

SPECIAL REVIEW

**SAMPSON HAVEN, INC.
CLINTON, NORTH CAROLINA**

MARCH 1995

DISTRIBUTION OF SPECIAL REVIEW

In accordance with G.S. §147-64.5 and G.S. §147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

EXECUTIVE BRANCH

The Honorable James B. Hunt, Jr.	Governor of North Carolina
The Honorable Dennis A. Wicker	Lieutenant Governor of North Carolina
The Honorable Harlan E. Boyles	State Treasurer
The Honorable Michael F. Easley	Attorney General
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Ms. Juanita M. Bryant	Executive Director, N.C. Council for Women
Mr. James J. Coman	Director, State Bureau of Investigation

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OTHER PARTIES

The Honorable William H. Andrews	District Attorney, 4th Prosecutorial District
The Honorable Thomas H. Lock	District Attorney, 11th Prosecutorial District
Sampson Haven, Inc. Board Members	

March 14, 1995

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March 14, 1995

The Honorable James B. Hunt, Jr., Governor
Mrs. Katie G. Dorsett, Secretary
North Carolina Department of Administration
Sampson Haven, Inc. Board Members
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 Sampson Haven, 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 SBI, and other appropriate officials. The Secretary of the Department of Administration has reviewed this report and her written comments in relation to Finding 6 are included on Page 16.

Ralph Campbell, Jr.
State Auditor

ORGANIZATIONAL OVERVIEW

Sampson Haven, Inc. was chartered in 1991 as a non-profit corporation with the purpose of providing assistance to victims of domestic violence in Sampson County. Services were to be provided to victims of rape and domestic violence in the form of emergency assistance by providing temporary shelter, food, and transportation. Also, Sampson Haven, Inc. was to provide counseling to victims and families, and educate the public as to the plight of such victims. The original Board of Directors consisted of ten persons. Subsequently, the Board of Directors were to be elected annually by the incumbent Board members.

In 1991, the Board members began raising funds for Sampson Haven, Inc. through donations and selling donated items at a local flea market. In January 1992, Sampson Haven, Inc. received a grant from the North Carolina Department of Administration, North Carolina Council for Women (N.C. Council for Women) in the amount of \$8,732.00 for the period January 1, 1992 through June 30, 1992. In March 1992, Sampson Haven, Inc. received another grant from the N.C. Council for Women for a pro-rata share of marriage license fees collected in North Carolina beginning on August 1, 1991 pursuant to N.C. General Statutes regarding "Fees for Domestic Violence Centers." The grant period was from January 1, 1992 through June 30, 1992, and was later amended to extend to December 31, 1992. Sampson Haven, Inc. received \$7,145.72 in marriage license funds for the period. Both grants were renewed for the following year. Sampson Haven, Inc. received \$8,314.00 in grant funds and \$14,408.57 in marriage license fees for the period July 1, 1992 through June 30, 1993. In total, Sampson Haven, Inc. received \$38,600.29 from the Department of Administration in the 16 month period. Also, Sampson Haven, Inc. received a \$10,000.00 grant from the Z. Smith Reynolds Foundation, Inc. in March 1993.

The Sampson Haven, Inc. Board hired a Director on February 3, 1992. The Director was the only employee of the organization. As the only employee, the Director was responsible for all the day to day operations of the organization. These details included meeting with victims and addressing their needs, acquiring office space, maintaining client files, paying the bills, monitoring court proceedings, soliciting donations, and educating the public about domestic violence. The Director controlled the check book and the bank statements, made deposits, and wrote her own payroll checks. The checks required the signature of the Director and the Board President. The Board Minutes were maintained by the Director. In March 1992, the Director leased office space in Clinton, North Carolina to house Sampson Haven, Inc.

INTRODUCTION

We were requested by the North Carolina State Bureau of Investigation to conduct a special review of activities of Sampson Haven, Inc.'s former Director.

The following procedures were used to conduct our special review:

1. Interviewed Board Members of Sampson Haven, Inc.
2. Interviewed individuals external to Sampson Haven, Inc.
3. Interviewed the former Director of Sampson Haven, Inc.
4. Examined copies of bank statements, canceled checks, and deposit slips obtained from the bank.
5. Examined records maintained by the Department of Administration.
6. Examined telephone records maintained by the Sampson Haven, Inc.'s landlord.
7. Obtained confirmations from third parties relating to Sampson Haven, Inc.'s receipts and disbursements, when available.

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. Pursuant to the grant agreements between Sampson Haven, Inc. and the N.C. Council for Women, the non-profit agency was required to have annual financial audits performed. These audit reports were required to be submitted to the N.C. Council for Women. We found no evidence of any annual financial audits ever being performed.

PREFACE

When we began our review, we were informed by the Grants Administrator for the N.C. Council for Women that she had repeatedly tried unsuccessfully to get the former Director to turn over her financial records (check books, bank statements, canceled checks, etc.). We contacted the former Director and requested any records that she had. She said that she would look for the records and give them to us. She never provided us with the records. At the time of our initial contact she was working in Raleigh, NC but she later moved to Greensboro, NC without leaving a forwarding address. Eventually, we had to obtain copies of all the bank statements, canceled checks, and deposit slips from the bank. We were never provided any documentation supporting the disbursements by the former Director. We examined each transaction of the checking account and confirmed all checks that were written to the former Director, or were endorsed by the former Director, or appeared to be unusual in nature.

Interviews with Board members revealed that the Board did not appear to be knowledgeable of the day-to-day operations of Sampson Haven, Inc. According to several of the Board members and the N.C. Council for Women's Northeastern Regional Director, when one of the male Board members began asking the former Director to supply the Board with financial and client data, the former Director began alleging that the Board member was sexually harassing her. Subsequently, the former Director sent this Board member and two other Board members (the President and the Secretary) a letter, dated June 2, 1992, informing them that they were no longer on the Board. According to the Board members, they met infrequently and usually a quorum was not present when they did meet. We found no evidence of any Board meetings occurring after the June 2, 1992 letters.

On September 15, 1993, the former Director began working as a Shelter Coordinator for Harbor, Inc., a domestic violence center in Smithfield, N.C. She remained at Harbor, Inc. until approximately July 8, 1994. She was later charged with three counts of forgery and two counts of uttering by the Smithfield Police Department in relation to checks that she had written to herself on Harbor, Inc.'s checking account. As of January 26, 1994, the charges against the former Director were still pending.

FINDINGS AND RECOMMENDATIONS

1. The Former Director Overpaid Herself \$8,595.64 In Salary Payments.

During our review, we totaled all checks written to the former Director that were identified as salary checks (payroll checks) for the two calendar years ending December 31, 1992 and 1993, to determine the annual net salary payments. We added to the annual net salary payments the federal income taxes withheld and the employee's portion of FICA withheld and reported to the Internal Revenue Service. We also added to the annual net salary payments the state income tax withholdings reported to the North Carolina Department of Revenue in order to compute the total gross salary payments made to the former Director for the two years. We compared the actual gross salary payments received by the former Director to the correct gross salary payments she should have received and discovered that the former Director had overpaid herself by \$2,139.98 in 1992 and \$6,455.66 in 1993 for a total of \$8,595.64 in excess salary payments.

We interviewed the former Director and questioned her about these excess payments. The former Director admitted to writing herself extra paychecks. According to her, she should have been paid on the 15th and 30th of each month and that any other payroll checks to herself were unearned. She said that the Board did not approve for her to receive extra payroll checks nor did they approve for her to get a bonus and vacation salary checks. The former Director said that it was approved for her to get one raise beginning July 1, 1992. This increased her monthly net pay from \$490.43 to \$527.50 (computed annual salary of \$16,000 to \$17,000); however, she never received Board approval to increase her salary again. The former Director identified twenty-four (24) of her payroll checks that she admitted to signing the Board President's name to without the Board President's permission. The Board President

said that she did not give the former Director permission to sign her name to the checks (See finding 4).

2. The Former Director Wrote an Unauthorized Check for \$2,313.06 on Sampson Haven, Inc.'s Checking Account To Pay Her College Student Loan.

During our examination of disbursements, we found that check number 1204 dated June 2, 1993 was written to "M.H. Jones c/o Barton College" in the amount of \$2,313.06. The check contained what appeared to be the signatures of the Board President and the former Director. According to the Board President, she did not sign the check. She said that someone else had signed her name without her knowledge (See finding 4). We contacted Barton College and were informed that the check was written to a collection agency to pay the former Director's delinquent student loan.

The former Director admitted that she signed the Board President's name on the check without the Board President's knowledge. She said that she had planned on paying the money back by having her personal bank account drafted each month and having the money deposited into Sampson Haven, Inc.'s checking account. However, our examination of Sampson Haven, Inc.'s checking account revealed that no money was ever drafted from the former Director's account to Sampson Haven, Inc.'s account.

3. The Former Director Wrote Herself an Unauthorized Check for \$558.99 for the Balance of Funds Remaining in Sampson Haven, Inc.'s Checking Account After She Left the Agency.

During our examination of Sampson Haven, Inc. disbursements, we discovered that the former Director wrote a check (# 1229) in the amount of \$558.99 to herself reducing the checking account balance to zero. The check was dated

October 18, 1993 and was endorsed by the former Director. The check contained what appeared to be the signatures of the Board President and the former Director. According to the Board President, she did not sign the check nor did she approve for the check to be written (See finding 4). The former Director admitted that she did not get Board approval to withdraw the remaining funds from the checking account. She first said that the \$558.99 check was her last salary payment. She later agreed that the check was an “illegitimate check.” It should be noted that the former Director had already overpaid herself in salary before withdrawing the \$558.99 (See Finding 1). In addition, the former Director began employment with Harbor, Inc. in Smithfield, NC on September 15, 1993, approximately 33 days before she wrote herself the check for the remaining funds in the checking account.

4. The Former Director Signed the Board President’s Name on at Least Forty-One Checks Without the Board President’s Approval.

During our review, we provided the Board President with a copy of all the Sampson Haven, Inc.’s canceled checks that contained her signature. The Board President identified fifty-three (53) checks totaling \$22,020.35 that contained her name on the checks as one of the signatory authorities, along with the former Director’s, that she is sure that she did not sign. Of the fifty-three (53) checks identified by the Board President, the former Director admitted that she signed the Board President’s name on forty-one (41) of the checks totaling \$18,607.73 without the Board President’s approval. The former Director denied signing the Board President’s name on five (5) of the checks totaling \$2,004.46 and said that she is not sure about the remaining seven (7) checks totaling \$1,408.16. It should be noted that some of these checks are included in the other findings of this report.

5. **The Former Director Wrote Herself Reimbursement Checks Totaling \$2,515.97 That She Could Not Support Through Documentation .**

In addition to her payroll checks, the former Director wrote herself twenty-three (23) checks totaling \$2,515.97 that could not be supported by documentation. Fourteen (14) of the checks had “travel” written on them. The remaining nine (9) checks had “reimbursement” or nothing written on them in the “For” space on the checks. When we questioned the former Director about the legitimacy of the checks, she stated that some of the checks were for actual travel and expense reimbursements. She stated that she wrote check number 1158 (dated February 9, 1993 in the amount of \$350.00) to herself in order to borrow the money. Check 1158 had no explanation in the “For” space. She also stated that she wrote check number 1162 (dated February 23, 1993 in the amount of \$200) to herself in order to borrow the money to pay her school loans. The check has “For Reimbursement” written in the “For” space.

Based on the absence of documentation supporting the above checks, we question the legitimacy of all the checks in addition to checks 1158 and 1162 until supporting documentation can be produced. According to the Board President, the former Director was eligible to receive mileage reimbursement at 25 cents per mile on all travel connected with her duties except for commuting expenses.

6. **The North Carolina Council for Women Continued to Fund Sampson Haven, Inc. Even Though the Corporation Had Not Complied With the Conditions of the Prior Year Contracts.**

The N.C. Council for Women entered into two grant agreements (contracts) with Sampson Haven, Inc. during the early part of the calendar year 1992. The first grant agreement was for the period January 1, 1992 through June 30, 1992 in the amount of \$8,732.00. The second grant agreement was for the same period but was later

amended to extend through December 31, 1992. The second grant agreement stated no set amount of funding. Instead, the grant agreement stated that funds would be provided to Sampson Haven, Inc. based on "...the pro-rata share of marriage license fees collected in North Carolina beginning August 1, 1991..." Both grant agreements stipulated that Sampson Haven, Inc. was required to have an audit performed at the end of the fiscal years, and the audit reports must be submitted to the N.C. Council for Women within six months of the fiscal year end. In addition, the agreements state that

...if the Grantee [Sampson Haven, Inc.] shall violate any of the covenants, agreements or stipulations of this Contract, the Grantor [N.C. Council for Women] shall have the right to terminate this Contract by giving written notice to the Grantee of such termination, termination conditions and specifying the effective date thereof.

Upon termination of this agreement the Grantee shall transfer to the Grantor any subject grant funds on hand at the time of termination.

Sampson Haven, Inc.'s by-laws state that the corporation's fiscal year end was June 30 of each year. The N.C. Council for Women never received an audit report for the fiscal year ending June 30, 1992. The audit report should have been delivered to the N.C. Council for Women by December 31, 1992.

The first grant was renewed for the fiscal year July 1, 1992 through June 30, 1993, in the amount of \$8,314.00. The second grant, marriage license grant, was renewed for the period October 1, 1992 through September 30, 1993. The N.C. Council for Women disbursed \$14,157.57 of these grant funds after the December 31, 1992 deadline for submitting the prior fiscal year's audit report.

In addition, all four grant agreements referred to above state that

The grantee [Sampson Haven, Inc.] agrees that at the close of each fiscal quarter, financial reports on the proper form, will be completed and sent to the Council for Women, attention of the Grants Administrator, by the 10th of the month following the end of the quarter. If the 10th falls on a weekend or holiday, the reports shall be due the next working day. If proper reports are not sent in when required, additional payments will be withheld until the Grantee is in compliance with this requirement.

According to the Grants Administrator, the N.C. Council for Women did not receive any financial reports after the quarter ending March 1992. The Grants Administrator said that she visited Sampson Haven, Inc.'s office sometime in the spring of 1993 and was shown the reports by the Director, but she was never given any copies.

Recommendation

We recommend that the N.C. Council for Women strictly enforce the conditions of grant agreements. If grantees do not comply with the conditions of a contract, we recommend that the N.C. Council for Women withhold funding until compliance is met.

7. The Sampson Haven, Inc. Board Members Did Not Adequately Monitor the Activities of the Corporation's Employee.

The former Director was employed by Sampson Haven, Inc. for approximately 19 months. During that time, the former Director was conducting the subsequently described unauthorized activities. The Board President continued to sign checks even though the Board had questions concerning the activities of the former Director. It appears that the Board members never followed through on their concerns. We found evidence that when some of the Board members began to question her activities, the former Director informed the Board members that they were no longer on the Board. The Board President said that she did not sign any checks after June 3, 1993, the date she received the letter from the former Director stating that her term on the board had expired.

CONCLUSION and RECOMMENDATION

The unauthorized activities that took place at Sampson Haven, Inc. could have been detected earlier had two things taken place. First, the Board of Directors should have been more knowledgeable of the day-to-day operations at the agency. They should have insisted on receiving good financial data and inquired about the services that were being provided. Second, the N.C. Council for Women should have insisted on receiving the required quarterly financial reports from Sampson Haven, Inc. When the required annual audit was not received by the deadline, funding should have been suspended. Failure on the part of both entities combined with a dishonest employee resulted in the waste of \$38,600 in state tax dollars and \$10,000 of private grant funds.

We recommend that in the future the N.C. Council for Women require that reports be submitted as the grant agreements state and, also, ensure that local Boards are aware of their responsibilities and liabilities relating to the use of government funds.

STATEMENT OF FINANCIAL IMPACT

The following schedule represents a quantification of the findings detailed in our special review. We have categorized the findings based on the nature of the activities.

Unauthorized Excess Benefits

1. Unauthorized salary received by former Director by writing checks to herself.	\$ 8,595.64	
2. Unauthorized payment of former Director's delinquent student loan.	2,313.06	
3. Unauthorized withdrawal of balance in checking account by former Director after she left the organization.	558.99	
4. Unauthorized loans made by former Director to herself (no payback ever occurred).	<u>550.00</u>	
Total unauthorized salary and benefits.		\$12,017.69
5. Forty-one checks were written by the former Director that she admits to signing the Board President's name without permission.	\$ 18,607.73	
<u>Less:</u> Amount included in Items 1, 2, 3 & 4 above	<u>12,017.69</u>	
Total not included in items above.		\$ 6,590.04
6. Reimbursement checks written by the former Director to herself that are not supported by documentation.	\$ 1,965.97	
<u>Less:</u> Amount included in Item 5 above.	<u>97.50</u>	
Net reimbursement without supporting documentation.		\$ 1,868.47

Wasted State and Private Funds

Remaining disbursements from \$38,600.29 in state funds, \$10,000 in private grant funds and \$1,561.50 in private donations not included in above items. We determined that little, if any, benefit resulted from the operation of this program. Therefore, we consider the entire amount of expenditures during the course of its operation as wasted.	<u>\$29,685.59</u>
Total unauthorized salary, benefits, and wasted funds.	<u><u>\$50,161.79</u></u>

STATEMENT OF FINANCIAL IMPACT

The following schedule represents a quantification of the findings detailed in our special review. We have categorized the findings based on the nature of the activities.

UNAUTHORIZED EXCESS BENEFITS

1. Excess payments to the former Director in the form of payroll checks.	\$ 8,595.64
2. Payment of the former Director's college student loan.	2,313.06
3. Former Director wrote herself a check for the balance of the checking account.	558.99
4. Two checks written by the former Director to herself that she admits to borrowing the money.	<u>550.00</u>
Total excess benefits received by the former Director.	<u><u>\$ 12,017.69</u></u>

FORGED SIGNATURES ON CHECKS

Forty-one checks that the former Director admitted signing the Board President's name without permission.	<u><u>\$ 18,607.73</u></u>
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QUESTIONABLE DRAFTS

Reimbursement checks written by the former Director to herself that are not supported by documentation	<u><u>\$ 1,965.97</u></u>
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WASTED STATE FUNDS

Total amount of state funds granted to Sampson Haven, Inc.	<u><u>\$ 38,600.29</u></u>
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Dr. Lloyd V. Hackley	President, Department of Community Colleges
_____	President,
_____	_____
_____	Chairman, Board of Trustees,

	Vice President for

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