

# **STATE OF NORTH CAROLINA**

## **SPECIAL REVIEW**

### **DRUG AND AIDS PREVENTION AMONG AFRICAN-AMERICANS, INC.**

**SMITHFIELD, NORTH CAROLINA**

**MAY 1998**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**SPECIAL REVIEW**

**DRUG AND AIDS PREVENTION  
AMONG AFRICAN-AMERICANS, INC.**

**SMITHFIELD, NORTH CAROLINA**

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## LETTER OF TRANSMITTAL

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May 28, 1998

The Honorable James B. Hunt, Jr., Governor  
Dr. H. David Bruton, Secretary  
N.C. Department of Health and Human Services  
Dr. A. Dennis McBride, State Health Director  
N.C. Department of Health and Human Services  
Mr. George T. Walston, Chairman  
Drug and Aids Prevention Among African-Americans, Inc.  
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 Drug and Aids Prevention Among African-Americans, 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, and other appropriate officials, including the North Carolina State Board of Certified Public Accountant Examiners.

Respectfully submitted,

Ralph Campbell, Jr., CFE  
State Auditor

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## OVERVIEW

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Drug and Aids Prevention Among African-Americans, Inc. (DAPAA), founded in May 1992, is a grassroots, community-based, HIV/AIDS risk-reduction education and service organization located in Johnston County, N.C.

The agency's mission is to promote the health and well being of Johnston County citizens by educating and empowering ethnic minorities, especially the injecting drug users, their sex and needle sharing partners, and minority women of childbearing years. DAPAA works in collaboration with other entities in attempts to prevent the spread of HIV, other sexually transmitted disease infections, drug addiction, and Tuberculosis (TB). To accomplish its mission, DAPAA encompasses both risk reduction education and prevention programs in the following areas:

- Community street outreach and prevention education and awareness
- Case management to injecting drug users by addressing both risk behaviors and practices
- Adult Day Care services
- Supervised supportive housing and case management for persons infected with HIV or who have AIDS
- Substance abuse treatment and referral
- Pre- and post-test counseling, screening, testing, and follow-up for HIV, other sexually transmitted diseases, and TB.

## OVERVIEW (CONTINUED)

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DAPAA's programs were funded primarily by state grants from federal money awarded to the State. The Department of Environment and Natural Resources, through two of its divisions, (Health Promotion and Epidemiology) managed the awarding of grants to DAPAA. The AIDS Care Branch of the Division of Health Promotion supervised the award process for the following grants:

Amount Awarded	Project	Time Period
\$ 70,000	HIV/AIDS Adult Daycare	01/01/94-06/30/95
70,000	PREV/African-American/HOPWA III	04/01/95-03/31/96
75,000	HIV/AIDS Adult Daycare	01/01/96-12/31/96
10,000	Ryan White HIV Care	11/01/95-03/31/96
92,556	HIV/STD Counseling	07/01/96-06/30/97
75,000	HIV/AIDS Adult Daycare	01/01/97-12/31/97
<u>\$ 392,556</u>		

The HIV/STD Control Branch of the Division of Epidemiology supervised the award process for the remaining grants:

Amount Awarded	Project	Time Period
\$ 52,550	AIDS Community-Based Project-Risk Reduction	07/01/93-06/30/94
110,829	AIDS community Based Project-Risk Reduction	07/01/94-06/30/95
186,300	HIV Testing/Counseling	12/01/95-12/31/97
112,056	HIV/STD Counseling	07/01/95-06/30/96
135,000	Alternate Test Site	07/01/97-12/31/98
87,556	HIV/STD Education Risk Reduction	07/01/97-06/30/98
<u>\$ 684,291</u>		

## OVERVIEW (CONTINUED)

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The State contracted with and awarded DAPAA \$1,076,847 in federal funds. However, DAPAA actually received only \$977,143 of the awarded amount.

Additionally, the HIV/STD Control Branch awarded the following grant to the North Carolina Minority Aids and Health Advisory Coalition (Coalition):

<u>Amount Awarded</u>	<u>Project</u>	<u>Time Period</u>
\$ 109,804	HIV Community Planning	01/01/96-12/31/96

The Coalition is an organization comprised of minority operated HIV/AIDS/STD community-based prevention/risk reduction organizations. DAPAA, as the lead agency of the Coalition, received and distributed the Coalition's grant funds. Although the State awarded the Coalition one grant of \$109,804, the Coalition actually received \$109,000.

DAPAA also received funding from the Eastern North Carolina HIV/AIDS Consortium (ENCHAC). ENCHAC, a health care consortium, receives funding through the Ryan White Comprehensive AIDS Resources Emergency Act (Ryan White) and Housing Opportunities for Persons with AIDS (HOPWA). Both of these are federally funded programs; Ryan White funds originate from the US Department of Health and Human Services, while HOPWA funds originate from Housing and Urban Development. ENCHAC coordinates medical and support services to people with HIV/AIDS and their families for the nine county areas of Beaufort, Craven, Greene, Johnston, Lenoir, Pamlico,

## OVERVIEW (CONCLUDED)

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Pitt, Wake, and Wayne. Each of the nine counties has a task force, which coordinates the amount of funds that flow into the county for the support of HIV positive persons and their family members. Each task force selects a coordinating agency for the county. According to ENCHAC, Johnston County's task force chose DAPAA during 1993-94 as its coordinating agency.

**Auditor's Note:** *In October 1997, the AIDS Care Branch and the HIV/STD Control Branch merged to form the HIV/STD Prevention and Care. Effective January 1, 1998, the Division of Health Promotion and the Division of Epidemiology were transferred to the Department of Health and Human Services as part of the reorganization of the Department of Environment, Health and Natural Resources (renamed the Department of Health and Human Services). Effective February 28, 1998, the Department of Health and Human Services (DHHS) canceled its contracts with DAPAA. In its official notification of cancellation, DHHS cited the following two situations: DAPAA's failure to provide supporting documentation for its expenditures, thereby preventing DHHS from verifying that funds were spent in accordance with funding guidelines; and DAPAA's inadequate accounting system.*

*Additionally, in a letter dated March 11, 1998, ENCHAC notified DAPAA that its contract had also been suspended. ENCHAC suspended the contract following notification of DHHS's cancellation.*



## **INTRODUCTION**

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We received the following anonymous allegations through the State Auditor's Hotline concerning the Drug and Aids Prevention Among African-Americans, Inc. (DAPAA):

A conflict of interest exists between DAPAA and an employee of the Department of Environment and Natural Resources (DENR), Division of Epidemiology. Subsequent to beginning our investigation, we received an additional anonymous complaint concerning the possible misuse of state funds by DAPAA. Specifically, we were told that there were questionable expenditures by the Executive Director of DAPAA.

We used the following procedures to conduct our special review:

1. Examination of DAPAA records.
2. Examination of the HIV/STD Control records.
3. Examination of AIDS Care Branch records.
4. Interviews with employees of DAPAA.
5. Interviews with employees of the Department of Environment and Natural Resources.
6. Interviews with employees of the Department of Health and Human Services.
7. Interviews with other individuals external to any of the above organizations.

## **INTRODUCTION (CONCLUDED)**

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This report presents the results of our Special Review. This review was conducted pursuant to G.S. §147-64.b(c)(16), rather than as a financial audit. DAPAA is required to contract with a private accounting firm to perform an annual financial audit.

## **FINDINGS AND RECOMMENDATIONS**

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### **1. DAPAA'S FINANCIAL RECORDS WERE VERY UNORGANIZED AND INCOMPLETE.**

At the initial stages of our investigation, we requested access to all financial documents of the organization. The Executive Director told us that some documents were in the possession of a local bookkeeper, other documents were with a Certified Public Accountant based in Fayetteville, and the remaining documents were on-site at the DAPAA office. To further compound the situation, the Executive Director did not appear to know which documents were with whom.

We requested that the Executive Director consolidate all documents into one location for our review. We began reviewing these documents and found weak internal controls and a general lack of fiscal accountability within DAPAA. The Executive Director was the sole individual responsible for opening the mail, making deposits, and signing checks. There were no timesheets available to account for the employees' workdays. Though many travel advances were issued, there were not any supporting records of travel expenses. On the advice of his bookkeeper, the Executive Director merged several bank accounts into one account. The use of one account created a situation where money from different funding sources was deposited into one account.

Though these areas presented questionable practices to us, the multiple missing canceled checks, bank statements, and invoices quickly drew our attention. The missing canceled checks and bank statements were spread over a three-year period, from 1995

through 1997. When asked about the missing documents, the Executive Director replied that he had given us all he had. In order to complete our review, we contacted the bank where DAPAA has its accounts and requested copies of the missing canceled checks and bank statements. Three months after our request, the bank provided us 1,000 items for our review. The cost to the state to obtain copies of bank statements and checks that should have been available from DAPAA was \$3,143.

The missing documents and sloppy record keeping revealed an organization with many internal control weaknesses. However, DENR awarded \$1,076,847 in grants to this same organization. We question whether this organization should have received all of this funding since DENR was aware for at least a three-year period that DAPAA had not adequately managed its expenditures. The Executive Director stated that he did not have anyone on staff with the expertise to handle DAPAA's fiscal system.

### **RECOMMENDATION**

**DAPAA should employ qualified individuals. DAPAA should perform monthly reconciliations on all of its bank accounts and develop an organized bookkeeping system. DAPAA should maintain documentation of all transactions - canceled checks, bank statements and invoices. DAPAA should establish internal controls, including the Executive Director periodically reviewing canceled checks and bank reconciliations. Supporting documentation should be available prior to signing checks. In the future, DENR should carefully monitor grantees' expenditures and**

**ensure proper accounting procedures are in place. Funding should be withheld when grantees fail to properly manage funds entrusted to them.**

**2. THE EXECUTIVE DIRECTOR FAILED TO PROVIDE US COMPLETE DOCUMENTATION TO JUSTIFY ALL EXPENDITURES.**

As previously stated, we obtained copies of the missing canceled checks and bank statements from the bank. However, we were unable to obtain invoices, billing statements, and receipts to support all expenditures for which checks were written. Our review revealed little documentation to account for DAPAA's expenditures. Of the canceled checks provided by the Executive Director, most were attached to an in-house purchase request form, not an invoice. According to the Executive Director, DAPAA did not keep invoices or receipts. Due to this lack of documentation, we were unable to verify that all funds were deposited or spent appropriately. Additionally, the lack of record retention exposed this organization to potential theft and embezzlement. According to the Executive Director, DAPAA routinely disbursed funds without reviewing bills for legitimacy and accuracy.

**RECOMMENDATION**

**DAPAA should verify that invoices and bills are legitimate expenses for the operation of its organization. DAPAA should retain all billing documents along with other financial records.**

**3. DAPAA LACKED OVERSIGHT FROM ITS BOARD OF DIRECTORS.**

Although DAPAA had a Board of Directors, there was little evidence of the Board's participation in the operations of the organization. The Board had very little contact with the daily operations of DAPAA. We asked for, but did not receive, board meeting minutes. We later determined that board minutes were not taken. Thus, we do not know when the Board met, how often, or if it met at all. Also, during the course of our review, the Board of Directors' membership changed. A new Chairman was elected to the Board. However, our review revealed that, in the past, this newly elected chairman received an \$850 payment from DAPAA for rental of a house he owned. During the writing of this report, the Chairman and two other members resigned from the Board.

We found the Board did not exercise much, if any, control over the Executive Director and his decisions concerning DAPAA. In his letter of resignation to the Executive Director, the Board Chairman stated, "I feel as though you do not take any advice and direction seriously...All my efforts to assist were basically ignored." In light of this statement by the former Board Chairman, we question if the Board had any authority over the organization.

The Executive Director signed all checks and approved most expenditures. Although the Executive Director stated that the Board authorized him to take certain actions, we did not see any written documentation regarding these authorizations.

## RECOMMENDATION

**Before providing any additional funding, DHHS should obtain assurances that DAPAA has a Board of Directors which is exercising control over the operation of the agency.**

**4. THE DIVISION OF EPIDEMIOLOGY DID NOT ADEQUATELY SUPERVISE DAPAA.**

We discovered that DAPAA lacked proper oversight from the Division of Epidemiology (Division) in the use of state funds. We did not see evidence of the Division monitoring DAPAA's expenditures. Though the Division received expenditure reports from DAPAA, there were weaknesses in the review process of these expenditure reports.

Our examination of DAPAA's expenditure reports revealed three instances in which the receipt of funds exceeded the reimbursement amounts requested on DAPAA's expenditure reports (See Table 1). DAPAA received a total of \$51,688 in excess of the amounts requested on the expenditure reports. We did not find evidence of attempts on the part of the Division to collect this overdrawn amount. Nor did we find that DAPAA attempted to return the funds that were overdrawn.

Table 1

Grant	Year	Expenditure Reports	Amount Awarded
HIV/AIDS Daycare	1993-94	\$ 44,412	\$ 70,000
HIV/AIDS Daycare	1996-97	51,490	59,290
HOPWA*	1995-96	51,700	70,000
		<u>\$ 147,602</u>	<u>\$ 199,290</u>

\*Housing Opportunities for People with AIDS.

**RECOMMENDATION**

**The Department should accurately monitor all contracts awarded to ensure that funds disbursed match expenditure reports. The Department should obtain reports that support the previously mentioned drawn funds.**

**No agency should be allowed to receive funds for which they can not support with accurate and complete expenditure reports.**

**5. ALTHOUGH DAPAA FAILED TO COMPLY WITH ITS CONTRACTUAL AGREEMENT, THE DIVISION OF EPIDEMIOLOGY CONTINUED AWARDING GRANTS TO DAPAA.**

From July 1, 1993 through July 1, 1997, the North Carolina Department of Environment and Natural Resources, Epidemiology Division (Division) awarded thirteen grants to DAPAA. According to the contractual agreements between DAPAA and the Division, DAPAA was required to have its financial statements audited and to submit an audit report to DENR's Office of the Controller (Controller) within six months following the fiscal year-end in which funds were received. The audits were to be conducted in conformity with Government Auditing Standards issued by the Comptroller General of the United States.

During 1995 and 1996, DAPAA submitted audit reports on six occasions to DENR's Controller. These reports were not prepared in accordance with the Government Auditing Standards. Each time the Controller wrote DAPAA, informing the Executive Director of the non-compliance. In a letter dated January 18, 1996, the Controller instructed DAPAA to send its single audit report or future payments would be withheld, and in another letter



dated March 7, 1996, the Controller wrote that “we must now withhold future payments” since the audit reports were not submitted. However, the Controller continued funding DAPAA and the Epidemiology Division continued awarding grants to DAPAA. According to the Epidemiology Division, grants continued to be awarded because the Controller did not inform Epidemiology that satisfactory audit reports had not been submitted by DAPAA. According to Epidemiology personnel, it was either February or March 1997 when the Division became aware that DAPAA had not submitted audit reports for prior years. The Controller continued corresponding with DAPAA during 1997, requesting the audit reports. Finally, in May 1997, DAPAA submitted audit reports for the fiscal years 1993-94, 1994-95, and 1995-96. However, since there were numerous financial documents missing at the time of the audit, we question the accuracy of these financial statements. The records appeared to us to be unauditable. In fact, one previously hired Certified Public Accountant pulled out of the audit engagement with DAPAA due to concerns over the lack of documentation. Also, documentation obtained from the Controller indicated that these reports contained irregularities, which had not been resolved to DENR’s satisfaction at the writing of this report.

As stated before, the Division continued funding and awarding grants to DAPAA although satisfactory audit reports had not been submitted for the prior years. In total, since July 1993, DENR paid grants totaling \$977,143 to DAPAA.

**RECOMMENDATION**

**Prior to disbursing funds, the Epidemiology Division should ensure that grantees have submitted all documentation, such as audit reports, required from prior contractual agreements with the Division. DHHS should enforce contractual agreements with grantees, and the agency's Controller should cease funding to grantees who default on those agreements. In addition, this matter is being referred to the North Carolina State Board of Certified Public Accountant Examiners for review.**

**6. DAPAA RECEIVED AND RETAINED \$21,889 IN EXCESS OF AN AMOUNT AWARDED FOR A CONTRACT.**

During the fiscal year 1996-97, the Division of Epidemiology (Division) contracted with DAPAA to provide programs aimed at reducing the spread of HIV/AIDS among the minority population. Originally, the Division agreed to pay DAPAA an amount not to exceed \$87,556. However, the Division amended the contract on January 2, 1997, by increasing the amount to \$92,556. The contract stipulated that the Division, upon execution of the contract, would pay DAPAA an advance equal to one-fourth of the contracted amount (\$21,889). Subsequent payments would be issued following the receipt of DAPAA's expenditure reports. According to Division personnel, DENR's policy is to reduce the amount of the last check issued by any advances previously paid to the grantee. Based on information obtained from DENR, DAPAA received the following payments for this contract:

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FINDINGS AND RECOMMENDATIONS (CONTINUED)

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July 18, 1996	\$ 21,889
August 27, 1996	23,495
December 31, 1996	22,539
February 5, 1997	5,000
February 26, 1997	10,387
April 15, 1997	<u>31,135</u>
	<u>\$ 114,445</u>

Although DAPAA received an advance of \$21,889 on July 18, 1996, DENR failed to reduce DAPAA's final payment on April 15, 1997 by this amount. No one at DAPAA notified the Division of the overpayment. According to Division personnel, the overpayment was identified in August 1997. Although the Division requested a refund of the \$21,889 overpayment from DAPAA's Executive Director and Board of Directors, DAPAA has not reimbursed the Division the money at the writing of this report.

**RECOMMENDATION**

**In the future, the Division should ensure that all advances be subtracted from the last check issued for a grant. The Division should pursue further action to obtain payments from DAPAA of the overdrawn amount.**

**7. THE DIVISION OF EPIDEMIOLOGY CAN NOT ACCOUNT FOR DAPAA'S USE OF A FEDERAL GRANT AWARDED TO DAPAA.**

In March 1996, the Division of Epidemiology (Division) received money from the Centers for Disease Control to fund a social marketing campaign. The money was a one time funding initiative and the Division did not use a competitive system to disburse the funds. The Division awarded the North Carolina Minority Aids and Health Advisory Coalition, Inc. (Coalition) \$109,804 of these funds to support a statewide community level

intervention and social marketing strategy. The Coalition actually received \$109,000 of this amount. The Coalition is an organization comprised of minority operated HIV/AIDS/STD community based prevention/risk reduction organizations. DAPAA is the lead agency for the organization. Since the Coalition did not possess a 501(c)3 non-profit status, DAPAA was designated by the Division to receive, administer, and distribute the funds awarded to the Coalition. Specifically, the contract stated DAPAA and the Coalition would be responsible for identifying sole source, as well as individual agencies, to award grants. Also, according to the contract, the Division would provide close monitoring and supervision. However, no one from DAPAA nor the Division monitored the recipients' expenditures of these funds. Initially, the Division awarded \$86,000 for project costs. In June of 1996, the contract was extended by an additional \$23,804. The Executive Director told us that once he disbursed the funds, he did not verify that the funds were spent appropriately. Though the Division stated the funds would be monitored closely, in reality the Division provided very little supervision.

We were able to account for the deposit of all but \$4,100 of the \$109,000 into an account established for the Coalition. Additionally, we reviewed checks and other documentation, which accounted for the disbursement by the Coalition of only \$63,326 to other organizations. According to the Executive Director, all of the funds were awarded but there was no documentation to support his statement.

**RECOMMENDATION**

**The Division should verify that remaining funds were spent by the Coalition in accordance with the grant. The Division should monitor future grants closely and verify funds are spent appropriately.**

**8. THE EXECUTIVE DIRECTOR WAS UNABLE TO PROVIDE SUPPORTING DOCUMENTATION FOR TRAVEL PAYMENTS TO HIMSELF.**

As stated previously, DAPAA lacked supporting documentation for most of its expenditures. During the course of our review, we obtained several checks written to the Executive Director. The checks only required his signature, so no one else approved these checks. The total amount of the checks was \$6,244. We did not see any supporting documentation that would explain the checks. When we questioned the Executive Director, he told us that he did not keep any records of his travel. He told us that he traveled frequently to conferences and drove every time. He did not have airline tickets nor hotel receipts. Thus, we were unable to verify if these were valid travel expenses.

**RECOMMENDATION**

**DHHS should verify that these travel expenses were legitimate. DHHS should insist its grantees maintain accurate and detailed records outlining expenses related to grants. The Executive Director should be required to pay back all travel expenses that he can not provide documentation to support.**

**9. THE EXECUTIVE DIRECTOR PAID HIMSELF ADDITIONAL COMPENSATION FROM MEDICAID RECEIPTS.**

Johnston County Social Services contracted with DAPAA to perform case management services. DAPAA received payments for these services from Medicaid. The payments from Medicaid were based on preset rates applicable to the type of service performed, such as counseling. Beginning in September 1995 and continuing through January 1996, the Executive Director took ten percent of all Medicaid payments as additional personal compensation. He wrote checks to himself totaling \$13,300 during this period. We were not provided documentation in which the Board of Directors authorized these payments to the Executive Director.

**RECOMMENDATION**

**The Board should seek reimbursement of \$13,300 from the Executive Director. This matter is being referred to the State Bureau of Investigation for further review.**

**10. THE EXECUTIVE DIRECTOR OF DAPAA REPEATEDLY GAVE PERSONAL LOANS AND SALARY ADVANCES TO AN EMPLOYEE EVEN THOUGH THE EMPLOYEE WAS NOT PAYING THEM BACK.**

We found several checks, signed by the Executive Director, totaling \$3,435, written to one employee. DAPAA issued two checks, one dated April 27, 1995 and the other April 4, 1996 for \$1,000 each to this particular employee. The Executive Director told us the employee asked for and received those two checks as “loans” to purchase personal vehicles on two separate occasions. We saw neither full nor partial repayment of these “loans.” We question why the Executive Director would “loan” state funds to an

employee. To further exacerbate the problem, even though the employee had not made one payment towards the “loan,” the Executive Director again “loaned” state funds to this employee.

DAPAA issued another check on February 16, 1996 for \$750 to this same employee. The Executive Director stated this was a “personal loan” for the employee. Again, we did not see any evidence of attempts to repay this “loan.” We question why the Executive Director would “loan” state funds to this employee, particularly since there had been no repayment of the two previous loans.

We found a check for \$247 written to the same employee. Written on the memo line on the check was “weeks vacation.” According to DAPAA’s payroll records, the employee also received a paycheck for the same week that she received this check. The Executive Director could not recall the circumstances surrounding this particular check and why the employee was paid twice for the same week.

We also found a check dated April 27, 1995, for \$368, made payable to the employee and endorsed by the employee, but not signed by anyone. The check had cleared the bank. The Executive Director could not recall the circumstances surrounding this check.

This employee also received two checks for \$30 and \$39. These checks were dated June 23, 1995 and July 21, 1995, respectively. Writing on the memo line indicated that these were payroll advances. We did not see any documentation that these advances were deducted from the employee’s payroll checks.

We asked the Executive Director about this particular employee. He told us this employee took advantage of him. He also told us that she had put her personal home heating oil and telephone bills in DAPAA's name. These bills were paid along with other DAPAA bills. As previously stated, the Executive Director told us that no one reviewed DAPAA's bills to ensure their accuracy. The Executive Director did not attempt to collect any repayment from the employee for these loans, salary advances, and personal bills paid by DAPAA.

### **RECOMMENDATION**

**The Executive Director should be held personally liable for the disbursement of these funds, and the Department should seek reimbursement of these funds from the Executive Director. This matter is being referred to the State Bureau of Investigation for further review.**

#### **11. DAPAA APPEARED TO HAVE RECEIVED FAVORITISM IN THE AWARDING OF GRANTS BY THE DIVISION OF EPIDEMIOLOGY.**

According to information obtained from DHHS, the Epidemiology Division (Division) within DENR was responsible for organizing the distribution of federal discretionary funds received from the Center for Disease Control (CDC). The Division sent requests for proposals to various community-based organizations, such as DAPAA. Upon receiving the proposals, a committee made up of Division employees reviewed them and provided recommendations as to award amounts for each organization. The State Health Director made the final decisions on amounts awarded, after reviewing the recommendations from the committee.



Although the committee recommended the amounts to be awarded to the various organizations, the Division employee responsible for coordinating the review committee meetings reported directly to the wife of DAPAA's Executive Director. Until August 1, 1997, the Division's organization charts reflected this reporting structure. Additionally, this same employee was DAPAA's Project Monitor, the individual assigned to visit the organization's site and monitor its budget. According to DHHS personnel, they were aware that DAPAA's Executive Director is married to a Division employee. In spite of these facts, Division personnel proceeded as though a conflict of interest did not exist. Nonetheless, since the wife of DAPAA's Executive Director supervised the employee who organized and participated in the committee meetings that recommended award amounts, at the least, an appearance of a conflict of interest did exist. The wife of DAPAA's Executive Director could have influenced the decisions of the committee members who are made up of Division employees. In fact, Division personnel told us that she did have influence in the grant awards process for DAPAA.

This influence reached not only the Division, but also another agency that partially funds DAPAA. We were informed of an incident that occurred in November 1996. The Eastern North Carolina HIV/AIDS Consortium (ENCHAC) became aware of concerns about the quality of case management services provided by DAPAA. These concerns arose as a result of quality assurance audits conducted by the Branch. We were told that the Executive Director's wife called ENCHAC's Contracts Administrator to discuss the issue and relay her husband's concerns. Once again, we question the involvement of the wife of

DAPAA's Executive Director in the decisions by the State that affected DAPAA. We were told by ENCHAC personnel that they felt pressured by individuals within the Division (other than the Executive Director's wife) to continue funding DAPAA. The treatment of DAPAA can be seen in examples of awarding funds to the agency. As stated in Finding 7, the Division awarded a social marketing grant to a Coalition lead by DAPAA. We were told by the Division personnel that these were discretionary funds and no other agency was given an opportunity to receive any portion of this money. Also, we were told that originally DAPAA was scheduled to receive \$60,000 for an Alternate Test Sites grant for fiscal year 1997. However, this amount was increased to \$156,300. Again, the additional money came from discretionary funds. Therefore, we question if grants were awarded fairly by the Division.

According to the Division, in April 1997, after we first inquired about a potential conflict, the Executive Director's wife was reassigned duties, eliminating her involvement with DAPAA. However, in a May 1997 memorandum, a Division employee reported on the social marketing grant to the Executive Director's wife, indicating that she was still involved. The memorandum contained the final evaluation of grants given through the NC Minority Aids and Health Advisory Coalition, Inc. The Branch Chief and others were sent copies of the memorandum. We question why the Executive Director's wife received this report since she was no longer to be involved in decisions regarding DAPAA.

### **RECOMMENDATION**

**The Epidemiology Division should develop a clear, concise, and definitive conflict of interest policy. This conflict of interest policy should be communicated to all employees. In the future, the Division should award grants fairly and give all organizations an equal opportunity to obtain funding.**

**12. THE EXECUTIVE DIRECTOR'S WIFE, EMPLOYED BY THE STATE AGENCY AWARDING GRANTS TO DAPAA, RECEIVED CHECKS FROM DAPAA TOTALING \$2,065.**

The Executive Director's wife is an employee of the Department of Health and Human Services. During the time DAPAA received grants from the State, she was assigned to the Division of Epidemiology, which administered the grants awarded to DAPAA. During the course of our review, we examined checks totaling \$2,065 written to the Executive Director's wife. We did not find any supporting documentation or invoices justifying the expenditures. We did not see evidence of a written contract between DAPAA and the Executive Director's wife.

We questioned the Executive Director about the checks written to his wife. The Executive Director told us that Eastern North Carolina HIV/AIDS Consortium (ENCHAC) required that a case manager with the necessary certification or credentials sign off on reports from DAPAA. Thus, the Executive Director contracted with his wife who has a Master's of Social Work Degree to perform case management for DAPAA. He could not, however, remember the rate he paid his wife for the services that she provided.

We questioned the Executive Director's wife about her arrangement with DAPAA. The Executive Director's wife said she received approval from the Division's former Branch Head. However, we were not provided with any written documentation verifying that this situation was approved by anyone within the Division. We did not find a secondary employment form for the Executive Director's wife on file with the Division of Epidemiology.

We did obtain internal Departmental memos that addressed the questions of conflict of interest for the Executive Director's wife. One of these memos stated that the Executive Director's wife would not be "involved in the funding recommendation, technical assistance, and monitoring of DAPAA." In this same memo, others within the Department appeared to have granted their approval of this arrangement.

We question these payments made to the Executive Director's wife. First, because she works for the Division, an apparent conflict of interest exists. Through their lack of action on the issue, the Division appeared to have condoned this conflict of interest. Second, the lack of documentation surrounding the payments further clouds the situation. The situation could have been avoided if DAPAA had sought the Division's assistance in finding a qualified individual with a Master's of Social Work Degree to perform case management for the organization. Additionally, the Executive Director's wife should have filed a secondary employment form so that her supervisor would have been aware of her employment with DAPAA, requiring him to determine if a conflict of interest existed.

**RECOMMENDATION**

**The Division should avoid even the appearance of a conflict of interest.**

**DAPAA should also develop a written conflict of interest policy. The**

**Division should insist that secondary employment forms are on file for all**

**employees who have secondary employment.**

**13. DAPAA REQUESTED QUESTIONABLE PAYMENTS FROM THE EASTERN NORTH CAROLINA HIV/AIDS CONSORTIUM.**

From June 26, 1996 through October 8, 1997, the Eastern North Carolina HIV/AIDS Consortium (ENCHAC) wrote thirty-seven checks for rental assistance totaling \$15,380, to an individual we identified as the mother of DAPAA's Executive Director. Our review of ENCHAC's canceled checks indicated that thirty-six of the checks were endorsed and cashed by the mother; one check was endorsed by the mother and stamped "For Deposit Only DAPPA, Inc." According to DAPAA's Executive Director, his mother cashed these checks and gave him the cash. The Executive Director told us that he then deposited the funds into DAPAA's account. DAPAA could not provide us with supporting documentation to confirm the deposits of these funds.

ENCHAC wrote these checks after receiving a request from DAPAA for client rental assistance. On each request form, DAPAA's Executive Director requested rental assistance to be paid to his mother. According to the Executive Director, DAPAA had previously paid from its own account several rental payments due on houses rented for DAPAA clients. DAPAA requested rental assistance from ENCHAC in order to reimburse

itself for those payments. The Executive Director stated that he requested ENCHAC to write those checks to his mother rather than himself to prevent others from believing he was personally benefiting from ENCHAC's payments. However, the Executive Director did not disclose to ENCHAC that the individual to whom the check were written was his mother.

According to ENCHAC's Executive Director, she assumed that these checks were being written to a homeowner who had leased rooms to DAPAA's clients. However, according to the mother, she had not leased any rooms nor houses to DAPAA or DAPAA's clients. Our investigation revealed that the mother did not own any of the properties in which ENCHAC assisted with rental, nor was the mother a client of DAPAA.

### **RECOMMENDATION**

**DAPAA should not seek reimbursement for amounts exceeding actual expenses. DAPAA should only include factual information on the requests for reimbursement forms. This matter is being referred to the State Bureau of Investigation for further review.**

#### **14. DAPAA APPEARS TO HAVE SPENT FEDERAL FUNDS ON CLIENTS WHO WERE NOT ELIGIBLE TO RECEIVE THOSE FUNDS.**

During the course of our investigation, we questioned some of ENCHAC's rental assistance payments for DAPAA's clients and the eligibility of those clients who benefited from ENCHAC's assistance. Based on our review, it appears that the amounts on the majority of the checks written by ENCHAC to the mother of DAPAA's Executive Director

## FINDINGS AND RECOMMENDATIONS (CONTINUED)

---

exceeded the actual monthly lease payments due on the rental houses. On at least seven occasions, DAPAA requested that ENCHAC write two checks during the same month for rent on the same house. On another occasion, ENCHAC wrote three checks during the same month for rent on the same house. According to ENCHAC, these checks were written for single rooms in the houses. DAPAA requested rental assistance for separate clients renting individual rooms in each house during the same month. However, the totals of these multiple checks for rooms in the same house exceeded the actual monthly lease amounts due. In some cases, it appeared to be triple the amount DAPAA paid the homeowner to rent the house. Although we identified the actual property owners, we were unable to verify actual monthly lease payments agreed upon between DAPAA and each of the homeowners. The Executive Director could only provide us with three written lease agreements.

According to ENCHAC's Executive Director, ENCHAC had questioned DAPAA's Executive Director on what appeared to be excessively large rental payments. DAPAA's

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

---

Executive Director responded that the payments were for clean houses located in safe areas, and included utility expenses.

DAPAA's Executive Director further stated that DAPAA deposited all of ENCHAC's rental assistance payments to his mother into DAPAA's checking account and used the funds to cover the expenses of DAPAA's clients. The Executive Director further stated that any excess funds were used to pay rent, utilities, and other miscellaneous expenses incurred by other DAPAA clients who were unemployed and not eligible to receive Medicaid or funding from ENCHAC.

### **RECOMMENDATION**

**Again, DAPAA should not seek reimbursement for amounts exceeding actual expenses. This matter is being referred to the State Bureau of Investigation for further review.**



## ***Statement of Financial Impact***

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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. For example, some of the amounts represent expenditures for which value was not received; others represent expenditures for which some value was received. We are simply noting these areas where the system of internal controls were either circumvented or should be enhanced, or where, in our judgment, questionable activities or practices occurred.

1. Cost to obtain copies of bank statements and checks.	\$ 3,143
2. Excess grant funds without corresponding expenditure reports.	51,688
3. Excess grant funds sent to DAPAA and not returned to the Division.	21,889
4. Total grant amount awarded to the Coalition to fund a social marketing campaign. DAPAA provided and distributed these funds to the Coalition.	109,000
5. Funds paid to Executive Director for travel reimbursement - no supporting documentation.	6,244
6. Payments made by the Executive Director to himself from Medicaid funds without approval of the Board of Directors.	13,300
7. Loans, salary advances, and personal bills paid by DAPAA for an employee. Funds do not appear to have been recovered from the employee.	3,435
8. Payments from DAPAA to the Executive Director's wife who is employed by the Division.	2,065
9. Questionable rental assistance paid to the mother of DAPAA's Executive Director.	15,380
	<u>\$ 226,144</u>

<p><b>Auditor's Note:</b> The true financial impact is much higher than the amount shown above. The majority of the \$977,143 in expenditures since 1993 were not supported by documentation. Therefore, the entire amount of grant funds expended may be questionable costs.</p>
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*Response from the State Health  
Director of the Department of  
Health and Human Services*

**North Carolina  
Department of Health and Human Services**

101 Blair Drive • Post Office Box 29526 • Raleigh, North Carolina 27626-0526  
(919) 733-4534 • Courier 56-20-00

James B. Hunt Jr., Governor

May 21, 1998

H. David Bruton, M.D., Secretary

The Honorable Ralph Campbell, Jr.  
North Carolina State Auditor  
300 North Salisbury Street  
Raleigh, North Carolina 27603-5903

Dr. Mr. Campbell:

I want to thank you for your thorough review of allegations concerning Drug and Aids Prevention Among African-Americans, Inc., a community based HIV/AIDS risk reduction and education program located in Johnston County. I have reviewed the findings and recommendations contained in the confidential draft report and offer the attached in response.

Proper fiscal management, programmatic responsibility and integrity are of utmost importance to the Department of Health and Human Services. Ensuring this is our expectation for ourselves, and for those with whom we do business. Please be assured that our response to possible allegations of misuse of state funds is not limited to what we have provided here. The Division of Epidemiology, under my leadership, will work with the fine resources available to us -- including the department Controller, Internal Auditor, and Assistant Director for Budget, Management and Planning -- to determine the further details of these allegations, and to take any appropriate measures to safeguard against this happening again in the future. We will utilize appropriate external resources as well.

Thank you again for your thorough investigation and report.

Sincerely,

A handwritten signature in dark ink, appearing to read "A. Dennis McBride".

A. Dennis McBride, M.D., M.P.H.  
State Health Director

Attachment

cc: H. David Bruton, M.D.  
Ronald H. Levine, M.D., M.P.H.  
James B. Edgerton

### Overview

The Division thanks the Office of the State Auditor for its investigation into allegations it received concerning Drug and AIDS Prevention Among African-Americans, Inc. (DAPAA). The Division and the Federal granting agency, the Centers for Disease Control and Prevention (CDC) believe that we must use unique, alternative methods to successfully prevent the spread of HIV, especially in high-risk populations such as gays, African-Americans and IV drug abusers, including funding community-based organizations (CBO's), such as DAPAA. We also understand that such organizations may not have experience in handling funds that more traditional agencies have. This investigation and subsequent report have provided the Division with invaluable insight into how we must function in monitoring such organizations to achieve successful prevention activities, while assuring accountability in the use of public funds.

The Division of Epidemiology (the Division) concurs with most of the facts as stated in the Overview (pages 1-4) of The Special Review - Drug and AIDS Prevention Among African-Americans, Inc., Smithfield, N.C., April, 1998. We note that on page 3, the grant project referred to as HIV Community Planning was referred to as the Social Marketing Project by the Division. This was a one time project funded from Federal carry forward funds from the grant year ending December, 1984. The Division was restricted by the grantor to select a minority controlled organization because of the increase in HIV infection among the African-American population. The North Carolina Minority AIDS and Health Advisory Coalition (Coalition) was selected because the Coalition represented a large number of minority organizations in the state who were committed to the prevention of HIV. According to our records, the Division originally allocated \$86,000 to this effort, subsequently extending the contract into the subsequent grant period with an additional \$23,804 to fund additional projects, such as the African-American Faith Initiative (Attachment 1). The Division funded the Social Marketing Project through DAPAA at the specific request of the Coalition. The letter making this request states that, in January, 1996, the Coalition believed that DAPAA had the capacity to act as the lead agency for fiscal management and administration of funds for the Coalition (Attachment 2). At that time the Division complied with the Coalition's request because the Division was not aware of any fiscal non-compliance on DAPAA's part.

Finally, the report states on page 3 "The State awarded DAPAA and the Coalition grants totaling \$1,186,651 in federal funds. Of the amount awarded, DAPAA actually received \$1,089,583 in funds." The Division records indicate that the Coalition has only been granted \$109,804 by the Division and those funds were administered by DAPAA at the specific request of the Coalition. We have not been able to reconcile these numbers at this time. The Division will work with the Controllers Offices in DENR and DHHS to resolve this issue.

### **1. DAPAA'S FINANCIAL RECORDS WERE VERY UNORGANIZED AND INCOMPLETE.**

The Division of Epidemiology has been aware since the early 1990's that Community Based Organizations (CBO) like DAPAA tended to have limited experiences related to fiscal management and reporting. The emphasis, from CDC, was to use CBO's. The Division made efforts to strengthen the CBO's fiscal management through consultation. The Division, through a series of annual workshops for CBO's, has emphasized fiscal policies and methodologies in addition to programmatic activities. The Division has distributed to recent participants in these workshops the DHHS Administrative Manual for Non-Profits. This manual was developed by the DHHS Controllers Office and discusses a variety of topics including the responsibilities and potential liabilities of a Board of Directors and the necessity for compliance with financial management and reporting. Federal guidelines and language in the state contract require compliance with financial reporting. Individual CBO's believed to be having difficulty with fiscal

management were encouraged by the Division to employ accountants and other specialists for needed assistance to meet these requirements. The federal as well as our state contractual rules require compliance.

Prior to October 1997 the Division was in the Department of Environment, Health and Natural Resources (DEHNR). It was during this period that most of the funds addressed in this Report were awarded to DAPAA. In DEHNR, the auditing and controllers function were centralized, and responsibility for receipt and review of expenditure information and audit reports resided in the Department. This resulted in some unsatisfactory outcomes.

One of those duties of the DEHNR Controller was the receipt, review and oversight of single audit reports from contractors, including CBO's. In August, 1996, the Division requested copies of single audit reports for DAPAA, because the Budget Officer for the HIV/STD Control Section, Bob Canupp, had concerns about the fiscal management of DAPAA and wanted to find out whether the single audit reports reflected any information that would confirm or allay his concerns. The Division was notified on August 13 by DEHNR Controller Rod Davis that his office had received no single audit reports from DAPAA for FY94 or FY95. When Mr. Canupp asked whether the Division should continue to fund DAPAA, Mr. Davis' response was affirmative (Attachment 3- hand-written note from Rod Davis). The DEHNR Controller's Office granted several extensions to DAPAA to submit these audit reports.

Due to his continued concerns about DAPAA's fiscal management, Mr. Canupp visited DAPAA in February, 1997. During that visit he reviewed the books and other financial records of DAPAA. Upon his return to Raleigh, Mr. Canupp contacted Tommy Clark, DEHNR Controller's Office, and discussed his concerns with Mr. Clark. Mr. Clark told Mr. Canupp that he had notified DAPAA that they had forty-five days within which to submit their audit reports or risk loss of funds (no copy available). On March 7, 1997 Mr. Clark notified DAPAA that the audit report for SFY 1996 had not been received and DAPAA must submit the report by April 6, 1997 (Attachment 3). In May, 1997 Bob Canupp and Evelyn Foust met with Rod Davis, Dan Stewart and Tommy Clark at DEHNR Controller's Office to discuss DAPAA (Attachment 4). Mr. Davis assured the Division that the situation with DAPAA was being handled properly and there was no need to cut off their funding at that time. DAPAA was given an extension until July, 1997, to submit audit reports. On July 29, 1997 Mr. Davis wrote DAPAA in response to an audit report the DEHNR Controller's Office had received from DAPAA indicating that all required reports had not been included and another extension was given to August 31, 1997 (Attachment 5). On July 30 Mr. Canupp wrote DAPAA notifying them that failure to comply with the audit requirements would result in loss of funding from the Division (Attachment 6).

The above history of events explains why the Division continued its funding to DAPAA after the transfer of the Division from DEHNR to DHHS. The General Assembly, effective October, 1997, transferred the Division to the newly established Department of Health and Human Services. At that time, Bob Canupp contacted Frank Bobbitt, Director DHHS Office of Internal Audits, who has worked closely with the Division since that time. On October 8, 1997 Brenda Crowder-Gaines, Prevention and Community Planning Branch Head and Linda Blackmon, HIV/STD Budget Manager visited DAPAA to review their fiscal records and determined that there were still problems in spite of claims by James Wise, Executive Director, DAPAA, that they had corrected problems that had been identified.

On October 16, 1997 Steve Martin, Deputy Division Director; Evelyn Foust, HIV/STD Prevention and Care Section Chief; Bob Canupp, HIV/STD Budget Officer; and Frank Bobbitt, Director DHHS Office of Internal Audits met with the DAPAA Board of Directors and the Executive Director in order to make it clear that the Division believed that the fiscal management and records of DAPAA were not adequate and unless immediate action was taken to correct matters, the Division would cancel its contracts with them. The Board assured the Division representatives that it had handle the matter by adding a new employee with the appropriate background and skills. As a series of three memos (Attachments 7, 8 and 9) from Stephen S. Martin, Deputy Division Director, to DAPAA indicate, DAPAA was still not in

compliance with fiscal reporting requirements. The subsequent visit by Bob Canupp and Eddie Berryman, DHHS Office of Internal Audits, confirmed that the fiscal management problems were not remedied. DAPAA was notified on March 9, 1998 (Attachment 10) that the Division was officially canceling DAPAA's contracts.

**2. THE EXECUTIVE DIRECTOR FAILED TO PROVIDE US COMPLETE DOCUMENTATION TO JUSTIFY ALL EXPENDITURES.**

Because of the reporting system the Division was not aware of this situation and concurs with the recommendation of the Report.

**3. DAPAA LACKED OVERSIGHT FROM ITS BOARD OF DIRECTORS.**

The Division concurs with the recommendation of the Report. In an effort to evaluate the role of the Board and to encourage them to take a more active role in the management of DAPAA, the Division met with the Board on October 16, 1997 (Attachment 9). Following that meeting, Division staff have communicated directly with the Board (Attachments 9 and 10) and will continue to do so in the future as we resolve closing out the contracts and recoupling funds due the State of North Carolina.

**4. THE DIVISION OF EPIDEMIOLOGY DID NOT ADEQUATELY SUPERVISE DAPAA.**

The Division is taking immediate corrective action that will assure the appropriate review process, where each expenditure report is being compared to the total dollar amount paid to the contractor and to the budgeted amount so that such overpayments will not occur in the future. The Office of the State Health Director, the Division of Budget, Planning and Analysis, the Office of the Controller and the Office of Internal Audits will review fiscal management procedures of these contracts.

**5. ALTHOUGH DAPAA FAILED TO COMPLY WITH ITS CONTRACTUAL AGREEMENT, THE DIVISION OF EPIDEMIOLOGY CONTINUED AWARDED GRANTS TO DAPAA.**

The response to this finding is included in Item 1 (above). It should be noted that our termination of funding to DAPAA was timely.

**6. DAPAA RECEIVED AND RETAINED \$21,889 IN EXCESS OF AN AMOUNT AWARDED FOR A CONTRACT.**

The Division, in a number of memos from December, 1997 through February, 1998, notified DAPAA that the agency had received an extra \$21,889 during FY 1997 and that the money would have to be repaid. One of the factors that eventually led to the cancellation of the Division contracts with DAPAA was the failure to provide an acceptable plan to repay these funds. The Division has enlisted the assistance of the Attorney General's Office in recovering these funds.

**7. THE DIVISION OF EPIDEMIOLOGY CAN NOT ACCOUNT FOR DAPAA'S USE OF A FEDERAL GRANT AWARDED TO DAPAA.**

The Division concurs with the finding that it cannot account for DAPAA's use of federal grant money awarded to DAPAA. The Division is working with other DHHS agencies including the Division of Budget and Analysis, the Office of the Controller, the Office of Internal Audits, as well as the Attorney General's Office and the SBI to ensure a full accounting of these funds.

8. **THE EXECUTIVE DIRECTOR WAS UNABLE TO PROVIDE SUPPORTING DOCUMENTATION FOR TRAVEL PAYMENTS TO HIMSELF.**

Because of the reporting system the Division was not aware of this situation and concurs with the recommendation of the Report.

9. **THE EXECUTIVE DIRECTOR PAID HIMSELF ADDITIONAL COMPENSATION FROM MEDICAID RECEIPTS.**

Because of the reporting system the Division was not aware of this situation and concurs with the recommendation of the Report.

10. **THE EXECUTIVE DIRECTOR OF DAPAA REPEATEDLY GAVE PERSONAL LOANS AND SALARY ADVANCES TO AN EMPLOYEE EVEN THOUGH THE EMPLOYEE WAS NOT PAYING THEM BACK.**

Because of the reporting system the Division was not aware of this situation and concurs with the recommendation of the Report.

11. **DAPAA APPEARED TO HAVE RECEIVED FAVORITISM IN THE AWARDING OF GRANTS BY THE DIVISION OF EPIDEMIOLOGY.**

The Division does not believe that favoritism was given to DAPAA in selecting its proposals as deserving of funding. In addition to our own assessments of the quality of DAPAA's proposals and projects, the Division regularly received information from external reviewers, federal officials, physicians, local health department staff, staff of other CBO's and other community leaders that DAPAA programs were outstanding examples of how other CBO's should operate.

Following a reorganization of the Division of Epidemiology in July, 1994 and the subsequent appointment of Evelyn Foust as Chief of the HIV/STD Control Section, complaints of favoritism toward DAPAA were received. In an effort to deal with these concerns, Janet Wise, Head of the Prevention Branch, HIV/STD Control Section and wife of James Wise, Executive Director of DAPAA, was relieved of all duties and responsibilities pursuant to reviewing and selecting CBO proposals in October, 1995. Complaints continued to be received and additional efforts were made to ensure that Mrs. Wise had no role in the selection of projects to be funded. For example, in August, 1996, Evelyn Foust notified Steve Martin, Deputy Director (Attachment 11) subsequent to a meeting with Mrs. Wise, that she was still following the guidance stated in a memo dated June 22, 1993 (Attachment 12). That memo addresses removing Mrs. Wise from direct involvement with funding recommendation(s), technical assistance, and monitoring of DAPAA.

During 1996 and 1997, several coaching sessions occurred between Mrs. Wise, and one or more of the following: Evelyn Foust, her immediate supervisor, Steve Martin, Deputy Division Director and Pat Collins, Division Personnel Representative. During these sessions, Mrs. Wise indicated that she was not involved in any way in any activity that would cause a conflict of interest. There is a signed statement, dated July 26, 1997, in Mrs. Wise's personnel file that attests to her knowledge of and concurrence with the requirement that she refrain from activity that might be construed as a conflict of interest. This memo was shared with the Office of the State Auditor during the investigation. In the spring of 1997, as part of the reorganization of the Section, Mrs. Wise was placed in a position that had no supervisory responsibilities for the Prevention Branch, which was the Branch in which recommendations for funding of CBO's was initiated. Eventually, in the fall of 1997, due to the limited number of positions appropriate to Mrs. Wise's training and experience, she was assigned to the Office of Minority Health, where there was a need for her skills and abilities and where she could continue several initiatives regarding prevention activities in the minority community, such as the African-American Faith Initiative.

1. What is the purpose of this document?  
2. What are the main objectives of the project?  
3. What are the key findings of the study?  
4. What are the conclusions and recommendations?



State of North Carolina  
Department of Environment,  
Health and Natural Resources  
Division of Epidemiology

James B. Hunt, Jr., Governor  
Jonathan B. Howes, Secretary  
Michael Moser, M.D., M.P.H.



June 12, 1996

MEMORANDUM

TO: Dee Strickland  
Purchase and Contracts

FROM: Evelyn Foust, MEd  
Section Chief  
HIV/STD Control Section

SUBJECT: Contract Amendment

Reference: DAPAA, Inc. (for North Carolina Minority  
AIDS and Health Advisory Coalition, Inc.) #K-6052-  
System #45330986

This memo is written to extend the above referenced contract by an additional \$23,804 to help with the continuation of the HIV/STD Social Marketing Project which will expand social marketing strategies to cover the African-American faith initiatives.

Additional mini-grants associated with the social marketing strategies include: a Black Church Leadership Conference, The Black Church Week of Prayer, and The Black Church World AIDS Day: Dining with Friends events.

Your attention to this matter is greatly appreciated, if you have additional questions do not hesitate to contact me or Bob Canupp at 919-733-7301.

BF/kr

cc: James M. Wise  
Bob Canupp  
Rondra McMillan  
Brenda Crowder-Gaines

P.O. Box 27687, Raleigh,  
North Carolina 27611-7687



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**NORTH CAROLINA  
MINORITY AIDS AND HEALTH  
ADVISORY COALITION**

James M. Wise  
Co-Chairman  
Ashley Rozier II  
Co-Chairman

January 9, 1996



Attachment 2

Participant Agencies:  
DAPAA  
THE BUREAU  
OIC  
AGENCY FOR THE  
NEW COURTESY  
CURE AIDS OF  
WILMINGTON  
MT. SINALAI  
FOUR PROJECT  
FRIENDS  
COMMITTEE

Ms. Evelyn Blakenship Foust  
Section Chief  
HIV/STD Control Section  
P.O. Box 27687  
Raleigh, N.C. 27611-7687

Send -  
En Files

Dear Ms. Foust:

Please be advised that the North Carolina AIDS and Health Advisory Coalition is currently in the process of acquiring its 501(c)(3) status. Until this process has been finalized, the Coalition will operate in collaboration with Drug and Aids Prevention Among African-Americans, Inc. (DAPAA) as its Lead Agency.

With DAPAA as its lead agency, the Coalition will be able to utilize DAPAA's 501(c)(3) tax code when applying for funds and conducting other business that requires tax exemption. In addition, the Coalition can rely upon the lead agency for fiscal management and administration of funds, as well as the performance of other administrative functions.

Please do not hesitate to contact the Coalition for questions regarding our status as a private, non-profit organization.

Sincerely,

*James M. Wise*  
James M. Wise  
Co-Chair

*Ashley Rozier II*  
Ashley Rozier, II  
Co-Chair

Representative Thomas Wright

*Rev. Victor M. Davis*  
The Reverend Victor M. Davis

Belinda Blue

The Reverend Ed White

Pat Oxendine-Hunter

Maggie Wright

cc: Paul Esbrandt

# DAFAA, INC.

Attachments

"Each one, reach one and teach one!"

Janet M. Wise, Executive Director  
Diane A. Bagley, Director, Project Day Break  
Lynda L. Bull, F.P.P., Clinical Director  
Reverend Peter M. Davis, Board Chairman

August 13, 1996

TO: Rod Davis  
Comptroller

FROM: James M. Wise, *J.M.W.*  
Executive Director

SUBJECT: Release of Funds

Per our conversation earlier this morning, this memo is written to request the release of funds from your agency to DAPAA, Inc.

As you are aware, the audit reports from FY94 and 95 were submitted by a non-certified public accountant; and, thus unacceptable. We were not made aware of this factor until approximately two weeks ago. In fact, while the past audit reports, especially FY94, were not deemed "standard", FY94 was approved and accepted by your office in FY95. Nonetheless, it is clear what we must do to comply; and, I have retained the services of Mr. Charles L. Bunn, Jr., CPA to conduct a re-audit for FY94 and FY95. As well, he has been retained for ongoing audit services.

Mr. Davis, we are a minority grassroots agency that is almost totally dependent upon grant/awards in order to conduct daily business of HIV prevention. As well, 54 clients who are HIV positive depend on this agency for Adult Day/Health Care. The withholding of our funds is creating a serious problem. At this point, DAPAA, Inc. is unable to provide adequate services to Johnston County residents or make payroll without your authorization to release these funds. I assure you that there have been no improprieties in this agency.

Your consideration and subsequent release of the funds will be greatly appreciated. If you need additional information from me, do not hesitate to call 989-1122. Thanks for your help.

cc: Margaret Lassiter, Accountant  
Charles L. Bunn, Jr., CPA  
Evelyn Blankenship Foust, MPH

POST OFFICE BOX 2140 • SHEPHERD, N.C. 27577 • OFFICE (919) 989-1122 • FAX (919) 989-6617

State of North Carolina  
Department of Environment,  
Health and Natural Resources  
Office of the Controller

James B. Hunt, Jr., Governor  
Jonathan B. Howes, Secretary  
Rod Davis, Controller



March 07, 1997

Finance Officer  
Drug & Aids Prev Among Afro-Amer  
P O Box 2172  
Smithfield, NC 27577

Reference: Audit Report FY 1996

Dear Finance Officer:

Our records indicate that you received funds from this department during state fiscal year 1996. As a condition of the contract under which you received these funds, you agreed to provide a copy of your single audit report within 6 months of the end of the contract period.

As of this date, our records indicate that we have not received your audit report. I am requesting that this report be submitted to me at the address listed below by **April 06, 1997**. Failure to do so could jeopardize future payments to you from this Department. Please send the report to:

Tommy Clark  
Office of the Controller  
Department of Environment, Health and Natural Resources  
P. O. Box 27687  
Raleigh, NC 27611-7687

We appreciate your cooperation in this matter and encourage you to contact us, if we may be of assistance to you. Should you have questions, please contact Tommy Clark at 919-733-1692. Thank you for your attention to this matter.

Sincerely,

Rod Davis

P.O. Box 27687,  
Raleigh, North Carolina  
27611-7687



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*Encl  
Confidential*

*Attachment 5*

Post-it® Fax Note	7671	Date	7-29-97	Page	1
To	Bob Canupp	From	Tommy Clark		
Co/Dept	Epide	Co.	Control		
Phone #		Phone #			
Fax #		Fax #			

July 29, 1997

Mr. James M. Wise, Finance Officer  
Drug and Aids Prevention Among  
African Americans, Inc.  
Post Office Box 2172  
Smithfield, NC 27577

Dear Mr. Wise:

We have reviewed your audit report for the period ending June 30, 1996 to ensure that state and federally mandated audit requirements are met. Specifically, we look for the Report on Internal Controls Relevant to Administering Federal Awards and the Report on Compliance with Laws and Regulations that deal with the requirements of OMB Circular A-133/A-126.

During the course of our review of your audit report, we discovered that neither of the reports was included as components of the audit report nor as addenda. The above mentioned reports are requirements of the contractual agreement with your agency and must be prepared by your independent auditors during the course of their examination of your records. Furthermore, we must have those reports for examination by the NC State Auditor to comply with our constitutional responsibilities.

We need to have those reports by August 31, 1997. Failure to submit the reports could delay or curtail payments to your agency. Reports and correspondence should be addressed to:

Tommy Clark  
Office of the Controller  
DEHNR  
PO box 27687  
Raleigh, NC 27611-7687

Mr. Clark can be contacted by dialing 919-733-1692.

Thank you very much.

Sincerely,

*Paul Davis*

Rod Davis

cc: Bob Canupp

State of North Carolina  
Department of Environment,  
Health and Natural Resources  
Division of Epidemiology

James B. Hunt, Jr., Governor  
Jonathan B. Howes, Secretary  
Michael Moser, M.D., M.P.H.



July 30, 1997

To: James Wise  
Executive Director  
DAPAA, Inc.

Rev. Victor Davis  
Chairman of the Board  
DAPAA, Inc.

From: Bob Canupp *BC*  
Assistant Section Chief, Finance  
HIV/STD Prevention and Care

Subject: Fiscal Audits

The purpose of this memo is to inform you of our receipt of a copy of a letter (attachment) mailed to you on July 29, 1997, from Rod Davis concerning your audit for the period ending June 30, 1996. In subsequent conversations with Tommy Clark of the DEHNR Controller's Office, he explained to me that this audit is not currently in compliance with DEHNR requirements and that you must submit these reports to their office by August 31, 1997. I trust that these reports can be completed and submitted within the appropriate deadline. However, I feel that it is necessary to reiterate that the Division of Epidemiology and the HIV/STD Prevention and Care Section will be required to suspend the processing of payments to DAPAA if these requirements are not met.

If you have questions or comments, please feel free to call me at 919-733-9585 or Steve Martin at 919-715-6734.

cc: Dr. Michael Moser  
Steve Martin  
Evelyn Foust  
Brenda Crowder-Gaines

P.O. Box 27687, Raleigh,  
North Carolina 27611-7687



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July 29, 1997

Post-It Fax Note	7671	Date	7-29-97	Page	1
To	Bob Canupp	From	Tom Clark		
cc/Dept	Epid.	cc	Compliance Off.		
Phone #		Phone #			
Fax #		Fax #			

Mr. James M. Wise, Finance Officer  
Drug and Aids Prevention Among  
African Americans, Inc.  
Post Office Box 2172  
Smithfield, NC 27577

Dear Mr. Wise:

We have reviewed your audit report for the period ending June 30, 1996 to ensure that state and federally mandated audit requirements are met. Specifically, we look for the Report on Internal Controls Relevant to Administering Federal Awards and the Report on Compliance with Laws and Regulations that deal with the requirements of OMB Circular A-133/A-123.

During the course of our review of your audit report, we discovered that neither of the reports was included as components of the audit report nor as addenda. The above mentioned reports are requirements of the contractual agreement with your agency and must be prepared by your independent auditors during the course of their examination of your records. Furthermore, we must have those reports for examination by the NC State Auditor to comply with our contractual responsibilities.

We need to have those reports by August 31, 1997. Failure to submit the reports could delay or curtail payments to your agency. Reports and correspondence should be addressed to:

Tommy Clark  
Office of the Controller  
DEHNR  
PO box 27687  
Raleigh, NC 27611-7687

Mr. Clark can be contacted by dialing 919-733-1692.

Thank you very much.

Sincerely,



Red Davis

cc: Bob Canupp



attachment 7

North Carolina  
Department of Health and Human Services  
Division of Epidemiology  
P.O. Box 29601 • Raleigh, North Carolina 27626-0601

James B. Hunt Jr., Governor

November 13, 1997

H. David Bruton, M.D., Secretary

TO: James Wise  
Executive Director  
DAPAA, Inc.

FROM: Stephen S. Martin, MPH  
Deputy Division Director  
Division of Epidemiology

SUBJECT: Expenditure Reports

It is necessary that I discontinue processing expenditure reports from DAPAA, Inc. pending resolution of items previously discussed with you. During our October 16, 1997 visit, you and the DAPAA Board of Directors were informed that the following situations are problematic. When these items have been successfully resolved, I will authorize payments based on expenditure reports we have received at the time we reach resolution.

First, I need resolution of the record keeping and internal control situation at DAPAA. I will send Frank Bobbit or a member of his staff and Bob Canupp to DAPAA for a review of current financial systems. This action is expected to be accomplished within one week of the date of this memo. Second, on or before December 10, 1997, DAPAA must present completed Single Audit Reports for FY 1994 and 1995 to Tommy Clark at DENR Controller's Office. These reports must be deemed acceptable by Mr. Clark or Rod Davis. Finally, a payment plan must be worked out between DAPAA and the Division concerning the overpayment of \$21,889 that DAPAA received during fiscal year 1997. As previously stated, it is the Division's position that restitution must be made for these funds regardless of the source of error.

If you have additional concerns or comments regarding the Division's position in this matter please call me at 919-715-6734.

SM/lp

cc: Evelyn Foust  
Chris Hoke  
Ron Levine  
James Lassiter  
Leon Martin

*North Carolina: Host of the 1999 Special Olympics World Summer Games*





attachment 8

North Carolina  
 Department of Health and Human Services  
 Division of Epidemiology  
 P.O. Box 29601 • Raleigh, North Carolina 27626-0601

James B. Hunt Jr., Governor

H. David Bruton, M.D., Secretary

November 21, 1997

MEMO

TO: James Wise  
 Executive Director  
 DAPAA, Inc.

FROM: Stephen S. Martin, Deputy Director

SUBJECT: Site Visit

The purpose of this memo is to clarify issues that you raised in your November 19, 1997 memo.

I believed that my previous memo to you clearly stated the purpose of Frank Bobbit and Bob Canupp's visit; however, I apologize for any misunderstanding arising from that memorandum. During our October 16, 1997 meeting, you stated that DAPAA was in the process of implementing a complete accounting system. This action is consistent with the action steps that I feel are necessary for DAPAA to improve its organizational structure and to continue receiving funding from the HIV/STD Prevention and Care Section. Therefore, the purpose of Frank and Bob's site visit is to review the system as developed and implemented and to report their findings to me. If the "new" system appears adequate and the other two conditions have been met, we will continue our current contracts; if there are minor changes or improvements, we will ask for some kind of confirmation that those changes are in place and the other two conditions have been met, then we will continue with current contracts; if there are major areas of concern then we will ask for another meeting with your Board and discontinue payments until after that meeting.

I feel that you need to know that this is not a technical assistance visit. It is not the policy of the Division or Section to provide technical assistance in the area of establishing a professional accounting system. We do provide funded agencies with assistance in meeting the fiscal requirements of state government and I know that DAPAA has attended these trainings.

Single Audit Reports are the responsibility of the Controller's Office (grants provided under DEHNR auspices will be reviewed by DENE Controller's Office, grants under DHHS will eventually be reviewed by DHHS Controller's Office) and we have no authority over what information is requested by them or the time frames under which they operate. However, we do abide by their Single Audit Requirements and those of the Federal Government. We received official notification of DAPAA's FY 1994 and 1995 Single Audit deficiency after notification was mailed to your agency. While we empathize with you regarding the timeliness of memos, it is a condition we do not control.

If I can be of further assistance please call me at 919-715-6734.

cc: Evelyn Foust Chris Hoke Ron Levine James Lassiter Brenda Crowder-Gaines

North Carolina: Host of the 1999 Special Olympics World Summer Games



Attachment 9

North Carolina  
Department of Health and Human Services  
P.O. Box 29526 • Raleigh, North Carolina 27626-0526 • Telephone 919-733-4534

James B. Hunt Jr., Governor

H. David Bruton, M.D., Secretary

January 9, 1998

TO: James Lassiter, President  
Board of Directors  
DAPAA, Inc.

FROM: Stephen S. Martin  
Deputy Director

SUBJECT: Expenditure Reports

In accordance with my memo of November 18, 1997 a site visit to DAPAA was conducted by Bob Canupp and Eddie Berryman on December 2, 1997. This is a summary of their report to me. I believe that it is essential that we maintain open communication and continue in a positive direction. Three issues come to mind concerning their visit and the subsequent actions taken by DAPAA. I will discuss the specifics below.

First, it appears that DAPAA is taking appropriate measures to improve its overall accounting. The implementation of a computerized accounting system is a positive first step. However, the computerized system in and of itself is not the cure for DAPAA's fiscal accountability problems. The bookkeeping, including an electronic system must not only exist, but be fully utilized. The users must be knowledgeable of the capabilities and constraints of the system and care must be taken to ensure the accuracy of data entered into the system and the reliability of outputs. As with any accounting system, electronic data processing systems require internal controls to ensure compliance with organization goals and objectives and to prevent misuse of agency funds. Additionally, the agency must establish written procedures and protocols that serve as a guide to employees and management in accomplishing the day-to-day activities of the organization. In short, there are several components and activities which comprise your accounting system.

At the time of Bob and Eddie's recent visit, DAPAA had an accounting software package in possession; however, the system was not being utilized and no one on staff appeared to have been trained to use the system. Also, no other internal controls or components of an accounting system were in operation at the time of their review. Since that visit James Wise shared with me a copy of electronically generated reports demonstrating that the software had been loaded and is operational. As discussed previously, every funded agency must have a fully integrated accounting system. It is not responsibility of the Division or Department to provide any agency with an accounting system, but I ensure its existence. I recommend, again that DAPAA consult

with a professional accounting agency that can provide you with assistance to develop and implement a complete acceptable, accounting system.

Secondly, DAPAA must submit a repayment plan for repayment to the Division the \$21,889 overpayment that it received in FY 96-97. These funds, in accordance with the Code of Federal Regulations, must be reimbursed to the Division prior to June 30, 1998. This payment may be accomplished through the raising of private funds or the deduction of current funds from payments to you based on expenditure reports between now and June 30, 1998. Finally, on or before December 31, 1998 DAPAA must submit an acceptable audit to the Department and the Division for State Fiscal Year 1996-97. It is my understanding that you are already aware of this requirement and the audit is currently being prepared.

As we discussed during James Wise's visit to my office on December 3, 1997 DAPAA must comply with these three items by February 28, 1998. If we are not satisfied that DAPAA is in compliance with these requirements, this memo shall be the mandatory 30-day notice for our intent to cancel the contracts between the Division of Epidemiology and DAPAA, effective February 28, 1998, that are currently in place.

If you have any questions, please contact me at (919)715-6734 or Bob Canupp at (919)733-9585.

cc: James Wise  
Leon Martin  
Evelyn Foust  
Bob Canupp  
Chris Hoke  
Eddie Berryman  
Frank Bobbitt



attachment 10

North Carolina  
Department of Health and Human Services  
Division of Epidemiology  
P.O. Box 29601 • Raleigh, North Carolina 27626-0601

James B. Hunt Jr., Governor

H. David Bruton, M.D., Secretary

March 9, 1998

Mr. James Lassiter  
Board Chairman  
DAPAA, Incorporated

Dear Mr. Lassiter,

This letter is official notification of cancellation of Contract #V8029 (Counseling and Testing Site), Contract #V8021 (Injecting Drug User) and Contract GH7076 (HOPWA Adult Day Care) between the Department of Health and Human Services (DHHS) and Drug and AIDS Prevention Among African-Americans, Incorporated (DAPAA), effective March 9, 1998, pursuant to Section 12 of the contracts. A review of the fiscal management of DAPAA by staff from the Division of Epidemiology and auditors from the Office of the State Auditor have identified violations of contract requirements and material weaknesses in the overall fiscal operations.

Three specific instances of failure to comply with contractual obligations are enumerated here. 1) As of today's date, the audit requirements outlined in your State Fiscal Year (SFY) 1997 contracts still have not been met. The contracts stipulate that the single audit must be submitted within six months of the close of the fiscal year. According to Department of Environment and Natural Resources Controller's Office, no audit has been received for the SFY which ended June 30, 1997. 2) We encountered significant problems in matching expenditures with receipts during a review of DAPAA's accounting records. All monies were compiled into one checking account and nearly all of the reviewed checks lacked supporting documentation or invoices. The absence of this information precludes the Department from determining whether or not State and Federal funds were expended as intended and in accordance with State and Federal funding guidelines. 3) Federal and State regulations require that funded agencies operate within the bounds of generally accepted accounting principles. Our review and that of the State Auditor has concluded that DAPAA's accounting system is inadequate at every level. DHHS staff on several occasions have prompted DAPAA to seek professional accounting assistance and, to date, we have no substantiated evidence that our recommendation has been heeded.

As part of the State Auditor's review process, we met with the auditors to inquire about the scope of their investigation and problems that might have surfaced. The auditors also found

numerous weaknesses and omissions in the DAPAA accounting system. This review process has been exhaustive, time consuming and very thorough. In reviewing the results of the work of Division staff and that of the Office of the State Auditor, I have concluded that immediate termination of all Division supported funding is necessary.

In keeping with the terms of the contracts, all reasonable and documentable costs incurred by DAPAA to date, will be reviewed and balanced against DAPAA's obligations to the Department to determine if any further reimbursement is appropriate. Costs incurred after this notification will be the sole responsibility of DAPAA. Furthermore, Section 25, of Contracts V8029 and V8021 and Section 22, of Contract GH7076, indicates property furnished or purchased under the terms of these contracts must be safeguarded and returned to the State. Therefore, please coordinate with Steve Martin and staff of the HIV/STD Prevention and Care Section to ensure proper and timely return of all equipment.

Sincerely,



Chris G. Hoke, J.D.  
Acting Director  
Division of Epidemiology

CGH/sm/bc

cc: Ron Levine  
Steve Martin  
Evelyn Foust  
Ray Mozingo

State of North Carolina  
Department of Environment,  
Health and Natural Resources  
Division of Epidemiology

James B. Hunt, Jr., Governor  
Jonathan B. Howes, Secretary  
Michael Moser, M.D., M.P.H.



August 29, 1996

To: Steve Martin  
From: Evelyn Foost  
Subject: Janet Wise's Conflict of Interest Statement

I am forwarding this copy of Ms. Wise's Conflict of Interest Statement. This statement was written and reviewed by Chris Hoke, Dr. MacCormack and Jim Jones prior to the funding of the DAPAA project.

This process is still followed in the Section and the project monitor is Brenda Crowder-Gaines who reports directly to me regarding her responsibilities as the DAPAA project monitor. I review, edit and receive copies of her site visits and correspondence with DAPAA. I make all final recommendations regarding funding for new programs and initiatives, short-term and long-term, for all of our community-based programs, including DAPAA. I then submit my recommendations through the Division Office, before they are forwarded to the Department for final approval.

I am satisfied that the Section's internal process to acknowledge and manage potential conflicts of interest is appropriate. I also feel Ms. Wise's professional integrity and actions regarding this situation are commendable.

As you know, from time to time, various community prevention partners have expressed concerns regarding this potential for conflict of interest. At Ms. Wise's suggestion, we have reviewed the situation with you and requested a meeting with the Attorney General's office to discuss potential steps we could take to lessen these concerns. I will assume the lead in coordinating this meeting. I have attached a copy of our most recent Request for Applications document for your review and records.

Thank you for your continued support.

EBF/bc

cc: Dr. Michael Moser

50

State of North Carolina  
Department of Environment,  
Health and Natural Resources  
Division of Epidemiology

James B. Hunt, Jr., Governor  
Jonathan B. Howes, Secretary



Attachment 12

919-733-7301

June 22, 1993

SANLY-  
To my  
KSC  
computer  
Do Not to

MEMORANDUM:

TO: Wayne R. Bobbitt, Jr.  
Branch Head  
HIV/STD Control Branch

FROM: Janet M. Wise, MSW  
Prevention Program Manager

SUBJECT: Technical Assistance/Monitoring of Community-based  
Project

Reference: Drug and AIDS Prevention Among African-  
Americans, Inc.

This is memo is to report that I have not been and will not be  
involved in the funding recommendation, technical assistance, and  
monitoring of the above referenced risk reduction project  
targeting injecting drug users.

For this project, the health educator assigned to provide  
technical assistance and monitor the same will report all  
findings directly to Paul Esbrandt, Assistant Branch Head.

WRB/JMW

I have reviewed this with Wayne Bobbitt  
and have concluded that there is not an  
interest or interest in funding this project

7/21/93  
Discussed with Chris Hake  
& process reviewed & OK by me  
J. A. MacCormack

James B. Hunt  
7-20-93





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**DAPAA, INC.**

**"Each one, reach one and teach one!"**

*James M. Wise, Executive Director  
Reverend George T. Walston, Sr., Board Chairperson*

*Response from the Chairman of the  
Board of Directors of DAPAA, Inc.*

May 12, 1998

Ralph Campbell, Jr., CFE  
State Auditor  
Legislative Office Building  
Raleigh, North Carolina 27611

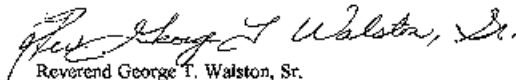
Dear Mr. Campbell:

We appreciate the exhaustive effort by your staff that produced the "Special Review of Drug and AIDS Prevention Among African-Americans, Inc. (DAPAA, Inc.). As well, we are grateful for this opportunity to respond to its contents.

The information contained in the attached response is meant to clarify issues, where appropriate, and to update your office on efforts that have been made to correct questionable practices as per the recommendations contained in the Special Review. Further, as DAPAA, Inc. continues to build and strengthen its infrastructure, there is also hope that future funding may again be available from the great state of North Carolina government.

If you need any further information, do not hesitate to contact me at 919-989-1122.

Respectfully submitted,



Reverend George T. Walston, Sr.  
Chairman  
Board of Directors

cc: James M. Wise  
Board of Directors Membership

Attachment

Post Office Box 2140 - Smithfield, N. C. 27577 - Phone (919) 989-1122 - Fax (919) 989-6617

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**Drug and AIDS Prevention Among African-Americans, Inc.  
Response to  
Special Review by the Office of the State Auditor - April 1998**

**1. DAPAA's FINANCIAL RECORDS WERE VERY UNORGANIZED AND INCOMPLETE.**

One of the latent benefits of the Special Review was the opportunity DAPPA, Inc. had to rectify its fiscal accountability infrastructure. Our grassroots operation has upgraded the qualification, skill level, and internal control processes in the following manner:

- a qualified administrative assistant has been hired;
- daily record keeping and monthly procedures are in place such that an organized and computerized bookkeeping system are in place and operational; and,
- documentation of all transactions with appropriate internal controls is utilized with supporting documentation required prior to issuance/signing of any checks.

**2. THE EXECUTIVE DIRECTOR FAILED TO PROVIDE US COMPLETE DOCUMENTATION TO JUSTIFY ALL EXPENDITURES.**

All invoices and bills are verified for their legitimacy and maintained along with all other financial records.

**3. DAPAA LACKED OVERSIGHT FROM ITS BOARD OF DIRECTORS.**

Since the establishment of DAPAA, Inc., its executive director had been granted "full executive authority" for its operation; however, since the Board of Directors has become aware of the serious infrastructure weaknesses that have existed in the past, the Board has rescinded this authority.

- The Board of Directors of DAPAA is exercising control over the operation of the agency.

**8. THE EXECUTIVE DIRECTOR WAS UNABLE TO PROVIDE SUPPORTING DOCUMENTATION FOR TRAVEL PAYMENTS TO HIMSELF.**

Advance payments were made to the executive director and other staff, through the executive director, primarily because the agency (grassroots in nature) was not privy to credit cards needed to secure/guarantee payment to the vendors. Hence, much of what was carried out by the agency was on a "cash-and-carry" basis. While this does not excuse the lack of all supporting documents, it is meant to help you understand how and why these payments were advanced for training registration fees, travel, food and lodgings to attend workshops, conferences, and the like. Often the advance to the executive

director also included advances for additional staff and/or client representatives who were also attending the event. DAPAA, Inc. has, since the Special Review, developed travel reimbursement forms and procedures for all travel and training requests.

- The payments that were made to the executive director for travel were for legitimate expenses. A number of supporting documents have been found and are itemized below:

January 1, 1996 - GAPP Meeting UNC - Omni Europa Hotel	206.25
for James Bagley - Outreach Worker - Risk Reduction Project	
January 1, 1996 - GAPP Meeting UNC - Omni Europa Hotel	412.50
for James M. Wise	
March 17, 1996 - GAPP Meeting UNC - Omni Europa Hotel	92.50
for James M. Wise	
March 22, 1996 - GAPP Meeting UNC - Omni Europa Hotel	330.00
for James M. Wise	
April 27-29, 1997 - New Orleans Hilton - Community Planning	
Training for James M. Wise	328.00
Registration Fee - New Orleans Meeting	220.00
Mileage 986 each way @ 29 cents per mile - New Orleans	539.78
April 9 -11, 1996 Greenville Hilton	
Training for HIV CTS clinic Nurse - Shirley Dashfield, RN	200.40
April 30 - May 2, 1996 Greenville Hilton	
Training for HIV CTS clinic Nurse - Shirley Dashfield, RN	200.40

9. **"THE EXECUTIVE DIRECTOR PAID HIMSELF ADDITIONAL COMPENSATION FROM MEDICAID RECEIPTS."**

The executive director was authorized by the Board to receive 10% of all Medicaid receipts for the director's administrative oversight of the Medicaid Case Management Program. Prior to the Medicaid Program, the executive director was not employed at 100% time. Due to the lack of inflation factor increases in other contracts (executive director's salary had not increased over at least a 3-year period), the Board viewed this 10% administrative supervision cost as a way to increase time; and at the same time, increase salary for this position. Prior to the Special Review, cost constraints of the agency made it impossible to continue these payments. Additional, since the Board learned that this is a questionable activity, these payments will remain discontinued.

10. **"THE EXECUTIVE DIRECTOR OF DAPAA REPEATEDLY GAVE PERSONAL LOANS AND SALARY ADVANCES TO AN EMPLOYEE EVEN THOUGH THE EMPLOYEE WAS NOT PAYING THEM BACK."**

The newly implemented policy and procedures manual of DAPAA, Inc. prohibit loans and/or salary advances to any employee. The executive director has been reprimanded by the Board of Directors for these activities. Additionally, prior to this Special Review, the

employee in question had been terminated.

**12. THE EXECUTIVE DIRECTOR'S WIFE, EMPLOYED BY THE STATE AGENCY AWARDING GRANTS TO DAPAA, RECEIVED CHECKS FROM DAPAA TOTALING \$2,065.**

As a point of clarification, the executive director's wife began to consult with DAPAA prior to the agency receiving any contracts from the Division of Epidemiology where she was employed. After the Ryan White Contract was underway (awarded indirectly through the Division of Adult Health Promotion), DAPAA received awards from the Division of Epidemiology. At no time did the executive director's wife receive any compensation or provide any consultation and/or technical assistance for program activities funded by the Division in which she was employed. The full extent of the consultation and technical assistance provided by her was to provide Social Work support for the Ryan White contract awarded by ENCHAC through the Division of Adult Health Promotion. The executive director's wife severed her consultative support to the Ryan White program long before this Special Review was initiated.

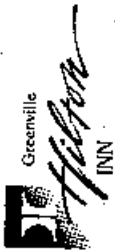
**13. DAPAA REQUESTED QUESTIONABLE PAYMENTS FROM THE EASTERN NORTH CAROLINA HIV/AIDS CONSORTIUM.**

The aim of DAPAA's supportive housing program was to create living situations for individuals living with HIV and/or AIDS, especially substance abusers who otherwise would have been homeless. While it may appear that some requests for rental assistance totaled more than the actual cost for renting the dwelling proper, the housing provided to all DAPAA clients who resided in the supportive living environment included: rent, utilities, heat and/or air conditioning, telephone, furniture, and other needs including plumbing, lawn upkeep, water, sewage, and the like. This necessitated rental payments in excess of the cost to rent the dwelling only. At no time did DAPAA receive any payments that were not used to support housing for its clients and/or clients who were not affected by HIV disease. The executive director leased the housing from various property owners. In order to avoid the perception that he would benefit personally, the innovative manner in which DAPAA chose (putting the request in his mother's name - a DAPAA volunteer) admittedly was in poor taste, to say the least. The Board is taking corrective action to ensure that a different approach will be utilized to continue this much needed program for persons living with HIV disease and who are dually diagnosed with substance abuse.

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#### ATTACHMENTS

- Seminar/Conference hotel receipts
- Forms created to strengthen Internal Controls
  - Assistance Form
  - Donation Form
  - Expenditure Report Form
  - Petty Cash/Payment Request Form
  - Purchase Order Form



Greenville Hilton Inn  
207 S.W. Greenville Blvd.,  
Greenville, N.C. 27834  
Ph: 919-355-5000 Fax: 355-5099

GUEST FOLIO  
Page: 1

Guest: DASHFIELD, SHIRLEY  
620 DEVROE STREET  
GOLDSBORO NC 2753  
Company:  
Folio: 155970 In: 4/09/96 1:13pm  
Room: 313 Out: 4/11/96  
Rate: \$5.00 Adults/children 1/0  
Payment: CASH

=====		=====		=====		=====	
DATE	REFERENCE	DESCRIPTION	AMOUNT	BALANCE	DATE	REFERENCE	BALANCE
4/09/96	RM/TX	CASH	190.40CR	190.40CR			
4/09/96	PHONE DEP	CASH	10.00CR	200.40CR			
4/09/96	0001 MIN	#DIALED 919-749-1531	.28	200.12CR			
4/09/96	RM 313	ROOM CHARGE	85.00	115.12CR			
4/09/96	RM 313	ROOM TAX	10.20	104.92CR			
4/10/96	RM 313	LOCAL CHARGE	.50	104.42CR			
4/10/96	RM 313	ROOM CHARGE	85.00	19.42CR			
4/10/96	RM 313	ROOM TAX	10.20	9.22CR			
4/11/96		LOCAL CHARGE	.50	8.72CR			
4/11/96		REFUND	8.72	.00			
				Balance Due.....\$			

Guest's Signature: \_\_\_\_\_



Greenville Hilton Inn  
207 S.W. Greenville Blvd.  
Greenville, N.C. 27834  
Ph: 919-355-5000 Fax: 355-5099  
GUEST FOLIO

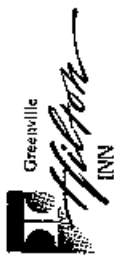
Page: 1

Guest: DASHFIELD, SHIRLEY  
620 DEVROE STREET  
GOLOSBORO NC 2753  
Company:  
Folio: 157425 In: 4/30/96 3:38pm  
Room: 324 Out: 5/02/96 9:37am  
Rate: 85.00 Adults/children 1/0  
Payment: CA CASH  
REG NS KING/REQ NOON ARRIVAL

CRAG	DATE	REFERENCE	DESCRIPTION	AMOUNT	BALANCE
	4/30/96	RM/TX	CASH	190.40CR	190.40CR
	4/30/96	PHONE DEP	CASH	10.00CR	200.40CR
	4/30/96	0002 MIN	#DIALED 919-396-15827	.68	199.72CR
	4/30/96	RM 309	ROOM CHARGE	85.00	114.72CR
	4/30/96	RM 309	ROOM TAX	10.20	104.52CR
	5/01/96		LOCAL CHARGE	.50	104.02CR
	5/01/96	0001 MIN	#DIALED 919-749-1531	.28	103.74CR
	5/01/96	RM 324	ROOM CHARGE	85.00	18.74CR
	5/01/96	RM 324	ROOM TAX	10.20	8.54CR
	5/02/96		LOCAL CHARGE	.50	8.04CR
	5/02/96		REFUND	8.04	.00
			Balance Due....\$		.00

Guest's Signature: \_\_\_\_\_





Greenville Hilton Inn  
207 S.W. Greenville Blvd.  
Greenville, N.C. 27834  
Ph: 919-355-5000 Fax: 355-5099

GUEST FOLIO

Page: 1

Guest: DASHIELD, SHIRLEY  
620 DEVROE ST. NC 27530  
GOLDSBORO  
Company:  
Folio: 155589 In: 4/02/96 1:06pm  
Room: 309 Out: 4/04/96 9:03am  
Rate: \$5.00 Adults/children 1/0  
Payment: CA CASH  
REG NOON ARRIVAL

KEYS	DATE	REFERENCE	DESCRIPTION	AMOUNT	BALANCE
4/02/96	RM/TX		CASH	190.40CR	190.40CR
4/02/96	PHONE DEP		CASH	10.00CR	200.40CR
4/02/96	RM 309		ROOM CHARGE	85.00	115.40CR
4/02/96	RM 309		ROOM TAX	10.20	105.20CR
4/03/96	RM 309		LOCAL CHARGE	.50	104.70CR
4/03/96	0001 MIN		#DIALED 919-580-0104	1.62	104.33CR
4/03/96	0005 MIN		#DIALED 919-965-5827	1.62	102.71CR
4/03/96	RM 309		ROOM CHARGE	85.00	17.71CR
4/03/96	RM 309		ROOM TAX	10.20	7.51CR
4/04/96			LOCAL CHARGE	.50	7.01CR
4/04/96			REFUND	7.01	.00
Balance Due.....\$					.00

Guest's Signature: \_\_\_\_\_

# OMNI EUROPA HOTEL

Room	Arr. Date	Depar. Date	Room Number
403	03/17/96	03/17/96	0317-2624
Name (Last)			
WISE			
First Name			
JAMES			
Address			
GAPP MEETING/UNC STU			
Signature			
GAPP MEETING/UNC			
STUDENT HEALTH SERVICES			
CB 7470			
CHAPEL HILL NC 27599			
Page # 1			

03/17 PD CASH 92.5000  
 \*\*\* BALANCE \*\*\* 92.5000

WE HOPE YOU ENJOYED YOUR STAY.  
 PLEASE COME AGAIN !

5071-0411-8073 More Business Forms, Inc. CONTINUOUS INTERFOLDING

## — EXPRESS CHECK-OUT —

Simply review your current charges and credit card voucher. If everything is in order, just deposit your room key in the Express Checkout Box located at the Front Desk. No further copies will be sent.

The Omni Europa Hotel is owned and operated by SLC Operating L.P. under a license agreement issued by Omni Hotels Franchising Corporation.

1 Europa Dr. • Chapel Hill, N. C. 27514 • 919-966-4900

# OMNI EUROPA HOTEL

Room	Arr. Date	Depart. Date	Room Number
253	03/17/96	03/22/96	0317-2626
Name (Last)			
BAGLEY JAMES			
Address			
SAPP MEETINGS/UNC STU			
Signature			
SAPP MEETINGS/UNC STUDENT HEALTH SERVICES CB 7470 CHAPEL HILL NC 27599			
Page # 1			

03/18	900 PHONE L D	.50
03/20	3 PHONE L D	1.50
03/22	32296 PHONE ALL	.50CR
03/22	2531 TRANSFER XFR	1.50CR
*** BALANCE ***		.00

WE HOPE YOU ENJOYED YOUR STAY.  
PLEASE COME AGAIN !

## — EXPRESS CHECK-OUT —

Simply review your current charges and credit card voucher. If everything is in order, just deposit your room key in the Express Checkout Box located at the Front Desk. No further copies will be sent.

The Omni Europa Hotel is owned and operated by SLC Operating L.P. under a license agreement issued by Omni Hotels Franchising Corporation.

62

1 Europa Dr. • Chapel Hill, N. C. 27514 • 919-968-4900

# OMNI EUROPA HOTEL

Room	Arr. Date	Depart. Date	Room Number
153	01/14/96	01/19/96	0114-8437
Name (Last)			
BABLEY JAMES			
Address			
PO BOX 2172			
SMITHFIELD, NC 27577			
GROUP MEETING/UNC STUD			
Signature			
GROUP MEETING/UNC			
STUDENT HEALTH SERVICES			
CB 7470			
CHAPEL HILL NC 27599			
			Page # 1

01/18	ROOM	187.50
	5 NIGHTS AT	37.50
01/18	ROOM TAX	18.75
	ROOM TAX = 10.00%	
01/17	2 PHONE LDR	1.00
01/19	11896 PHONE ALL	1.00CR
01/19	1531 TRANSFER	XFR 206.25CR
	*** BALANCE ***	.00

WE HOPE YOU ENJOYED YOUR STAY.  
PLEASE COME AGAIN !

## — EXPRESS CHECK-OUT —

Simply review your current charges and credit card voucher. If everything is in order, just deposit your room key in the Express Check-out Box located at the Front Desk. No further copies will be sent.

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1 Europa Dr. • Chapel Hill, N. C. 27514 • 919-966-9900

# OMNI EUROPA HOTEL

Room	Arriv. Date	Depart. Date	Room Number
153	01/14/96	01/19/96	0114-8435
Name (Last) WIEG			
JAMES			
Address			
PO BOX 8172			
SMITHFIELD, NC 27577			
BAPP MEETING/UNC WYU			
Signature			
BAPP MEETING/UNC			
STUDENT HEALTH SERVICES			
CA 7470			
CHAPEL HILL NC 27599			

Page # 1

01/18	ROOM	187.50
	5 NIGHTS AT	37.50
01/18	ROOM TAX	18.75
	ROOM TAX = 10.00%	
01/19	100% TRANSFER XFR	206.25
01/19	NO CHECK	412.50CR
	*** BALANCE ***	.00

WE HOPE YOU ENJOYED YOUR STAY.  
PLEASE COME AGAIN !

## — EXPRESS CHECK-OUT —

Simply review your current charges and credit card voucher. If everything is in order, just deposit your room key in the Express Checkout Box located at the Front Desk. No further copies will be sent.

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1 Europa Dr. • Chapel Hill, N. C. 27514 • 919-968-4900

**CHECK REQUEST**

DAPAA, Inc.  
PO Box 2140  
Smithfield, NC 27577

DATE \_\_\_\_\_

EMPLOYEE NAME: \_\_\_\_\_

EMPLOYEE TITLE: \_\_\_\_\_

DATE OF TRIP: \_\_\_\_\_

PURPOSE OF TRIP: \_\_\_\_\_

ADVANCE REQUEST: \_\_\_\_\_

# Expense Report

DAPAA, Inc.  
PO Box 2140  
Smithfield, NC 27577

EMPLOYEE NAME: \_\_\_\_\_ EMPLOYEE TITLE: \_\_\_\_\_  
DATE OF TRIP: \_\_\_\_\_ PURPOSE OF TRIP: \_\_\_\_\_

DATE	DESCRIPTION	TRAVEL	LODGING	MEALS	OTHER	TOTAL
TOTALS						
					MINUS ADVANCE	
					TOTAL DUE	

56

EMPLOYEE SIGNATURE: \_\_\_\_\_ APPROVED BY: \_\_\_\_\_

Attach completed check request to Expense Report and turn in to Accounting Office.

**DAPAA, INC.**  
"Each one, reach one and teach one!"

**Assistance form**

Name \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ ZipCode \_\_\_\_\_

Number in Family \_\_\_\_\_

**Items Received**

(check all that apply)

money \_\_\_\_\_

medicine \_\_\_\_\_

food \_\_\_\_\_

clothing \_\_\_\_\_

furniture \_\_\_\_\_

other \_\_\_\_\_

signature \_\_\_\_\_ date \_\_\_\_\_

distributed by \_\_\_\_\_ date \_\_\_\_\_

\_\_\_\_\_  
signature

created 1/3/98  
mkr



**DAPAA, INC.**  
"Each one, reach one and teach one!"

**Donations**

Name \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ ZipCode \_\_\_\_\_

(Check all that apply)

money \_\_\_\_\_

food \_\_\_\_\_

clothers \_\_\_\_\_

furniture \_\_\_\_\_

other \_\_\_\_\_

signature \_\_\_\_\_ date \_\_\_\_\_

received by \_\_\_\_\_ date \_\_\_\_\_

\_\_\_\_\_  
signature

created 1/5/98  
6802

**PAYMENT REQUEST**

DAPAA, Inc.  
PO Box 2140  
Smithfield, NC 27577

**DATE** \_\_\_\_\_

**COMPANY NAME:** \_\_\_\_\_

**DESCRIPTION:** \_\_\_\_\_

**DUE DATE:** \_\_\_\_\_

**AMOUNT DUE:** \_\_\_\_\_

**BALANCE:** \_\_\_\_\_

**REQUESTED BY** \_\_\_\_\_

**DAPAA, INC.**  
 "Each one, reach one and teach one!"

Request for Purchase  
 Contract/Services

P.O. Number \_\_\_\_\_

Originator \_\_\_\_\_  
 Phone \_\_\_\_\_  
 Department \_\_\_\_\_  
 Date \_\_\_\_\_

Vendor Name \_\_\_\_\_

Vendor Contact Person \_\_\_\_\_

Address \_\_\_\_\_

Vendor Phone Number \_\_\_\_\_ Vendor Fax Number \_\_\_\_\_

Special Instructions \_\_\_\_\_

Item Number	Vendor P/N and Description	UM	Qty	Unit Cost	Extended Cost	Date Requested
Total Amount						

Department Manager Signature _____		Date _____
Executive Director Signature _____		Date _____
Charge to Account Number _____	Finance Initials _____	Date _____

\_\_\_\_\_  
 signature

created 11/5/98  
 mtr

***Auditor's Notes to the Response from the Chairman of the Board of Directors of DAPAA, Inc.***

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- Response to Finding 8      As previously stated, we requested all supporting documents for expenditures of grant funds. These receipts included with DAPAA's response were not provided to us during our Special Review. However, of the \$2,529.83 itemized in DAPAA's response, \$1,922.78 represents documentation for the Executive Director's expenditures which is the emphasis of this finding. Of this amount, it appears that only \$835 could support portions of the \$6,244 that we questioned in this finding.
- Response to Finding 12      The Executive Director's wife was assigned to the Division of Epidemiology during the awarding and the administration of grants given to DAPAA. This arrangement was further complicated by her role as supervisor over the Project Monitor for DAPAA.

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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
Dr. A. Dennis McBride	State Health Director, N.C. Department of Health and Human Services

### **LEGISLATIVE BRANCH**

Appointees of the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative Harold J. Brubaker, Co-Chairman
Senator Austin Allran	Representative James W. Crawford, Jr.
Senator Frank W. Ballance, Jr.	Representative Billy Creech
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Senator Howard N. Lee	Representative George M. Holmes
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Senator Robert G. Shaw	Representative Timothy N. Tallent
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Senator Allen H. Wellons	

### **Other Legislative Officials**

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

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### Other Parties

Ms. Kimberly Scott  
Ms. Glenna Wilcom

Mr. James E. Blackmon

Executive Director, Eastern NC HIV/AIDS Consortium  
Grants Manager Officer, Bureau of Health Resources  
Development, DHHS  
Senior Community Builder/Coordinator, U.S. Department of  
Housing and Urban Development

May 28, 1998

## ORDERING INFORMATION

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