



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

STATE OF NORTH CAROLINA
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July 19, 2007

Mr. Peter Skillern, Board Treasurer
Ms. Stella Adams, Executive Director
North Carolina Fair Housing Center
P. O. Box 1929
Durham, NC 27702

RE: State Grants from the Department of Justice—State Fiscal Year 2005, \$15,000

Dear Mr. Skillern and Ms. Adams:

We made several attempts to examine records at the North Carolina Fair Housing Center (Center) related to its management of state grant funds. The objective of the attempted examination was to identify whether or not deficiencies in internal control; instances of noncompliance with laws, regulations, and provisions of contracts or grants agreements; and/or deficiencies in the management of financial resources existed. However, the Center was only able to provide minimal records relating to the grant. Below we detail our attempts to review grant records.

- On February 12, 2007 we conducted a site visit at the Center which disclosed that there were no financial records or Board minutes available. You asked for time to pull those records together. We agreed to give you a week to do this.
- On February 23, 2007 you notified us that the Board had terminated the services of your former accountant and had retained the services of another. You indicated the new accountants were going to reconstruct the financial condition and how the funds were spent. We agreed to give you until May 30 to achieve this.
- On May 30, 2007, my staff visited the new accountant and reviewed the records available. The accountant was not able to provide the required documentation on how the grant funds were used.

After review of the limited financial records provided, which did not include source documentation, we feel that the Center may have used some of the funds for the intended purpose. However, the lack of adequate documentation to support the expenditure of the entire grant amount puts the Center in noncompliance with the terms of the grant agreement. Therefore, we are recommending to the Department of Justice that it consider seeking partial or full reimbursement of the \$15,000 grant to the North Carolina Fair Housing Center.

This letter, including your written response to the draft findings, will be published on our Electronic Publication System (EPS) at www.ncauditor.net. You and others who are interested in the publication should register with EPS on the web site. Registered parties will receive an email notification and a link to the publication as soon as it is available.

This letter is intended solely for the information and use of the board of directors, management of the North Carolina Fair Housing Center, the Governor, the General Assembly, and grantor agency 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

CC: Attorney General Roy Cooper
Department of Justice

GRANTEE'S RESPONSE

P.O. Box 1929
114 W. Parrish Street
Durham, NC 27702



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June 21, 2007

Leslie W. Merritt, Jr. CPA CFP
North Carolina State Auditor
2 S. Salisbury Street
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Raleigh, NC 27699-0601

Dear Mr. Merritt,

The North Carolina Fair Housing Center appreciates the patience and due diligence that your office has shown in conducting the audit of the 2005 State Fiscal Year grant of \$15,000.

The Center respectfully disagrees with the conclusion that it is unable to provide source documents related to the grant. We disagree with the recommendation that the Department of Justice recoup the full \$15,000 grant and urge a reconsideration of your position based on the following additional information and argument.

The Center expended the grant funds towards activities and costs related to the *Don't Borrow Trouble Campaign* including public education regarding predatory lending and counseling of clients with mortgage problems. There were \$3,490 in direct project expenses related to the design and production of brochures and public education advertisements paid to run on WB 22. The remainder of the grant (\$11,510) is allocated towards \$20,711 of payroll expenses of the Executive Director and Predatory Lending Specialist working with clients to resolve predatory lending and foreclosure issues during the first six months of the grant period.

The Center acknowledges that its financial records are not complete in that it is missing three invoices from Eric Kelly, Red Hawk, Candence Moore regarding brochure production (\$990) due to poor record keeping by our previous accountant. Enclosed are the check stubs for these payments with account codes related to the project. Enclosed is the invoice for \$2,500 from WB 22 listing the times and channels that the *Don't Borrow Trouble* ads ran. Enclosed is the Business Account bank statements for July to December 2005 showing receipt of the grant and clearance of the referenced checks.

Another accounting deficiency is that the payroll records do not pro-rate each grant source allocation to payroll expenses. None the less, the Center allocated 33% of the Executive Director's time and 100% of the Predatory Lending Specialist time to the *Don't Borrow Trouble*

GRANTEE'S RESPONSE

Campaign. The Executive Director worked directly with clients, conducted community outreach and oversaw the project implementation. The Specialist used 100% of her time as a counselor to clients with mortgage problems. Enclosed are 1) Employment Security Commission reports to document payroll expenses for Stella Adams for July –December 2005 2) The payroll register and the payroll checking account for the same period to document payment to Kenya Brumby and Stella Adams.

The grant funds are accounted for in that the bank statements show that the grant was received into the Center's account and that payroll and direct project expenses were recorded.

On the February 12 site visit, the Center's staff provided to your office educational materials that were developed as part of the *Don't Borrow Trouble Campaign*. Other programmatic deliverables include educational outreach activities and client services provided to those who had difficulties with mortgages including those with predatory loans. A summary of the *Don't Borrow Trouble Campaign* outcomes is provided as reported in the 2005 annual report. If additional programmatic documentation is needed, please let me know.

The Center fulfilled the grant deliverables and spent funds according to the grant. The Center fulfilled the compliance requirements as required at the time of the grant agreement letter.

We hope that the attachments and arguments are persuasive to you that a recommendation to recoup the grant will be withdrawn. If you have further questions, please contact me directly at 667-1557 ext 22.

Sincerely,



Peter Skillern
Treasurer of NCHFC

AUDITOR'S RESPONSE: The State Auditor acknowledges that the North Carolina Fair Housing has provided a needed service by assisting borrowers who received credit counseling and homeownership counseling. As a part of accepting the grant, the entity agreed to provide supporting documentation of the use of funds. The documentation provided did not support the use of the grant funds. Additionally, the grant was awarded February 11, 2005; the information provided shows that the deposit identified by the grantee as the grant was not deposited until October 20, 2005. Copies of check stubs, ESC Reports provided do not show that these checks were written in support of the grant. Furthermore, the ESC report provided is for one quarter and not half a year. No additional information has been provided (i.e. board minutes) that would support charging 33% of the Executive Director's salary to the program or the other employee being paid as an "outside services – consultant." Lastly, an additional requirement required of grantees accepting grant funds is the grantee must submit a statement that it has no overdue tax debts. The information submitted clearly shows that the grantee did have overdue taxes when it accepted the grant.

GRANTEE'S RESPONSE

Attachments to NC FHC's Response:

**Direct Expenses Related to Development and Production of
Dont Borrow Trouble Brochure**

<u>To</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>	<u>Subject Line</u>
Eric Kelly	9/23/2005	#1006	\$200	Brochures - Design
Candence Moore	11/04/2005	#5150	\$70	Brochures – Formatting
RedHawk	11/04/2005	#1024	\$720	Brochures - Printing
Subtotal			\$990	

Promotion of Dont Borrow Trouble television ads on WB 22

WB 22	7/29/2005	#1002	\$2,500	Advertising Programs
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Total on Public Education Campaign - Materials, Advertisements and Outreach \$3,490

**Payroll and Staffing Costs for Dont Borrow Trouble Campaign for period
July 1 December 31, 2005.**

Stella Adams, Executive Director, Salary \$29,792 plus taxes and benefits.
1/3 of the Stellas time is allocated to the *Don't Borrow Trouble Campaign* for this time
Or **\$9,831**

Kenya Brumby, Predatory Lending Specialist, \$10,880 total.
Of this 100% is allocated to the *Don't Borrow Trouble Campaign* **\$10,880**

Total Expenses for July 1-December 31, 2005 are **\$24,201.45**

The NC FHC allocated \$15,000 of the state grant towards qualifying expenses that exceeded the grant amount for the first six months of the grant period. Grant activities extended through the grant period of June 2006.

GRANTEE'S RESPONSE

Attachments to NC FHC's Response:

Don't Borrow Trouble Campaign Activities

The Center assisted 137 borrowers who received credit counseling and homeownership counseling. In the process of interviewing borrowers, the Center reviewed loan documents to determine if illegal lending activities or unfair and deceptive trade practices occurred.

As a result of our investigations,

The North Carolina Attorney General and Legal Aid of North Carolina filed lawsuits alleging mortgage fraud in Parkton, NC involving eight (8) Fair Housing Center clients.

The Center assisted 14 families in getting loan modifications with principle and interest reductions totaling \$364,061.

An elderly woman who was the victim of mortgage loan Fraud had her home deeded back to her, the home was valued at \$100,000.

Private attorneys working on behalf of 19 Center clients obtained monetary awards totaling \$167,253.

The Center Successfully rescued three families from predatory loans through participation in several rescue funds.

The Center assisted 9 families in working with their lenders to bring their mortgages current and placed 11 families in forbearance agreements or payment plans.

Public Education Activities included distribution of brochures posters and community education outreach activities.

A total of 74 *Don't Borrow Trouble* advertisements were placed on WB 22 during the month of August 2005 to warn the public of predatory lending.