

**SPECIAL REVIEW**

**WAMY**

**COMMUNITY ACTION, INC.**

**BOONE, NORTH CAROLINA**

**NOVEMBER 1994**

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Mr. Thomas L. Covington	Director, Fiscal Research Division

### OTHER PARTIES

Mr. William Hall	Chairman of the Board for WAMY Community Action, Inc.
Mr. H. C. Moretz, Jr.	Executive Director for WAMY Community Action, Inc.
Mr. Doug Culbreth	Director of the Energy Division, Department of Commerce
Mr. William J. Costello	Office of the Inspector General, Department of Energy

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November 3, 1994

The Honorable James B. Hunt, Jr., Governor  
The Honorable Michael F. Easley, Attorney General  
Mr. William Hall, Chairman of the Board for  
WAMY Community Action, Inc.  
Members of the General Assembly of North Carolina

Ladies and Gentlemen:

Pursuant to General Statute 147-64.6(c)(16), we have completed our special review into allegations concerning the WAMY Community Action, Inc. The results of our review, along with recommendations for corrective actions, are contained in this report.

General Statute 147-64.6(c)(12) requires the State Auditor to provide the Governor, the Attorney General, and other appropriate officials with written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee. In accordance with that mandate, and our standard operating practice, we are providing copies of this special review to the Governor, the Attorney General, the Director of the SBI, the Office of the Inspector General, Department of Energy, and other appropriate officials.

Ralph Campbell, Jr.  
State Auditor

## OVERVIEW

WAMY Community Action, Inc., a non-profit organization established on July 7, 1964, was organized to provide aid in correcting and eliminating conditions which result in the economic, social, and physical handicaps present among low income individuals in the North Carolina counties of Watauga, Avery, Mitchell and Yancey. The organization receives proceeds from several federal grants, such as the Weatherization Assistance Grant, which are generally administered through various North Carolina state agencies. The Weatherization Assistance Grant is to be used to fund the Weatherization Assistance Program. The Weatherization Assistance Program is designed to increase energy efficiency of dwellings occupied by low-income persons, especially elderly, children, and the handicapped. The Weatherization Assistance Program replaces such items as windows, doors, etc., in order to increase energy efficiency.

WAMY Community Action, Inc. currently employs twenty-three individuals including an Executive Director who reports to a Board of Directors. WAMY Community Action, Inc.'s operating expenditures for the fiscal year July 1, 1992 through June 30, 1993 were \$1,474,573. Total revenues for the fiscal year July 1, 1992 through June 30, 1993 were \$1,419,370.

In May 1984, Weathco, Inc. was incorporated as a for profit corporation for the purpose of generating funds to be used in promoting programmatic activities of local non-profit corporations. WAMY Community Action, Inc. contracted with Weathco, Inc. to install Weatherization projects. In the early 1990s, a question arose during an annual

financial audit of WAMY Community Action, Inc. concerning the appropriateness of the WAMY Community Action, Inc. contracting with Weathco, Inc. because the Executive Director of WAMY Community Action, Inc. was the original incorporator and officer for Weathco, Inc. The following finding was documented in the audit report for the year ended June 30, 1991:

Program

Weatherization Assistance, Housing Preservation Grant, Housing Trust Fund.

Finding/Noncompliance

Attachment 0, Circular A-110 Procurement Standards (3)(a) states that grant recipients, officers, employees, or agents shall neither solicit nor accept gratuities, favors or anything of monetary value from contractors. It further states that no employee, officer or agent shall participate in the selection, award or administration of a contract in which federal funds are used, where, to his knowledge, he or his immediate family, partners, or organization in which he or his immediate family or partner has a financial interest.

Upon examining the contracts of WAMY Community Action, Inc. and records of the subcontractor, WEATHCO, Inc., we found that management fees were paid to the Executive Director of WAMY Community Action, Inc. and the contract labor was paid to the Weatherization Coordinator of WAMY Community Action, Inc. by the subcontractor. Although this was a direct violation of the above procurement standards and of WAMY Community Action, Inc.'s personnel policies it appears that the contracts were administered fairly in all other respects as further indicated by positive program monitoring visits conducted by the various grantor organizations.

### Recommendation

The Board of Directors should take appropriate action to insure that WAMY Community Action, Inc. is totally separated from the subcontractor as to management and employee involvement. There should be no direct involvement with the subcontractor by any WAMY Community Action, Inc. employee or any family member of an employee. The Board of Directors should also take the appropriate action as outlined in the Corporation's personnel policies which allows for actions ranging from written admonition to removal.

### Management's Response

We concur. All employment of WAMY Community Action, Inc. employees or family members of employees by the subcontractor has been terminated and will not occur again. Employee involvement with the subcontractor is being determined (via an audit of the subcontractor) and appropriate corrective action will be taken when the extent of this involvement is fully determined. Existing personnel policy procedures are being followed regarding the violation of personnel policies.

In February 1993, Weathco, Inc. was dissolved. The Articles of Dissolution identify WAMY Community Action, Inc.'s Executive Director as being the Director, President, and Sole Shareholder of Weathco, Inc. and his wife as being the Secretary.

According to the Executive Director, all the equity in Weathco, Inc. was given to him upon dissolution of Weathco, Inc. According to the Executive Director, no stock was ever issued, but the Weathco, Inc. Board decided that Weathco, Inc. belonged to him.

According to the Executive Director, signatory authority on the Weathco, Inc. checking account was transferred to a third party in January 1992 and remained there

until June 1992. According to the Executive Director, the WAMY Community Action, Inc. Board Chairman wrote checks on the Weathco, Inc. checking account from July 1992 until February 1993. The Executive Director said that he was given the checking account in February 1993 upon dissolution of Weathco, Inc. as part of the final settlement.

In fiscal year 1993, WAMY Community Action, Inc. switched from contracting out the installation of Weatherization projects to handling the installations in-house. Employees were hired to install the projects.

The Executive Director leases commercial building space in Boone, NC where he houses two businesses that he owns, Moretz Financial Services and High Country Mobile Home Parts and Repairs. The Executive Director allows the owner of a racing collectibles business to use part of his space without charge in exchange for operating High Country Mobile Homes Parts and Repairs when the Executive Director is not there.



## INTRODUCTION

The Office of the State Auditor received several allegations through the State Auditor's Hotline concerning the Executive Director of WAMY Community Action, Inc. and the Executive Director's misuse of funds received through the Weatherization Assistance Grant.

The following procedures were used to conduct our special review:

1. Interviews with employees of WAMY Community Action, Inc.
2. Interviews with individuals external to WAMY Community Action, Inc.
3. Examination of records pertaining to WAMY and the Weatherization Assistance Program.
5. Examination of documents pertaining to High Country Mobile Home Parts and Repairs.

This report presents the results of a special review conducted pursuant to G. S. 147-64.6(c)(16) rather than an annual financial audit. WAMY Community Action, Inc. contracts annually with a private accounting firm to perform a financial audit. Pursuant to G.S. 143-6.1, the annual financial audit reports are filed with the Office of the State Auditor and the Joint Legislative Commission on Governmental Operations.

## **FINDINGS AND RECOMMENDATIONS**

1. **The Executive Director Subleases Commercial Building Space to WAMY Community Action, Inc. without Board Approval.**

During our review we determined that the Executive Director personally leases commercial building space for two of his personal businesses, Moretz Financial Services and High Country Mobile Homes Parts and Repairs. In February, March, and April 1994, he instructed the WAMY Community Action, Inc. bookkeeper to write three checks to his landlord for \$900, \$600, and \$600, respectively. We found no documentation supporting the expenditures other than notes by the Executive Director stating to write the checks. According to the Executive Director, the payments were for the rent of space in his personal business that WAMY Community Action, Inc. used to store mobile home materials purchased for the Weatherization Program. According to the Executive Director, he does not have a written lease with his landlord. He and three other businesses agreed to lease the building at \$1,200 a month. According to the Executive Director he pays \$450 of the rent plus one third of the monthly electricity and one quarter of the water bill. He said that WAMY Community Action, Inc. began having materials delivered to High Country Mobile Home Parts and Repairs around October 1993, so he charged WAMY Community Action, Inc. one half of his monthly rent for seven months (October 1993 - April 1994,  $\$450/2 \times 7 \text{ months} = \$1,575.00$ ). He said that the remainder, \$525.00, was for WAMY Community Action, Inc.'s portion of utilities.

It should be noted that the Executive Director initiated the process of having the materials delivered to High Country Mobile Homes Parts and Repairs. According to

the Executive Director, the WAMY Community Action, Inc. Board Chairman knew of this arrangement but the arrangement was never voted on by the Board. According to the present Board Chairman, he did not know of this arrangement until after we began our review.

After we informed the Board Chairman of the above arrangement, WAMY Community Action, Inc. rented alternative storage space for the Weatherization materials and began having the deliveries made there. The new storage space costs WAMY Community Action, Inc. \$130.00 per month compared to the \$300 per month that the Executive Director was charging.

On March 24, 1994, the WAMY Community Action, Inc. Board Chairman certified the following policy:

...that is the policy of WAMY Community Action, Inc. to prohibit business contracts or transactions with any firm in which a member of the Board of Directors or other policy-making body, or employee has a substantial business interest, or may directly or indirectly benefit from such transactions. Any member of the Board of Directors or other policy-making body or employee having any interest shall promptly make such interest known, in writing, to the Chairperson of the Board of Directors. This does not preclude conducting business with such firms when there is not other convenient source of supply. If it is necessary to conduct transactions with such firms, a written statement of justification shall be furnished.

No reward, favor, gift or other form of remuneration may be accepted by any member of the Board of Directors or other policy-making body, or employee for performance or non-performance from any vendor, contractor, individual or firm, or from any other source having or proposing to have a business relationship with the agency.

The Executive Director violated this policy by personally leasing building space to WAMY Community Action, Inc. without informing the Board Chairman.

### **Recommendation**

We recommend that the Board ask the Executive Director to repay WAMY Community Action, Inc. \$2,100 based on the facts that he had no Board approval, the transactions were a contradiction of the conflict of interest policy, and the amount appears excessive. In addition, we recommend that the Finance Office not make payments without appropriate documentation, such as a copy of a lease and Board approval.

2. **WAMY Community Action, Inc.'s Weatherization Materials Were Commingled With the Executive Director's Personal Business Inventory Items.**

During our observation of operations, we determined that WAMY Community Action, Inc. Weatherization materials were commingled with the Executive Director's High Country Mobile Home Parts and Repairs' inventory. On the day of our observation, the year end materials inventory report had been prepared. We asked the person responsible for operating High Country Mobile Home Parts and Repairs to show us which inventory items belonged to WAMY Community Action, Inc. He was unable to identify the items belonging to

WAMY Community Action, Inc. that were listed on the inventory. Later, the WAMY Community Action, Inc.'s employee that prepared the inventory list helped us locate the items. Some of WAMY Community Action, Inc.'s inventory items were commingled with items belonging to High Country Mobile Home Parts and Repairs. We question the High Country Mobile Home Parts and Repairs' salesman's ability to differentiate between the two when someone comes in to make a purchase. Such a situation creates the possibility for materials that were paid by WAMY Community Action, Inc. being sold and the proceeds going to High Country Mobile Home Parts and Repairs. Based on the records provided by the Executive Director, or lack of, we had no way of determining whether this actually occurred.

According to the Executive Director, the prior Weatherization contractor "donated" materials to WAMY Community Action, Inc. in early 1993 after his contract was terminated. We were not provided a beginning inventory balance, so we have no way of determining what the ending inventory should be.

### **Recommendation**

We recommend that the Board instruct the Executive Director to cease from storing WAMY Community Action, Inc. materials with his own and take any other action deemed necessary.

3. **The Executive Director Sold Weatherization Materials to WAMY Community Action, Inc.**

On August 31, 1993, the Executive Director purchased Weatherization materials costing \$674.15 by writing a check on a Weathco, Inc. account (six months after the corporation was dissolved). He then submitted an invoice dated September 6, 1993 to WAMY Community Action, Inc. for \$860.66. On October 1, 1993, a check was written to High Country Mobile Home for \$860.66 out of the WAMY CAP SPECIAL-OTHER checking account. Therefore, the Executive Director made a profit by selling items to the agency he has authority over.

During our review, the Executive Director gave us a copy of two invoices from High Country Mobile Home Parts and Repairs to WAMY Community Action, Inc. One invoice was dated May 24, 1994 for \$1,144.32, and the other invoice was dated June 6, 1994 for \$321.42. As of August 9, 1994, neither invoice had been submitted for payment. According to the Executive Director, he had no records to support the invoices. He said that he got the figures from his Weatherization installation crew leader. In addition, he gave us a copy of a credit memo from High Country Mobile Home Parts and Repairs to WAMY Community Action, Inc. dated June 30, 1994 for \$579.67. As of the August 9, 1994, the credit memo had not been submitted to WAMY Community Action, Inc.. As with the two invoices, the Executive Director said that he did not have records supporting the amount.

### **Recommendation**

We recommend that the WAMY Community Action, Inc. Board order the Executive Director to cease from purchasing items from his personal business for WAMY Community Action, Inc. We recommend that WAMY Community Action, Inc. not pay the two invoices from High Country Mobile Home Parts and Repairs, if submitted, unless the Executive Director can provide adequate supporting documentation and the Board approves payment. In addition, we recommend that the Executive Director repay WAMY Community Action, Inc. \$186.51, the amount of profit he made on the transaction.

#### **4. WAMY Community Action, Inc.'s Weatherization Material Purchases Were Not Supported By Adequate Documentation Before Payment.**

Our review of payments made to a vendor for Weatherization materials revealed that most payments were generated by a note from the Executive Director. Invoices were not attached. When we first began our review, the Executive Director said that he had some of the invoices and that some were missing. He later provided us a portion of the missing documents. We had to obtain the remaining missing copies from the vendor in question. We still are not sure that we have all the invoices.

Our review of the invoices that we were able to obtain for this particular vendor reflects that forty of the invoices document the sales as being to "High Country Mobile Home Parts and Repairs" totaling \$19,439.62. The invoices document the orders being placed by the Executive Director, his daughter, the High Country Mobile



Home Parts and Repairs' salesman (racing collectibles business owner), the Weatherization Coordinator, and the Weatherization installation crew members. Only the Executive Director, the Weatherization Coordinator, and the Weatherization installation crew members are WAMY Community Action, Inc.'s employees.

**Recommendation**

We recommend that WAMY Community Action, Inc. discontinue the practice of writing checks without adequate supporting documentation. We recommend that only WAMY Community Action, Inc.'s employees be allowed to order and receive materials. In addition, we recommend that the Board require the Executive Director to provide documentation showing that all materials delivered to High Country Mobile Home Parts and Repairs were used on Weatherization projects. If not, we recommend the Board request the Executive Director reimburse WAMY Community Action, Inc.

5. **WAMY Community Action, Inc.'s Weatherization Assistance Program Purchasing Procedures Are Out of Compliance.**

During our review, we determined that WAMY Community Action, Inc.'s policy on the purchasing of Weatherization materials was not in compliance with the North Carolina Low-Income Weatherization Assistance Program (WAP) regulations. WAMY Community Action, Inc.'s policy states:

Beginning July 1, 1993 all Weatherization materials will be purchased through WAMY Community Action, Inc. Unrestricted Account - "Other/Materials". Since WAMY must rent space to store materials and provide a Work Station for the work crews, WAMY will collect a user fee of 10% of material cost from the WAP.

The Weatherization Coordinator is responsible for obtaining material price quotes from vendors across the four-county area. Quotes must be from at least three of the four counties. The quoted material prices will be averaged to accomplish an average Fair Market Price on materials to be charged to the WAP. The price of materials charged to the WAP will not exceed the Average Fair Market price for the materials actually installed on each unit including the 10% user fee.

At the end of each month, the Weatherization Coordinator will prepare an Invoice with Retrotech Job Book actual material page attached as the official document for reimbursing the WAMY unrestricted account.

Since some material prices change almost on a daily basis, the material charge to the WAP Program is the Average Fair Market Price. At the end of the WAP Contract period (June 30, 1994) the WAMY Unrestricted Account will be reviewed and if this account shows more than 10% above the material cost, the excess amount will be allocated back to the WAP material budget.

The WAP staff will use the North Carolina Low-Income Weatherization Assistance Program Materials Standard as a guide for selecting materials for the program.

According to the Weatherization Coordinator, only one quote was obtained to determine the average fair market value. In addition, state regulations require subgrantees (WAMY Community Action, Inc.) to only be reimbursed for actual costs and not the average fair market price when projects are installed by agency employees.

### **Recommendation**

We recommend that WAMY Community Action, Inc. change its policy to comply with the North Carolina Low-Income Weatherization Assistance Program.

6. **The Finance Officer Cannot Account For \$1,581.81.**

In March 1969, The Green Eagle Rural Community Transportation Cooperative, Inc. (Cooperative) was organized in North Carolina to provide transportation and related services and facilities for the benefit of its members. According to the Executive Director, the Cooperative has been inactive for many years. He said that the Association was supported by membership fees that were maintained by WAMY Community Action, Inc.

On August 29, 1994, we asked the Finance Officer to provide us with the bank statements for the Cooperative for the last year. At first, he said that he did not have any information on the Cooperative. He then provided us with a file containing tax returns for the Cooperative. Approximately 30 minutes later, he informed us that he and the Executive Director had closed the bank account for the Cooperative and had withdrawn approximately \$1,500 in cash sometime in June 1994. He said that in June 1994, he and the Executive Director went to the bank and closed the account. The bank teller gave the Executive Director approximately \$1,500 in cash. The Executive Director then gave the cash to the Finance Officer and they both left the bank. The Finance Officer said that he returned to his office with the cash and placed it in his desk drawer. He said that he had planned on depositing the money in WAMY Community Action, Inc.'s combined account but he forgot. He said that he did not remember that he had the cash until we asked for the bank statements. He said that someone had broken into his office approximately two to three weeks before and the cash must have been taken at that time. He said that he did not remember the

cash being in his desk at the time of the break-in, so he did not report the cash as missing.

The Finance Officer said that he did not take the money nor did he give it to someone else. He said that it was negligence on his part and that he will pay the money back through payroll deduction.

The Executive Director said that he took it for granted that the Finance Officer had deposited the money, so he never subsequently asked him about it. He said that the first time that he heard that the money was missing was the same time it was reported to us.

We were able to obtain the bank statement for the account dated June 30, 1994. The statement reflects that \$1,581.81 was withdrawn on June 13, 1994 reducing the balance to zero.

### **Recommendation**

We recommend that all cash be deposited in a timely manner. In addition, we recommend that the Board refer the problem to the appropriate law enforcement agency.

7. **The Assistant Finance Officer Released Two Payroll Checks Without Approval.**

On August 22, 1994, the Assistant Finance Officer ran the August 1994 payroll. The payroll checks were prepared early because the Job Training Partnership Act Summer Youth Program (SYP) employees had completed the program for the summer and they needed to be paid. According to the Assistant Finance Officer, she went ahead and prepared the SYP employee checks plus the regular salaried employee checks. The Executive Director signed all the payroll checks. According to the Executive Director, he instructed the Assistant Finance Officer to release the SYP employee payroll checks but not to release the regular employee payroll checks because it was too early in the month.

According to the Assistant Finance Officer, she cashed her payroll check on August 23, 1994 and hid the remaining checks for safety, since they had been signed.

According to the Executive Director, the Weatherization Coordinator called him on August 24, 1994 requesting her payroll check. He said that he told her that it was too early but she could check with him on August 26, 1994.

According to the Weatherization Coordinator, the Executive Director told her that she could pick-up her check on August 26, 1994. According to the Weatherization Coordinator, the Assistant Finance Officer was not at work on August 26, 1994, so she called her at home and told her that the Executive Director had approved for her

to get her payroll check early. The Assistant Finance Officer told the Weatherization Coordinator where the checks were hidden. The Weatherization Coordinator went into the Assistant Finance Officer's office and retrieved her payroll check.

According to the Executive Director, he did not give approval for the Assistant Finance Officer nor the Weatherization Coordinator to remove their payroll checks early. He said that he sometimes approves for employees to get their payroll checks early, but that he did not approve for them to get their payroll checks early on this occasion.

### **Recommendation**

We recommend that the Executive Director not sign payroll checks in advance. We recommend that employees not be paid until the end of the pay period. We recommend that payroll checks be stored in a secure place. Finally, we recommend that the Board take any other appropriate action.

### **8. Some Financial Records Are Maintained by the Administrative Officer and Not by the Finance Officer.**

During our review, we determined that the Administrative Officer and not the Finance Officer keeps the books on some of WAMY Community Action, Inc.'s accounts. In addition, the Finance Officer never sees the bank statements for these accounts.

### **Recommendation**

We recommend that all recordkeeping be handled by the Finance Officer.

## CONCLUSION

Three years ago, WAMY Community Action, Inc.'s financial audit report included a finding that it had violated federal regulations because of its business relationship with a corporation organized by the Executive Director. The Executive Director and the Weatherization Coordinator had received payments from that corporation in violation of federal regulations.

WAMY subsequently adopted policies and procedures that prohibited it from conducting business with firms in which its employees and directors have substantial business interests. Exceptions could be made if there was no other convenient source of supply, provided that a written statement of justification was provided.

Notwithstanding previous audit findings and corporate policies, the Executive Director has embarked on course of dealings in which his private businesses have sold materials and space to WAMY Community Action, Inc. In addition, the activities of his private businesses and WAMY Community Action, Inc. are intertwined to such a degree that it can not be determined where one starts and the other stops. This, combined with a lack of accurate records, has created a situation in which there is a total lack of assurance that WAMY funds and assets are being safeguarded and used efficiently for the purposes intended.

Given the past history, the findings in this report require immediate corrective action.

## STATEMENT OF FINANCIAL IMPACT

The following schedule represents a quantification of the items examined during our special review. We cannot completely quantify the tangible benefits or detriment, if any, to the taxpayer resulting from the findings of our review. We are simply noting those areas where the system of internal controls were either circumvented or should be enhanced.

1)	Invoices reflecting sales to High Country Mobile Home Parts and Repairs paid by WAMY Community Action, Inc.	\$19,439.62
2)	Two payroll checks obtained early (gross amounts).	4,216.00
3)	Three rent payments to the Executive Director's landlord.	2,100.00
4)	Missing cash.	1,581.81
5)	Two invoices and a credit memo from High Country Mobile Home Parts and Repairs to WAMY Community Action, Inc. (Net).	886.07
6)	Payment to High Country Mobile Home Parts and Repairs by WAMY Community Action, Inc.	<u>860.66</u>
	<b>TOTAL FINANCIAL IMPACT</b>	<b><u>\$29,084.16</u></b>





