

STATE OF NORTH CAROLINA
Office of the State Auditor

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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

September 29, 2006

Mr. Robert Boswell, Budget Analyst
Administrative Office of the Courts
Raleigh, NC

RE: Sandhills Mediation Center State Grant Funds
Grant Amount: \$32,131 State Fiscal Year 2005
\$32,131 State Fiscal Year 2006

Dear Mr. Boswell:

The Office of the State Auditor has selected the grant awarded to the Sandhills Mediation Center for a monitoring and compliance review. We received an allegation that the Center had closed but was still receiving grant funds. This letter outlines the general scope of the review to be conducted by John Price of our office. The review will include activities surrounding State grants for State fiscal year 2005, including monitoring and oversight functions of the funding agency.

The review will be conducted the week of October 2, 2006. In the event we find noncompliance with the grant terms, documentation weaknesses, or other problems, we will inform you. However, if for the specific items we examine we do not identify any concerns, then we will not prepare any report. If you do not receive a letter from us within 6 weeks of the date of this letter, you may assume that we did not identify any concerns.

Please contact me at 919-807-7558, Janet_Hayes@ncauditor.net, or Mr. Price at 919-807-7605, John_Price@ncauditor.net, to discuss any questions you may have relative to the review.

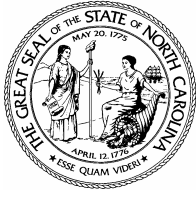
Sincerely,

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

A handwritten signature in cursive script that reads "Janet Hayes".

Janet Hayes, Director
Management Services and
Nongovernmental Compliance Division
Office of the State Auditor

Cc: Mr. Leslie Merritt, Jr.
State Auditor
Judge Robert A. Walker
Director, Administrative Office of the Courts
Mr. Philip McRea
Board Chair, Sandhills Mediation Center



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November 6, 2006

Ms. Ngoc Nguyen,
Research and Policy Associate
Administrative Office of the Courts
Raleigh, NC

RE: Sandhills Mediation Center
Grant Amount: \$32,131 State Fiscal Year 2005 – AOC
\$32,131 State Fiscal Year 2006 – AOC

Dear Ms. Nguyen:

The Office of the State Auditor conducted a compliance and monitoring review of the grant awarded to the Sandhills Mediation Center (Center) after learning that the grantee had ceased operations. Discussion with Administrative Office of the Courts (AOC) personnel indicated that AOC was aware that the Center had closed and had stopped funding based on this information.

In late February 2005, the Board of Directors met, voted to dissolve the Center, and to close the Center's office due to lack of funding and resources. While waiting to see if another center would pick up its services, the Center tried to minimize expenditures. It continued to provide services on a voluntary basis and to temporarily contract out some services.

The review, conducted by John Price during the week of October 2, 2006, included reviewing a sample of 47 expenditures made over a two year period. The expenditures were examined for reasonableness, whether the expenditures were approved, had supporting documentation, and whether the internal controls prevented them from being paid twice. These expenditures totaled \$20,721 or approximately 48% of the amount received from AOC grants funds.

Examination of records showed that the Center was commingling funds from all sources. Thus all expenditures were reviewed from March 22, 2005 through September 25, 2006. The period was chosen because it correlated with the current Executive Director's tenure. The review showed the Center had one checking account and that it did not have an adequate chart of accounts to identify expenditures as they related to grant funds. The results of the sample showed the following:

- 40 expenditures (85%) had not been authorized for payment
- 4 expenditures (9%) did not have supporting documentation to support the expenditure
- 7 expenditures (15%) were not canceled to prevent duplicate payments
- 2 expenditures (4%) were determined to be unallowable to State grant funds because they were payments of fines and or penalties (\$533.60)
 - \$221.51 to the Internal Revenue Service for failure to file and late payment fee for Federal Employer Taxes.
 - \$312.09 to the Scotland County revenue collector for penalties and interest for back property taxes on property that had been donated to the Center

When the Center officially closes and files for dissolution with the Secretary of State, all unspent money should be returned to the respective funders. Calculations show that the State should receive approximately \$28,000 based on balances at 9/30/06. AOC should carefully review the final report received from the Center to assure itself that all expenditures were appropriate and that the State receives any non-expended funds due it.

Please contact Ms. Janet Hayes, Director Management Service and Nongovernmental Compliance Division, at 919-807-7558, Janet_Hayes@cauditor.net, or Mr. Price at 919-807-7605, John_Price@ncauditor.net, to discuss any questions you may have relative to the review.

Sincerely,



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

CC: Judge Ralph A. Walker, Director
Administrative Office of the Courts
Mr. Phillip McRae, Executive Director
Sandhills Mediation Center