



STATE OF NORTH CAROLINA
Office of the State Auditor

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

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November 9, 2007

Ms. Dorenda Gatling
Chief Executive Officer
Windows on the World Community
Development Center, Inc.
100 Highway 64 West By-pass
P.O. Box 639
Roper, North Carolina 27970

Re: State grants
Department of Juvenile Justice and Delinquency Prevention, FY2006, \$160,000;
Department of Health and Human Services, FY2006, \$ 75,000;
FY2007, \$ 74,155;

Dear Ms. Gatling:

House Bill 1473 Section 13.17.(b) directed the Office of the State Auditor to conduct a follow-up examination to assure that WOW – Community Development Corporation (WOW e-CDC) is in compliance with fiscal management and internal control recommendations surrounding the expenditure of State grant funds made by the State Auditor. That report was released in March 2007 relative to grants awarded during State fiscal year 2005.

We have completed the follow-up examination, employing certain procedures¹ described below, at Windows on the World Community Development Center, Inc. related to its management of State grant funds. Our objectives were 1) to determine whether WOW e-CDC had implemented the recommendations made in the March 2007 report, and 2) 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 for grants awarded to WOW since our last examination. 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).

¹ The procedures employed 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.

Windows on the World Community Development Center, Inc.

FINDINGS AND RECOMMENDATIONS

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 and balances; and reviewing available policies and procedures.

The results of the examination conducted on September 4-6, 2007 and review of further documentation subsequently supplied by WOW disclosed internal control deficiencies, instances of noncompliance and/or other matters of concern that are described in the attached findings and recommendations.

This letter, including your written response to the findings attached, 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 and management of Windows on the World 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

Cc: Secretary George L. Sweat
Department of Juvenile Justice and Delinquency Prevention
Secretary Dempsey Benton
Department of Health and Human Services
Ms. Laketha Miller, Controller
Department of Health and Human Services
Mr. Tom Newsome, Assistant State Budget Officer
Office of State Budget and Management

Windows on the World Community Development Center, Inc.
FINDINGS AND RECOMMENDATIONS

Overview: Windows on the World Community Development Center, Inc. (WOW) is a non-profit organization that provides after school programs and information to prevent or reduce teenage pregnancy. Additionally, WOW is a technology center that can provide network training and promote accessibility to the World Wide Web for the eastern communities. Grants received were:

Support our Students Program from the Department of Juvenile Justice and Delinquency Prevention for a community based after-school initiative that provides support and guidance to young people by involving them in constructive activities to keep them focused and out of trouble.

Adolescent Pregnancy Prevention Program from the Department of Health and Human Services, Division of Public Health, is a program to:

- Increase community awareness of problems specifically identified with adolescents;
- Provide a forum for citizens to share information and develop intervention strategies;
- Provide educational resources and opportunities for schools, churches and other community groups;
- Enhance communication between parents and adolescents; and
- Advocate for funding and support for programs that affect the health of adolescents.

1. WOW HAS NOT IMPLEMENTED ALL THE INTERNAL CONTROL RECOMMENDATIONS FROM THE MARCH 2007 GRANT EXAMINATION.

During the previous grant examination at WOW, we noted two major issues with WOW operations:

- Lack of an adequate chart of accounts to allow tracking of State grant funds; and
- Serious internal control weaknesses in the handling of funds.

As directed in House Bill 1473 Section 13.17.(b), we examined the changes to fiscal management and internal controls made by WOW since March 2007. We found the following:

- WOW has implemented an adequate chart of accounts that allows tracking of all funds by source.
- WOW has made significant improvements in controls over the processing of expenditures; however, we did find 10 instances in a sample of 77 where no approval for payment was noted on the documentation and 1 instance where grant funds were used to pay a late fee of \$12.00.
- WOW is now performing bank reconciliations monthly and all checks were accounted for.
- WOW does have two individuals signing checks now; however, we noted the continued use of a signature stamp in a few instances. The use of a signature stamp weakens this control and allows for the potential misappropriation of funds.
- The last issue from the March 2007 examination related to issuing payroll checks in advance of work being performed. To address this concern, WOW changed its internal

Windows on the World Community Development Center, Inc.
FINDINGS AND RECOMMENDATIONS

policy to allow this. However, changing the policy does not address the underlying control issue--the need to accurately account for and reimburse for work as it is performed. We again noted several instances where payroll checks were written before the set payroll date. (See next finding.)

Recommendation:

The Board of Directors should further assess the existing internal controls and implement measures to strengthen them, concentrating on the specific problems noted above. The Board should review all revised procedures and assure itself that the changes will protect WOW's assets and the State grant funds for which it is responsible. To prevent the circumventions of controls, the Board should continue to take an active role in reviewing financial information.

2. WOW FAILED TO FOLLOW ESTABLISHED PAYROLL PROCEDURES FOR CERTAIN PAYMENTS TO EMPLOYEES.

We noted during the follow-up work that certain staff were being paid as contractors through a grant from Elizabeth City State University for a broadband study of 21 counties. While we were able to locate a proposal from WOW, there was no written contract with the University. WOW billed the University \$28,000 for the study which was deposited into one of WOW's checking accounts. Additionally, we noted two other contractor payments for JobTech and CHILL, Inc. for which we found no other documentation.

We found nothing to indicate that staff performed these duties outside their regular hours. If the employees performed this work as "extra" work, then they violated WOW's Conflict of Interest policy². The policy states:

No officer, employee, or agent of WOW e-CDC shall participate in the selection, award, or administration of a purchase or contract with a vendor where, to his knowledge, any of the following has a financial interest in that purchase or contract:

1. The officer, employee, or agent;
2. Any member of their immediate family;
3. Their partner;
4. An organization in which any of the above is an officer, director, or employee;
5. A person or organization with whom any of the above individuals is negotiating or has any arrangement concerning prospective employment.

² WOW filed a Conflict of Interest policy with the Department of Juvenile Justice and Delinquency Prevention and with the Department of Health and Human Services in 2005 prior to receiving State grants for 2006 containing this language.

Windows on the World Community Development Center, Inc.
FINDINGS AND RECOMMENDATIONS

Thus, since the proposal for the Broadband Study was from WOW and the funds were deposited in the WOW account, the grant should have been used to pay a portion of the employees' regular salaries, not paid as extra salary. Table 1 shows the payments in question for the three programs.

Table 1 Questioned "Contractor" Payments Made to Staff			
Date	Employee	For	Amount
4/13/2007	Dorenda Gatling	JobTech Program Adm. Closeout	\$ 300.00
6/7/2007	Crystall Jennings	CHILL Inc. Program Services	250.00
7/11/2007	Dorenda Gatling	ECSU Technology Project – Broadband Study	2,250.00
7/11/2007	Crystall Jennings	ECSU Technology Project – Broadband Study	5,000.00
TOTAL QUESTIONED "CONTRACTOR" PAYMENTS TO EMPLOYEES			\$7,800.00

Recommendation:

The Board of Directors should take immediate steps to require that all staff and officers comply with WOW's policy regarding conflict of interest. In addition, the Board should periodically review the application of internal controls to assure itself that controls are being properly interpreted and applied.



Windows On The World

WOW E-CDC
PO Box 639
100 NC Highway 32 North
Roper, NC 27970
(252) 793-9582 (phone) (252) 791-0005 (fax)
email: mail@wowe-cdc.org

GRANTEE'S RESPONSE

November 2, 2007

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

RE: State Grants
Department of Juvenile Justice and Delinquency Prevention
Department of Health and Human Services

Dear Mr. Merritt:

We are in receipt of your letter of October 29, 2007, which references the follow-up examination related to WOW e-Community Development Corporation (WOW e-CDC) compliance with fiscal management and internal control recommendations surrounding the expenditure of State grant funds made by the State Auditor. That report was released in March 2007 relative to grants awarded during State fiscal year 2005.

Your report provides the results of the examination conducted on September 4-6, 2007.

We sincerely appreciate the thorough review of our internal controls, as the March 2007 audit was the first state audit of WOW e-CDC during its five years of operation. We also appreciated the recommendations, with which we made every effort to concur. It is for that reason that it is important for us to point out that we assumed that concurring with your recommendations was the key to satisfying state requirements for the handling of state funds. However, it seems that in at least two cases where there were recommendations, we should have considered them mandates. Therefore, in the case of the use of the signature stamp, the WOW e-CDC Executive Board has forbidden the use of the stamp. In the case of advance payments, the WOW e-CDC Executive Board has also forbidden this policy.

GRANTEE'S RESPONSE

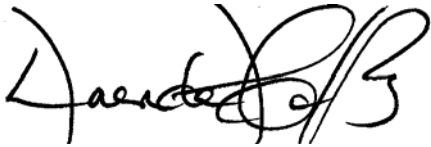
Mr. Leslie W. Merritt

November 2, 2007

In addition, it is important to recognize that the application of the conflict of interest policy that you related to two cases was a gross misinterpretation of the policy. There was a conflict of interest finding in the 2007 audit. It concerned the absence of disclosure of possible conflict by the third cousin of an employee who was retained by WOW e-CDC as internal auditor. Our response to that finding was to develop a disclosure form, which was subsequently signed by the internal auditor. This is the nature of the conflict of interest that the policy quoted by your office addresses. It does not in any way address "extra work" or outside duties of employees questions that your finding rose. Therefore, it would seem that is not a valid finding that WOW e-CDC failed to follow established payroll procedures since there were no procedures that governed "extra work". WOW e-CDC basically signed contracts with employees for "extra work". That was our unwritten procedure. We have attached an example of the contracts being utilized at the time. However, following our conversation with Mr. Price about his concerns with this process, our board developed a procedure that we subsequently sent to your office on October 10th as a means of addressing his concerns so that this would not become a finding. We have attached these documents. If you have any recommendations that might improve how this issue should be handled, we welcome your advice and will make it a part of our policy manual.

Again, we thank you for your review of our internal controls and look forward to any training that your office might offer to improve our fiscal and internal control operations.

Sincerely,



Dorenda F. Gatling
Chief Executive Officer

Attachments: 4

cc: Senator Marc Basnight
David McCoy – OSB
Dan Gurlack – Governor's Office

GRANTEE'S RESPONSE

FINDINGS:

1. WOW has not implemented all the internal control recommendations from the March 2007 grant examination.

You specifically referenced two major issues relative to the previous grant examination at WOW e-CDC.

- Lack of an adequate chart of accounts to allow tracking of State grant funds

Upon examination you reported that "WOW has implemented an adequate chart of accounts that allows tracking of all funds by source."

- Serious internal control weaknesses in the handling of funds

Upon examination you reported that "WOW has made significant improvements in controls over the processing of expenditures..."

In his review with me and the WOW e-CDC Board Liaison, Mr. Price indicated that he had only found 11 instances in a sample of 77 where no approval for payment was noted on the documentation. Mr. Price indicated to the Board Liaison that he considered this to be a minor finding because these could very well have been inadvertent. However, the next morning, I did request that Mr. Price show me the 11 instances to which he was referring. He indicated that he would provide me with the information upon my request. I called the next day and subsequently requested this information in writing, twice, as the e-CDC Board of Directors wanted this information. Also, I needed an opportunity to look them over to determine whether there were legitimate explanations prior to them being listed as possible findings. (See attached requests for information.)

Upon examination you indicated that "WOW is now performing bank reconciliations monthly and all checks were accounted for."

Upon examination you reported that "WOW does have two individuals signing checks now; however we noted the continued use of a signature stamp in a few instances. The use of a signature stamp weakens this control and allows for the potential misappropriation of funds."

Your audit recommendation in the March 13, 2007 letter stated that "...The Board should take a more active role in reviewing financial information and re-visit approval to use signature stamps on checks". In response to this recommendation, the Board revisited the topic of the financial signature stamps. There was strong Board support for the elimination of stamps, tempered by the reality that due to the infrequent unavailability of either authorized staff or officers of the Board in a lean organization such as WOW

GRANTEE'S RESPONSE

e-CDC there would probably be a rare but continuing need for the signature stamp. The Board therefore suggested that the stamps should be used as a point of last resort. Hence, your finding of the use of the stamp in a "FEW" instances. In response to the use of a signature stamp weakening controls and allowing for the potential misappropriation of funds, please be advised that the only signature stamp that is used is that of the WOW e-CDC's Chairperson. It is only used with prior approval, when possible, and the transaction is always subsequently checked and initialed by the Chairperson.

Had the recommendation of the audit specifically forbade the use of a signature stamp, WOW e-CDC would have complied. However, considering that this issue is a part of your findings, the WOW e-CDC Executive Board met on Friday, November 2, 2007, and has changed its policy to forbid the use of a signature stamp altogether.

Upon examination, you reported that "the last issue from the March 2007 examination related to issuing payroll checks in advance of work being performed."

In fact, your March 2007 examination indicated that "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". Therefore, in response to this finding the Board changed its internal policy to read "...Dependent upon the availability of funds, the CEO or Board Chairperson may use their discretion to consider employee requests for payroll advances not to exceed the amount of the employee's expected regular salary."

Once again, had the recommendation of the audit specifically forbade pay advances, WOW e-CDC would have complied rather change the internal policy. In light of your finding, the WOW e-CDC Executive Board, in its November 2, 2007 meeting, changed its policy to forbid any advance payment of salaries.

RECOMMENDATION:

Your recommendation that the Board of Directors should further assess the existing internal controls and implement measures to strengthen them, concentrating on the specific problems noted have clearly been addressed by the Board as indicated above. Your recommendation that the Board should "*continue*" to take an active role in reviewing financial information recognizes that the Board is currently doing so.

GRANTEE'S RESPONSE

WOW failed to follow established payroll procedures for certain payments to employees.

Upon examination you noted that during the follow-up work that certain staff were being paid as contractors through a grant from Elizabeth City State University for a broadband study of 21 counties.

Please note that this was not a grant, but fee for services rendered.

Upon examination you reported that you “found nothing to indicate that staff performed these duties outside their regular hours. If the employees performed this work as “extra” work, then they violated WOW’s Conflict of Interest policy. You quoted the policy that was filed with the Department of Juvenile Justice and Delinquency Prevention and with the Department of Health and Human Services in 2005.

This particular policy does not deal at all with staff performance of duties outside their regular hours. Nor does it relate to “extra” work performed. This policy specifically deals with officers, employees, agents, members of immediate families, partners, organizations in which any of these is an officer, director, or employee, or a person or organization with whom any of the above individuals is negotiating or has any arrangement concerning prospective employment and their relationship to an outside vendor.

The conflict of interest policy you quote was specifically related to addressing a finding in your March 2007 audit related to the employment of Yurecia Norman (former internal auditor) who was the third cousin of the then Executive Director, Larry Norman. At that time WOW e-CDC did not have an appropriate conflict of interest statement. (See attached disclosure statement relating to conflict of interest.)

Upon examination you reported that “since the proposal for the Broadband Study was from WOW and the funds were deposited in the WOW account, the grant should have been used to pay a portion of the employees’ regular salaries, not paid as extra salary.” You further charted the amounts paid to the Network and Systems Administrator and the Chief Executive Officer for work performed on the broadband study as well as CHILL, Inc. and JobTech.

Having discussed this issue of how salaries for WOW e-CDC are aggregated during the audit, we felt compelled to address this issue with an addendum to the existing Policy and Procedures manual. This policy was recommended by our internal auditor, and forwarded to you via e-mail on October 10, 2007, along with the attached letter explaining the reason why such a policy was necessary.

As stated in the letter sent to you electronically, WOW e-CDC has not had a guaranteed source of income to provide salaries to all core staff. Our funds come

GRANTEE'S RESPONSE

from a combination of grants and earned income. There is never a set time-frame in which we expect to receive funds since grant funded windows of opportunity vary. Consequently, we never set an operating budget of which we can be sure of funding from year-to-year. The skill sets required for the operation of a technology center

are seldom available in Washington County at the pay rates that grants afford. For example, the comparable salary for a CEO charged with the responsibility of the WOW e-CDC CEO is in a range of \$68,000 - \$80,000 in Washington County. The WOW e-CDC CEO is paid \$45,000. The comparable salary for a Network and Systems Administrator with A+ and Network+ Certification is \$68,000 in Washington County. The Network and Systems Administrator earns \$37,500. Even these base salaries are contingent upon the availability of funds and are established recognizing that the salaries are likely to be lower than that for which we would ordinarily be able to hire additional technical staff. Further, there are no regular hours. Although the center is open from 9:00 a.m. – 6:00 p.m. (sometimes until 7:00 p.m.), staff hours often extend beyond this period. This is time for which they are neither budgeted

nor paid. Therefore, in an effort to compensate staff who are working well below what they should be paid, their salaries are increased through income from organizational contracts for services which require their skill sets, that are otherwise unavailable in Washington County.

RECOMMENDATION:

Your recommendation that the Board of Directors should take immediate steps to require that all staff and officers comply with WOW's policy regarding conflict of interest has already implemented as evidenced in the above explanations. The Board meets quarterly. Review of internal controls shall continue to be reviewed to insure that controls are being properly interpreted and applied.

Auditor's comment: Notwithstanding the assertions of the grantee, we stand by our finding as written. The original information and documentation clearly shows this was a grant for the benefit of the public.

GRANTEE'S RESPONSE

ATTACHMENT ONE**INDEPENDENT CONTRACTOR AGREEMENT**

THIS AGREEMENT made and entered into on the date last written below, by and between WOW e-Community Development Corporation (the "Company"), a not-for-profit corporation, and _____, an independent contractor ("Contractor");

WITNESSETH;

WHEREAS, the Company desires to retain the services of the Contractor, and the Contractor desires to render services to the Company, upon the terms and conditions hereinafter stated:

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, do hereby promise and agree as follows:

I. SERVICES

The Company hereby retains the Contractor and the Contractor hereby agrees to render services for the implementation of Electronic Health Records for Metropolitan Community Health Services, Inc. (Agape Clinic) upon the terms and conditions hereinafter set forth to include:

- Assist with setup of system on production and test servers
- Assist with setup of users on system
- Assist with work station configuration (installation of CPRS and bookmark for Web access)
- Assist with system access testing for users
- Assist with system activation
- Assist with following system activation
- Assist with support
-

II. TERM

Subject to the provisions for termination as hereinafter provided, the term of this Agreement, as amended from time to time, shall begin on July 17, 2007, and shall terminate upon completion of the project.

III. POSITION

The Contractor shall render services as a Hardware/Software Technician for the Company. She will operate within the bylaws of the Company and the goals, guidelines, budgets, directives, position description, policies and procedures now or at some later date established or approved by the President or the Board of Directors.

GRANTEE'S RESPONSE

IV. OTHER EMPLOYMENT

The Contractor shall devote necessary and reasonable hours per week rendering services to the Company or such reasonable time as shall be needed to render such services. The Company acknowledges that the Contractor will, during the term of this Agreement, be engaged in other business activity and will be engaged in rendering the same or similar services to other companies.

V. COMPENSATION

The Contractor's compensation for all services to be rendered under this Agreement shall be Six Thousand Dollars (\$6,000.00) at Three Thousand Dollars (\$2,000.00) per month for each monthly period for three months commencing on the date last written below and payable at the end of each month or as otherwise agreed upon between the parties. The Contractor shall be reimbursed for such reasonable and authorized expenditures, such as travel and entertainment, which he may incur in promoting the business of the Company. Such authorized expenditures will be reimbursed upon presentation by the Contractor to the Company of an itemized accounting of such expenditures and receipts relating thereto in the form requested by the Company.

VI. TERMINATION FOR CAUSE

The Company expressly reserves its full rights during the term of the Agreement and particularly the right to discharge the Contractor for cause and to cancel this Agreement on that account. Such cause shall consist, by way of illustration and not limitation, of one or more of the following: conviction of a felony, fraud, disloyalty, inattention to duties, moral turpitude, continual drunkenness or embezzlement. The Company shall also have the right to cancel this Agreement and terminate the Contractor's services hereunder at anytime for material violation of the terms of this Agreement by the Contractor. In any such case of discharge, cancellation, and termination, written notice thereof shall be given to the Contractor and shall be effective as of the date mailed in accordance with this Agreement or, if delivered, upon delivery to the Contractor.

VII. ILLEGAL COMPENSATION

The Contractor acknowledges and agrees that he shall not, nor shall he allow anyone under his supervision to, receive from a third party, directly or indirectly, any bribes, kickbacks, donations, loans, commissions or other payments, regardless of form, whether in money, property, or services, in connection with any business transaction in which the Company is directly or indirectly involved. All compensation to the Contractor relating to any business transaction in which the Company is involved shall be made by the Company only. The Company expressly reserves its full rights during the term of this Agreement to discharge for cause the Contractor violating the provisions of this article and to cancel this Agreement on that account.

GRANTEE'S RESPONSE

VIII. LIABILITY

The Company shall not be liable for the acts of the Contractor or his servants or agents in the performance by the Contractor of his duties, except for acts caused directly by the Company or by the Company's agents or employees.

IX. RELATIONSHIP

Nothing in this Agreement shall be considered to create the relationship of employer and employee between the parties hereto and the Contractor shall be deemed at all times to be an independent contractor.

X. ARBITRATION

Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration in accordance with the Commercial Arbitration Rules then in effect of the American Arbitration Association and judgment upon the award rendered may be entered in any court having jurisdiction thereof.

XI. NOTICE

Any notice required or permitted to be given under this Agreement shall be sufficient if in writing, and if sent by registered mail to his residence in the case of the Contractor, or to its principal office in the case of the Company.

XII. WAIVER

The waiver by the Company of a breach of any provisions of this Agreement by the Contractor shall not operate or be construed as a waiver of any subsequent breach by the Contractor.

XIII. BINDING EFFECT

This Agreement shall be binding upon and shall inure to the benefit of the parties hereto, their respective heirs, representatives, successors and assigns, but shall not be assignable by the Contractor without the prior written consent of the Company.

XIV. ENTIRE AGREEMENT

This Agreement shall be deemed to express, embody and supersede all previous understandings, agreements and commitments, whether written or oral, between the parties hereto with respect to the subject matter hereof and to fully and finally set forth the entire agreement between the parties hereto. No modifications shall be binding

GRANTEE'S RESPONSE

unless stated in writing and signed by both parties hereto with the approval of the President of the Company.

XV. GOVERNING LAW

This Agreement shall be governed by the laws of the state of the Company's incorporation.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

Dorenda Gatling
CEO – WOW e-CDC

Date

Date


ATTACHMENT TWO

Windows On The World

WOW E-CDC
PO Box 639
100 NC Highway 32 North
Roper, NC 27970
(252) 793-9582 (phone) (252) 791-0005 (fax)
email: mail@wowe-cdc.org

GRANTEE'S RESPONSE

October 10, 2007

Ms. Janet Hayes
Director
Management Services and
Nongovernmental Compliance Division
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Ms. Hayes:

In our efforts to be as responsive as possible to concerns expressed by Mr. Price during his September 5th visit, we requested the advice of our accountant and others as to how we might effectively address the issue of core staff drawing salaries from different sources. As we explained, we were not sure of how to address this problem since WOW e-CDC does not have a guaranteed source of income adequate to provide salaries to all core staff. In fact, WOW e-CDC was forced to engage in entrepreneurial pursuits, long before other CDC's were required to do so in order to sustain its operations.

Our funds come from a combination of grants and earned income. There is never a set time frame in which we can expect to receive funds since grant windows of opportunity vary. Consequently, we never really set an operating budget for which we can be sure of funding from year to year. Our staff salaries might very well vary from year to year based on whether we are successful in our grant efforts or our entrepreneurial pursuits. Most of the projects, both grant and those funded with earned income, in which WOW e-CDC is involved, require technical skill sets that can be assigned to one or more of the core staff. This combination of revenue often makes up what become the salaries of core staff.

The grant funded programs for which the organization applies, because it is a technology center, more often than not, require skill sets that are seldom available in Washington County, particularly at the pay rates that grants afford. So we have found it prudent to build our technical staff salaries around combinations of duties related to several projects, often funded by different sources.

"Nothing Damages A New Truth Like an Old Error"

1

The response from the grantee has been reformatted to conform with the style and format of the rest of the report. However, no data has been changed.

GRANTEE'S RESPONSE

Ms. Janet Hayes

-2-

October 10, 2007

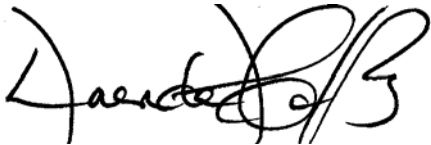
On the advice of our accountant, the WOW e-CDC Executive Committee met recently to adopt a compensation policy which would establish a base salary range each year, contingent upon the availability of funds, recognizing that the salary being established is likely to be lower than that for which we would ordinarily be able to hire additional technical staff. Further, established salaries are contingent upon the availability of funds. The policy will also provide a means by which staff could receive performance bonuses throughout the year, based on their contribution to the accomplishment of goals related to grants, or to entrepreneurial pursuits, of which neither can be guaranteed nor amounts anticipated beforehand.

We have attached this policy for your review and consideration. It shall, once approved at the annual meeting of the board of directors, become a part of the organizational Policy and Procedures Manual. We hope this will be adequate to satisfy any concerns related to this matter. Hard copy will follow.

We would greatly appreciate your expeditious response to our request for your final report so that the funds appropriated by the General Assembly can be released. The Windows on the World Technology Center is extremely important to Washington County and to Eastern North Carolina. We are currently at the point where lack of funding once again, threatens our continued operations.

Thank you again, for your assistance.

Sincerely,



Dorenda Gatling
CEO

Attachment

cc: John Price
Leslie Merritt, Jr. – State Auditor
Secretary George L. Sweat - DJJDP
Secretary Carmen Hooker Odom - DHHS
Ms. Laketha Miller – Controller, DHHS
Senator Clark Jenkins

"Nothing Damages A New Truth Like an Old Error"

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GRANTEE'S RESPONSE

Proposed Amendment to Policy and Procedures Manual

WOW e-CDC hereby establishes a compensation policy which would establish a base salary for all core employees based on the availability of funds. Because the organization must produce earned income as a means of sustainability, it is involved in entrepreneurial pursuits which often require core staff to perform above and beyond those duties which their base salaries cover. In such cases, it shall be the policy of the WOW e-CDC that Performance-based Bonuses be provided to those core staff members whose skill sets are necessary for ensuring the earned income required to sustain the organization. The basis for performance-based bonuses shall be established upon receipt of either grants or entrepreneurial contracts.

The amount and schedule of payments of bonuses and fringe benefits will be based on the recommendation of the Special Advisor to the Board. As contracts for service occur, recommendations for bonuses shall be presented to the Executive Board for their approval.

"Nothing Damages A New Truth Like an Old Error"

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GRANTEE'S RESPONSE

ATTACHMENT THREE

From: Dorenda Gatling [mailto:dgatling@wowe-cdc.org]
Sent: Wednesday, September 26, 2007 6:21 PM
To: John Price
Cc: Clark Jenkins; bunnyws@yahoo.com; king@wownc.org; Woody Collins; rswilkins305@yahoo.com; jeanalexander@yahoo.com
Subject: RE: WOW e-CDC Follow-Up

John,

I have faxed the paperwork related to the Broadband Study conducted for Elizabeth City State University to (919) 807-7647. Regarding our previous e-mail to you (see below), you indicated that you would contact me relative to the 11 incidents of 77 where there was no cancellation of invoices showing that payments had been made. My board will meet in the very near future and would appreciate that information. We would also appreciate it if you would forward the final report regarding the internal controls at WOW e-CDC. As you know, the General Assembly also awaits that study and it is extremely important to us that they receive it as soon as possible.

Regards,

Dorenda Gatling

From: John Price [mailto:John_Price@ncauditor.net]
Sent: Wednesday, September 26, 2007 10:51 AM
To: Dorenda Gatling
Subject: RE: WOW e-CDC Follow-Up

Hello Dorenda,

Sorry for delay of not getting back to you but have been out of town. Can you please either email me or fax me a copy of the ECSU Technology Project Broadband Study contract agreement and proposal. I will be in town the rest of the week.

From: Dorenda Gatling [mailto:dgatling@wowe-cdc.org]
Sent: Monday, September 17, 2007 4:51 PM
To: John Price
Subject: WOW e-CDC Follow-Up

Dear Mr. Price

This e-mail is a follow up to your recent review of internal controls of WOW e-CDC in response to the request from the NC General Assembly. Once again, allow me to express our

GRANTEE'S RESPONSE

appreciation for the thorough review of accounting practices your office conducted of WOW e-CDC. As you mentioned to us, your findings have resulted in much improved internal controls. Thank you for the careful review of the former findings and your cooperation in providing instructive comments which allowed us to take notes that could be reported to our board of directors. You indicated that you would contact me relative to the 11 incidents of 77 where there was no cancellation of invoices showing that payments had been made. At my recent meeting with the Executive Board of the WOW e-CDC Board of Directors in which I reported results of your visit, they asked me to follow-up on that request.

I would appreciate your expeditious response.

Dorenda F. Gatling

Chief Executive Officer
WOW e-Community Development Corporation
PO Box 639
100 NC Highway 32 North
Roper, NC 27970-0639
(252) 793-9582

GRANTEE'S RESPONSE

ATTACHMENT FOUR

Windows On The World

WOW E-CDC
 PO Box 639
 100 NC Highway 32 North
 Roper, NC 27970
 (252) 793-9582 (phone) (252) 791-0005 (fax)
 email: mail@wowe-cdc.org

Disclosure of Employee Relationship with Potential or Existing WOW e-CDC Vendor

Please provide any information necessary to fully disclose any actual or potential conflicts of interest that you might have related to your employment or contractual relationship with the WOW e-CDC. Such conflicts might arise in any situation in which a member of the Board of Directors, staff, or immediate family is involved in any activity or business of the organization which might be, or that could be perceived to be, one of impropriety.

Organization**Type of Relationship** (please explain)

Norman Financial Group

*The second cousin to the Program
 Director who is completing
 the 990 for 2006 and a
 financial consultant.*

Larry Norman
 Signature - Employee

6-18-07
 Date

Harriet King
 Signature - Board of Director Chairperson

6/18/07
 Date

"Nothing Damages A New Truth Like An Old Error"

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