



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

STATE OF NORTH CAROLINA
Office of the State Auditor

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November 28, 2007

Mayor Erma Jefferies
Town of East Spencer
PO Box 339
East Spencer, NC 28039

Mr. Eric Henley, Project Director
New Beginning Community Development Center, Inc.
318 Eighth Street
Spencer, North Carolina 28159

RE: State Grants- From Governor's Crime Commission to
East Spencer -- New Beginning Community Development Center, Inc.
State Fiscal Year 2007, \$81,638.

Dear Mayor Jefferies and Mr. Henley:

We have completed an examination employing certain procedures¹ described below at the New Beginning Community Development Center, Inc. related to its management of State grant funds. Our objective was to identify whether any 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. North Carolina statutes authorize the Office of the State Auditor to have ready access to all records related to State and Federal funds. See N.C.G.S. 147-64.7(a).

Our procedures consisted of, but were not limited to, interviewing personnel; examining accounting and other grant records for the purpose of identifying state grant transactions; examining documentation supporting selected transactions

¹ 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.

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Mayor Mary Jeffries
Mr. Eric Henley
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and balances; reviewing available policies and procedures; and reviewing available board minutes.

The results of the examination conducted on June 11-13, 2007 disclosed internal control deficiencies, instances of noncompliance and/or other matters of concern that are described in the attached findings and recommendations. After reviewing your comments to the initial draft report dated August 27, 2007 and reviewing further documentation provided by New Beginning on October 2, we continue to have concerns as identified in the attached findings and recommendations.

Thus, this final letter 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 management of the Town of East Spencer, the board of directors and management of the New Beginning Community Development Center, Inc., 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: Secretary Bryan E. Beatty,
Department of Crime Control and Public Safety
Ms. Linda Hayes, Chair
Governor's Crime Commission

Town of East Spencer -- New Beginning Community Development Center, Inc.
FINDINGS AND RECOMMENDATIONS

OVERVIEW: The Governor's Crime Commission awarded a grant of \$145,879² to the Town of East Spencer to establish an At Risk Intervention of Social Enhancement (ARISE) Structured Day Program for Rowan County. The town sub-granted the funds to New Beginning Community Development Center, Inc. (New Beginning) in Spencer, North Carolina. The goals of the grant are to reduce the drop-out rate for youths between ages 10 and 15 ½ in the ARISE program in East Spencer, Spencer, and Salisbury by 35% within five years; and ARISE is to tutor 85% of program participants in vocations of their choice – enhancing vocational competencies. The objectives of the grant are:

- After the first year, the grant looks to increase the number of participants to at least 30 youths served annually;
- Among the participants served, at least 75% of youth will display an increase in school performance (i.e. GPA, class participation);
- During the second year, ARISE program teachers will mentor 10 program participants in training for vocations of their choice;
- By the end of the second year, 25 youth will have successfully fulfilled ARISE program obligations;
- By the end of the second year, 25 participating families and youths will be satisfied with the program; and
- By the end of the second year, 120 hours of family participation will be completed.

1. THE TOWN OF EAST SPENCER IS NOT ACTIVELY MONITORING THE STATE FUNDS SUB-GRANTED TO NEW BEGINNING FOR THE ARISE PROGRAM.

In order for New Beginning to be reimbursed for the ARISE Structured Day Program, New Beginning submits a cost report and receipts to the Town Administrator. The Administrator reviews the report and totals the receipts to verify that they agree to the report, and reviews timesheets submitted with the report. The cost reports are then submitted to the Governor's Crime Commission by the town. Reimbursements are remitted to the Town of East Spencer, and then the town remits the money to New Beginning. The town was made aware of problems with the program after a program review conducted by the Governor's Crime Commission in September 2006. However, the town failed to take a more active role in monitoring the program from that point.

Auditor's Note: The Town of East Spencer did not receive a grant in State fiscal year 2008 for the ARISE program.

² The Governor's Crime Commission withheld the 4th quarter reimbursements to the Town of East Spencer for this grant because New Beginning did not adequately respond to the findings from the September 2006 program review. Total grant payments for State fiscal year 2007 were \$81, 638.

Town of East Spencer -- New Beginning Community Development Center, Inc.
FINDINGS AND RECOMMENDATIONS

Recommendation:

As a direct grantee of State grant funds, the Town of East Spencer is responsible for the proper administration and use of the grant. As such, for future grant funds from the State, the town should have an on-going monitoring program in place for any grant funds which includes not only review of submitted reimbursements, but also site visits and follow-up to assure program goals are being achieved.

2. THE ARISE PROGRAM OFFERED BY NEW BEGINNING IS NOT SERVING A SUFFICIENT NUMBER OF CLIENTS.

As part of the examination, we examined available attendance records for the month of November 2006. The average number of clients served per day was only 5, with seven staff positions to operate the program. The records that were available were inconsistently filled out, sometimes by staff and sometimes by the students. Marks on some of the records made it difficult to determine if the clients were present or absent. We were unable to locate records for some days.

In its response to the original findings, New Beginning indicated that it had records to support serving approximately 175 clients. We did confirm that periodic reports containing client demographics were submitted to the Governor's Crime Commission as required. However, on a follow up visit conducted October 2, 2007, New Beginning was still unable to produce any records to support the number of clients served. In fact, once the project director was finally able to access New Beginning's NovaNet client database, we discovered that it only contained partial data for 4 students and had not been accessed for at least 224 days.

Without the attendance records and other documentation, neither the town manager from East Spencer nor the project manager for New Beginning can effectively evaluate the program's success in meeting its objectives. New Beginning has been in operation for a year and should have more clients in order to meet the requirement of serving 30 clients by the second year.

Recommendation:

For future grant funds, the East Spencer project manager should require New Beginning (or other subgrantee) staff to keep detailed and accurate records. A database should be established so that monitoring of the program's

Town of East Spencer -- New Beginning Community Development Center, Inc.
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effectiveness could be evaluated on a periodic basis. This level of data would allow changes to be made to improve the results of the program.

3. NEW BEGINNING DOES NOT HAVE AN ADEQUATE CHART OF ACCOUNTS TO ALLOW TRACKING OF GRANT FUNDS.

All monies received by the grantee are deposited into a single checking account containing both State grant funds and private funds from other sources of revenue. However, the chart of accounts used by New Beginning 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. This requirement would flow down from the direct grantee (the Town of East Spencer) to the sub-grantee (New Beginning).

Recommendation:

The Town of East Spencer should require New Beginning (or other subgrantees) to design and implement a 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.

4. UNEXPLAINED PAYMENTS OR WITHDRAWALS HAVE BEEN MADE ON NEW BEGINNING'S ACCOUNT.

A review of bank statements and other financial documentation showed a number of payments, totaling \$23,024.08, which had been made without adequate documentation. Table 1 on the next page summarizes these payments. According to the project director, these payments represented reimbursements to himself and his wife for loans made to New Beginning. The loans were made for New Beginning start-up expenses prior to receiving the first reimbursement of grant funds. No documentation was found showing any loans were made, nor was there any indication in Board minutes that the loans were approved by the Board. All reimbursement requests for grant funds submitted to the town by New Beginning were documented by receipts, however.

Town of East Spencer -- New Beginning Community Development Center, Inc.
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One payment was made to a credit card account from Lexus Financial services in the name of the project director's wife (\$2,575.00). Notations on the check indicated the payment was for the project director and his wife. We were unable to confirm that this cash advance was deposited into New Beginning's account. Also listed are four cash withdrawals made from the nonprofit's checking account (\$20,449.08), which the project director said were repayments for the cash advances he and his wife made from their personal accounts. Since New Beginning does not have an adequate chart of accounts, we could not determine whether the questioned payments were from the State grant funds or from other funds received by New Beginning. Additionally, the lack of any documentation of loans to New Beginning leads us to question these payments.

UNDOCUMENTED PAYMENTS FROM NEW BEGINNING'S CHECKING ACCOUNT				
Date	Check #	Amount	Payee	Notations
08/6/2006	1107	2,575.00	Lexus Financial Services	For Project Director and Spouse
12/15/2006	N/A	8,449.08	Cash Withdrawal	None
1/25/2007	N/A	7,000.00	Cash Withdrawal	None
2/16/2007	N/A	2,000.00	Cash Withdrawal	None
3/28/2007	N/A	3,000.00	Cash Withdrawal	None
TOTAL		\$23,024.08		

Recommendation:

New Beginning's board of directors should more thoroughly investigate these "loan repayments". The Board should be aware of and approve any loans to New Beginning. The Board should be more involved with the accountability of all funds, but especially any grant funds. All checks or cash withdrawals should require two signatures, one being an authorized member of the board. The board should require the project director to develop and implement internal controls that adequately document expenditures, including requiring specific invoices or receipts for each expenditure. All transactions to or from any employee of New Beginning, including the project director, should be approved by the board prior to the transaction occurring.

Town of East Spencer -- New Beginning Community Development Center, Inc.
FINDINGS AND RECOMMENDATIONS

5. POOR CASH MANAGEMENT HAS CAUSED NEW BEGINNING TO INCUR UNNECESSARY EXPENDITURES.

Between the months of August 2006 and March 2007, New Beginning incurred \$1,152 in non-sufficient funds (NSF) fees due to poor cash management. Between December 2006 and March 2007 when the project director was making the cash withdrawals shown in Table 1, New Beginning was charged \$672 in NSF fees. While we could not conclusively show that these fees were charged to grant funds, consistently writing checks when the money is not available takes away funds that could have been used for the program, damages the credit of the nonprofit, and the nonprofit's reputation.

Recommendation:

The Board should takes steps to assure itself that New Beginning has an effective cash management plan which is followed by its employees. The Board should periodically review all accounting records, to include performing monthly bank statement reconciliations. Further, the Board may want to consider requiring the project director to repay the \$672 in fees that resulted from the cash withdrawals he made.

GRANTEE'S RESPONSE

**TOWN OF EAST SPENCER***"Home of Heritage & Promise"*

November 6, 2007

Mr. Leslie W. Merritt, Jr. CPA, CFP
State Auditor
20601 Mail Service Center
Raleigh, North Carolina 27699-060

RE: State Grants – New Beginning Community Development Center, Inc.
State Fiscal Year 2007

Dear Mr. Merritt:

This letter is offered in response to the findings and recommendations of the Office of the State Auditor for the ARISE Structured Day Program operated by the New Beginning Community Development Center, Inc.

1. The Town of East Spencer is not actively monitoring the Sate funds sub-granted to New Beginning for the ARISE program.

The Town of East Spencer was asked to serve as a pass-through agency for the ARISE Program. As such, the Town agreed to provide financial oversight and monitoring. The Town did not agree to assume responsibility for programmatic monitoring, program evaluation or auditing.

All cost reports submitted to the Governor's Crime Commission for reimbursement by the Town on behalf of New Beginning were appropriately documented and supported by time sheets and expenditure receipts. All expenditures were consistent with the grant budget provided to the Town by the grantor. All expenditures were appropriately classified in the Town's chart of accounts. The Town brought a number of concerns regarding the capacity of New Beginning to adequately handle the day-to-day management of this program to the attention of the Grant Manager. The Town of East Spencer feels it fulfilled its responsibility toward this program.

GRANTEE'S RESPONSE

2. The ARISE Program offered by New Beginning is not serving a sufficient number of clients.

The Town did not view Program Evaluation to be a part of its responsibility for this project. For future grant funds, the Town of East Spencer will establish a database for monitoring program activity. The Town will ensure that appropriate evaluation design is included in any future project.

3. New Beginning does not have an adequate chart of accounts to allow tracking of grant funds.

The Town of East Spencer will require New Beginning (or other sub grantees) to design and implement a chart of accounts that will allow expenditures to be linked to funding source.

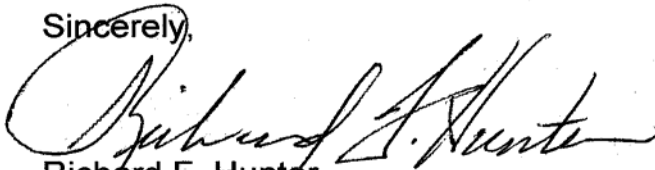
4. Unexplained payments or withdrawals have been made on New Beginning's account.

No unexplained payments or withdrawals were included in any cost reports submitted to the Town of East Spencer.

5. Poor cash management has caused New Beginning to incur unnecessary expenditures.

The Town of East Spencer concurs that this project experienced poor cash management. The Town will ensure that any future sub grantee will have an effective cash management plan.

Sincerely,



Richard F. Hunter
Town Administrator

cc: Secretary Bryan E. Beatty,
Department of Crime Control and Public Safety

Ms. Linda Hayes, Chair
Governor's Crime Commission

GRANTEE'S RESPONSE

Granted, Inc.

Samuel A Washington

November 7, 2007

Leslie W. Merritt, Jr., CPA, CFP
State Auditor
Office of the State Auditor
State of North Carolina
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Re: New Beginning Community Development Center, Inc.

Dear Mr. Merritt:

As Chairman of the referenced CDC, I am responding to your letter of October 29, 2007 addressed to Mayor Erma Jefferies and Mr. Eric Henley.

Let me assure you that the personal integrity of Mr. Henley is above reproach. In November of 2005, I was aware of the fact that Mr. Henley would be advancing over \$20,000 of his personal funds to enable the ARISE Structured Day Program to operate prior to receipt of grant proceeds from the Governor's Crime Commission.

I have reviewed the bank statements and other documentation that details the inflow of funds from Mr. Henley's accounts into the CDC as well as the CDC's reimbursement to Mr. Henley. The Board of Directors is aware that several of the reimbursements to Mr. Henley were done by over-the-counter withdrawals. We have since changed our cash management procedures to insure that no otc withdrawals occur in the future. Rather than requesting Mr. Henley to reimburse the CDC for the NSF fees, the Board has taken steps to insure that, the CDC's finance manager is responsible for seeing to it that sufficient funds are in the account prior to writing checks for disbursements. All ARISE Program disbursements have been for legitimate program expenses as described in our original grant proposal. This accomplishment is due to the fine leadership of Mr. Henley.

If there are any specific questions that I can address to assist you in clearing up this matter, please contact me at the phone number listed below.

Sincerely,



Samuel A. Washington, CCM
President & CEO

113 Glendower Drive
Salisbury, NC 28144
United States of America
7046451782

swfinpro@multas.net

GRANTEE'S RESPONSE

NBCDC, INC.

Eric A. Henley, Sr., Executive Director • 318 Eighth Street • Spencer, NC 28159 • (704) 638-1588
Serving the Community Through Education and Empowerment.

November 13, 2007

Leslie W. Merritt, Jr., CPA, CFP
State Auditor
Office of the State Auditor
2S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Mr. Merritt:

The following is a joint response of the Town of East Spencer and the New Beginning Community Development Center, Inc. to your letter on October 29, 2007. Mr. Richard Hunter has advised me that he has sent you the answers to the questions pertaining to the Town of East Spencer.

- 1. The Town of East Spencer is not actively monitoring the State Funds Sub-granted to New Beginning for ARISE Program.**
- 2. The ARISE Program offered by New Beginning is not serving a sufficient number of clients.**

A file was maintained on the Office Manager's Desk top computer that contained student's name and when they entered into the program. A copy of this file was given to Mr. John Price during the review. There were approximately 175 youth served. During the first year 2005-06, we served approximately 100 students and over 75 students in 06-07. There were at least 15 students expelled or suspended long term during the 06-07 year. Due to poor administrative practices the daily logs were misplaced. However we did maintain the following on each student when they were they enrolled into the program. The NovaNet program that Mr. Price mentions in his report was used by the office manager as a back-up unit. It was set up during the staff training by Mr. Tim Strong. The students in the ARISE program used NovaNet on daily basis in order to assess their abilities in Math, Language Arts, and Science. The students used this program at 114 E. Earnhardt Street in East Spencer where the program was held.

Auditor's Note: The file that was provided shows, at most, four students were present on any given day with many days not having any students.

GRANTEE'S RESPONSE

NBCDC, INC.

Eric A. Henley, Sr., Executive Director • 318 Eighth Street • Spencer, NC 28159 • (704) 638-1588
Serving the Community Through Education and Empowerment.

November 8, 2007

To Whom It May Concern:

I was employed with ARISE Structured Day Program, 2006-2007 as the Office Manager. One of my duties was to log all students in the program which included dates of their participation. This log has been submitted as an official source of tracking. Data was provided by the personnel at the school at the end of each week. I can also state that more than seventy students were enrolled in the program. We had six to eight long term students that were assigned to us at the beginning of the school year to the end. The Juvenile Justice Court in Salisbury can attest to how many student they sent to us.

It is unfortunate that your system terminated the program early. The Crime Commission personnel did not give us the support we requested in helping to make the program star one causing our demise.

Sincerely,

Gladys Taylor

3. New Beginning does not have an adequate chart of accounts to allow tracking of grant funds.

As recommended the Town of East Spencer will require New Beginning to design and implement a chart of accounts that will allow expenditures to be linked to funding source. Going forward, an Excel spreadsheet and Quick Books, detailing the source of all income will be tracked by funding source. These software systems will also track every disbursement and allocate them amongst all funding sources. Monthly, each funding source will be able to determine the amount of expenditures that are allocated against its funds.

4. Unexplained payments or withdrawals have been made on New Beginning's Account.

The Board's Chair and its members were aware that the program manager and his wife were going to make deposit into the New Beginning account in order to get the program started. As we explained in our latest response, during our meeting with board members we explained that ARISE program could not get any loans because it was a new nonprofit business and it didn't have any assets. So the program manager and his wife did something they thought would benefit the program, they made deposits into the New Beginning account with the understanding that they would get their money back when the program received reimbursement from the Governors' Crime Commission. The board members and program chair understood this to be a reimbursement grant and there was not any risk involved in the program manager being reimbursed. The only way to receive reimbursement from GCC is by first showing proof of purchases, paid salaries, supplies, travel etc., etc.

GRANTEE'S RESPONSE

NBCDC, INC.

Eric A. Henley, Sr., Executive Director • 318 Eighth Street • Spencer, NC 28159 • (704) 638-1588
Serving the Community Through Education and Empowerment.

Since this is a reimbursement grant, salaries, purchases and travel were made and documentation was submitted to the Town of East Spencer. After receipt of these documents and getting approval to proceed, the paper work was then sent to the grants manager, Mr. Melvin Williams. If you look at the previous documentation provided to your office, you will see that each month our cost reports (i.e. reimbursement forms) were held up by the grants manager. Mr. Williams would not give us any explanation concerning why he would not process our paperwork in a timely manner. We contacted Mrs. Gwen Burrell and Wes Walters to explain that Mr. Williams holding up our documentation and this was causing a hardship to our program because we were on a shoe-string budget. Our program was suffering because of his lack of attention to details, so because of the lag-in-time that program was experiencing each month, the program manager was forced to either discontinue the program, find a loan, or make more deposits from his personal accounts into the New Beginning account. None of money that is mentioned as a loan is a justifiable statement and it doesn't appear that the documents that have been proved to show proof that these deposits were made by program manager into New Beginning's account has been either overlook or not taken into consideration. We agree that we need to have a better accounting system and we have one in place. See the chart and attached statements and deposits forms.

DOCUMENTED DEPOSITS INTO NEW BEGINNING'S ACCOUNT		Table 2 MADE BY HENLEY'S INTO ARISE ACCOUNT		
DATE	CHECK #	AMOUNT	ACCOUNT	NOTATIONS
8/25/2006	N/A	15,000.00	XXXXXXXX7805	FIACard Services
11/9/2006	N/A	1,700.00	XXXXXXXX0727	Advanta SunTrust
12/21/2006	N/A	4,500	XXXXXXXX01029	Bank Citi
12/14/2006	N/A	8,035.00	XXXXXXXX4013	Bank
2/14/2007	N/A	2,000.00	XXXXXXXX1029	SunTrust Bank
TOTAL		31,235.00		

GRANTEE'S RESPONSE

NBCDC, INC.

Eric A. Henley, Sr., Executive Director • 318 Eighth Street • Spencer, NC 28159 • (704) 638-1588
Serving the Community Through Education and Empowerment.

5. Poor Cash Management has caused New Beginning to incur unnecessary expenditures.

Dear Mr. Price,

As Chairman of the Advisory Committee of the New Beginning Community Development Center, I acknowledge a discussion (at our last board meeting held on Tuesday April 24, 2007) concerning the Governor's Crime Commission's delay in its funding payments to New Beginning. It was mentioned at that meeting that Mr. Henley used personal funds to meet payroll and reimbursed himself when funding was received from the State.

The Advisory Committee acknowledges the necessity for appropriate documentation for all financial transactions. It is also essential and that the minutes of our official meetings reflect such discussions. A detailed statement of income and expenses will be presented at our Advisory Committee meetings going forward.