar value as that total Salstrand and the others supposedly, at year end 2009, allocated to that same 541 account. He said he did not know and could offer no explanation.

Salstrand was asked how readers of the AKA Sorority's financial statements, which of course he and McKinzie were responsible, would ever discern that such large dollar amounts were being paid to McKinzie in those years. As if to explain, Salstrand responded that the same total 2008 and total 2009 payment amounts appear on the AKA 1099 Misc Income forms (filed with the IRS). Burke then again renewed his request for the 1099 Misc Income forms. Salstrand said that he would not furnish the 1099 documents for the examination.

Although it is recognized that management's 2008 recap for McKinzie's retirement, as furnished by Salstrand), and the AKA tax return for that year do not appear to reconcile, no time remained on Tuesday, the team's last afternoon, to inquire of AKA's outside tax preparer Bob Brooks.

The recap coding and the resultant fairness of the audited statements presentation issue must be further investigated. The coding decisions for McKinzie's extensive retirement payments in 2008 and 2009 might strike one as possibly intended to obfuscate the true nature of those payments. Further, Barbara A. McKinzie's presence and any influence she exerted at the year-end re-class process gives rise to questions of management's objectivity. Also, Burke's interview with the CFO raises questions regarding Salstrand's ability to maintain some reasonable level of independence as the corporate gatekeeper, a desirable characteristic in effective chief financial officers.

An underlining question as to how the retirement comp package payments for McKinzie went to \$1.4mm in the first place remains unanswered. A reading of the Board minutes for that July 2007 session action that granted her \$4,000 per month, for each of her forty-eight month term as Supreme Basileus, suggests possible confusion to anyone attempting to determine the true amount of and reason for payments with the vague capitalization language inserted therein. Also undetermined is who explained the payment scheme and how was it explained to the July 2007 Board in the first place and to the next Board reviewing those minutes for approval. Depending on the answers to some of these questions, known payments to McKinzie could have been authorized by the Board, knowingly or unwittingly, but ultimately knowledge of same may have been kept from the audited statements reviewers by questionable account coding.

Payments to vendors

Due to the enormous amount of payables and the limited court approved time, the investigators were unable to conduct a thorough review of the payables. A limited review was conducted of selected

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vendors from the almost 10,000 checks at AKA. In each case, the investigators reviewed the bills from the vendor files and were satisfied that for those checks reviewed, there were no obvious discrepancies. Further, there were no large volume vendors found with such red flags as innocuous names, post office boxes, or other signs typical of bogus vendors. Large dollar volume checks were inspected for any suspicious endorsements and none were found.

This is not to say that instances of some suspicious payments were not recognized, but time constraints barred further inquiries. One example involved regular but smaller than \$10,000 payments to Melody Service, 9406 S. St. Lawrence, Chicago. Some of the back-up invoices reviewed suggest this vendor to be retained with monthly fixed minimum payments with little or no services provided, per the descriptions on the paperwork. The sum of payments payable to Melody amounted to tens of thousands of dollars. It would have been helpful to have been able to review the 1099 Misc Income forms and the companion transmittal form 1065 required to be sent by AKA to the IRS annually and to have been able to pull vendor activity reports from the AKA system. Both of these were sought from Eric Salstrand but were denied.

Some of the larger vendors in terms of amounts paid and number of checks written to were:

Rummell	Cooter, Mangold, Deckelbaum
14 Caret Plus	Security Life of Denver
Stellar Graphics	American Express
Philadelphia Insurance	Avecetra Inc.
Albert Whitehead (Attorneys)	John Schmutde

Payroll

The investigators attempted to review payroll records for AKA Sorority and the AKA Educational Foundation (EAF). Attempts to obtain payroll detail reports were denied by the CFO Eric Salstrand. Even though AKA uses ADP for payroll and such reports are forwarded to clients by ADP and normally kept in binders by employers, Salstrand said it would be too difficult for their Personnel Department to retrieve same. Requests for copies of W2's were also denied by Salstrand citing privacy concerns over social security numbers. Due to AKA's refusal to provide the W2's and the lack of time to review payroll checks and bank statements no meaningful review of possible payroll discrepancies could be completed.

A summary of the W2's submitted for the years 2007, 2008, and 2009 showed the following:

2007	– 32 employees	– Total wages paid \$1,360,598
2008	– 33 employees	– Total wages paid \$1,347,245
2009	– 30 employees	– Total wages paid \$1,112,146

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Educational Advancement Foundation (EAF)

According to Bob Brooks, the EAF, which appears to be heavily funded by AKA, has separate books and records. When asked to provide those records, the AKA position was that since EAF is a distinct and separate organization, those books and records were not part of the judge's order. This examination found that literally hundreds of thousands of dollars were transferred from the AKA general account to the EAF account. Because of the refusal of AKA to provide EAF checks no analysis could be conducted.

A check of published filings with the Illinois Attorney General Office by EAF revealed that there are substantial assets and dollar volume being generated by and through the EAF. According to the reports on file with the Attorney General's Office, financial data for the EAF for 2006, 2007 and 2008 is as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Assets	\$3.6 million	\$4.3 million	\$4.2 million
Liabilities	\$25,000	\$22,000	\$26,000
Total Revenue	\$1.6 million	\$1.5 million	\$1.8 million
Operating Expenses	\$967,000	\$916,000	

Given the large transfers from AKA to EAF, large revenue stream, considerable assets, and almost one million dollars in operating expenses per year, it is highly recommended that the records of this foundation be examined.

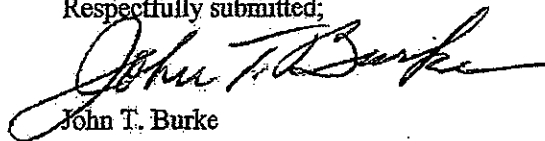
Conclusion

It is the opinion of the investigators that the preliminary findings to date would warrant a much more detailed examination and analysis of the books and records of the AKA. The areas that should be focused on include:

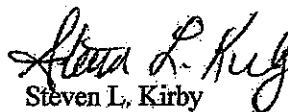
- A review of the additional bank accounts focusing on similar suspect payments as found in the review of the general account;
- A thorough review of the EAF books and records;
- A review of the coding and categorization of payments made to Barbara A. McKinzie;
- Verification with the reported recipients of "gifts" listed in the American Express bills;
- Interview with Eric Salstrand regarding payment classification and other issues;
- Review of payroll records including 1099 reports;
- In depth review of bills for services from selected vendors;
- Review of payments to Betty James;
- Interview with Betty James regarding practices during 2006-2010;
- Interview with Barbara McKinzie regarding questionable charges.

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Respectfully submitted;



John T. Burke
Jack Burke & Associates Ltd.



Steven L. Kirby
Edward R. Kirby & Associates, Inc.

JTB:SLK/kls