



STATE OF NORTH CAROLINA
Office of the State Auditor

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

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March 13, 2007

Mr. Larry Norman
Executive Director
Windows on the World
100 Highway 64 West By-pass
P.O. Box 639
Roper, North Carolina 27970

Re: State grants

Department of Juvenile Justice and Delinquency Prevention, FY2005, \$140,375;
Department of Health and Human Services, FY2005, \$82,420

Dear Mr. Norman:

We have completed certain limited procedures, as described below, related to management of state grant funds by Windows on the World (WOW). The initial investigation was performed by John Price during the week of June 26, 2006. Our objective was to identify deficiencies in internal control; instances of noncompliance with laws, regulations, and/or deficiencies in the management of financial resources based solely on the performance of these procedures.

Subsequent to that visit, we learned that the Department of Juvenile Justice and Delinquency Prevention (DJJDP) planned a programmatic site visit on August 31, 2006 to obtain information relative to a number of issues relating to State grants. Mr. Price accompanied DJJDP staff to observe the monitoring procedures that DJJDP had in place. The programmatic review resulted in the identification of concerns relating to inadequate or missing client documentation which lead DJJDP to request repayment of \$10,775 in State grant funds.

In order to present a complete picture of the issues identified at WOW, we were waiting for a resolution of the programmatic concerns prior to completing our work. However, as of January 25, 2007, these concerns were still not fully resolved. Thus, we conducted a follow-up site visit to determine whether the internal control issues we initially identified in June 2006 and discussed with WOW staff had been addressed as part of WOW's response to the programmatic concerns. Our objectives for the follow-up visit remained the same as for the 2006 visit.

These procedures do not constitute an audit, examination, or a review as described in professional standards governing those types of services. Furthermore, our procedures were not agreed upon by you or any third party. Our procedures do not provide a basis for providing any level of assurance regarding internal control, compliance or financial management and should not be relied upon for that purpose. Specifically, our procedures consisted of the following:

- Interviewing personnel;
- Examining accounting records for the purpose of identifying state grant transactions;
- Reviewing available policies and procedures; and
- Reviewing available board minutes

The results of these procedures disclosed continuing internal control deficiencies, instances of noncompliance and/or other matters of concern that are described in the attached findings and recommendations. Windows on the World's response to those findings is also included in this final letter beginning on page 5. We fully stand by our findings based on sound accounting and investigative procedures. If the Board would like, we are available to provide more detail at a mutually agreed upon time.

This letter is intended solely for the information and use of the board of directors, management of the Windows on the World, the Governor, the General Assembly, and grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



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

LWMjr/jhp

Attachment

CC: George L. Sweat, Secretary
Department of Juvenile Justice and Delinquency Prevention
Carmen Hooker Odom, Secretary
Department of Health and Human Services
Andrea Millington, Internal Auditor
Department of Juvenile Justice and Delinquency Prevention
Laketha Miller, Controller
Department of Health and Human Services
Fannie King, Windows on the World Board Chair
Board Members

Windows on the World FINDINGS AND RECOMMENDATIONS

1. WINDOWS ON THE WORLD (WOW) DOES NOT HAVE AN ADEQUATE CHART OF ACCOUNTS TO ALLOW TRACKING OF STATE GRANT FUNDS.

All monies received by the grantee are deposited in one of four checking accounts set up to support the different programs operated by WOW. Each of these accounts contains both State grant funds and private funds from other sources of revenue. However, the chart of accounts does not allow the tracking of expenditures by funding source. This results in the inability to determine which expenditures are supported by State grant funds. One of the requirements of the State grant agreement is to keep accurate records of how the grant funds are used.

Recommendation:

WOW should design and implement a revised chart of accounts that will allow expenditures be to be linked to funding source. This will allow the clear identification of State grant expenditures and will allow reviewers of those expenditures to determine that they were made in conformance with the terms of the grant contract.

2. THERE CONTINUES TO BE SERIOUS INTERNAL CONTROL WEAKNESSES AT WOW.

We initially reviewed a sample of 30 expenditures for the grantee's fiscal year July 1, 2005 through June 30, 2006. Of the 30 sample items, we found that:

- 24 of 30 (80%) expenditures did not indicate that they had been approved by management prior to being paid;
- 14 of 30 (47%) did not have any documentation such as invoice or receipt to support payment;
- The remaining 16 invoices had not been effectively canceled to prevent duplicate payment; and
- 25 of 30 (83%) payments could not be determined reasonable because of lack of documentation or the inadequacy of the documentation supporting the expenditure.

These weaknesses were discussed with the Executive Director and members of his staff prior to leaving the site.

On January 25, 2007, during the follow-up visit, we pulled a follow-up sample of 54 expenditures (fiscal year 2007) to determine whether internal control weaknesses had been addressed. We found:

- 19 of 54 (35%) expenditures did not indicate that they had been approved by management prior to being paid;
- 16 of 54 (30%) did not have any documentation such as invoice or receipt to support payment;
- 35 of 54 (64%) invoices had not been effectively canceled to prevent duplicate payment; and
- 20 of 54 (37%) payments could not be determined reasonable because of lack of documentation or the inadequacy of the documentation supporting the expenditure.

In reviewing the samples, we noted the following:

- Bank reconciliations not being performed, bank reconciliation reports and actual check data did not match, and items were listed as cleared when they had not;
- Not all checks were accounted for;
- The niece of the executive director has been paid for financial consulting creating a potential conflict of interest which was not addressed in the Board minutes;
- Payroll checks were written at unspecified times for certain employees and in advance of work performed despite an internal policy that stated payroll checks would be written only twice a month;
- "Loan repayment" check written to the chief executive officer with no documentation of loan;
- Executive director writing checks to self and signing, using the Treasurer's signature stamp for second signature without approval being noted on the documentation. However, the Treasurer said that she does review all expenditures after the fact. We found no evidence of such review.
- During the January 2007 visit, we also found that WOW uses a signature stamp for the Executive Director as well as the Treasurer, and;
- Two instances where alcohol was purchased with WOW funds, totaling \$16.43. Since the chart of accounts did not allow for identification of source of funds for expenditures, we could not determine if State grant funds were used for these purchases.

Weaknesses in internal controls such as these can lead to misappropriation of assets or errors in the payment of expenditures.

Recommendation:

The Board of Directors should direct the Executive Director to assess the existing internal controls and implement measures to strengthen them, concentrating on the specific problems noted above. The Board should review the revised procedures and assure itself that the changes will protect WOW's assets. To prevent the circumventions of controls, the Board should take a more active role in reviewing financial information and re-visit approval to use signature stamps on check.



Windows On The World

WOW e-CDC
PO Box 639
100 US Highway 64 West Bypass
Roper, NC 27970
(252) 793-9582 (phone) (252) 791-0005 (fax)
email: lnorman@wowe-cdc.org

March 5, 2007

Mr. Leslie W. Merritt, Jr., CPA, CFP
State Auditor
2 South Salisbury Street
Raleigh, N.C. 27699-0601

Re: State Grants

Department of Juvenile Justice and Delinquency Prevention, FY2005, \$140,375 s/b \$160,000.00
Department of Health and Human Services FY 2005 \$82,420 s/b \$75,000

Dear Mr. Merritt, Jr.,

We have reviewed the audit concerns as stated in your letter of February 15, 2007, as reported by Mr. John Price during his visit on June 26, 2006 and January 25, 2007.

The Executive Board of Directors of Windows On The World e-CDC has assessed each concern and is in the process of reviewing WOW's financial operations and its policy and procedures to implement changes that will strengthen existing internal controls to protect assets, safeguard against misappropriation of funds, and prevent errors in the payment of expenditures.

We hope we have answered each audit concern with clear, precise, detailed information. If you have any questions, please contact me at (252) 793-9916 or Ms. Dorenda Gatling at (252) 793-9582. You may also email me at lnorman@wowe-cdc.org or Ms. Gatling at dgatling@wowe-cdc.org.

Sincerely,

/s/ Larry Norman

Larry Norman, Executive Director
Windows On The World e-CDC

cc: George L. Sweat, Secretary
Department of Juvenile Justice and Delinquency Prevention
Carmen Hooker Odom, Secretary
Department of Health and Human Services
Andrea Millington, Internal Auditor
Department of Juvenile Justice and Delinquency Prevention
Laketha Miller, Controller
Department of Health and Human Services
John Price, State Auditor

Audit Finding

1. WINDOWS ON THE WORLD (WOW) DOES NOT HAVE AN ADEQUATE CHART OF ACCOUNTS TO ALLOW TRACKING OF STATE GRANTS FUNDS.

All monies received by the grantee are deposited in one of four checking accounts set up to support the different programs operated by WOW. Each of these accounts contains both State grant funds and private funds from other sources of revenue. However, the chart of accounts does not allow the tracking of expenditures by funding source. This results in the inability to determine which expenditures are supported by State grant funds. One of the requirements of the State grant agreement is to keep accurate records of how the grant funds are used.

Auditor Recommendation:

WOW should design and implement a revised chart of accounts that will allow expenditures to be linked to funding source. This will allow the clear identification of State grant expenditures and will allow reviewers of those expenditures to determine that they were made in conformance with the terms of the grant contract.

WOWe-CDC Response:

On Feb. 27, 2007, I faxed a copy of our expenditure request sheet containing the chart that was attached to each expenditure relating to DJJDP and DHHS funding during the audit. After my conversation with Mr. John Price on March 1, 2007, it was agreed and confirmed that the above issue of an inadequate chart of accounts for tracing state grant funds was satisfied and was no longer an audit concern.

2. THERE CONTINUES TO BE SERIOUS INTERNAL CONTROL WEAKNESSES AT WOW.

We initially reviewed a sample of 30 expenditures for the grantee's fiscal year July 1, 2005 through June 30, 2006. Of the 30 samples items, we found that:

Audit Finding: 2A

24 of 30 (80%)...expenditures did not indicate that they had been approved by management prior to being paid;

WOWe-CDC Response: 2A

Management approved all DJJDP, and DHHS expenditures by signing and dating the expenditure/check request sheets that are attached to the appropriate invoices/checks, as per the WOW e-CDC policy and procedures manual. The CEO must approve or deny any request initiated by the Executive Director and the Executive Director must approve or deny any request initiated by the CEO. However, some payments, as pointed out by Mr. Price, did not have the signature approval documentation on actual invoices that were attached to the payments because the payments were related to private and unrestricted funds. If the same

regulations apply to private and unrestricted funds, WOW e-CDC is prepared to comply.

Our accountant suggested during Mr. Price's third visit that we use the Quick Books system to log invoices which would avoid and prevent payment of duplicate invoices. However, Mr. Price suggested that we use a manual process of stamping invoices and payables with a date stamp and initialing for payment approval and to avoid duplicate payments.

Management has implemented the process of initialing and dating all invoices upon receipt and at the time of payment to avoid payment duplication. This process will be amended in our policy and procedures manual as well.

Audit Finding: 2B

14 of 30 (47%)...did not have any documentation such as invoice or receipt to support payment;

WOWe-CDC Response: 2B

Most payments were supported by invoices, receipts, or check request as per the WOW e-CDC policy and procedures manual. 99.5% of all DJJDP, and DHHS expenditures contained invoices and/or receipts that supported payments. However, a few payments maintained under our Broadband Account (our private fund account) did not have the necessary supporting documentation; such as a payment to the Red Apple for gasoline and several payments to the BB&T Credit Card. Several payments to BB&T Credit card were either minimum payments, or substantial payments made after charges were incurred. Most receipts can be accounted for, but were filed with the statement during the period the charge was made instead of the period the payment was made. Payments were also paid in advance of receiving statements in an effort to avoid fees and interest charges.

Management will insure that all expenditures under all accounts have the appropriate documentation to support payments and expenditures. Please be advised that your recommendations will be implemented as standard accounting procedures, and the procedures manual amended to reflect changes.

Audit Finding: 2C

The remaining 16 invoices had not been effectively canceled to prevent duplicate payment;

WOWe-CDC Response: 2C

Management has purchased a dated paid stamp that is now used on invoices to avoid duplicate payments. Please review the response under Finding: 2A

Audit Finding: 2D

25 of 30 (83%)...payments could not be determined reasonable because of lack of documentation or the inadequacy of the documentation supporting the expenditure.

WOWe-CDC Response: 2D

Management will provide more detailed documentation to support expenditures.
Please review Finding: 2B

These weaknesses (1 & 2 above) were discussed with the Executive Director and members of his staff prior to leaving the site.

Although Mr. Price mentioned these issues during our interview, we were awaiting his formal letter of findings and recommendations that he indicated we would receive after his visit June 26, 2006. Upon receipt of his formal letter of finding, it was our intention to report to our board so that we could amend our policy and procedures manual and begin implementation. Please be advised that these recommendations are being implemented.

January Audit Findings

Audit Finding 3

On January 25, 2007, during the follow-up visit, we pulled a follow-up sample of 54 expenditures (fiscal year 2007) to determine whether internal control weaknesses had been addressed. We found:

Audit Finding: 3A

- 19 of 54 (35%) expenditures did not indicate that they had been approved by management prior to being paid;

Audit Finding: 3B

- 16 of 54 (30%) did not have any documentation such as invoice or receipt to support payment;

Audit Finding: 3C

- 35 of 54 (64%) invoices had not been effectively canceled to prevent duplicate payment; and

Audit Finding: 3D

- 20 of 54 (37%) payments could not be determined reasonable because of lack of documentation or the inadequacy of the documentation supporting the expenditure.

WOWe-CDC Response

Please review and accept responses under WOWe-CDC Finding 2A, WOWe-CDC Finding 2B, WOWe-CDC Finding 2C, and WOWe-CDC Finding 2D.

In reviewing the samples, we noted the following:

Audit Finding: 3E

- Bank reconciliations not being performed, bank reconciliation reports and actual check data did not match, and items were listed as cleared when they had not;

WOWe-CDC Response: 3E

Bank reconciliations were performed both automated (QuickBooks) and manually (Excel). Both reconcilements are attached to each book of monthly expenditures. After my conversation with Mr. Price on March 1, 2007, it was clarified that reconcilements were performed but a few check numbers on a particular reconcilement did not match the bank statement. In two instances, check numbers were input incorrectly in Quick Books and not corrected in the system during reconcilement. To correct this issue, all check numbers input incorrectly will be corrected on the reconcilements and in the system at the time of reconcilement. This will allow all check data and bank reconcilements and reconcilements reports to match monthly.

Audit Finding: 3F

- Not all checks were accounted for;

WOWe-CDC Response: 3F

Checks are filed with the bank statement in the month that the check was cleared, not written. Any checks that were not accounted for during Mr. Price's review in both January and June were located and shown immediately to Mr. Price upon request.

Audit Finding: 3G

- The niece of the executive director has been paid for financial consulting creating a potential conflict of interest which was not addressed in the Board minutes;

WOWe-CDC Response: 3G

DJJDP has a copy of the Conflict of Interest Statement between Norman Financial Group, Inc. and WOW e-CDC. The President of Norman Financial Group is not the niece, but the second cousin of the Executive Director. The conflict of interest statement was signed January 13, 2006, at which time Ms. Norman was introduced to executive board members. However Ms. Norman did not begin professional services until March 2006. The President of Norman Financial Group, based in Raleigh, North Carolina, was formally introduced to the entire Board of Directors at the May 31, 2006 meeting, at which time she presented her credentials that include state, national, and international expertise. A copy of the conflict of interest statement for Norman Financial Group was faxed to Mr. Price on Feb. 27, 2007.

Audit Finding: 3H

- Payroll checks were written at unspecified times for certain employees and in advance of work performed despite an internal policy that stated payroll checks would be written only twice a month;

WOWe-CDC Response: 3H

Payroll checks were written at unspecified times for certain employees and in advance of work performed when both the Executive Director and/or CEO were traveling, or if an employee requested an advance that was approved by management. WOW e-CDC policy will be updated to reflect leniency in those situations when funds are available.

Audit Finding: 3I

Loan repayment" check written to the chief executive officer with no documentation of loan;

WOWe-CDC Response: 3I

The CEO made several loans to WOW e-CDC over a period of 16 months. Any further personal loans made to WOW e-CDC by the CEO or any other source will be appropriately documented.

Audit Finding: 3J

- Executive Director writing checks to self and signing, using the Treasurer's signature stamp for second signature without approval being noted on the documentation. However, the Treasurer said that she does review all expenditures after the fact. We found no evidence of such review.

WOWe-CDC Response: 3J

Some checks made payable to the Executive Director were signed by the Executive Director were approved by the Board of WOW e-CDC. As of July 2006, procedures have been changed and have been implemented that the Executive Director cannot sign checks made out to him. Checks made out to the Executive Director are signed by the CEO and other authorized signatures.

Audit Finding: 3K

- During the January 2007 visit, we also found that WOW uses a signature stamp for the Executive Director as well as the Treasurer, and

WOWe-CDC Response: 3K

The Board of Directors, in the minutes of its Nov. 8, 2005 meeting, authorized the use of a signature stamp for Mrs. Fannie King. The stamp

may be used only when accompanied by an original signature from the Executive Director, CEO, or any other authorized signatures. The Board of Directors authorized the use of a signature stamp for the Executive Director. The stamp may be used only when accompanied by an original signature from either the CEO or any other authorized signatures.

Audit Finding: 3L

- Two instances where alcohol was purchased with WOW funds, totaling \$16.43. Since the chart of accounts did not allow for identification of source of funds for expenditures, we could not determine if State grant funds were used for these purchases.

WOWe-CDC Response: 3L

These two charges were charged in error. It was assumed that the charges had been separated at the time of the charge. The mistaken charge of \$16.43 is being reimbursed to WOW e-CDC.

Weaknesses in internal controls such as these can lead to misappropriation of assets or errors in the payment of expenditures.

Auditor Recommendation:

The Board of Directors should direct the Executive Director to assess the existing internal controls and implement measures to strengthen them, concentrating on the specific problems noted above. The Board should review the revised procedures and assure itself that the changes will protect WOW's assets. To prevent the circumventions of controls, the Board should take a more active role in reviewing financial information and re-visit approval to use signature stamps on checks.

WOWe-CDC Response:

A committee of the Board of Directors, including the Chairperson, the Secretary, and the Bylaws Committee is proceeding with an in depth review of the Policies and Procedures Manual of the Corporation. The resolution steps developed bases on recommendation from Mr. Price, will be implemented in the revised document. We appreciate the counsel provided by Mr. Price as we improve our processes and financial controls.