

IN THE DISTRICT COURT OF DOUGLAS COUNTY, KANSAS

In the Matter of)

HEADQUARTERS KANSAS, INC., a)

Kansas not for profit corporation)

Case No. DG-2024-CV-000214

Division 5

_____)

Pursuant to K.S.A. Chapter 17

FIRST STATUS REPORT OF THE CUSTODIAN OF HEADQUARTERS KANSAS, INC.

Dan Watkins, the Court-appointed Custodian of Headquarters Kansas, Inc. (“HQ”), submits this First Status Report to provide information concerning the 10-day period since my appointment by the Court.

After the Court entered its order on the afternoon of July 11, I met with the staff of HQ who could attend in person or by Zoom to introduce myself and Sharon Rose, who helps manage receiverships to which I am appointed. Since that meeting, we have been working the HQ staff and the Kansas Department of Disability and Aging Services (“KDADS”) on a number of matters including:

- An extension of HQ’s 988 Operational Grant Agreement for Fiscal Year 2025 (July 1, 2024 through June 30, 2025). KDADS has forwarded an Amendment providing HQ with a \$3,000,000 grant for FY 2025 for me to execute.
- KDADS Preliminary Audit findings of Audit Years 2021, 2022 and 2023 were forwarded to HQ Friday, July 12. I have requested that HQ’s response to the findings be extended. HQ’s response is now due August 2nd.
- I attended Kansas’s 988 Coordinating Council meeting in Topeka on July 16 with two members of HQ staff and met with KDADS personnel responsible for 988 grants and others involved in 988 operations and associated activities in Kansas.
- I became the primary signator on the HQ bank account and approved payroll for the two-week period ending July 12 totaling \$111,859 for 56 full and part-time employees.
- Meetings and calls have been set up for the week of July 22 with HQ’s accounting oversight consultant, with CPA firms regarding financial reports and audits which need to be completed for 2022 and 2023 and with HQ’s IT consultant.
- At July 7, 2024 HQ had reserves of just over \$825,000 and Accounts Receivable through May 2024 of \$495,024. Reimbursement from KDADS for May and June 2024 988 expenses are yet to be applied for.

- HQ has hired a new Human Resources Director who is working closely with the Custodian and Staff.
- 24/7 staffing has occurred since my July 11 appointment. HQ is the primary service operation for 988 calls for 102 counties (all but Johnson, Wyandotte and Sedgwick counties).
- An interim Executive Director search is underway with an Executive Search consultant.
- Meetings with staff, KDADS and other 988 stakeholders are ongoing.
- I have received calls and emails from interested parties regarding potential recommendations of board members. Further discussions with staff and 988 stakeholders are necessary to determine how to proceed on this front.
- Custodian and Project Manager time since the 7/11/24 appointment through July 22 totals 72 hours.

Respectfully submitted,



Dan Watkins
Custodian of Headquarters Kansas, Inc.

Bradley R. Finkeldei, #19470
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Pursuant to K.S.A. Chapter 17

MOTION FOR PAYMENT OF CUSTODIAN AND SECOND STATUS REPORT

COMES NOW the Petitioner, HeadQuarters Kansas, Inc. by and through its counsel Bradley R. Finkeldei of Stevens & Brand, LLP and moves the Court for payment of the Custodian for the reasons set forth below:

1. On July 11, 2024 the Court appointed Dan Watkins as Custodian for HeadQuarters Kansas, Inc.
2. On July 22, 2024, the Custodian filed its first status report.
3. Attached hereto as Exhibit A, is the second status report of the Custodian on the activities of the Custodian since July 22, 2024.
4. As shown in the two status reports, HeadQuarters and the Custodian are working hard to address the financial issues identified by KDADS, including getting its 2022 and 2023 audits completed, so as to secure stable funding for HeadQuarters operations going forward.
5. The Custodian needs to get those issues resolved, and the future of HeadQuarters stabilized, prior to recommending Board members who will guide HeadQuarters future.

6. The Custodian has worked 52 hours since being appointed and is entitled to \$7,800 in compensation pursuant to the Order appointing the Custodian.

7. The undersigned has reviewed the detailed billing statement and finds the time/fees reasonable and necessary. If the Court wishes to review the billing statement, the Custodian can provide the detail *in camera* or under seal upon request.

8. Because the work of the Custodian is more extensive than originally anticipated, HeadQuarters and the Custodian have hired Walter Way, a retired executive in the emergency communications field, as an independent contractor to provide his executive skills at \$50.00 per hour, which will reduce the expense of the Custodian until a new Board can be approved.

WHEEFORE, Petitioner prays the Court approve the payment of the Custodian and receive its Second Report.

Respectfully Submitted,

STEVENS & BRAND, L.L.P.

By: /s/ Bradley R. Finkeldei

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Counsel for Petitioner



MEMORANDUM

TO: Brad Finkeldei
FROM: Dan Watkins
SUBJECT: HQ Kansas Update
DATE: August 13, 2024

- Walter Way started work Monday, August 5 as Interim Executive Director assisting the Custodian. His agreement with HQ is attached and his current schedule is 10:00 a.m. to 4:00 p.m. daily. He is working with staff on:
 - Appropriate staffing and scheduling for Crisis Call Center
 - Identifying organizational structure and positions needed for 988 services
 - Revising budget structure
- HQ's May Financial Report for KDADS reimbursement request under the 988 Operational Agreement was submitted August 9. The monthly expenses were presented consistent with previous monthly submittals. I requested that KDADS review be done quickly as occurred with HQ's April submittal so as to help with HQ cash flow. June's reimbursement request to KDADS is being finalized. Walter Way and I met with KDADS August 12 and indicated that the June submission, the last for Fiscal Year 2024 under the 988 grant, will reconcile accounts which have been the subject of KDADS inquiries.
- Walter, Sharon Rose, Hope Blankenship and I are meeting next week with Mainstream Nonprofit Solutions (MNS), HQ's payroll and benefits vendor on August 15th. MNS previously gave notice it was terminating its engagement effective the end of August based on concerns about early July events. After my conversations with MNS's CFO, they are willing to consider re-engagement.
- SSC has agreed to re-engage to perform HQ's audits for 2022 and 2023. They performed HQ's 2021 audit.
- Forvis Mazars, HQ's accounting consultant, is working with HQ to finalize 2022 financials and will be at HQ on-site the last week of August to work on finalizing 2023 financials. We will then forward 2022 financials to SSC and KDADS.
- Jake Castillo in the Attorney General's Office of Charities and Non-Profits has set up a call for next Thursday at 3:30 p.m. to discuss HQ issues. I sent him my appointment Order and First



Memorandum to Brad Finkeldei

August 13, 2024

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Report to the Court. They have a Case No. 24-001971. They interviewed Michelle Fales last week. We will provide KDADS audit findings to them.

- HQ has hired a Crisis Training Coordinator and anticipates hiring a new Clinical Director soon.
- Foulston Siefkin is handling a complaint made to the Kansas Human Rights Commission by a former employee.
- We are reviewing the FY 2025 \$3M 988 budget to determine whether any revisions need to be submitted to KDADS for approval.
- We have executed and returned to KDADS the FY 2025 agreement for the Suicide Prevention Resource Center grant.
- Current Cash on Hand is \$501,000. A/R's total \$411K, not including June 988 reimbursement.
- The 988 Breakfast of Hope will be held September 9th at HQ at 8am. Work on that event is underway.

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Pursuant to K.S.A. Chapter 17

MOTION FOR PAYMENT OF CUSTODIAN AND THIRD STATUS REPORT

COMES NOW the Petitioner, HeadQuarters Kansas, Inc. by and through its counsel Bradley R. Finkeldei of Stevens & Brand, LLP and moves the Court for payment of the Custodian for the reasons set forth below:

1. On July 11, 2024 the Court appointed Dan Watkins as Custodian for HeadQuarters Kansas, Inc.
2. On July 22, 2024, the Custodian filed its first status report.
3. On August 13, the Custodian filed its second status report.
4. Attached hereto as Exhibit A, is the third status report of the Custodian on the activities of the Custodian since August 13, 2024.
5. The Custodian has worked 49.75 hours since being appointed and is entitled to \$7,462.50 in compensation pursuant to the Order appointing the Custodian.
6. The undersigned has reviewed the detailed billing statement and finds the time/fees reasonable and necessary. If the Court wishes to review the billing statement, the Custodian can provide the detail *in camera* or under seal upon request.

7. WHEEFORE, Petitioner prays the Court approve the payment of the Custodian and receive its Third Report.

Respectfully Submitted,

STEVENS & BRAND, L.L.P.

By: /s/ Bradley R. Finkeldei

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Counsel for Petitioner

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Pursuant to K.S.A. Chapter 17

THIRD STATUS REPORT OF THE CUSTODIAN OF HEADQUARTERS KANSAS, INC.

Dan Watkins, the Court-appointed Custodian of Headquarters Kansas, Inc. ("HQ"), submits this Third Status Report to provide information concerning HQ since the second update submitted to the Court in a memo dated August 8, 2024.

Walter Way continues in his temporary role managing the day-to-day operations of HQ and working with the Custodian and staff on matters set out in this report including:

• **Finances.**

- HQ has had payroll expense since the start of the Custodian's appointment July 11 through August 30 totaling \$347,065.
- HQ has had Accounts Payable pending from KDADS for several KDADS grants including the 988 grant for periods ranging from January 1, 2024 through June 2024 totaling \$941,614. The most significant reimbursement requests were for the 988 grant for May and June 2024 totaling \$780,745. These two reimbursement requests were not submitted by HQ to KDADS until late August as HQ's Custodian, Temporary Director and Senior Business Director worked to make sure those reimbursement submissions were fully documented and in compliance with KDADS requirements.
- The timing of 988 reimbursement applications and KDADS review resulted in a cash flow issue for HQ's August 30 payroll. HQ's bank account had close to a \$40,000 balance on August 27th with a \$90,000+ payroll due to be paid on August 30th. HQ reserves of \$255,000 are invested in a CD and in a Community Foundation account and were not readily accessible. So, HQ secured a \$60,000 short term loan to meet the August 30th payroll. On September 3rd, HQ received the May 988 reimbursement of \$265,270 from KDADS and April and June 988 reimbursements of \$543,378 were received September 5th, alleviating the cash flow problem. Current HQ receivables for

its outstanding grant reimbursements from KDADS applications to close out FY '24 now stand at \$117,777. Cash on hand, plus reserves after repayment of the short-term loan, is \$1,027,977 on September 6th.

- **Operations.**

- Four HQ staff members attended the KDADS 988 Convocation in Wichita, September 3rd.
- HQ had an interruption in service overnight on August 15 due to a late and unanticipated notice from an employee that they would not be working that night. Calls that night were forwarded to HQ's backup line at HealthSource, and/or rerouted appropriately throughout the 988 network.
- HQ's monthly answer rate of 988 calls in 2024 has ranged from 80-89% on monthly call totals that ranged from 1480-1760 calls. In September and going forward, HQ's goal is to maintain consistent call answer rates at a minimum of 90%.
- In addition to statewide 988 calls from 102 counties, HQ handles calls to its long-time (50+ years) local crisis line at 785-841-2345. The 785-841-2345 calls comprise around 30% of HQ's monthly call volume. These calls are not included in Vibrant's 988 Lifeline statistics for Kansas's five 988 call operations (HQ, Johnson/Wyandotte/Sedgwick Counties and HealthSource in Topeka). So, HQ handles around 840 local crisis calls monthly on its local line in addition to the monthly 988 calls discussed above.

- **Employees.**

- As noted, Walter Way continues as HQ's Temporary Director managing HQ while issues which precipitated the Court appointment of the Custodian and other matters discussed herein are addressed.
- HQ has developed a new Organization Chart (attached) to structure core services into two functional divisions with clear reporting relationships between staff and managers. The structure is intended to provide for accountability by staff for accomplishment of their position duties and for necessary checks and balances in the performance of administrative duties.
- HQ currently has 21 full-time salaried employees with benefits, 22 part-time hourly employees with partial benefits and a small number of unpaid volunteers and part-time employees with few regular hours.

- In July, 6 full-time employees with annual salaries totaling over \$300,000 left HQ. 7 part-time employees paid \$23/hour left HQ. HQ's Human Resources Generalist began work at HQ on July 8.
 - In August, three full-time employees with annual salaries of over \$200,000 left HQ. Four part-time employees paid \$22/hour left HQ employment. HQ hired a Quality and Training Coordinator and a Clinical Director (began 8/28). 4 part-time employees were hired at \$22-25/hour.
 - In September, HQ is looking to hire a 2nd Call Coordinator, a Youth Services Coordinator and 5-6 part-time or temporary call/chat specialists and one full-time specialist to stabilize oversight and delivery of call and chat services.
 - A robust training program for employees and volunteers is scheduled to start October 6.
- **KDADS Audit of HQ Suicide Prevention Grants for Fiscal Years 2021, 2022 and 2023.**

On August 2nd, HQ responded to KDADS draft audit findings issued July 12th. KDADS completed its Audit August 9th after reviewing HQ's response. KDADS noted it is taking a proactive approach to monitoring HQ's implementation of corrective actions being taken. In six months, KDADS will evaluate the effectiveness of the controls being implemented to ensure that the issues identified have been resolved.

- Key concerns of the audit related to a lack of internal controls to ensure that grant funds were spent in accordance with grant agreements and applicable regulations. The audit noted that CPA audits for 2021, 2022 and 2023 were not timely completed and submitted by the due dates. This has had the effect that some material issues were not timely identified and improved. HQ has been working diligently with its accounting consultants and an auditing firm to complete financial audits for 2022 and 2023 this fall. (The 2021 audit due 9/31/22 was submitted 8/23/23).
- The KDADS audit determined that certain expenditures made by HQ top management totaling \$343,447 were not allowable to be reimbursed under the 988 grant and must be recovered from HQ. Over 75% of the non-allowable reimbursement amounts were related to employee bonuses paid in 2021, 2022 and 2023 which were not properly documented and did not

receive pre-approval from the HQ Board and KDADS. 18% of the non-allowable costs were related to accounts payable for which there was a lack of supporting documentation. The remaining 5% of non-allowable costs were related to expenditures for a country club membership, supplies for a therapy dog and an amount recorded (but not paid) for gym memberships.

In recent months, HQ has worked diligently to ensure adequate internal controls are in place so expenditure of KDADS-awarded funds fully comply with governmental policies and grant agreements.

- As noted in the First Status Report, KDADS has extended HQ's 988 Operational Grant Agreement for FY 2025 (July 1, 2024 through June 30, 2025) in the amount of \$3,000,000. KDADS has also renewed HQ's Suicide Prevention Resource Center grant for FY '25 in the amount of \$42,000.

Steps taken and being implemented by HQ's current management based on the audit recommendations and the Custodian's review of HQ policies and operations include:

- Completion of 2022 and 2023 financial statements and reorganization of financial operations with assistance from a national accounting firm which specializes in assisting non-profit organizations with
 - Financial statements
 - Audit Preparation
 - CashFlow modeling
 - Monthly reporting
 - Implementing appropriate financial policies, procedures, practices
 - Grant Compliance and Allocation
 - Supporting Documentation on expenditures
 - Timely bank reconciliations and reviews
- Establishment of separate accounting and banking functions, including new check signing authority with sufficient internal controls.
- Set up of proper cost classifications for documentation and reporting of direct and indirect costs (replacing past practice of estimating indirect costs and lack of supporting documentation on transaction occurrences).
- Establishment of new scheduling/timekeeping/timesheet/timeclock processes and controls for full and part-time employees allowing for more

accurate and complete payroll documentation and grant allocation compliance.

- Weekly meetings with Call/Chat/Training Coordinators to better coordinate scheduling/coverages/overall staff coordination.
- Adoption of a revised Remote Work Policy and Agreement (adapted from the state policy/agreement)

- **Miscellaneous HQ Matters.**

- Revised agreement with HQ's Payroll vendor to address issues and concerns regarding timely reports and accurate submission of employee time and benefit information.
- Filed a request with the State Treasurer for the return of \$20,000+ of lost property based on information on the State Treasurer's website.
- Worked on the annual 988 Breakfast of Hope at HQ offices with 988 stakeholders and community partners to be held September 9.
- Assessed and ordered replacement of two very old Uninterruptable Power Supplies (UPS) units for HQ's servers and cabling room after a unit failed and caused a brief interruption of service.
- Wrapped HQ's new pickup truck with 988 promotional information for visibility/marketing on trips to Kansas counties served by HQ's 988 operation.
- Initiated a complete review of employee benefits to assess the basis and cost of all benefits and determine appropriate levels of benefits.
- Worked on updating the Employee Handbook to clarify compensation for full time, part time and temporary employees to ensure consistency; update the travel policy and per diem option; establish structured employee scheduling and staffing plan; and, review other sections to ensure legal compliance.

- **Board of Directors/Executive Director.**

The Custodian currently functions as HQ's Board of Directors. Until HQ's financial audits for 2022 and 2023 are completed and HQ corrective measures to address KDADS audit recommendations are more fully implemented, it is difficult to ask individuals to take on Executive Director and Board responsibilities. When the Custodian can provide interested prospective Executive Director and board member candidates with audited financials and assurance of a going concern, a slate of

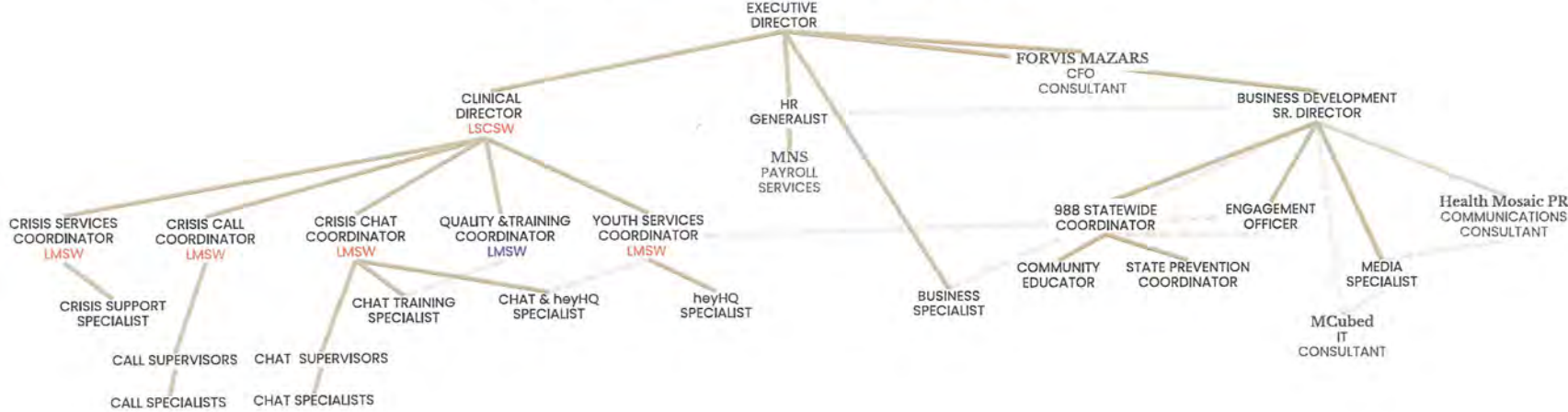
proposed Board members can be submitted to the Court for review and approval. The Custodian will work with HQ stakeholders and others to identify qualified individuals interested in serving on the Board and as Executive Director.

Respectfully submitted,



Dan Watkins
Court-Appointed Custodian

BOARD OF DIRECTORS



6



LMSW Preferred
LMSW Required

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MOTION FOR PAYMENT OF CUSTODIAN AND FOURTH STATUS REPORT

COMES NOW the Petitioner, HeadQuarters Kansas, Inc. by and through its counsel Bradley R. Finkeldei of Stevens & Brand, LLP and moves the Court for payment of the Custodian for the reasons set forth below:

1. On July 11, 2024 the Court appointed Dan Watkins as Custodian for HeadQuarters Kansas, Inc.
2. On July 22, 2024, the Custodian filed its first status report.
3. On August 13, 2024, the Custodian filed its second status report.
4. On September 6, 2024, the Custodian filed its third status report.
5. Attached hereto as Exhibit A, is the fourth status report of the Custodian on the activities of the Custodian since September 6, 2024.
6. The Custodian has worked 20.00 hours since being appointed and is entitled to \$3,000.00 in compensation pursuant to the Order appointing the Custodian.

7. The undersigned has reviewed the detailed billing statement and finds the time/fees reasonable and necessary. If the Court wishes to review the billing statement, the Custodian can provide the detail *in camera* or under seal upon request.

8. WHEREFORE, Petitioner prays the Court approve the payment of the Custodian and receive its Fourth Report.

Respectfully Submitted,

STEVENS & BRAND, L.L.P.

By: /s/ Bradley R. Finkeldei

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Counsel for Petitioner

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Pursuant to K.S.A. Chapter 17

FOURTH STATUS REPORT OF THE CUSTODIAN OF HEADQUARTERS KANSAS, INC.

Dan Watkins, the Court-appointed Custodian of Headquarters Kansas, Inc. (“HQ”), submits this Fourth Status Report to provide information concerning HQ since the third update submitted to the Court in a memo dated September 6, 2024.

Headquarters Kansas (“HQ”) is undergoing significant restructuring both in financial management and in organizational operations to address the concerns raised in the KDADS audit and focusing on two core service areas. One is to enhance the reception and quality of 988 call/chat/text management and the second is to broaden HQ outreach and educational efforts across rural Kansas. HQ submitted a revised 988 budget to KDADS that reflects the restructuring and received approval.

Inherent with that restructuring is revision of financial and personnel policies and procedures to provide greater clarity to position responsibilities and tighter financial controls over expenditures. Modifications have been made to position classifications, salary ranges and benefit amounts. The changes bring HQ closer to what other non-profit agencies offer and will allow significant payroll and benefit savings over time. This effort is being led by Walter Way who was selected to be HQ’s Interim Executive Director.

Work continues on HQ’s financial statements with Forvis Mazars’ assistance. HQ’s books for 2022 have been finalized and forwarded to SSC Associates for auditing. Work on 2023 is close to being completely reconciled and will be forwarded to SSC Associates for audit soon. 2022 and 2023 audits should be completed by the end of the 4th quarter this year.

Some very old and unreliable UPS (Uninterruptible Power Supply) devices have been replaced to prevent service interruptions. A new server was also acquired to use for primary server activities and allow more rapid access to data. The old server will serve as a back-up.

HQ is meeting with other agencies, local governmental officials and others involved with delivering crisis services on how to best coordinate responding to crisis calls.

HQ has received reimbursement from KDADS for May and June expenditures. July and August reimbursement requests will be submitted in the coming weeks. Cash on hand at October 7, 2024 after September payroll expense of \$179,617 is \$797,488.

Respectfully submitted,



Dan Watkins
Court-Appointed Custodian