

SPECIAL REVIEW

**RURAL DAY CARE ASSOCIATION
OF NORTHEASTERN NORTH CAROLINA
SEABOARD, NORTH CAROLINA**

JUNE 1995

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The Honorable Harlan E. Boyles	State Treasurer
The Honorable Bob R. Etheridge	State Superintendent
The Honorable Michael F. Easley	Attorney General
Mr. Marvin K. Dorman, Jr.	State Budget Officer
Mr. Edward Renfrow	State Controller
Mr. C. Robin Britt	Secretary, Department of Human Resources

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Other Legislative Officials

Representative James B. Black	Minority Leader of the N.C. House of Representatives
Mr. Thomas L. Covington	Director, Fiscal Research Division

Other Parties

Charles E. Hamilton	Assistant U.S. Attorney, Eastern District of North Carolina
Patricia Ford-Roegner	Regional Director, Region IV, U.S. Department of Health and Human Services
Albert A. Hallmark	Regional Inspector General for Investigations, Region IV, U.S. Department of Health and Human Services
Ms. Venetta Grant	President, Rural Day Care Association of Northeastern North Carolina Board of Directors

June 29, 1995

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June 29, 1995

The Honorable James B. Hunt, Jr., Governor
The Honorable Bob R. Etheridge, State Superintendent
Mr. C. Robin Britt, Sr., Secretary
North Carolina Department of Human Resources
Ms. Venetta Grant, President
Rural Day Care Association of Northeastern
North Carolina
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 Rural Day Care Association of Northeastern North Carolina. 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, and other appropriate officials.

Ralph Campbell, Jr.
State Auditor

ORGANIZATIONAL OVERVIEW

Rural Day Care Association of Northeastern North Carolina (RDCA) was founded in 1976 and incorporated in 1980 as a non-profit corporation. From 1984 through 1994, RDCA provided Head Start services to children ranging in age from three to five years. RDCA provided these services in eight locations in Hertford, Bertie, Northampton, and Halifax counties. In 1993, approximately 292 children attended these eight centers. During the prior four years, RDCA also provided a Head Start Wrap-Around Program that was funded through the state. The Head Start Wrap-Around Program is designed to supplement federal Head Start funds by enabling Head Start providers to extend their programs to full-days and to full-years. The Head Start Wrap-Around allowed RDCA to provide child care after the Head Start day ended and during the summer months when Head Start was not in session. Approximately fifty-seven individuals were employed by RDCA as either full-time or part-time workers during 1993. During August 1994, RDCA no longer provided Head Start services, but began operating several day care centers. One individual has served as the President of RDCA's Board of Directors since 1989.

RDCA received federal, state, local, and private funding during prior years in order to operate the programs. During October 1993, RDCA was authorized by the Administration for Children and Families within the U.S. Department of Health and Human Services to receive \$946,522 to operate a Head Start program during the 1993-94 fiscal year. RDCA also contracted with the Division of Child Development within the N.C. Department of Human Resources to receive funds for child care resource and referral services during the period October 1, 1993 through September 30, 1994 and Head Start Wrap-Around funds for fiscal years ending June 30, 1994 and June 30, 1995. RDCA received \$48,407.48 for child care resource and referral, and \$55,595.91 for Head

Start Wrap-Around during fiscal year 1993-94. RDCA received \$15,606.97 in Wrap-Around funds during July 1, 1994 through October 31, 1994. In addition, RDCA received \$105,384.96 for the child care food program from the N. C. Department of Public Instruction for expenses incurred during the period November 1, 1993 through October 31, 1994.

<u>Type of Funding</u>	<u>Period Covered</u>	<u>Amount Received</u>
Head Start	10/01/93-09/30/94	\$ 945,851.12
Child Care Resource & Referral	10/01/93-09/30/94	48,407.48
Head Start Wrap-Around	07/01/93-06/30/94	55,595.91
	07/01/94-10/31/94	15,606.97
Child Care Food Program	11/01/93-10/31/94	105,384.96
	Total	<u><u>\$ 1,170,846.44</u></u>

INTRODUCTION

In March 1993, we received a complaint through the State Auditor's Hotline regarding the Rural Day Care Association of Northeastern North Carolina (RDCA). In April 1993, we received a copy of a letter sent from the Regional Administration of the U.S. Department of Health and Human Services, Administration for Children and Families (ACF), to the President of RDCA's Board of Directors (Board President). The letter stated that ACF had completed an on-site fiscal and program review in January 1993 and found multiple problems.

On December 1, 1993, ACF notified RDCA that they proposed denying RDCA's request for refunding the Head Start grant. A hearing before the U.S. Health and Human Services' Departmental Appeals Board, requested by RDCA, began on April 11, 1994. In the hearing, ACF officials asserted that they were discontinuing the funding of the Head Start program with RDCA because of "inadequacies in fiscal management, failures in administration and program management, repeated violations of federal labor laws, problems with parent involvement, and other findings of non-compliance."¹

On August 24, 1994, we received a copy of a letter written to the Board President from a Regional Administrator with ACF, dated August 17, 1994. In the letter, the Board President was notified that effective August 8, 1994, the Departmental Appeals Board had issued a 115 page opinion that sustained ACF's actions to terminate RDCA from the Head Start program. The Board President was advised "to cease and desist from all Head Start operations" other than what was required by federal law for RDCA to complete its obligations under the Head Start grant. In addition, the letter stated that RDCA had withdrawn \$144,000 in Head Start funds on August 10, 1994, two days after the

¹Department of Health and Human Services Department Appeals Board, Appellate Division, Docket No. A-94-30, Decision No. 1489, August 8, 1994, Page 1.

Departmental Appeals Board issued its decision, and that the withdrawal needed to be justified. ACF informed the Board President that Head Start funds may only be spent “to maintain telephone services or employ no more than four staff (Head Start Director, Fiscal Officer, Secretary and Inventory Clerk) to accomplish your agency’s closing requirements. In the interim, all equipment and supplies purchased with Head Start funds must be secured.” ACF also informed the Board President that more detailed instructions would follow.

On August 26, 1994, ACF wrote the follow-up letter to RDCA, providing additional instructions to the Board President on the steps to be taken to close out the Head Start program. RDCA was told that effective August 8, 1994, RDCA’s Head Start program had been terminated. In addition, RDCA was instructed to submit a final close out plan by September 29, 1994 outlining the dates and costs associated with the close out. However, as of the writing of this report, ACF had not received any type of close out plan from RDCA. According to ACF, no additional Head Start funds were to be spent on services or expenses incurred following September 30, 1994. Shortly after August 8, 1994, RDCA filed a lawsuit with the Federal District Court to review the decision by the Departmental Appeals Board. As of the writing of this report, no decision has been issued by the Federal District Court.

On September 29, 1994, we received a letter from the North Carolina Department of Human Resources requesting that we audit RDCA since ACF had terminated RDCA’s Head Start program and the North Carolina Department of Human Resources was providing RDCA with a Wrap-Around Grant and was purchasing day care slots through local Departments of Social Services.

On October 17, 1994, we called RDCA's Executive Director at that time and attempted to schedule a time to begin a special review of the state and federal funds received by RDCA during the past year. The Executive Director said that she would allow us to examine the records related to the child care resource and referral services. However, she stated that we would not be allowed to review any records related to the Head Start program nor the Wrap-Around program. On October 18, 1994, we again discussed our intentions of performing a special review of RDCA's operations with the Executive Director. During this conversation, the Executive Director stated that she had not denied us access to the records the day before but that RDCA was in the process of relocating its administrative office and that the financial records were packed in boxes for the move. She requested that we wait until mid-November 1994 to begin the special review in order to give RDCA enough time to move and unpack the records. We agreed to the request.

During January 1995, after providing RDCA sufficient time to relocate to its new office, we attempted to contact the Executive Director. We were informed by an RDCA employee that the Executive Director was no longer employed by RDCA. We talked with the new "Acting Director" and informed her of our prior agreement and intention. She told us that she was not the Executive Director, that the Board President was the Executive Director. We later talked to the Board President and informed her of our past agreement and intentions. She said, "...you are not looking at our books until you put in writing why you are coming and what you want to see." We wrote her a letter, dated January 12, 1995, stating our intentions. The Board President responded with a letter dated January 13, 1995 (Exhibit A), stating:

To encapsulate, we will not cooperate on any audit until the foregoing objectives are met, namely (1) until after a decision is reached in our case now pending in federal court, and (2) until we have been advised of our rights on this matter by legal/civil counsel.

Until such time as this is accomplished, we are requesting that you do not enter any premises leased or owned by the Rural Day Care Association. If you attempt to do so, we will institute appropriate legal action against you.

On February 6, 1995, our office, represented by the N.C. Attorney General's Office, obtained an Administrative Inspection Warrant from a Superior Court Judge to inspect RDCA's records, equipment, and premises. The inspection warrant was served on the Acting Director who stated that she must obtain approval from the Board President before honoring the warrant. The Board President again refused to provide us access to the records. At that point, our office, in conjunction with the N.C. Attorney General's Office, filed a motion with the Superior Court Judge to hold the Acting Director and the Board President in contempt of court.

On February 27, 1995, the Superior Court Judge found the Acting Director and the Board President in contempt of court and ordered that they be jailed for thirty days or until the Office of the State Auditor was satisfied all needed records had been produced in accordance with the Administrative Inspection Warrant. Following the order by the Superior Court Judge, we began searching for records in RDCA's central office location in Seaboard, N.C. Although RDCA had relocated its central office to Seaboard, N.C. during November 1994, we found many records were still packed in boxes, located throughout the building in several different rooms, and in no particular order. After sorting through the boxes and file cabinets, and making inquiries to the Board President and the Acting Director at that time, we were unable to locate supporting documentation for various checks written by RDCA, an inventory list of RDCA's fixed assets, and general ledger reports.

On March 1, 1995, the Superior Court Judge contacted us and instructed us to appear in court in order for us to hear the testimony of three individuals claiming to have information concerning additional records in the possession of the Board President. The

three individuals, relatives of the Acting Director, testified that the Board President had contacted them during her stay in jail and offered to pay them to mail items located in the Board President's van. The individuals testified that the Board President stated that the documents were not related to her current situation. However, the individuals testified that they did not believe the Board President. Our office then requested and received an Administrative Inspection Warrant to search the van. The search of the van revealed numerous documents related to RDCA. We also obtained another Administrative Inspection Warrant after receiving additional information from the former Executive Director. This warrant allowed us to search the offices of Community Development Corporation (CDC) and the day care operated by RDCA in Ahoskie, N.C. The former Executive Director indicated that the Board President stored records and documents belonging to RDCA at CDC's offices located in Littleton and Hodgestown, N.C. Additional records pertaining to RDCA were located at these sites.

On March 3, 1995, after obtaining all of RDCA's records relevant to our review, the Board President was released from jail. The Acting Director of RDCA had been released from jail on March 1, 1995.

On March 6, 1995, we obtained an Administrative Inspection Warrant to search the contents of two storage rooms being rented by RDCA. These storage rooms were located in Roanoke Rapids, N.C. We inspected and inventoried the contents of the two storage rooms.

On March 16, 1995, we completed our preliminary review of RDCA's records. On March 17, 1995, the U.S. Attorney's Office for the Eastern District of North Carolina issued a subpoena to this office for RDCA's records. On March 24, 1995, the records were returned to RDCA's central office in Seaboard, N.C.

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FINDINGS AND RECOMMENDATIONS

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1. RDCA Spent \$74,511.83 of Head Start Funds on Expenses Not Related to the Head Start Program.

In October 1993, RDCA began its Head Start program for the fiscal year 1993-94 in Hertford, Bertie, Northampton, and Halifax counties. The Administration for Children and Families (ACF) within the U.S. Department of Health and Human Services (HHS) authorized RDCA to act as a Head Start grantee and to use a maximum of \$946,522 in federal funds to aid in the operation of the Head Start program. RDCA received the Head Start funds by making drawdowns. These drawdowns occurred when RDCA telephoned the Payment Management System (PMS) and requested the amount of funds needed. PMS would then electronically transfer the funds from the federal account into RDCA's bank account. According to an ACF representative, only the minimum amount of funds needed by RDCA to pay current expenses were to be requested. During the period October 18, 1993 through August 10, 1994, RDCA drewdown a total of \$821,198 from the Head Start grant. In March 1994, HHS withheld \$670.88 from RDCA's requested drawdown because RDCA had earned \$670.88 in interest on earlier drawdowns, leaving a balance of \$124,653.12 remaining from the grant on August 11, 1994. According to RDCA's former Executive Director, RDCA was to have stopped its Head Start program on June 15, 1994 (the end of the school year).

On August 8, 1994, the Departmental Appeals Board (DAB) within HHS sustained ACF's decision to terminate RDCA's Head Start funding and concluded that ACF had "established an adequate legal and factual basis for its determination that RDCA's application for refunding should be denied and its funding terminated."² According to RDCA's former Executive Director, on August 9, 1994, the President of

²Department of Health and Human Services Department Appeals Board, Appellate Division, Docket No. A-94-30, Decision No. 1489, August 8, 1994, Page 1.

RDCA's Board of Directors (Board President) told the former Executive Director that RDCA's Head Start program had been terminated. On August 11, 1994, three days following the decision by DAB to terminate RDCA's Head Start program, RDCA drewdown \$124,653.12 from the Head Start grant (the unused balance for the year) which was posted to one of RDCA's checking accounts on August 12, 1994. According to the former Fiscal Officer, she was instructed on August 11, 1994 by the Board President to call PMS and find out the total amount of Head Start funds remaining. After obtaining the amount, the former Fiscal Officer provided the information to the Board President. According to the former Fiscal Officer, the Board President then told her to drawdown the balance of the grant (\$124,653.12).

We reviewed RDCA's expenditures of Head Start funds during the period August 8, 1994 through January 31, 1995. Although RDCA's Head Start program was terminated on August 8, 1994, we determined that \$55,209.48 of Head Start funds was spent on expenses associated with maintaining RDCA's day cares and other miscellaneous items following August 8, 1994.

In addition, we also reviewed RDCA's expenditures for the period June 15, 1994 through August 8, 1994, during the period in which the Wrap-Around program was in session. We determined that a total of \$19,302.35 in Head Start funds was used to pay expenses not related to the Head Start program. Of the \$19,302.35, a total of \$18,480.53 was spent on rent, utilities, and telephone services for RDCA's Wrap-Around day care facilities in operation after June 15, 1994; and the remaining \$821.82 was spent on miscellaneous items.

The amount of Head Start funds transferred to the payroll account for the pay periods June 30, July 15, July 31, August 15, and August 31, 1994 totaled \$97,571.62. In addition to paying the salaries of the Head Start administrators, the Board President

and former Executive Director stated that these Head Start funds were also used to pay Head Start instructors who had requested to be paid year round. The Head Start instructors would receive a payment from RDCA twice a month for the entire year instead of only during the months in which the Head Start program was in session. However, due to RDCA's lack of documentation, we were unable to verify that Head Start instructors had requested to be paid year round. We were also unable to determine if these instructors were actually being paid for their work performed while the Head Start program was in session or if they were being paid for work performed during the Wrap-Around program. Of the \$97,571.62 transferred to the payroll account during the pay periods June 30, 1994 through August 31, 1994, \$84,073.76 was spent on questionable salary payments.

Recommendation

We recommend that RDCA reimburse the \$74,511.83 (\$55,209.48 and \$19,302.35) that was used to pay for expenses not related to the Head Start program. In addition, we recommend that HHS review the \$84,073.76 spent on questionable salary payments to determine if any pay-backs are in order.

2. Equipment and School Buses Purchased with Head Start Funds Need to be Relinquished.

During our review of RDCA's records, we were not able to locate a current inventory list of RDCA's fixed assets purchased with Head Start funds. However, we visited RDCA's administrative office, day care sites, and rented storage areas in order to search for fixed assets. Nine school buses purchased with Head Start funds were located in Ahoskie and, according to the N. C. Department of Transportation's Division of Motor Vehicles, all nine are registered to RDCA. Five of the buses were parked in a locked garage next to RDCA's Ahoskie day care and the remaining four

buses were parked in the Ahoskie day care parking lot. “RDCA-Head Start” is painted on the sides of the buses.

In addition, multiple computers, monitors, and printers were located in RDCA’s administrative office and various pieces of playground equipment were located at five of the day care sites. No effort has been made by RDCA to relinquish the equipment or school buses to the new Head Start provider for the area. According to an ACF representative, equipment that costs in excess of \$1,000 must be returned to ACF when a local Head Start program terminates.

Recommendation

We recommend that the equipment and school buses described above and all other equipment purchased by RDCA with Head Start funds that cost in excess of \$1,000 be relinquished to ACF.

3. Three Additional School Buses and Two Vans Had to be Purchased by the Current Head Start Provider.

Based on our review, we determined that Nash Edgecombe Economic Development, Inc. (NEED) replaced RDCA during September 1994, and became the interim Head Start provider in that area. According to the Director of NEED (Director), RDCA’s former Executive Director wrote him a letter during the later part of 1994 stating that employees of NEED were denied access to any property belonging to RDCA. The Director contacted the U.S. Department of Health and Human Services (HHS) concerning the nine school buses purchased with Head Start funds that were in RDCA’s possession. HHS instructed the Director that HHS would attempt to obtain these school buses for NEED. However, as of the writing of this report, NEED had not received the nine school buses. During February 1995, NEED purchased three school buses, totaling \$88,532, and two vans, totaling \$33,600, after obtaining

permission from HHS. In addition, the Director stated that NEED would purchase additional vehicles in the future if RDCA does not relinquish the nine buses since NEED plans on opening additional Head Start sites in the area.

Recommendation

Again, we recommend that RDCA relinquish the nine school buses purchased with Head Start funds to ACF.

4. RDCA Split Purchase Orders for Playground Equipment In Order to Circumvent Federal Regulations Requiring Approval for the Purchase.

Prior to August 25, 1994, Head Start grantees were required to obtain approval from the Administration for Children and Families (ACF) within the U.S. Department of Health and Human Services (HHS) before purchasing with Head Start funds individual pieces of equipment having a useful life of more than two years and costing more than \$500. During December 1992, a former Education/Career Development Coordinator with RDCA signed a Requisition for Purchase Form requesting permission to purchase five pieces of Early Years Playscape (large playground equipment), costing \$2,040 each for a total of \$10,200. There was no writing on the Requisition for Purchase Form to indicate either approval or disapproval by ACF. However, the comment “only pay items less than \$500.00” was written on the form followed by the initials JLH. The former Executive Director of RDCA’s Head Start program has the initials JLH.

On December 10, 1992, RDCA completed a purchase order for each of the five large sets of playground equipment. On December 31, 1992, the vendor of the playground equipment invoiced RDCA for the purchases. However, instead of submitting one invoice for the entire purchase or five invoices for the five purchase orders, twenty-five invoices were submitted to RDCA. Each of the twenty-five invoices billed

RDCA for \$408, one-fifth the price of each set of large playground equipment and an amount which would not require approval prior to purchasing. RDCA wrote one check for \$10,200, the total cost of the equipment, to pay for the balances due on all twenty-five invoices. According to a representative of the vendor, his company does not normally bill a customer in this manner unless requested by the customer.

Recommendation

We recommend that RDCA relinquish the playground equipment to ACF.

5. RDCA Did Not Comply With the Terms of the Resource and Referral Contract.

The N.C. Department of Human Resources (DHR) contracted with RDCA to provide child care resource and referral services from October 1, 1993 through September 30, 1994. The contract stated that DHR would disburse a single check in the amount of \$8,177 to RDCA at the contract's inception. DHR would also reimburse RDCA additional funds monthly based on actual expenditures and in accordance with an approved budget. The total amount of funding was not to exceed \$49,060. The contract stated that the contractor, RDCA, was to provide "at least fifty percent of the awarded amount" in cash and/or inkind contributions to match the award. In addition, the contract states that RDCA should,

...assure that funds received under this contract will be used only to supplement, not to supplant, the total amount of Federal, State and local public funds the Contractor otherwise expends for child care resource and referral programs. Funds received under this contract will be used to provide additional public funding for such services; the funds will not be used to reduce the Contractor's total expenditure of other public funds for such services.

RDCA received \$48,407.48 of the budgeted \$49,060. We found no support of RDCA matching fifty percent of the grant (\$24,203.74) with cash and/or inkind contributions. In addition, we found no evidence of the funds supplementing the total

amount of federal, state, and local public funds RDCA would otherwise expend for child care resource and referral programs. It appears that the Child Care Resource and Referral Program was almost totally funded by a grant received from DHR. The contract calls for RDCA to provide a final program and fiscal report for the period ending September 30, 1994. As of the date of this report, the final program and fiscal report had not been submitted.

During our review of the Resource and Referral Program, we could not locate supporting documentation for sixty of the 177 checks written during the period examined. We also determined that a television set equipped with a VCR had been purchased with resource and referral grant funds. According to the former coordinator for the Resource and Referral Program, the equipment is presently being stored by a former employee until she is told what to do with it.

Recommendation

We recommend that DHR seek reimbursement of the grant funds that were not matched in accordance with grant regulations. In addition, we recommend that DHR not contract with RDCA to provide day care resource and referral services until appropriate reimbursement is received. We also recommend that DHR obtain the television set equipped with the VCR purchased with resource and referral funds.

6. RDCA Retains Equipment Purchased With State Grants for the Head Start Program.

The N.C. Department of Human Resources, Division of Family Development, Office of Economic Opportunity (Economic Opportunity) awarded RDCA a \$32,925 grant in 1992 and a \$45,847 grant in 1993. The 1992 grant was funded by the Head Start Bond Fund Program and was awarded to RDCA to purchase a modular unit to

conduct Head Start classes. The 1993 grant was funded by the Head Start Fund Allocation Program and was awarded to RDCA to purchase kitchen equipment for three Head Start sites. The modular unit was installed at West Bertie Elementary School where it now rests. The kitchen equipment is currently being held at various RDCA day care sites. According to the Board President and the Principal of West Bertie Elementary School, the modular unit is not currently being used. In addition, the Board President stated that the kitchen equipment was not being used either.

A letter dated May 16, 1995 was written by the Director of Economic Opportunity to the President of RDCA's Board of Directors (Board President). This letter instructed the Board President that property acquired by RDCA with Head Start Bond Fund Program and Head Start Fund Allocation Program grants would have to be relinquished to the new Head Start provider in that area in compliance with the North Carolina Administrative Code.

Recommendation

We recommend that RDCA comply with the directives provided by Economic Opportunity and relinquish the modular unit and kitchen equipment to the new Head Start provider in the area.

7. Reimbursement by an Attorney of Legal Fees Paid with Head Start Funds Were Deposited into the Head Start Wrap-Around Account.

On November 29, 1994, RDCA deposited into its "Wrap-Around" checking account two checks written from an attorney totaling \$14,750.00. These checks were issued to RDCA as a refund of payments previously paid by RDCA for future legal services to be provided. When the attorney/client relationship ended, the attorney refunded these funds. The payments made to the attorney by RDCA were paid from the

account in which Head Start funds were deposited. However, the \$14,750 reimbursement received from the attorney was deposited into the account in which Wrap-Around funds are deposited, not Head Start funds.

Recommendation

We recommend that RDCA reimburse the Department of Health and Human Services the \$14,750 of Head Start funds that was deposited in the Wrap-Around checking account.

CONCLUSION

By accepting state and federal funds, the President of RDCA's Board of Directors (Board President) and the Board of Directors of RDCA agreed to use these funds in accordance with state and federal guidelines. In addition, the state and federal guidelines require the Board President and Board of Directors to adequately account for the use of these funds and make their records available for inspection by appropriate state or federal officials upon request. RDCA breached these obligations by refusing to cooperate with state and federal auditors until the court found them in contempt of court.

When we finally obtained access to RDCA's records, we found that they had to be retrieved from several locations and organized in some logical order before beginning our examination. There was no way to determine if all records were provided to us.

The Board President controls the day-to-day activities of the corporation. She makes all the decisions including which bills will be paid and when. The Board of Directors is composed of a small group of people, some of whom are employed by another non-profit organization in which the Board President serves as Executive Director, creating an appearance of a serious conflict of interest.

The federal and state grants have either been terminated or not renewed. We are providing copies of this report to the agencies which awarded the grants so that they may pursue appropriate settlements with RDCA.

STATEMENT OF FINANCIAL IMPACT

The following schedule represents a quantification of the items examined during our special review.

		<u>Finding Number</u>
1. Unauthorized expenditures of Head Start funds during the period August 8, 1994 through January 31, 1995.	\$ 55,209.48	1
2. Head Start funds used to pay for expenditures not related to the Head Start program during the period June 15, 1994 through August 8, 1994.	19,302.35	1
3. Questionable salary payments during the pay periods June 30, 1994 through August 31, 1994.	84,073.76	1
4. Purchase of three buses and two vans by Nash Edgcombe Economic Development with Head Start funds.	122,132.00	3
5. Unauthorized purchase of playground equipment with Head Start funds.	10,200.00	4
6. RDCA's matching of fifty percent of the Resource and Referral grant with cash and/or inkind contributions.	24,203.74	5
7. State grants used to purchase a modular unit and kitchen equipment.	78,772.00	6
8. Reimbursement by an attorney of legal fees paid with Head Start funds that were deposited in an account other than the Head Start account.	<u>14,750.00</u>	7
Total Financial Impact	<u><u>\$ 408,643.33</u></u>	

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**AUDITOR'S NOTE REGARDING
AUDITEE'S RESPONSE TO THE SPECIAL REVIEW**

Rural Day Care Association was asked to respond to this report. Their written response, including attachments is included in this report as Exhibit D. We have carefully reviewed the response and stand by the findings and recommendations in this report. The allegations and innuendoes of the response are denied.

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Rural Day Care Association, Inc.
Inventory of Files-March 17, 1995

Box 1

Resource and Referral Deposit Slips - 11/93 - 94
Payroll Deposit Slips
MTA Deposit Slips
Enrichment Deposit Slips
Head-Start Deposit Slips
Wrap Around Deposit Slips
Payroll Deposit Slips (Blue Notebook)
Payroll Worksheets
Eastern Fuels
Miscellaneous Accounts Payable
Cozy Head-Start Center Lease (empty file)
Rents
Insurance Policy File
Wrap Around Voucher File - 6-10/93
Resource and Referral Voucher - 6-10/93
Resource and Referral Voucher - 11/93 - 10/94
Resource and Referral Voucher - 11/94 - 1/95
MTA Voucher File - 11/93 - 10/94
MTA Voucher File - 12/94
General Account 108 Voucher (4 files, 6/94 - 9/94)

Box 2

Termination of Wrap Around Services Folder
ADP (loose pages)
Department of Labor
Self Help Credit
Educators Professional Liability Policy
McKissick & McKissick Attorneys
Leases
Telephone Log
Contract (CPA) - Spivey
Rural Day Care Association Vehicle Insurance
Third Quarter 1993 Tax Report (2 files)
Second Quarter 1993 Tax Report
First Quarter 1993 Tax Report
Employees Quarterly Tax, 4th Quarter 1992
Employees Quarterly Tax, 2nd Quarter 1994
Employees Quarterly Tax, 1st Quarter 1994
Payroll-ADP
Fourth Quarter Tax Report (employees)

Box 3

Timesheets 1993-94
Day Care Provider Agreement File
Retirement Fund Information (2 files)
Miscellaneous Memorandums
Contractual Agreements
Tax Returns - 1988, 1990
Miscellaneous Board Minutes
Audit (6/30/92) Items Requested
Foodservice File
Contracts 93-94
Miscellaneous Correspondence
Insurance Information for Centers
Resource and Referral Timesheets
Daycare Provider Agreements Attendants 1994
Boyette and Robertson Agency Accident Insurance
Thomas Conrad Network Drives (2 disk)
Miscellaneous Correspondence/Memos
David O. Daniels File
Contract File
Transaction Edit List
1992 Ledger Sheets (loose)
1993 Ledger Sheets
Numerous Insurance Forms

Box 4

Smart Start File
Software License
Special Newsletter, Agencies Helping Agencies News Release
Addresses - Staff/Board and Policy
Spivey, Thomas, CPA, PA
Staff Evaluations Forms (2)
Staff Development Plan 1991-92
Staff Evaluation/Questionnaire
Staff Meeting/Minutes 1994
Staff Meeting/Minutes 1992-1993
Staff Requirements and Options
Staff Survey Forms (completed)
Staff Training Plan
State of N.C. - Division of Purchase & Contract
Supply Companies
T/TAS
T/TAS Wage Survey
TEACH Early Childhood Project
Teachers/Head Start Staff
Teaching Staff Evaluation Forms (completed)
Telephone Information

Test Samples
Timeframe for Proposed Management
Terance Boothe, WBXB

Box 4 (continued)

Transition Plan
Union Camp Grant
Uplift Day Care Proposal
U.S. Dept. of Education
U.S. Dept. of Labor
U.S. Dept. of H.H.S.
Vacation
Weldon City Schools
Western Kentucky University
Women of Color
WordPerfect License
Working Board
Rap Workshop
TAS Workshop
Work & Travel Plan
Workshops 1992
Workshops 1993
Workshops 1994
Wrap Around (Contract)
Wrap Around Program Funds
Z. Smith Reynolds Foundation
Computerized Multisystems, Inc.
Letters to Board and Policy Members
Application for Federal Assistance
Miscellaneous Invoices from Blanchard Office Supplies, Inc.
Blanchard Office Supplies Folder
Halifax County Food Contract 1992-93
Minutes (staff)
Gallery Theater Contract (fund-raiser)
Acceptance Contract, Letters, & Questionnaire 1994-95
Budget 1993-94 (2)
Wrap Around Contract
Budget
January 1994 Folder (Division of Economic Opportunity Head
Start Wrap Around Program)
February 1994 Report (Division of Economic Opportunity Head
Start Wrap Around Program)
March 1994 Report (Division of Economic Opportunity Head
Start Wrap Around Program)
April 1994 Report (Division of Economic Opportunity Head
Start Wrap Around Program)
May 1994 Report (Division of Economic Opportunity Head
Start Wrap Around Program)
June 1994 Report (Division of Economic Opportunity Head
Start Wrap Around Program)
Rural Daycare Financial Policy & Procedures
Financial Statements - RDCA (2)

Box 4 (continued)

Board Meeting 6/29/94
RDCA Board Meeting f2/94
Board Meeting 10/19/93, 11/23/93
RDCA Board Meeting 1-2/94
Rural Day Care Contract
Rural Day Care BOD
Venetta Grant - Letters 1994
RDCA Board & Policy Council 1993
Board Minutes 7/29 - 8/24/94
7/28/94 Board Meeting

Box 5

ACF File 1993-94
Accident Reports
Application for Federal Assistance 1993-94
Aqoula File
Audit Report & Correspondence File
Bertie County Schools
Bid Information
Sue Anne Brooks 1993
Building Inspection
Budgets
CADA
Budget Income Statement
CARES
Capital Funds
Carteret Community Action
Child Care Consultants
Child Plus
Cluster A Head Start
Complaints
Division of Economic Opportunity
ECPDN
Family Support Service
Facts Records
Equipment Loan Project Inventory
Federal Appointment Monitor
Federal Cash Transaction Report
Federal Funding Grants
Financial Assistance Awards
Financial Statement
Financial Status Report
Financial Reports
6/30/92 Audit Report
Foundations
Employment Security Commission

General Assembly 1993
Grants Applications
Venetta Grant 1991-92
Venetta Grant 1993
Grants
Al Grier
Grievance
Venetta Grant 1994
Halifax County Schools
Head Start
Head Start Acceptance List
Head Start Activity Calendar
Head Start Agencies
Head Start Bond Program
Head Start Bureau in Fiscal 1992
Head Start Community Needs Assessment
Head Start Cost Management
Head Start Incompetent Coordination
Head Start Line Item Budget
Head Start On-Site Program Review
Incoming Checks
Head Start Parent Involvement
Head Start Program Performance Standards
Head Start Transmittal Notice
Health Consultation
Hertford County Schools
Hertford County Partnership for Children
Hertford County Tax Office
Hiring Procedures 92-93
Marvin Hogan
Homeless Grant Program
Housing Analysis Report
HSC Analysis
Income & Expense Statement
Incoming Mail - 91-92
Incoming Mail - 93
Income Statement
Incoming Mail - 94
Infant Mortality
Interactive Exercises for Organizers
Interviews
Job Descriptions
Jobs Curriculum
Jobs Program
John Jordan
Mideast Commission
EDWAAA File

Box 6 (continued)

Joint Meeting
JTPA
Management Training Session
Memos - 91-92
Memos - 93
Memos - 94
Merit Procedures
Modular Technologies, Inc.
Sue Mimlitch
Joseph Motolla
Narrative
National Head Start Association

Red Notebook - ADP 1992 Payroll Information

Box 7

NCAEYC
Messer & Parrish Realty, Inc.
Leases
New Employees Start up Packages
New Letters 1992
News Letters 1993
News Release 1993-94
N.C. Clearinghouse
N.C. Dept. of Human Resources
N.C. Dept. of Public Instruction
N.C. Dept. of Revenue
N.C. Head Start Learning Center
N.C. House of Representatives
N.C. Head Start Association
N.C. Medicaid Special Bulletin
Northampton County Schools
Notation for Files
NICHCY
Operation Funds
Operational Policy
OSPRI
OSPRI Administration Financial Prop. Management
Organizational Chart
Outgoing Mail 1991-1992
Outgoing Mail 1993
Parent Involvement Questionnaire
Pierce Printing Company
PIR Reports
Pittard, Perry, & Crone, Inc.
Policy Council Meeting Minutes 1993-94

Box 7 (continued)

BOD
Policies 1991-92
Policies 1993-94
Policy Council Meeting Minutes 1991-92
Project Head Start Program Information Report 1993-94
PTO Meetings
Proposals
Public Welfare & Grant
Quola/CDC
Record of Long Distance Calls
Recruitment & Enrollment
Head Start Reports (activity)
Reports/Administrative Assistant
Report & Resource Compendium
Reports/Disabilities
Reports/Deputy Director
Reports/Director
Reports/Education
Reports/Family Services
Reports/Executive Director
Reports/Fiscal Officer
Reports/Health
Reports/MTA
Reports/Nutrition
Reports/Parent Involvement
Reports/Resource & Referral
Reports/Social Services
Reports/Transportation
Reports/Wrap Around
Resignations
Resource Providers
Resource & Referral Correspondence
Resumes
Rich Square Health Inspector Finding
Rockville, MD Dept. of Health & Human Services
RDCA Articles of Incorporation
RDCA Balance Sheet
RDCA Bond Fund
RDCA Employment Forms
RDCA History/Background
RDCA Strategies Plan for 1990's
Salary Grades
Self Help Credit Union Application
Self Help Credit Union, Business/Loan Application
Self Help Credit Union, Child Care Loan Fund
Self Help Credit Union, Loans of Child Adult Care Providers
Self Help Credit Union, N.C. Deed of Trust

Self Help Credit Union, Personal Financial Statement
Self Help Credit Union, Projected Monthly Cash Flow
Self Help Credit Union, Revolving Loan Agreement

Box 7 (continued)

Self Help Credit Union, Start-Up Budget
Statement of Loan Terms
Self Help Credit Union Uniform Commercial Code
Self Help News Letters
Senator Terry Sanford
Single Porter Plan of Halifax County
Dr. Ernest Smith
Teresa A. Smallwood & Association

Box 8

Voided Invoices
Numerous Invoices w/Attachments

Box 9

Personnel Files (M-Z)
Inactive Files (Employees A-Z)
Contract Agreement
Copy-Pro
Employee Travel Expense Reports
State Wage Reporting Software
Rodney Reid
Head Start
Payroll Disbursement 8/92
Check Delivery 8/92
Conference 8/92
Payroll Check Delivery 10/92
PMS Cash Line
Computer Software File
Miscellaneous Invoices, (file labeled Receipts)
Warranties & Agreements
Minutes
American Express
Memo from Fiscal Officer
Incoming Memo
Atlanta Bookkeeping Correspondence
RDCA By-laws
RDCA Membership
Resolving Loan
1992 Correspondence
RDCA Transportation Bids
Ahoskie Head Start Graduation Exercises
JACOBIE Reid Rent
Miscellaneous Notes & Correspondence
Stop Payment Request
Volunteer Lunch Money

Western Kentucky University
Monthly Bills 1989
Insurance Application

Box 9 (continued)

Insurance Copies
USDHHS
Head Start Personnel Policies
Lake Shore Learning Materials
Head Start Lease Contract
OSPREY
Applications for Financial Assistance
1990 W-2s (blank)
1988 Journal Voucher
Inventory Sheets (2)
Form 5500, 1991-92
Form 5500-CR
Federal Form 5500
5500 Report
Shirley Jenkins (2)
Mary Powell (4)

Box 10

Miscellaneous Items (941 Deposit Book, Brown Envelope #1)
Sprint Bills, Deposit Slips, Start-up Checks (Brown Env. #2)
Voided Checks 1270-1526 (numbering is not continuous) (Brown Env. #3)
Various Document Insurance, etc. (Brown Env. #4)
Labeled "On Top of Safe", Various Invoices 94 (Brown Env. #5)
Blue Expandable Folder #1
 Wachovia Acct. 0126-001780 Bank Statements 2/94-1/95
 Wachovia Acct. 0128-001784 Bank Statements 3/94-1/95
 Enrichment Program Bank Statements 11/93-7/94
 Wachovia Acct. 0128-001755 Bank Statements 3/94-1/95
Blue Expandable Folder #2
 Payroll Acct. Reconciliation 11/93-3/94 - Wachovia
 BB&T Acct. 1391036507 Bank Statements 3/94-12/94
 Southern Bk. Acct. 5691601860 Bank Statements 3/94-12/94
 BB&T Acct. 1391036515 Bank Statements 3/94-12/94
 Unity Bank Acct. 6370025457 Bank Statements 3/94-12/94
 BB&T Acct. 1391036523 Bank Statements 3/94-12/94
 MTA Reconciliation 93-94, Wach. 0124-000630, 11/93-1/95
 General Acct. Recon. 93-94, Wach. 0121-000108, 11/93-1/95
 Wrap Around Recon. 93-94, Wach. 0125-0001851, 11/93-1/95
 Resource & Referral Recon. 93-94, Wach. 0122226-000648, 11/93-1/95
RDCA History
Policy Council Minutes
Board Minutes
MTA (copies of checks deposited)
News Hour 91-92
State Withholding
ESC Information

Police Reports
Edith Walden (OJT)
MCI

Box 10 (continued)

Pittard, Perry & Crone
RDCA By-laws
RDCA Articles of Incorporated
RDCA Study
Revolving Loan Changes
Spivey, CPA
Z. Smith Reynolds Foundation
Studies
10/93 Financial Statements
Staff Locations
NotePad
Receipt Book

Box 11

Payroll 5/1-5/15/94
Timesheets 5/1-5/15/94
4/16/94 - 4/30/94 Payroll
4/1/94 - 4/15/94 Payroll
4/1/94 - 4/15/94 Timesheets
4/16/94 - 4/30/94 Timesheets
3/16/94 - 3/31/94 Payroll
3/16/94 - 3/31/94 Timesheets
3/1/94 - 3/15/94 Payroll
3/1/94 - 3/15/94 Timesheets
2/16 - 2/28/94 Timesheets
2/16 - 2/28/94 Payroll
2/1 - 2/15/94 Payroll
2/1 - 2/15/94 Timesheets
1/16 - 1/31/94 Payroll
1/16 - 1/31/94 Timesheets
1/1 - 1/15/94 Payroll
1/1 - 1/15/94 Timesheets
12/16 - 12/31/93 Payroll
12/16 - 12/31/93 Timesheets
12/1 - 12/15/93 Payroll & Timesheets
11/16 - 11/30/93 Payroll & Timesheets
11/93 Resource & Referral
Timesheets 11/1/93 - 11/15/93
8/94 Financial Statements
7/94 Financial Statements
6/94 Financial Statements
5/94 Financial Statements
3/94 Financial Statements
4/94 Financial Statements
2/94 Financial Statements
1/94 Financial Statements

12/93 Financial Statements
11/93 Financial Statements
Payroll Canceled Checks 11/93 -94 (Bank Statements)

Box 12

Education Plan
Staff Form (declaration)
Discipline & Operational Policy Forms
Fire Inspection 1990
Graduation Pictures
Graduation Programs
Volunteer Transition Forms
co-op Plan
Literacy Classes
Volunteer Forms
Transition Plan to Public School
T/PTAs
Volunteer Timesheets
Setting Up Parenting Training Program
Volunteer Letters & Parent Workshop Information
Parent Training Plan Sheets
Insurance Claim Forms
Policy Council Reports 1992-93
Family Ranking Card
Requisition of Payable Groceries
Required Participation Records
Miscellaneous Blank Forms
Miscellaneous Letters
Children's Personnel Files (31)
Miscellaneous Authorization for Medication to be Given Forms
Student Information Files -Garysburg (16)
Student Information Files - Cozy (17)
Attendance - 9/93 - Garysburg
Miscellaneous Request for Confidentiality Forms
Miscellaneous Garysburg Wrap Around
Current Projects
Miscellaneous Blank Forms
Summer Enrichment Program
Resource People
David Nowell - Weldon Enrichment
Dana Nowell - Weldon Enrichment
Miscellaneous Letters and Memos
Games and Activities
M. L. King File
Attendance Report - Rich Square
Absentee - Rich Square
Miscellaneous File Trip Request Forms
Phyllis Branch - Benefit Plans
Miscellaneous Wrap Around Application Eligibility Documents

Academic & Gifted Program Forms
Absentee List - Garysburg
Transportation Safety Procedure - Cozy
Transportation Safety Procedure - Weldon
Transportation Safety Procedure - Enfield
Transportation Safety Procedure - Rich Square

Box 12 (continued)

Transportation Safety Procedure - Ahoskie
Transportation Safety Procedure - West Bertie
Wrap Around Report - 7/94, 8/94, 6/92, 7/92, 8/92-10/92, 11/93, 2/93-12/93
Wrap Around Monthly Report
Wrap Around Narrative
Wrap Around Food
Ahoskie, Rich Square, West Bertie, ID #
ID# Garysburg Wrap Around
ID# Weldon Wrap Around
Wrap Around Food Contract
Wrap Around Form Letters
Service Invoices
Wrap Around Program Survey
11/92 Wrap Around Program
12/92 Wrap Around Program
Interviews Point System Forms

Box 13

Receipt Books (3)
Transportation Check Request
1991-92 Insurance Information
Application for Federal Assistance 7/22/93
Requisitions
Invoices
Receipt Books (4)
Letter from Social Services
Invoices Awaiting Monthly Statements
Statewide Mobile Home Service
Seaboard Collections
Seaboard Receipt Book
Seaboard King and Queen Receipts
Copies of Checks Received
Wrap Around Arrival & Departure Times
Social Services Names/Addresses
PreSchool Addresses & Phone Numbers
Northampton County DSS Forms
Garysburg Vouchers - DSS
Rich Square Vouchers - DSS
Weldon PreSchool Vouchers - DSS
West Bertie PreSchool Vouchers - DSS
Murfreesboro PreSchool Vouchers - DSS
Enfield PreSchool Vouchers - DSS
DSS Five Day Absenteeism
DSS Copies of Checks Received
DSS Reimbursement Claim Sheets
Ahoskie PreSchool Vouchers - DSS

Box 13 (continued)

Legal Pad
Vouchers 1/95 (Acct. 108)
Vouchers 11/93 (Acct. 108)
Yellow Copies of Checks 10-11/93
Vouchers 10/93 (Acct. 108)
Vouchers 12/93 (Acct. 108)

Box 14 (Records from CDC, Littleton)

Board Meeting 5/26/94
Miscellaneous Loose Letters
Appeal Disallowed Costs
RDCA 1993-94 Financial Statements
Attorney Sumter Vouchers
Weldon City Schools
Reginald Lise, Sr.
Raymond Robertson
Audits
Sexual Harassment
Burtford & Pugh Attorneys
BOD Meeting 10/1993, 11/1993
Regional Staff 1993-94
Appeal of Disallowed Cost
BOD 12/20/94
Education Coordinators Activity Report 6/30-7/28/94
Policy Council Meeting 1/27/94
9/23/94 BOD Meeting
News-Herald N.P.
Appeal Grant Award
Venetta Grant
Joint Meeting - BOD, Policy Council
Miscellaneous Financial Statements

Box 15

Vouchers - General Acct. 10/94-11/94
Vouchers - Wrap Around Acct. 12/93-12/94 (folder labeled to 10/95)
Requisition for Classroom Checks
Miscellaneous ADP Forms
ADP Payroll Forms 11/16/94-11/30/94
ADP Payroll Forms 10/1/93-10/15/93; 10/16/93-10/31-93; 9/93; 12/94
Timesheets 10/1/93-10/15/93; 10/16/93-10/31/93; 9/93; 1/16/95-1/31/95
W-2 & Payroll Time-out Sheets
ADP Payroll Forms 11/94, 10/94, 9/94, 8/94, 7/94, 6/94, 5/16-5/31/94
Timesheets 11/94, 10/94, 9/94, 8/94, 7/94, 6/94, 5/16-5/31/94
Inkind Plan
ADP Tax Report

ADP Processing Fees
Miscellaneous Accounting Sheets for Enfield, Garysburg, Rich Square,
Ahoskie, Weldon, Cozy, Seaboard, West Bertie

Box 16

Vouchers 12/93-5/94 (Acct. 108)
1993 W-2s
1993 1099s

Box 17

Applications
Personnel Files (A-Mc)
Copies of Receipts & Checks
Wachovia Acct. 0121-000108 Canceled Checks 1/94-12/94
Head Start Inventory 6/11/90
Inventory 1993

Box 18

Vouchers & Yellow Check Copies (Acct. 108 3/93-8/93)

Box 19

Hodgetown Records, Budget Reports, Miscellaneous Correspondence,
Payroll Reports (rubberbanded)
Wachovia Canceled Checks 11/92-8/93 (Acct. 108)
Wachovia Voided Checks-Wrap Around 11/92-2/93 (Acct. 108)
(Vouchers & Yellow Copies of Checks)
ADP Payroll 1/2-1/13/95

RURAL DAY CARE ASSOCIATION
OF NORTHEASTERN NORTH CAROLINA

SEQUENCE OF EVENTS

- 3/17/93 Complaint by Larry Wynns concerning RDC bidding procedures relating to insurance.
- 3/31/93 We received a copy of a letter dated March 29, 1993 from Larry Wynns to Suanne Brooks, Regional Administrator, Administration for Children and Family. In the letter, Wynns complains that he has not been able to obtain a logical reason why his insurance quote was not accepted even though it was \$8,246 less than his competitions.
- 4/15/93 Dale Place spoke with Larry Wynns by telephone, obtaining additional information concerning the complaint.
- 4/16/93 We received a copy of a letter dated March 2, 1993 from Suanne Brooks, Regional Administrator with the Administration for Children and Families, to Venetta Grant, Chairperson of RDCA's Board of Directors. The letter stated that an on-site review was completed on January 26 - 29, 1993. A report listing the findings and recommendations was provided.
- 2/04/94 We received a letter from James B. Edgerton, DHR, stating that he had received allegations of misuse of state and federal funds by RDC. In addition he requested that we investigate the situation.
- 05/ /94 Received call from Tom Washburn, DHR. He wanted to know if we had decided to audit RDCA as requested in February 1994.
- I called Chuck Curtis, Deputy Regional Inspector General for H & HS. Mr. Curtis said that he was going to audit RDCA. He asked if we could hold off and his auditors would look a how RDCA had spent state funds. The State Auditor agreed and I informed Mr. Curtis and Mr. Washburn that we would wait and see what the Inspector General's office came up with.
- 8/22/94 Received a call from Frank Bobbitt, Internal Auditor for DHR. He wanted to know if we were going to audit RDCA. DHR was concerned about continuing to fund the agency. I told Frank that I would check with H & HS and see what they were going to do.

Talked with Chuck Curtis, Deputy Regional Inspector General for Health

and Human Services in Atlanta. He stated that H & HS was not able to audit at the current time because of legal action filed against them by RDCA. I informed Mr. Curtis that were going to audit state and federal funds under statutory authority.

8/24/94 We received a copy of a letter dated August 17, 1994 from Suanne Brooks, Regional Administrator with the Administration for Children and Families (ACF), to Venetta Grant, Chairperson on the RDCA's Board of Directors. In the letter, Ms. Grant was notified that on August 8, 1994, the Department Appeals Board had issued a 115 page opinion which sustained ACF's actions to terminate RDCA from the Head Start program. Ms. Grant was advised to "cease and desist from all Head Start operations other than what is required by Federal law" to complete its operations under the Head Start grant. The \$144,000 withdrawal made on August 10, 1994 was mentioned and Ms. Grant was instructed to only spend funds to maintain telephone services and the salary of four staff to aid in the agency's closing. All equipment was required to be secured.

We received a copy of a letter dated August 22, 1994 from Stephanie Funjul, Director of Division of Child Development within DHR, to Venetta Grant. In this letter, Ms. Grant was informed that RDCA no longer met the definition of a Head Start Wrap Around Program Provider and was not eligible for Head Start Wrap Around funds. RDCA was instructed to cease providing Head Start Wrap Around services within 10 days.

We received a copy of a letter dated August 24, 1994 from Venetta Grant to Stephanie Fanjul. In this letter, Ms. Grant stated that DHR was premature in discontinuing the Head Start funding. Ms. Grant stated that RDCA has appealed the decision of the Departmental Appeals Board and has requested from ACF the continuance of Head Start funding during the appeal process. If ACF would not voluntarily continue funding, an attorney for RDCA was prepared to file an injunction for the continuance of the funding.

9/ /94 We received a copy of the Decision in the Appeal of Rural Day Care Association of Northeastern North Carolina, Docket No. A-94-38, Decision No. 1489, Dated: August 8, 1994. The Departmental Appeals Board of the Department of Health and Human Services, concluded "...that ACF has established an adequate legal and factual basis for its determination that RDCA's application for refunding should be denied and its funding terminated."

10/17/94 Approx. 10:00AM	Dale Place called Judy Hines, Executive Director of RDCA. Place told Hines that we would like to set-up a time to begin a special review of the state and federal pass-through funds. Hines said that she was denying us access to the records until we sent her a letter stating what records we needed to review. Place told her that he had to check with his supervisor concerning a letter because that was not normal procedure. Hines said that she would write us a letter stating what she wanted. She said that she was in the process of moving RDCA's offices and that the records were packed.
10/17/94 After 10:00AM	Place discussed the situation with Mozingo. Mozingo said to call Hines back and have her to put in her letter that she was going deny us access.
10/17/94 Approx. 12:10PM	Place called Hines back and asked her if she had finished typing the letter. She said, no, that she was in the process of working on it. Place told her to put in the letter that she was denying us access to the books. Hines said, "No." Hines said that she could "play hard ball too." Hines said to put in our letter what we were going to audit and why we were coming. Hines said that the only thing that we would be able to see is Resource and Referral funds. Place asked her about seeing the books relating to Wrap Around and Head Start funds. Hines said, "No." Place asked her, "Why not?" Hines said, "That is just no." Place then told her to fax the letter.
10/17/94 Received 5:21PM	<p>Hines faxed a letter to Dale Place. The letter said:</p> <p style="padding-left: 40px;">Please be advised that the Rural Day Care Association' program year 1993 has already been audited and we are awaiting the final copy. However, if you wish to do a separate audit of your own, kindly let us know in <u>writing</u> which records you need to review.</p> <p style="padding-left: 40px;">In as much as we are in the process of packing records and relocating our administrative offices, this is not at all a good time to conduct an audit. We would appreciate your waiting several weeks until we are settled and have unpacked our files.</p> <p style="padding-left: 40px;">We will await a written response.</p>
10/18/94	Mozingo called Hines. Hines told Mozingo that she didn't mind him coming, but asks that we give them some time. She would rather that her whole organization be together. She had just gotten a excellent report from Dan Rouse out of Child Day Care section relating to Wrap Around funds.

Food service funds were examined by Ann Joyner of DPI. Headstart has been terminated. She is not going to let anyone look at Headstart records until a decision from a Federal Judge, which will be cleared up by November 16, 1994. Willie O. Dixon, their Attorney, is located in Raleigh and can be reached at 919-831-2500. We need to contact him if we want to see Headstart records. We can look at the Resource and Referral records as soon as they get them unpacked. Social Services money comes from parents. There were no restrictions of Wrap Around money. Mozingo asked Hines how does he know that she is not just trying to put him off. She said that they would be in their new site by November 1, 1994. She said to give her a date in November to look at the books. Would include all records related to state funds. She said that they did not have anything to hide. Just trying to do our job. We are not going to tell you that we are denying you access. Moving to a new location. They will be moving to Rich Square or Seaboard. Earliest possible date would be November 10, 1994. He said that he would be back in touch with her in the next 24 hours. She said the week of November 7 - 11, 1994.

- 1/11/95 Dale Place called RDCA and asked to speak to Judy Hines. He was informed that Judy Hines no longer worked for RDCA. He was told that Sylvia Williams was the new Director.
- 1/11/95 Dale Place called Judy Hines at her home. Ms. Hines stated that she was forced to resign from RDCA on December 20, 1994 by Venetta Grant. Although Ms. Hines had been the Executive Director, Ms. Grant called the shots and did not want our office auditing RDCA's records. Ms. Hines stated that she did not have any control over fiscal matters. Ms. Hines also stated that:
- Ms. Grant is the Executive Director of the Community Development Corp, a non-profit with 3 day cares (one in Hodge, two in Lillington).
 - A telephone system and desk had been given to Alice Ballance by Carla Speller, the former Headstart Director. However, Ms. Hines had employees to retrieve the items when she took over and the Federal people came.
 - Resource and Referral people were laid off. Resource and Referral was up to par when she left; Wrap Around Account was also up to par.
 - RDCA received a lower bid than the bid received by Larry Wynns.
 - Carla Speller paid Christmas bonuses.
- 01/12/95 Ray Mozingo wrote Venetta Grant on January 12, 1995. The letter stated:
Letter The Rural Daycare Association of Northeastern North
 Carolina received in excess of one hundred thousand dollars

in state and federal funds during this past fiscal year. Our office had worked out an agreement with Ms. Judy Hines to conduct a special review of the expenditures of these funds and, if considered necessary, funds received by the Association in previous years. This agreement was reached in October 1994. We agreed to allow Ms. Hines enough time to get records moved to the Association's new location before we were to begin. We understand that Ms. Hines is no longer an employee of the agency and that you are the Acting Director and Chairperson. The purpose of this correspondence is to advise you that in accordance with GS 143-6.1 and Article 5A of Chapter 147 of the NC General Statutes, we will begin our special review of transactions related to the Rural Daycare Association of Northeastern North Carolina on January 19, 1995. This review will require the examination of records related to the receipt and disbursement of federal and state funds, the inventory of assets purchased with said funds, interviews with employees and officers, and any other audit procedure that we may deem necessary. State and federal funds which will be reviewed include, Resource and Referral, Head Start Wrap Around, National School Lunch Program, Subsidized Child Care, and any other state funds and federal funds (which pass through state agencies) received by your organization.

1/17/95 We received a letter addressed to Mozingo from Venetta Grant, Chairperson of the RDCA's Board of Directors, dated January 13, 1995. In the letter, Grant stated that

We are in receipt of your letter of January 12, 1995, regarding your proposed audit and investigation of our agency. For your future information, Sylvia Williams is our Acting Director.

During verbal exchange, we requested that your staff give us a reason for your desire to do this broad, sweeping audit of RDCA. We note you have not done so. It is our belief that your request is prompted by the Department of Health and Human Services. We further believe that their motive in encouraging such a review is in hope of uncovering any infinitesimal detail that might be magnified out of proportion into some justification for their blatantly

unjust and improperly executed termination of this agency's Head Start funds. DHHS hopes to bolster their weak (in fact, non-existent) defense in the case we filed against them in federal court to prove their allegations were false - which have resulted in legally provable damages to our agency. If they thought their "evidence" could stand up under scrutiny they would not now - after the fact - be attempting to put together a case by using your offices. Your agency is not the first, nor the only, state agency that has elected to conspire with DHHS in this case - even though they have nothing to do with it.

Partly for above reasons, we will not cooperate in any audit until after a decision has been reached in our case in Federal court.

Additionally, we seriously question your right to audit in most of the areas you have described. Before we would consent to any such investigation, we would wish to have your request examined by a Civil Liberties agency and/or legal counsel. Please send us a copy of the full text (not an excerpt) of the regulations you cite so that they may be researched by such professionals.

To encapsulate, we will not cooperate in any audit until the foregoing objectives are met, namely (1) until after a decision is reached in our case now pending in federal court, and (2) until we have been advised of our rights in this matter by legal/civil counsel.

Until such time as this is accomplished, we are requesting that you do not enter any premises leased or owned by the Rural Day Care Association. If you attempt to do so, we will institute appropriate legal action against you.

1/31/95 Approx. 8:30AM - 9:15AM	Ray called Joe Shepherd with the Administration for Children and Families (ACF). Shepherd stated that his division had made two site visits to RDCA after the three prior audits had revealed significant accounting errors and weaknesses. On December 1, 1993, RDCA was sent a termination letter concerning the funding for the local Headstart program because ACF did not believe any reasonable improvements had been made. RDCA appealed. The Dept. of Health & Human Services (HH&S) completed an internal
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administrative hearing during April 1994 in Winton, NC. The appeals board upheld the termination procedure on August 8, 1994 and another letter was sent by ACF to RDCA. Mr. Shepard stated that normally a group is given month to month (lasting usually three to four months) funding to cover cost until another grantee can be located. RDCA stopped cooperating once it received this letter. Federal Auditors were refused access to any records or equipment. As of September 30, 1994, all funding was terminated by ACF. In October 1994, RDCA filed an action in Federal Court to overturn the administrative hearing ruling. A preliminary hearing was held on November 11, 1994 in which the judge disallowed the requested injunction but granted a hearing in Federal Court. On January 3, 1995, the judge issued an order giving the parties 60 days to file briefs (current status as of 1/31/95). The US Attorney in Raleigh has asked the Federal Judge for permission to seize records at RDCA. A ruling has not been issued. An onsite review has not been done since January 1993. Over \$400,000 of equipment had been purchased by RDCA with federal funds. This included 11 buses and vans, audio visual equipment for ten classrooms, furniture, and playground equipment.

2/6/95
10:00 AM
- 1:00 PM

Ray Mozingo and Lori Fuller with the Attorney General's Office obtained a search warrant signed by Superior Court Judge Rusty Duke in Superior Court in Jackson, NC; delivered the search warrant to Rural Daycare; presented the search warrant to Ms. Sylvia Williams, Acting Director of Rural Daycare; and was refused access to the records by Ms. Venetta Grant via telephone conversation with Mozingo. Mozingo and Fuller filed a motion for contempt with Superior Court Judge Rusty Duke.

2/7/95

Eatons Ferry Road is the only actual street address we could obtain for Ms. Venetta Grant. Information obtained from the U.S. Post Office in Littleton; telephone directory for Littleton; and DMV.