



# STATE OF NORTH CAROLINA

**SPECIAL REVIEW**

**DURHAM COMMUNITY  
HOME OF RECOVERY**

**DURHAM, NORTH CAROLINA**

**DECEMBER 1996**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**SPECIAL REVIEW**

**DURHAM COMMUNITY  
HOME OF RECOVERY**

**DURHAM, NORTH CAROLINA**

**DECEMBER 1996**

## LETTER OF TRANSMITTAL

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December 30, 1996

The Honorable James B. Hunt, Jr., Governor  
Mr. C. Robin Britt, Secretary  
North Carolina Department of Human Resources  
Mr. Roland Staton, Chairman  
Durham Community Home of Recovery  
Members of the North Carolina General Assembly

Ladies and Gentlemen:

Pursuant to General Statute §147-64.6(c)(16), we have completed our special review into allegations concerning the Durham Community Home of Recovery. 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.

Respectfully submitted,

Ralph Campbell, Jr.  
State Auditor

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## OVERVIEW

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The Durham Community Home of Recovery (DCHR) is a nonprofit organization founded in 1994 to serve female substance abusers in Durham County. DCHR established the Thelma Y. Bass House to provide a “structured supervised living facility for adult women with histories of substance abuse”. A Board was formed to assist in the support of the organizational goals. DCHR’s founder and president oversees the daily operations of DCHR and its participants. The organization received a \$150,000 grant from the Durham County Area Mental Health Center. This money was earmarked for use in establishing, maintaining, and upkeeping the home for female substance abusers.

The organization established a separate program called “Changes” to serve court adjudicated juveniles in Durham County. The goal of the program was to facilitate the successful reintegration of troubled youth into the community. Through this program, DCHR endeavored to operate “a free living care facility where the client can reside for one to twelve months”. This program received \$50,000 for start-up and development costs from the Division of Youth Services, North Carolina Department of Human Resources. DCHR leased a private residence with the intention of converting it into a group home.

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## INTRODUCTION

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The Office of the State Auditor received correspondence from the Secretary of the Department of Human Resources (DHR) through the State Auditor's Hotline alleging a potential misappropriation of funds granted by the Division of Youth Services, DHR to the Durham Community Home of Recovery (DCHR).

We used the following methods to conduct a special review of the above allegation:

1. Examination of DCHR records.
2. Examination of the Department of Human Resources records pertaining to DCHR.
3. Interviews with current and former employees of the DCHR.
4. Interviews with employees of DHR.

This report presents the results of our special review conducted pursuant to G.S. §147-64.b(c)(16) rather than a financial audit. DCHR contracts with a private accounting firm to perform an annual financial audit. To date, an audit of DCHR's financial statements has not been filed with the Office of the State Auditor as required by G.S. 143-6.1.

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## **FINDINGS AND RECOMMENDATIONS**

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**1. THE DURHAM COMMUNITY HOME OF RECOVERY RECEIVED A \$50,000 GRANT, COMPLETELY EXPENDED THE FUNDS, AND FAILED TO ACCOMPLISH ANY CLEAR OBJECTIVES.**

In June of 1995, the Division of Youth Services (Youth Services), North Carolina Department of Human Resources awarded a \$50,000 grant to the Durham Community Home of Recovery for the establishment of a residential program (“Changes”) serving youth in Durham County. However, the organization improperly spent the money awarded by the state. Though DCHR had state funding in place for the “Changes” program, the program never came to life and Youth Services has nothing to show for the \$50,000 award.

**A. Youth Services Awarded Money to An Organization With Insufficient Resources.**

In justifying support for the program, a Youth Services memorandum stated the contract’s purpose was to “...provide funding to the program to be used as start-up and development costs”. Further, the memorandum stated that “the program has a solid funding plan in place” and possesses “local financial commitments from the Durham community”. However, contrary to this, the program did not have any other funding sources nor financial commitments in place.

## FINDINGS AND RECOMMENDATIONS (CONTINUED)

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### **B. DCHR Had Excessive Start-Up Costs, Especially in Salaries for the Directors.**

Listed below are the questionable expenditures of the award money:

Salary paid to initial Director.	\$ 8,500
Full-time salary drawn by a DCHR employee who also worked full-time (period covering October 1995 - February 1996) with Durham County Mental Health.	13,500
Cost of Lease.	8,640
Cost of renovating Leased house.	8,787
Cost of furniture.	3,500
Cost of mass mailings.	<u>5,400</u>
Total	<u>\$48,327</u>

In the table above, we have only listed the major expenditures of the \$50,000 grant award. The remaining money was spent in other miscellaneous categories. In the first two major expenditures listed above, we question paying these salaries in the absence of an established program. Specifically, even though the program had not opened its doors to any clients and eventually would not, DCHR paid \$22,250 in salaries and wages to two individuals over an eight month period to direct a non-existent program. Supposedly, these two individuals' responsibilities included obtaining a state license for the home and making the home operational. However, both individuals, though drawing a salary from state funds, failed to obtain a license for the home. When questioned, both the chairman and the president stated that they did not know what the two directors did during their employment, nor did the home become operational during the directors' tenures. The first director stated that she "handled any administrative duties, payroll, reports related to the Thelma Y. Bass House and Changes Program." She also stated she was directly

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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responsible for “Changes” Program. The first director received \$8,500 in salary for the period covering July 1995 through September 1995. She resigned after three months and her husband succeeded her as the “Changes” program director. The second director stated he was the “site director for a proposed youth home.” Other than developing the program model for “Changes,” the second director did not indicate any other job duties that he performed. Though the second director received compensation for a full-time position, his wife stated he only worked three quarters of the time. He received \$13,750 in salary for the five month period from October 1995 through February 1996. As shown in the table on the previous page, this second director, in addition to his full-time salaried position with DCHR, was serving as a full time employee of another organization. We did not see any evidence of what hours he supposedly worked. We question this individual receiving compensation for full time employment while working three quarters of the time for DCHR.

### **C. DCHR Also Entered Into A Poor Lease Agreement**

DCHR signed a contract to lease a house for a brief period (9 months) in connection with the “Changes” program. The facility never housed any clients during the entire lease period. Additionally, the language in the contract stated that the owner of the house would not be responsible for much needed repairs to the house. Therefore, DCHR signed a lease and was responsible for renovating a house that we were told was uninhabitable. Thus, DCHR was leasing a home that it could not and would not use to house clients. We found that DCHR spent \$8,787

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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renovating this house and \$8,640 in lease payments. Subsequently, DCHR vacated the facility after failing to meet the lease payments. The net result was that public money was spent renovating a privately owned house for its owner.

### **D. DCHR Wasted Funds on Furniture Expenditures.**

We also found two checks totaling \$3,500 made payable to the second “Changes” director. These payments were for facility furniture. We questioned the President of DCHR on the whereabouts of the furniture. He stated that some of the furniture was given away, some of the furniture has been stored in his father’s garage, and some was moved to the Thelma Y. Bass House (DCHR’s other facility).

Lastly, in an effort to gain more funding, DCHR spent \$5,400 for mass solicitation mailings. However, we did not see any evidence that additional funding had been gained through this expenditure.

### **RECOMMENDATION**

The Department of Human Resources (DHR) should discontinue any further funding to this organization for the “Changes” program. Additionally, DHR should seek to gain possession of the furniture purchased by DCHR with state funds. In addition, DHR should determine if there is any legal avenues for attempting to recover the grant funds.

## **2. DCHR MADE QUESTIONABLE EXPENDITURES FROM A \$150,000 GRANT FROM DURHAM COUNTY MENTAL HEALTH**

Specifically, we found over \$15,000 in questionable expenditures. Listed below are those questionable expenditures:

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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Payments made to Board Chairman	\$ 7,500
Cellular phone charges - January 1996	1,205
Consultant payment	<u>7,000</u>
Total	<u><u>\$15,705</u></u>

In January of 1996, the President of the Durham Community Home of Recovery took paid administrative leave for approximately 21 days. The DCHR board chairman along with another individual assumed responsibility for the daily operations of the organization. This second individual, the former Deputy Secretary of the North Carolina Department of Human Resources, signed a consulting contract with DCHR. The chairman and DCHR's board of directors did not prepare any documentation which outlined the chairman's responsibilities. We were told by the Chairman that both the chairman and former Deputy Secretary were needed to run DCHR in the President's absence. Since there had not been a change in the scope of responsibility, we question why the organization now needed two individuals to run an operation that had required only one individual, particularly for a time period as short as 21 days. We also noted a sharp increase in the cellular phones charges during this period. For instance, cellular phone charges in January 1996 exceeded \$1,200. The chairman stated that he and the former Deputy Secretary spent a lot of time on the phone with one another. We also did not find the existence of a work product nor see any evidence of the services the chairman performed for these wages. The chairman remained in his position as the chairman while assuming control of the daily operations of DCHR. The organization's conflict of interest policy "requires its Board of Directors and managing employees to avoid conflicts of interest or the appearance of impropriety in the disbursement of State funds." Clearly the Board Chairman, in drawing a salary, gave the

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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appearance of a conflict of interest. Additionally, the Board Chairman and the former Deputy Secretary continued to draw a salary even after the President returned to DCHR.

We received several internal memos written by and to the former Deputy Secretary while he was employed with DHR. These memos indicate that the former Deputy Secretary, while employed with DHR, was influential in the approval of the \$50,000 grant that DCHR received. As previously stated, the former Deputy Secretary of DHR signed a consultant contract with DCHR after leaving DHR. The contract was entered into on January 15, 1996 with the following schedule of payments:

\$ 1,500	January 23, 1996.
2,000	February 15, 1996
1,000	March 1, 1996
1,000	March 15, 1996
500	April 1, 1996.
1,000	April 15, 1996
1,000	May 1, 1996
500	May 15, 1996

## **FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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However, the former Deputy Secretary did not receive the final two payments. Thus he received a total of \$7,000. Under the terms of the contract he would provide a minimum of 20 hours per month of “consulting services to DCHR including but not limited to, fundraising, technical assistance and marketing.” The former Deputy Secretary told us he was hired to write grants. The Board also hired him to run the daily operations while the President was out on administrative leave. We were given some working papers which the Board Chairman told us were grant proposals written by the former Deputy Secretary. We also questioned the former Deputy Secretary about his daily activities. He stated he performed office tasks such as filing, opening letters, answering the phone, etc. Based on the information provided, it appears that DCHR paid him \$7,000 over a six month period for part-time work performing routine office work and writing grant proposals that were never completed.

### **RECOMMENDATION**

DCHR should comply with the conflict of interest policy that it signed in conjunction with the grant award. DCHR should refrain from entering into consultant contracts which give the appearance of a conflict of interest and do not express an expected outcome. Lastly, DCHR should closely monitor or discontinue the use of cellular telephones.

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# *Statement of Financial Impact*

*Exhibit A*

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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 these areas where the system of internal controls were either circumvented or should be enhanced.

1. Funds expended for the "Changes" program that resulted in no benefit to the Durham Community Home of Recovery or the State.	\$ 50,000
2. Questionable expenditures from the grant to DCHR for the Thelma Y. Bass House.	15,705
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<b>Total Financial Impact</b>	<b>\$ 65,705</b>
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## DISTRIBUTION OF AUDIT REPORT

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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
Mr. James J. Coman	Director, State Bureau of Investigation
Mr. Marvin K. Dorman, Jr.	State Budget Officer
Mr. Edward Renfrow	State Controller
Mr. C. Robin Britt, Sr.	Secretary, Department of Human Resources

### LEGISLATIVE BRANCH

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Senator J. K. Sherron, Jr.	Representative George S. Robinson
Senator Ed N. Warren	Representative Carolyn B. Russell

### 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

Mr. Roland Staton	Chairman, Durham Community Home of Recovery
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December 30, 1996

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
300 North Salisbury Street  
Raleigh, North Carolina 27602-5903

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