

STATE OF NORTH CAROLINA

SPECIAL REVIEW

**NORTH CAROLINA STATE UNIVERSITY,
NORTH CAROLINA COOPERATIVE
EXTENSION SERVICE,
CARTERET COUNTY COOPERATIVE
EXTENSION SERVICE**

BEAUFORT, NORTH CAROLINA

JUNE 1998

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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JUNE 1998

LETTER OF TRANSMITTAL

June 24, 1998

The Honorable James B. Hunt, Jr., Governor
Dr. Larry K. Monteith, Chancellor
North Carolina State University
Mr. Robert Murphy, Carteret County Manager
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 use of state grant funds by employees of North Carolina State University, North Carolina Cooperative Extension Service, Carteret County Cooperative Extension Service. The results of our review, along with recommendations for corrective actions, are contained in this report.

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

Respectfully submitted,

Ralph Campbell, Jr., CFE
State Auditor

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OVERVIEW

The Cooperative Extension Service was established in 1914 and originally designed as a partnership between the U.S. Department of Agriculture and each of the United States' 1862 and 1890 land grant universities. However, state legislation has enabled local governments or organized groups to join in the partnership. As a result, the Cooperative Extension Service has become a federal-state-local partnership, which has functioned for more than seven decades.

The Cooperative Extension Service is geared towards an educational program rather than financial or regulatory. Thus, the Cooperative Extension Service is administratively attached to the 1862 and 1890 land grant universities. The main objectives of the Cooperative Extension Service are to: ensure the sustainability of agriculture, forestry, and a safe food supply; strengthen the economic and social structure of families; enhance the economic and social viability of communities; protect and improve the environment; and help people address problems through public policy education.

In North Carolina, extension agents work in all 100 counties and on the Cherokee Reservation, as well as North Carolina's two land grant institutions: North Carolina State University and North Carolina A&T State University. The North Carolina Cooperative Extension Service has developed a statewide plan focusing on 20 major programs. These programs center on sustaining agriculture and forestry, protecting the environment,

OVERVIEW (CONTINUED)

developing responsible youth, and developing strong, healthy, and safe families. County Cooperative Extension staff also have developed plans which focus directly on the needs of their respective counties.

The Carteret County Cooperative Extension Office administers programs in Agriculture and Horticulture, 4-H (Heart, Head, Hands and Health) and Youth, Family and Consumer Education and Environmental Management. Within each of these areas, the Carteret County Cooperative Extension Office provides services such as the Master Gardener Program, 4-H camps, Community Based Alternatives for Youth-at-Risk, and Home Economics and Nutrition. The office employs a County Cooperative Extension Director, three Cooperative Extension Agents specializing in various areas and three support staff. In addition, the environmental management program employs an area specialist who serves Carteret, Craven, Pamlico and Jones Counties.

The Carteret County Cooperative Extension Office maintains the 4-H Council, Horticultural and Homemakers Extension checking accounts. Since our special review focused mainly on the 4-H Program, a more detailed description of the program is stated below.

The primary goal of the 4-H Program is to assist youth and adults in becoming competent, contributing members of society. The 4-H Program is coordinated by the Cooperative Extension 4-H Agents and operated by community volunteers. The 4-H Program receives

OVERVIEW (CONTINUED)

funding through individuals and private sources, as well as county, state and federal governments.

The North Carolina 4-H Program offers Junior and Specialty camps throughout the year at various locations in the state. Specialty camps include fur, fish, and game; marine science and sailing; outdoor resources career camps; horsemanship; space technology; Appalachian adventure camp; single track adventure camp; shooting sports mini-conference; adventure trek camp; cloverbud camp; and cool 'ventures' camp. The 4-H camps offered in North Carolina are Anita-Alta Outpost Camp, Betsy-Jeff Penn Camp, Millstone Camp, Mitchell Camp, Sertoma Camp and Swannanoa Camp. These camps receive funding from county, state and federal sources, as well as private donations. In some instances, a fee is charged to the participants.

The Carteret County 4-H Council (4-H Council) is an organization of 4-H members who represent the various 4-H Clubs. The purpose of the 4-H Council is to allow 4-H club members the opportunity to participate in the democratic process by electing members to serve on the county wide 4-H Council. The 4-H Council members elect the officers to serve as the administrative Board. The 4-H Council maintains a checking account where monies from various fund raisers are deposited. The funds deposited to this account should be used to support the cost of sending 4-H members to conferences, retreats, and camps. The authorized signers of the account are normally the 4-H Council Treasurer and the County 4-H Extension Agent. However, the role of the Extension Agent is not of an officer, but as an adviser between the Council members and the community.

OVERVIEW (CONTINUED)

According to the State 4-H Leader at North Carolina State University, governmental grant funds should not be deposited in a 4-H Council checking account nor should personnel expenses be paid from a 4-H Council checking account.

According to the Carteret County Cooperative Extension Service Secretary (Secretary), the Carteret County 4-H Council had not officially met in the last thirteen years. At some point in time, a checking account was opened in the name of the Carteret County 4-H Council (4-H Council). We were told that prior to 1995, the 4-H Council checkbook was maintained by a 4-H Council volunteer. However, in 1995, the former Carteret County 4-H Agent (former 4-H Agent), took control of the 4-H Council checkbook. At that time, the checking account signature card was changed, giving check signing authority to the former 4-H Agent, a 4-H volunteer, and the Secretary.

When the former 4-H Agent took possession of the checkbook, he wrote all checks and received all bank statements. We found no evidence that anyone else monitored the activities of the account. The majority of the checks written were signed by the former 4-H Agent; however, some checks were signed or co-signed by others. Employees of the Carteret County Cooperative Extension Service, including some who were not on the signature card, said they would sign blank checks at the request of the former 4-H Agent without knowing the purpose for which the checks were to be written.

On August 18, 1997, the former 4-H Agent was hired as the Director of the Cherokee County Cooperative Extension Service. According to the Carteret County Cooperative Extension Director (Director), he asked the former 4-H Agent to organize the Agent's files

OVERVIEW (CONTINUED)

prior to leaving Carteret County. However, after the 4-H Agent's departure, the Director said he was unable to locate the Carteret County 4-H Council checking account bank statements. The former 4-H Agent said he left the bank statements on his desk. The Director said he and his staff thoroughly searched the former 4-H Agent's office and could not locate the bank records. A few days later, he received a letter from the former 4-H Agent confessing he had misused some of the Carteret County 4-H Council money and would make reimbursement payments when possible (see Exhibit 1). The Director received a \$300 personal check from the former 4-H Agent shortly thereafter.

After receiving the letter, the Director obtained copies of the Carteret County 4-H Council bank statements and canceled checks from the bank. After examining the canceled checks, the Director informed his superiors that he had found apparent irregularities in the account.

His superiors requested the North Carolina State University Internal Auditor examine the account and report his findings. The North Carolina State University Internal Auditor contacted the North Carolina State Auditor's Office when he discovered that state funds derived from state agencies, other than North Carolina State University, had been deposited into the account. An internal audit report addressing their findings was released March 30, 1998.

OVERVIEW (CONTINUED)

A review of the bank records obtained revealed the following summary activity on the Carteret County 4-H Council checking account from March 31, 1995 through August 29, 1997:

Account Balance at	March 31, 1995	\$ 10,322.53
Plus: Deposits	March 31-1995 – August 29, 1997	123,557.74
Less: Checks	March 31, 1995 – August 29, 1997	<u>129,652.02</u>
Account Balance at	August 29, 1997	<u>\$ 4,228.25</u>

Funds deposited in the Carteret County 4-H Council checking account during the period March 31, 1995 through August 29, 1997 came from the following sources:

1. State grants that were made payable to Carteret County and subsequently transferred to the Carteret County 4-H Council checking account.
2. State grants made payable to the Carteret County 4-H, 4-H Camping Program, Cooperative Extension Service and others.
3. State grants made payable to the Family Resource Center and subsequently transferred to the Carteret County 4-H Council checking account.
4. Donations made by nonprofit/civic/church organizations to the Carteret County 4-H Council to sponsor the cost of sending children to camp.
5. Fees charged to other counties and 4-H organizations for camps.
6. Other donations and fees paid by businesses, non-profits, and individuals.
7. Interest earned on the checking account.

The following is a schedule of deposits by source category:

	Amount	Percentage
State Grants (Direct and Transferred)	\$ 88,878.66	71.93%
Nonprofit/Civic/Church Donations	17,850.00	14.45
Other Counties and 4-H Organizations	10,000.00	8.09
Other Organizations, Businesses and Individuals	5,863.36	4.75
Carteret County	850.00	.69
Interest Earned on Checking Account	<u>115.72</u>	<u>.09</u>
Totals	<u>\$ 123,557.74</u>	<u>100.00%</u>

OVERVIEW (CONTINUED)

A total of \$93,878.66 of state funds was transferred to the Carteret County 4-H Council checking account. However, a total of \$88,878.66 was deposited in the Carteret County 4-H Council checking account (The difference is explained in Finding 4). All the state funds transferred were to support specific grant programs. A brief description of each grant program and the amount received is stated below.

A total of \$55,959.91 of the Community Based Alternatives (CBA) grant was transferred to the Carteret County 4-H. However, only \$50,959.91 of the CBA funds was deposited in the Carteret County 4-H Council checking account (The \$5,000 difference is explained in Finding 4). The CBA grant funds are administered by the Department of Health and Human Services (DHHS), Division of Youth Services, and disbursed to the counties each year. While each county has some flexibility as to where the CBA funds are deposited, the county is accountable for disbursing the funds in accordance with the provisions of the grants. Any funds not spent by fiscal year end are to revert to the State.

Acquiring Social Skills and Enrichment through Science, (ASSETS), is a CBA program operated by the Carteret County Cooperative Extension Service. The ASSETS Program works with court appointed youth in the development of social skills and self esteem. The objectives of the program are to prevent juvenile delinquency and to provide intervention for troubled youth. The ASSETS Program offers various activities to assist in obtaining these objectives.

The funding for the ASSETS Program is provided by the CBA grant with Carteret County providing 30 percent matching funds. The county's matching funds can consist of in-kind

OVERVIEW (CONTINUED)

contributions, as well as cash. Each year the county must submit a budget along with a plan of action to the Division of Youth Services. Once the plan is approved by the division, a check is forwarded to the county. At fiscal year end, the County Finance Officer must submit a CBA final accounting report. The actual cash received by Carteret County for the CBA program was \$34,452 for the 1994-1995 fiscal year, \$36,734 for the 1995-1996 fiscal year, and \$33,190 for the 1996-1997 fiscal year. For each of the fiscal years stated above, the CBA final accounting reports were signed by the former 4-H Agent and the former Carteret County Finance Officer (former Finance Officer), certifying all cash received had been spent.

In addition to the CBA funds, a total of \$10,318.75 of the Carteret County Family Resource Center funding was deposited in the Carteret County 4-H Council checking account. The Carteret County Family Resource Center (FRC) receives funding from the DHHS, Division of Child Development. Funds were allocated to establish Family Resource Centers throughout the state. Family Resource Centers are intended to be a one-stop center for families within the community. Rather than families having to locate various programs through several state agencies, FRC is intended to bring all services to the community at one location. The objectives of the program are to help strengthen families and assist in employment services.

The Program Coordinator for the Family Resource Center/Family Support Program for the Division of Child Development (Program Coordinator) stated that in 1994, Carteret County submitted a proposal and was selected to receive \$75,000 per fiscal year for the

OVERVIEW (CONTINUED)

Carteret County Family Resource Center. The proposal required the organization have a non-profit status; therefore, the Carteret County Cooperative Extension 4-H Program was selected to receive the funds. The FRC established a Board of Directors who were responsible for approving purchases and expenses; however, the Carteret County Cooperative Extension 4-H Program was accountable for the funds.

According to the Program Coordinator, each FRC is required to complete a monthly reimbursement report. The report includes the approved budget, previously reported expenditures, current period expenditures, year-to-date expenditures and the unexpended budget. FRC received a check once the monthly reimbursement reports were completed and approved. The Carteret County FRC monthly reimbursement forms were completed by the former 4-H Agent.

From March 31, 1995 through August 29, 1997, the Carteret County 4-H program received six mini-grants totaling \$18,000 from the DHHS, Division of Youth Services. The former 4-H Agent prepared the proposals and applied for five of the six mini-grants awarded.

The Division of Youth Services provides mini-grants to nonprofit service providers throughout North Carolina. The funding for these mini-grants comes from the CBA program. The purpose of the mini-grants is to provide one time funding for special needs and services for youth programs. Camping scholarships and day camps are considered high priority for funding. The funds must be used for youth programs and no program equipment can be purchased with mini-grant funds.

OVERVIEW (CONTINUED)

Each program must submit a proposal containing a line item budget. If selected, a program activity report must be completed at the end of the funding period. This report should reveal how participants were selected for the program. Additionally, a final accounting report must be completed detailing how the money was spent. A maximum of \$3,000 can be awarded to each selected program.

In April 1996, North Carolina State University (NCSU) awarded the Carteret County Cooperative Extension Service a childcare development grant in the amount of \$6,096. According to the NCSU Childcare Specialist, the purpose of the funding was to increase after school and summer daycare programs. The funds were to be administered by the County Finance Office. On June 21, 1996, the Carteret County Finance Office transferred \$6,300 to the Carteret County 4-H to be used for the childcare development program (the \$204 difference is explained in Finding 11). The money was deposited in the Carteret County 4-H Council checking account.

In February 1997, the former 4-H Agent applied for the Neuse River grant offered by NCSU. The objectives of the grant were to create an awareness about the Neuse River

OVERVIEW (CONCLUDED)

and offer education on water quality. According to the proposal prepared by the former 4-H Agent, the funding would be used to provide 40 teachers from Carteret, Craven, Jones and Pamlico counties with a two day training program related to the Neuse River and the 4-H Rivers Edge curriculum. The amount requested was \$3,300. NCSU awarded the grant and issued a check in the amount of \$3,300 to the Carteret County Cooperative Extension Service. The check was deposited in the 4-H Council checking account on July 14, 1997.

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INTRODUCTION

We began our special review of the Carteret County Cooperative Extension Service on January 5, 1998.

We used the following procedures to conduct our special review.

1. Interviews with employees of the Carteret County Cooperative Extension Office.
2. Interviews with employees of North Carolina State University.
3. Interviews with individuals external to the university and government.
4. Examination of bank records.
5. Examination of grant records.
6. Examination of Carteret County records relating to transfers to the Carteret County 4-H Council account and disbursements to employees of the Carteret County Cooperative Extension Service.

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. Carteret County has an annual financial audit done by a private certified public accounting firm, which would include the Carteret County Cooperative Extension Service. However, this audit never included the Carteret County 4-H Council.

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FINDINGS AND RECOMMENDATIONS

1. THE FORMER 4-H AGENT WROTE HIMSELF AND HIS FAMILY MEMBERS FORTY (40) CHECKS TOTALING \$17,268.13 FROM THE CARTERET COUNTY 4-H COUNCIL CHECKING ACCOUNT.

Our analysis of the Carteret County 4-H Council checking account revealed that 426 checks, totaling \$129,460.30, were written during the period March 31, 1995 through August 29, 1997. The former 4-H Agent signed 408 of the checks, 296 as the sole signer, and 112 as a co-signer. According to the former 4-H Agent, he had sole custody of the checkbook during this time period.

We identified twenty-five checks written to the former 4-H Agent, totaling \$11,909.19, in which documentation supporting the checks could not be located (see Schedule 1). All the checks were signed and endorsed by the former 4-H Agent. According to the Director, the Director did not know the former 4-H Agent had written the checks to himself.

The former 4-H Agent said the checks written to himself were reimbursements for camp expenses, mileage and administrative fees for working on grants. The former 4-H Agent said his administrative fee was sometimes \$25 per hour. Furthermore, the former 4-H Agent said he purchased a computer joystick for his family, paid a personal credit card and reimbursed himself for the mileage incurred for a job interview. The former 4-H Agent said he does not have documentation to support the checks written to himself.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

In addition, we found eleven checks written to the former 4-H Agent's wife, and four checks written to his parents, totaling \$3,658.94 and \$1,700 respectively (see Schedule 2). The former 4-H Agent said the checks written to his parents were for various camp workshops and camp supplies that his parents provided. The former 4-H Agent also said he reimbursed his parents \$500 for a dinner they cooked at the ASSETS Camp. Again, the former 4-H Agent said he did not have documentation to support the payments to his parents.

The former 4-H Agent said the checks payable to his wife were reimbursements for supplies she purchased. However, the former 4-H Agent admitted in some instances, he had signed his wife's name and cashed the checks. Once again, the former 4-H Agent said he did not have documentation to support the payments to his wife.

Many of the checks written by the former 4-H Agent were for dollar amounts only. When questioned, the former 4-H Agent said in some instances he rounded the figure. He admitted that he was occasionally reimbursed more than the amount spent.

Regarding the embezzlement of funds by public officers and trustees, North Carolina General Statute 14-92 states:

If an officer, agent, or employee of an entity listed below, or a person having or holding money or property in trust for one of the listed entities, shall embezzle or otherwise willfully and corruptly use or misapply the same for any purpose other than for which such moneys or property is held, such person shall be punished as a Class F felon. If any clerk of the superior court or any sheriff, treasurer, register of deeds or other public officer of any county, unit or agency of local government or local board of education shall embezzle or wrongfully convert to his own use, or corruptly use, or shall misapply for any purpose other than

FINDINGS AND RECOMMENDATIONS (CONTINUED)

that for which the same are held, or shall fail to pay over and deliver the proper persons entitled to receive the same when lawfully required so to do, any moneys, funds, securities or other property which such officer shall have received by virtue or color of his office in trust for any person or corporation, such officer shall be punished as a Class F felon. The provisions of this section shall apply to all persons who shall go out of office and fail or neglect to account to or deliver over to their successors in office or other persons lawfully entitled to receive the same all such moneys, funds, and securities or property aforesaid. The following entities are protected by this section: a county, a city or other unit or agency of local government, a local board of education, and a penal, charitable, religious, or educational institution.

The North Carolina Cooperative Extension Service Handbook gives, in detail, the policies to be followed by each County Cooperative Extension Service concerning the administration of funds under its direct responsibility. However, the policies specifically exclude “external organizations who may support Extension programs.”

The Carteret County 4-H Council’s account is a checking account for an external organization that is administered by the Carteret County Cooperative Extension Service Personnel. Therefore, this account should be maintained by individuals external to the Cooperative Extension Service and would not be required to follow the internal control policies prescribed by the North Carolina Cooperative Extension Service. However, the Carteret County Extension Service personnel controlled and administered this account and should have followed the policies.

The North Carolina Cooperative Extension Service Handbook, North Carolina Cooperative Extension Services’ Policy for Effective Financial Controls at the County Level states:

FINDINGS AND RECOMMENDATIONS (CONTINUED)

1. Specific responsibility for custody of each fund will be determined by the County Extension Director.
2. Separate the duties of balancing checkbook from responsibility of accounting and record keeping. In other words, the same individual does not handle transactions from start to finish.
3. There must be an approval process for disbursements established at a level higher than the level of request.
4. There must be periodic reviews of financial transactions as well as an independent review or audit annually. All financial records and supporting documentation of transactions must be retained for open review upon request. Some assistance in providing reviews can be coordinated with CALS Business office if needed.
5. ...It is important that each county responsible for collecting and disbursing funds complete Form #10 entitled, "Accounting for Funds at the County Level" ...This form must be kept updated on an annual basis and due to the District Director by July 1.

It appears that none of the policies stated above were followed. According to the Director, he did not know the former 4-H Agent had custody of the 4-H Council checkbook, therefore, he did not monitor the account. Furthermore, it appears the former 4-H Agent handled all transactions from start to finish, and controlled all activity on the account. We found no evidence the 4-H Council account had been audited or reviewed. Additionally, we found no evidence that any supporting documentation existed. Lastly, according to the North Carolina Cooperative Extension Service, Director of County Operations, the Carteret County Cooperative Extension Service Director never submitted the #10 form as required.

RECOMMENDATION

FINDINGS AND RECOMMENDATIONS (CONTINUED)

We recommend the 4-H Council checking account be maintained by the officers of the 4-H Council and not by an employee of the Carteret County Cooperative Extension Service. We also recommend the Carteret County Cooperative Extension Service adhere to the policies stated in the NCCES handbook on all accounts maintained in that office. Furthermore, we recommend the Carteret County Cooperative Extension Service take whatever actions are deemed necessary to recoup the \$17,268.13 in checks written to the former 4-H Agent and his family members. We have referred this finding to the State Bureau of Investigation.

2. THE FORMER 4-H AGENT USED AN OUTSIDE BUSINESS IN ORDER TO CONCEAL PAYMENTS TO HIMSELF.

The former 4-H Agent used the name of a business created by the Cooperative Extension employee (referred to in Finding 3) as if it was his company in order to create invoices and conceal the transfer of funds.

According to the former 4-H Agent, in 1994, he was assigned the duties of writing a County Smart Start grant. Carteret County paid him \$2,782.50 in additional compensation for the extra hours he worked on the grant. The Director requested the payment and the supporting documentation is filed in the County Finance Office.

On August 14, 1994, a requisition form was sent to the former Carteret County Finance Officer (former Finance Officer) from the "Cooperative Extension/Smart Start" Department requesting \$2,200 be paid to Desktop Designs (the outside business used by the former 4-H Agent). The requisition states, "Contracted Services

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Associated with the Collection of Needs Assessment Data and the formulation of Smart Start Phase II.” Attached to the requisition was an invoice addressed to the former Finance Officer stating, “This serves as a bill for contracted services in association with the collection of needs assessment data and in the interpretation of the above mentioned data for the Smart Start Phase II Project. Contracted Amount Due: \$2,200. Please make check payable to: Desktop Design, P.O. Box 1222, Beaufort, N.C. 28516-1222.” The invoice does not identify any particular person. The County wrote a \$2,200 check to Desktop Designs on October 5, 1994. We found no evidence any work had been performed by the former 4-H Agent.

On October 4, 1995, the County wrote a \$1,000 check to Desktop Designs. The check was requested by the former 4-H Agent, as Budget Administrator for the Family Resource Center, and written on Family Resource Center letterhead. He wrote in the request that the check should be payable to: “Desktop Designs, P.O. Box 1222, Beaufort, N.C. 28516, for audit preparations and financial status/computer work.” The check was endorsed, “Desktop Designs, Ronald E. Matthews, Jr.” We found no evidence any work had been performed by the former 4-H Agent.

On October 24, 1996, the former 4-H Agent as Budget Contact for the Family Resource Center, requested the former Finance Officer write a \$1,800 check made payable to “Desktop Designs, P.O. Box 1222, Beaufort, N.C. 28516, for Contracted Services-Family Resource Center.” The check was written that same day. The check

FINDINGS AND RECOMMENDATIONS (CONTINUED)

was endorsed, "Desktop Designs, Ronald E. Matthews, Jr." Again, we found no evidence of any work performed by the former 4-H Agent.

During the period June 16, 1995 through July 17, 1996, the former 4-H Agent wrote nine checks from the 4-H Council checking account totaling \$10,875 to Desktop Designs (see Schedule 3). He signed or co-signed eight of the checks and the Cooperative Extension secretary signed one. We found no evidence to support any of the payments made to Desktop Designs from the 4-H Council checking account.

According to the former 4-H Agent, he created the name Desktop Designs to avoid a paper trail leading to him. He opened a bank account under his name doing business as Desktop Designs. The former 4-H Agent stated he included an allowance for professional or contracted services in each grant proposal he prepared. Therefore, once the grant was funded, he could pay himself, as well as others for preparing the proposals. According to the Director of the North Carolina Extension Service, the former 4-H Agent should not receive extra compensation for writing grants since grant writing was considered part of his job.

According to the Director, he did not know the former 4-H Agent was doing business as Desktop Designs nor was he aware the former 4-H Agent paid himself from the 4-H Council checking account. However, according to the former 4-H Agent, the Director was aware the former 4-H Agent paid himself from the 4-H Council checking account. In fact, the former 4-H Agent said, "And I tell you what, I'm guilty of several things, one listening to him (referring to Director), secondly, getting sloppy

FINDINGS AND RECOMMENDATIONS (CONTINUED)

because I could have stuck with Desktop Designs and done those things. You know what is interesting, I could still be working in Carteret County and you'd be going about your business." The former 4-H Agent admitted the 4-H Council account was a slush fund, and said when he initially got the first check, he needed the money to support his family; however, it became easier each time to go back and get another check.

RECOMMENDATION

We again recommend the 4-H Council account be maintained by an officer of the 4-H Council and not an employee of the Carteret County Cooperative Extension Service. We further recommend the Carteret County Cooperative Extension Service take whatever actions are deemed necessary to recoup the \$10,875 in checks written to the former 4-H Agent's company, Desktop Designs. Furthermore, we recommend the Carteret County Finance Office take whatever actions are deemed necessary to recoup the \$5,000 in checks made payable to Desktop Designs since no supporting documentation for these payments exist. We have referred this finding to the State Bureau of Investigation.

3. THE FORMER 4-H AGENT WROTE A \$3,000 4-H COUNCIL CHECK TO A COOPERATIVE EXTENSION SERVICE EMPLOYEE WHO, IN TURN, GAVE HIM BACK \$1,500.

The former 4-H Agent wrote a \$3,000 4-H Council check payable to a Cooperative Extension employee on June 15, 1995. According to the former 4-H Agent, the Cooperative Extension employee prepared an evaluation survey for the ASSETS Program. The Cooperative Extension employee gave him a letter dated April 28, 1995, stating the terms of the agreement using the letterhead of Desktop

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Designs (Exhibit 2). The former 4-H Agent said they both worked on the project and agreed to split the \$3,000. The former 4-H Agent said the Cooperative Extension employee gave him a certified check for \$1,500. The former 4-H Agent received a memorandum from the Cooperative Extension employee dated June 20, 1995, on the letterhead of Desktop Designs (Exhibit 3), stating she had received the \$3,000. payment. However, the \$1,500 certified check was not mentioned. The former 4-H Agent said the memorandum was prepared for the file to support the \$3,000 payment.

We showed the former 4-H Agent a copy of a letter dated June 21, 1995, from the Cooperative Extension employee addressed to him on Desktop Designs letterhead (Exhibit 4). The letter states that the Cooperative Extension employee is reimbursing \$1,500. "...made payable as per your instructions...." The former 4-H Agent said he did not recall receiving the letter.

According to the Cooperative Extension employee, the former 4-H Agent asked her to prepare an evaluation survey for the ASSETS Program and agreed to pay her \$3,000. The Cooperative Extension employee said she delivered the survey to the former 4-H Agent during the June 1995 ASSETS camp. The Cooperative Extension employee said the survey did not meet the former 4-H Agent's expectations, therefore, she agreed to refund the \$1,500. The Cooperative Extension employee stated, she endorsed the \$3,000 check upon receipt and purchased a \$1,500 money order or cashiers check payable to either the former 4-H Agent or the Carteret County 4-H

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Program. She said she mailed the \$1,500 to the former 4-H Agent along with her letter dated June 21, 1995 (Exhibit 4).

The former 4-H Agent admitted the Cooperative Extension employee did not know he was using the name Desktop Designs. According to the Cooperative Extension employee, she did not receive any of the payments made to Desktop Designs (referred to in Finding 2), nor was she aware the former 4-H Agent was doing business as Desktop Designs.

Neither the former 4-H Agent nor the Cooperative Extension employee could provide any supporting documentation for the \$3,000 payment. We found no evidence an evaluation survey had been completed.

RECOMMENDATION

We recommend the Carteret County Extension Service take whatever actions are deemed necessary to recoup the \$3,000 paid to the Cooperative Extension Employee. We have referred this finding to the State Bureau of Investigation.

4. THE FORMER 4-H AGENT WITHHELD \$5,000 FROM A DEPOSIT-GIVING \$750 TO THE FORMER CARTERET COUNTY FINANCE OFFICER, \$750 TO A COOPERATIVE EXTENSION SERVICE EMPLOYEE AND KEEPING \$3,500 FOR HIMSELF.

On June 5, 1996, the Director requested Carteret County write a \$13,250 check from the Community Based Alternatives account to the Carteret County 4-H account. Carteret County wrote a \$13,250 check on June 13, 1996, payable to Carteret County 4-H.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The former 4-H Agent also applied for and received two \$3,000 checks from the DHHS, Division of Youth Services. Both checks were for Community Service Mini-Grants.

On June 18, 1996, the former 4-H Agent included all three checks totaling \$19,250 on a 4-H Council deposit slip. The net deposit was \$14,250, because he purchased three money orders totaling \$5,000. One money order was made payable to the former Finance Officer in the amount of \$750 (referred to in Finding 5). The second money order was made payable to the Administrative Assistant to the Director (Administrative Assistant) in the amount of \$750. The third money order was made payable to "Desktop Designs" for \$3,500. The Desktop Designs' money order was endorsed by the former 4-H Agent.

The Administrative Assistant said her money order was a bonus for working at camp. According to the former 4-H Agent, the money order he gave to the Administrative Assistant was compensation for her working two weeks at camp. We found no documentation that the Administrative Assistant worked beyond her normal working hours. The former 4-H Agent said the \$3,500 money order to Desktop Designs was his compensation for preparing and administering grants.

According to the Director of the North Carolina Cooperative Extension Service, preparing and administering grants is included in the duties of a 4-H Agent and under no circumstances should a 4-H Agent receive additional compensation for their work.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

We recommend that all grant money received by the Carteret County Cooperative Extension Service be maintained in the county finance office. We also recommend the Division of Youth Services take whatever actions are deemed necessary to recoup the \$5,000 of state grant money that was not deposited in the 4-H Council account. We have referred this finding to the State Bureau of Investigation.

5. THE FORMER CARTERET COUNTY FINANCE OFFICER WROTE A \$13,250 CHECK PAYABLE TO THE CARTERET COUNTY 4-H AND RECEIVED A \$750 MONEY ORDER FROM THESE FUNDS.

As stated in Finding 4, the former 4-H Agent withheld \$5,000 from a deposit and gave a \$750 money order to the former Finance Officer. When questioned, the former Finance Officer originally could not recall receiving a money order from the former 4-H Agent. However, when confronted with a copy of the money order, she stated the payment must have been for work that she performed for the former 4-H Agent's company, Desktop Designs. The former Finance Officer stated she worked for Desktop Designs in 1994 and 1995. However, the money order was dated June 18, 1996. Furthermore, the former Finance Officer, said she received approximately \$1,700 from Desktop Designs for editing grants written by the former 4-H Agent. The former Finance Officer said she did not receive IRS forms 1099 for the payments, therefore she did not pay any income taxes on the money received.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The former 4-H Agent admitted that he paid the former Finance Officer for managing the Family Resource Center (FRC) County account and transferring the excess funds to the 4-H Council checking account. The former 4-H Agent said, “Kimmy would tell me, I spent all this time going through all that crap making sure all that stuff lined up for the audit.” The former 4-H Agent said he agreed to split his “booking fee” with her. The former 4-H Agent said he included a line item for “professional services” in the FRC grant proposal. He said the “professional services” were for audit preparation although no audit fees were incurred. The former 4-H Agent said he would falsify the FRC monthly reimbursement reports in order to receive these funds. Nonetheless, the former Finance Officer stated she reviewed the FRC monthly reimbursement reports and the reports were accurate.

The former 4-H Agent said the former Finance Officer was aware when she gave him the \$13,250 Carteret County check, that he would return with her portion of the money. The former 4-H Agent said, “she knew that it was FRC pay up time, it was the end of the year. That’s when you get paid, at the end of the year.”

We asked the former 4-H Agent why he was involved with transferring funds from the county accounts and the former 4-H Agent replied, “Because everybody benefited by it and that’s a confession.”

The former Finance Officer said she was not aware the \$750 came from state funds. However, she did admit to issuing checks to the Carteret County 4-H, in order to move the excess funds from the CBA and FRC county accounts to avoid reverting the

FINDINGS AND RECOMMENDATIONS (CONTINUED)

money to the state. It again should be noted, the former Finance Officer signed all of the CBA final accounting reports certifying that all of the CBA funds had been spent at year end.

The former 4-H Agent agreed to give us access to the Desktop Designs bank records. An examination of these bank records revealed the former 4-H Agent wrote five Desktop Designs checks totaling \$3,000 payable to the former Finance Officer from October 7, 1994 through October 30, 1996. All five checks were endorsed by the former Finance Officer. In some instances, a check was made payable to Desktop Designs from the Carteret County Finance Office, and just days later a Desktop Designs check was made payable to the former Finance Officer.

For example, on October 5, 1994, a Carteret County check in the amount of \$2,200 was made payable to Desktop Designs from the Carteret County Cooperative Extension Service account. The invoice was addressed to the former Finance Officer and stated contracted amount due \$2,200. On October 7, 1994, two days later, a check in the amount of \$300 was made payable to the former Finance Officer from the Desktop Designs checking account. Again, on October 4, 1995, a Carteret County check in the amount of \$1,000 was made payable to Desktop Designs from the Carteret County Family Resource Center account. The request for disbursement is addressed to the former Finance Officer and signed by the former 4-H Agent. The request states the payment is for audit preparations and financial status/computer work

FINDINGS AND RECOMMENDATIONS (CONTINUED)

for the FRC. On October 6, 1995, two days later, a Desktop Designs check in the amount of \$500 was made payable to the former Finance Officer.

Furthermore, on October 24, 1996, a Carteret County check in the amount of \$1,800 was made payable to Desktop Designs from the Carteret County Family Resource Center account. The request for disbursement is again addressed to the former Finance Officer and signed by the former 4-H Agent. The request states, "Contracted Services." On October 30, 1996, six days later, a Desktop Designs check in the amount of \$900 was made payable to the former Finance Officer.

Two additional checks totaling \$1,300 were made payable to the former Finance Officer from the Desktop Designs checking account.

The former 4-H Agent said the former Finance Officer told him that if she was asked, she had helped, on her time, reading grants and proposals, and those kinds of things were legitimate. Furthermore, the former 4-H Agent said the former Finance Officer requested cash payments because she did not want a paper trail. However, he said he paid her in cash, money orders and checks from the Desktop Designs account. We were only able to account for \$3,000 in Desktop Designs checks and one \$750 money order made payable to the former Finance Officer. We were unable to verify cash payments.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

It appears the former Finance Officer has violated North Carolina General Statute 14-92 titled Embezzlement of Funds by Public Officers and Trustees detailed in Finding 1.

RECOMMENDATION

We could not find documentation to support the payments to the former Carteret County Finance Officer and coupled with the conflicting explanations for these payments, we have referred this finding to the State Bureau of Investigation. In addition, we recommend the county take the necessary steps to prevent its employees from engaging in outside work which raises an appearance of a conflict of interest.

6. THE FORMER 4-H AGENT WROTE EIGHT CHECKS, TOTALING \$3,730, MADE PAYABLE TO CASH THAT WERE NOT SUPPORTED BY DOCUMENTATION.

We examined all checks that were written on the 4-H Council's checking account from March 31, 1995 through August 29, 1997. We identified eight checks totaling, \$3,730, that were made payable to cash (see Schedule 4). None of these checks were supported by documentation. Four of the checks were co-signed by the Extension Service secretary and the former 4-H Agent. Two of the checks were co-signed by the Carteret County Cooperative Extension Assets Program Coordinator (Assets Program Coordinator) and the former 4-H Agent, and two of the checks were signed solely by the former 4-H Agent.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The Extension Service Secretary said the former 4-H Agent gave her a \$1,500 check payable to cash and requested the purchase of two \$500 money orders and two \$250 money orders. The Extension Service Secretary said she gave the money orders to the former 4-H Agent and at that time, the money orders had not been completed. Additionally, the Extension Service Secretary said the former 4-H Agent gave her a \$250 check payable to cash, which she cashed and returned the money to the former 4-H Agent.

The former 4-H Agent said the \$250 was used as a change fund at camp and should have been deposited back in the 4-H Council checking account. We found no evidence the money was deposited. Furthermore, the former 4-H Agent said he did not recall having the Extension Service Secretary purchase the money orders, but stated it was possible he did. However, he could not recall who received the money orders.

The former 4-H Agent said that all cash was used to pay for program expenses, although he does not have receipts to support the expenses.

RECOMMENDATION

We recommend the 4-H Council account be maintained by an officer of the 4-H Council and not a Carteret County Cooperative Extension Service employee. We also recommend the Carteret County Cooperative Extension Service take whatever actions are deemed necessary to recoup the \$3,730 in checks written to cash by the former

FINDINGS AND RECOMMENDATIONS (CONTINUED)

4-H Agent. We have referred this finding to the State Bureau of Investigation.

7. THE FORMER 4-H AGENT BOUGHT A COMPUTER WITH 4-H COUNCIL FUNDS AND GAVE IT TO HIS FAMILY AS A CHRISTMAS GIFT.

On November 25, 1996, the former 4-H Agent wrote himself a \$2,400 4-H Council check. According to the former 4-H Agent, he used the money to purchase a home computer to use for writing grants at night and on the weekends. Additionally, he said he gave the computer to his family as a Christmas present, and by doing so, he said he “killed two birds with one stone.” On July 1, 1997, the former 4-H Agent wrote a 4-H Council check for \$209.88 payable to a discount store. The description section of the check reflects “printer.” According to the former 4-H Agent, he purchased a printer to use with his home computer.

When the former 4-H Agent left his job in Carteret County, he did not return the computer and printer to the Carteret County Cooperative Extension Office. On January 22, 1998, the former 4-H Agent informed us he still had the computer and printer at his home in Ohio. The Director said he knew the former 4-H Agent purchased a computer for his family, but he did not know the former 4-H Agent purchased the computer with 4-H Council funds.

RECOMMENDATION

We recommend the Carteret County Cooperative Extension Service take whatever actions are deemed necessary to recoup the \$2,609.88

FINDINGS AND RECOMMENDATIONS (CONTINUED)

spent on equipment by the former 4-H Agent. We have referred this finding to the State Bureau of Investigation.

8. THE FORMER 4-H AGENT SUBMITTED PHONY REQUESTS FOR STATE GRANT FUNDS FROM THE CARTERET COUNTY FINANCE OFFICE TO THE 4-H COUNCIL CHECKING ACCOUNT IN ORDER TO KEEP FUNDS FROM REVERTING TO THE STATE.

During the time period of March 31, 1995 through August 29, 1997, a total of \$55,959.91 was transferred from the Carteret County Community Based Alternatives (CBA) account to the 4-H Council checking account. However, only \$50,959.91 was deposited in the 4-H Council checking account (The difference is explained in Finding 4). According to the former 4-H Agent, the money was deposited in the 4-H Council checking account to avoid the required county purchasing procedures and to avoid reverting any unused funds to the state.

The former 4-H Agent said that prior to fiscal year end, he examined each of the county's state grant accounts and would calculate how much money he needed to complete that year's program. The former 4-H Agent said he would submit phony requests for disbursements for any excess funds. The money would then be transferred to the 4-H Council checking account. As a result, the county's accounts would show all monies had been spent.

For example, on May 7, 1997, a check in the amount of \$800 was made payable to the Carteret County 4-H from the Carteret County CBA account. The request for disbursement form states cost associated with Jobs Program. Again, on

FINDINGS AND RECOMMENDATIONS (CONTINUED)

May 14, 1997, a check in the amount of \$13,500 was made payable to the Carteret County 4-H from the Carteret County CBA account. The request for disbursement form states, "implementation of Jobs Program." A total of \$14,300 was transferred from the Carteret County CBA account to the 4-H Council checking account in May 1997, for the 1997 Jobs Program. The Carteret County 4-H office did participate in a Jobs Program, however, we could only identify \$820.75 in disbursements from the 4-H Council checking account that were related to the program.

The former 4-H Agent stated these requests for disbursements were a means to transfer the money before the end of the fiscal year. By doing so, the former 4-H Agent stated he accomplished his two objectives: (1) the money was not reverted to the state and (2) purchases could be made without complying with the county's policies.

General Statute §143-32. Person expending an appropriation wrongfully states,

(a) Any trustee, director, manager, building committee or other officer or person connected with any institution, or other State agency as herein defined, to which an appropriation is made, who shall expend any appropriation for any purpose other than that for which the money was appropriated and budgeted or who shall consent thereto, shall be liable to the State of North Carolina for such sum so spent and the sum so spent, together with interest and costs, shall be recoverable in an action to be instituted by the Attorney General for the use of the State of North Carolina, which action may be instituted in the Superior Court of Wake County, or any other county, subject to the power of the court to remove such action for trial to any other county, as provided in G.S. 1-83, subdivision (2). Notwithstanding the provisions of Chapters 120, 128, 135, and 143 of the General Statutes, the board of trustees of the State administered retirement system may not pay any retirement benefits or allowances, except for withdrawn contributions, to any person found liable pursuant to this subsection until the person has paid to the State the sum

FINDINGS AND RECOMMENDATIONS (CONTINUED)

required by this subsection, together with interest and costs. The Attorney General shall notify the retirement system of any member's outstanding liability under this subsection and shall also notify the retirement system when this liability has been removed.

(b) Any member or members of any board of trustees, board of directors, or other controlling body governing any of the institutions of the State, or any officer, employee of, or person holding any position with any of the institutions of the State, or other State agency as herein defined, who willfully acts to divert, use, or expend any funds appropriated for the use of said institution or agency, in a manner designed to circumvent the provisions of this section, including normal reversions of State funds, by failing to properly receive or deposit funds, or by the improper expenditure or transfer of funds for any purpose other than that for which the funds were appropriated and budgeted, shall be guilty of a Class 1 misdemeanor. All offenses against this section shall be held to have been committed in the County of Wake and shall be tried and disposed of in the General Court of Justice for Wake County. If such offender be not an officer elected by vote of the people, conviction of such offense shall be sufficient cause for removal from office or dismissal from employment by the Governor upon 30 days' notice in writing to such offender.

RECOMMENDATION

We recommend all state grant money be maintained and administered by the county finance office and any funds not spent by year-end revert to the appropriate agency in accordance with the provisions of the grant. We have referred this finding to the State Bureau of Investigation.

9. THE FORMER 4-H AGENT SUBMITTED FALSIFIED MONTHLY REIMBURSEMENT REPORTS IN ORDER TO TRANSFER STATE FUNDS TO THE CARTERET COUNTY 4-H COUNCIL CHECKING ACCOUNT.

A total of \$10,218.75 of the Carteret County Family Resource Center (FRC) funding was transferred to the 4-H Council checking account during the time period of

FINDINGS AND RECOMMENDATIONS (CONTINUED)

March 31, 1995 through August 29, 1997. The Carteret County FRC received its first check from DHHS, the Division of Child Development, in December 1994. At that time, it appears the money was deposited in Carteret County FRC's account and was administered by the Carteret County Finance Office. However, in May 1995, FRC opened a separate checking account and the funds received from the state were deposited to this account. The former 4-H Agent as well as the former Finance Officer were the authorized signers for the FRC checking account.

According to the Program Coordinator for the Family Resource Center/Family Support Program (Program Coordinator), any purchases or expenses incurred by FRC must be approved by two FRC board members. However, it appears the former 4-H Agent was able to transfer money from the FRC checking account to the 4-H Council checking account without Board approval.

The former 4-H Agent stated, similar to the CBA funds, the FRC funds received by Carteret County were funneled to the 4-H Council checking account to avoid reverting any unexpended money to the State at the end of the fiscal year. Since it is required by the FRC grant to complete monthly reimbursement reports prior to receiving funding, the former 4-H Agent stated he falsified monthly reimbursement reports in order to receive FRC funds. Once the money was deposited in the FRC checking account, the former 4-H Agent would write a check from the FRC checking account to the 4-H Council checking account. It appears from the FRC bank statements that after

FINDINGS AND RECOMMENDATIONS (CONTINUED)

February 1996 there was no activity on the FRC checking account and all funding was administered by the Carteret County Finance Office.

The 4-H Agent also submitted phony requests for disbursements to the Carteret County Finance Office in order to have the FRC funds transferred directly to the 4-H Council checking account. On February 11, 1997, a check in the amount of \$2,500 was written from the Carteret County FRC account payable to the Carteret County 4-H. The request for disbursement stated “50 students camp fee deposit for at-risk youth to attend Mitchell 4-H Center (50 @ \$50).” The check was deposited in the 4-H Council checking account. According to the North Carolina Camping Program Extension Specialist, a camp deposit was due from the Carteret County 4-H; however, the deposit was never received. We could not find any documentation nor a \$2,500 check payable to the North Carolina Camping Program; therefore, we were unable to determine if the \$2,500 was used to pay for camp deposits. The former 4-H Agent stated the former Finance Officer was aware that FRC money was “hidden” to avoid sending any money back to the State.

According to the Program Coordinator, the Carteret County FRC was placed on a corrective action plan on July 1, 1997. Under the plan, FRC was to improve fiscal reporting and accountability. However, the Program Coordinator stated as of January 31, 1998, the contract with the Carteret County Cooperative Extension 4-H Program had been terminated.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Due to the lack of supporting documentation coupled with the 4-H Agent's admission of falsifying monthly reimbursements reports, we are unable to determine why the \$10,218.75 of FRC funding was deposited in the Carteret County 4-H Council checking account and how the money was spent.

Furthermore, we question the entire \$75,000 that was received each year for the FRC funding, since the money issued was based on falsified reports.

RECOMMENDATION

We again recommend all state grant money be maintained and administered by the county finance office and any funds not spent by year-end revert to the appropriate agency in accordance with the provisions of the grant. We further recommend the Division of Child Development take whatever actions are deemed necessary to recoup the \$10,218.75 of FRC grant funds deposited in the 4-H Council checking account. We have referred this finding to the State Bureau of Investigation.

10. THE FORMER 4-H AGENT CAN NOT PROVIDE DOCUMENTATION TO ACCOUNT FOR \$18,000 OF STATE FUNDS THAT HE RECEIVED.

From March 31, 1995 through August 29, 1997, the Carteret County 4-H program received six mini-grants from the Division of Youth Services totaling \$18,000. The former 4-H Agent prepared the proposals and applied for five of the six mini-grants awarded.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

In June 1995, the Carteret County 4-H Program received a mini-grant for \$3,000. The money was to be used for the ASSETS Youth Forum, a camp for adjudicated youths held at Camp Mitchell. According to the proposal, the money was requested for 15 students to participate in the camp. The amount requested was \$2,400 and was to be used for camp fees and transportation. The camp was to be held from June 12-15, 1995. The Carteret County 4-H Program received a check for \$3,000 and the check was deposited in the 4-H Council checking account. According to the final accounting report completed by the former 4-H Agent, the amount awarded was \$2,400 and the amount spent on the program was \$2,400. However, the check was in the amount of \$3,000.

The Chief of CBA Field Operations stated the Carteret County 4-H Program should not have received the additional \$600 and the money should have been refunded to the Division of Youth Services. The final accounting report also stated 83 youths participated in the summer program; however, a North Carolina State University Extension Specialist (Extension Specialist) stated only 58 campers attended the camp.

Again in June 1995, the Carteret County 4-H Program received a second mini-grant for \$3,000. According to the proposal, the money would be used to allow 15 disadvantaged, "at risk" youths to attend 4-H camp at Camp Mitchell. The amount requested was \$2,625 and the camp was to be held June 18-23, 1995. The \$3,000 check was deposited in the 4-H Council checking account. According to the final accounting report completed by the former 4-H Agent, the amount awarded was

FINDINGS AND RECOMMENDATIONS (CONTINUED)

\$2,625 and the amount spent on the program was \$2,625. The Chief of CBA Field Operations stated the Carteret County 4-H Program should not have received the additional \$375 and the money should have been refunded to the Division of Youth Services.

In June 1996, the Carteret County 4-H Program received a mini-grant for \$3,000. According to the proposal, the money was to send 17 students to the 1996 ASSETS Camp. The amount requested was \$3,000 and the check was deposited in the 4-H Council checking account. According to the final accounting report completed by the former 4-H Agent, 19 youths completed the summer program at a cost of \$3,045. The report states the additional \$45 came from donations. The Extension Specialist stated that an ASSETS camp was not held in 1996. However, according to his records, a 4-H Junior Camp was held in July 1996, but the Carteret County 4-H Program only sent 14 campers at a cost of \$2,283.

Also in June 1996, the Carteret County 4-H Program received another mini-grant for \$3,000. The proposal stated the money would be used to send 15 “at risk” students to the 4-H camp at Swannanoa. The amount requested was \$3,000 and the dates for the camp were June 28 through July 5, 1996. The check was deposited in the 4-H Council checking account. According to the final accounting report completed by the former 4-H Agent, 42 youths completed the summer program at a total cost of \$3,082. However, the Extension Specialist stated his records indicated only 30 youths attended the camp.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

In June 1997, the Carteret County 4-H Program received a mini-grant for \$3,000. According to the proposal, the money was to be used to send 50 students to spend three days at the 4-H Cloverbud Camp held at Camp Mitchell in Swansboro, NC. The \$3,000 check was deposited in the 4-H Council checking account. According to the ASSETS Program Coordinator, the three-day Cloverbud Camp was canceled and replaced with a two-day camp that was held in the kitchen of the Carteret County Cooperative Extension office. Even though funding was received, the following letter was signed by the former 4-H Agent and mailed to the parents:

May 28, 1997

TO: Selected Parents and Agents
SE District

FROM: Eric Matthews
County Extension Agent, 4-H

RE: Cloverbud Camp

Thank you for your interest in Cloverbud Camp 1997. We always look forward to conducting this activity and working with your children.

Anticipated funding for this years program was not obtained and due to additional concerns, we have elected to cancel this years program. We apologize for any of the problems this may have caused and we encourage you to contact your County 4-H office for alternative programs. If you mailed in \$\$, we have enclosed a cashiers check as a refund.

Once again, thank you for your interest. We share in your disappointment.

According to the ASSETS Program Coordinator, the Cooperative Extension office originally collected \$350 in camp fees for the Cloverbud Camp. The ASSETS

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Program Coordinator said the former 4-H Agent wrote a check for \$400 payable to cash to refund the camp fees collected. Furthermore, the ASSETS Program Coordinator said a \$10 lunch fee was charged to each of the participants of the two-day Cloverbud Camp. According to the receipts provided by the ASSETS Program Coordinator, lunch fees totaling \$160 were collected for 16 youths. The ASSETS Program Coordinator said she collected \$80 of the lunch fees in cash and gave the money to the former 4-H Agent. However, no cash was deposited in the 4-H Council checking account. According to the final accounting report completed by the former 4-H Agent, the three-day camp was canceled and replaced with a two-day camp. However, the report stated 64 youths participated in the program.

Also in June 1997, the Carteret County 4-H Program received a check for \$3,000 from the Division of Youth Services. The check was payable to "Cooperative Extension, 4001 Cary Drive Suite E, Raleigh, NC 27610-2914." According to the Chief of CBA Field Operations, the check was awarded to the Wake County Support Our Students-Wake Forest summer program. He said the check may have been accidentally mailed to the wrong location, but should have been returned to the Division of Youth Services. In fact, the ASSETS Program Coordinator stated the former 4-H Agent told her that the State sent one check by accident and he was not going to return the money because it was going for a good cause. Furthermore, the ASSETS Program Coordinator said the former 4-H Agent completed one of the deposit slips for the \$3,000 check and had his secretary complete a deposit slip for the

FINDINGS AND RECOMMENDATIONS (CONTINUED)

other \$3,000 check. The ASSETS Program Coordinator said she deposited both checks in the 4-H Council checking account at the former 4-H Agent's request. The former 4-H Agent admitted he should not have received the check.

Due to the inconsistencies stated above and the lack of records maintained by the Carteret County Cooperative Extension Service, we were unable to determine if the \$18,000 received was spent on camping programs. Additionally, we can not determine how many youths participated in the camps or if any additional camp or lunch fees were paid in cash. Furthermore, we could not determine if the \$400 was used to refund camp fees, or if the \$80 collected in cash was used for the two-day Cloverbud Camp.

RECOMMENDATION

We recommend the Division of Youth Services take whatever actions are deemed necessary to recoup the \$18,000 of CBA grant funds deposited in the 4-H Council checking account. We have referred this finding to the State Bureau of Investigation.

11. THE FORMER CARTERET COUNTY FINANCE OFFICER TRANSFERRED GRANT FUNDS TO THE 4-H COUNCIL CHECKING ACCOUNT IN VIOLATION OF A CONTRACT AGREEMENT.

In April 1996, the Carteret County Cooperative Extension Service/4-H Youth Development Program received a \$6,096 childcare development block grant from NCSU. According to the proposal prepared by the former 4-H Agent, a needs assessment would be conducted in Carteret County to determine what after-school and

FINDINGS AND RECOMMENDATIONS (CONTINUED)

day care programs were needed for the county. The amount awarded for the needs assessment was \$6,096 and a check was issued from NCSU to the Carteret County Cooperative Extension Service in that amount on April 18, 1996. The check was deposited in the Carteret County Cooperative Extension account.

The NCSU Childcare Specialist stated the funding should be managed by the County Finance Office. All expenses incurred associated with the needs assessment should be paid by Carteret County. The former Finance Officer signed a contract with NCSU stating the Carteret County Finance Office would be responsible for the funding.

On June 19, 1996, a request for disbursement form, signed by the former 4-H Agent and initialed by the Director, was submitted to the Carteret County Finance Office. The amount requested was \$6,300 and the request stated "Grant Program Administration (Childcare Study.)" On June 21, 1996, a check authorized by the former Finance Officer, was issued to the Carteret County 4-H in the amount of \$8,560 which included the \$6,300 requested.

According to former 4-H Agent, he hired an assistant to aid in the needs assessment. The former 4-H Agent stated he paid her from the 4-H Council checking account. A total of \$5,400 was paid to the assistant for the work performed on the needs assessment.

Prior to June 19, 1996, the date on the request for disbursement form, at least \$4,300 of the NCSU childcare development grant had been spent on contracted services to

FINDINGS AND RECOMMENDATIONS (CONTINUED)

pay the assistant. Therefore, the remaining balance in the Cooperative Extension account would have been \$1,796 or less (\$6,096 less \$4,300). We could not determine why the request for disbursement was in the amount of \$6,300.

The NCSU Childcare Specialist stated a final fiscal report indicating how the money was spent is required by each 4-H Agent after the program is completed. However, the former 4-H Agent did not submit a final fiscal report for the funding he received.

Due to the lack of records, we could not determine the cost associated with the Childcare Development needs assessment. Furthermore, we could not determine why the former Finance Officer issued a check in the amount of \$6,300 to the Carteret County 4-H.

RECOMMENDATION

We recommend NCSU take whatever actions are deemed necessary to recoup the \$900 (\$6,300 less \$5,400 paid to assistant) of the childcare development grant deposited in the 4-H Council account. We further recommend the county finance office adhere to contractual agreements and administer and maintain any state and/or federal funds.

12. THE FORMER 4-H AGENT USED 4-H COUNCIL FUNDS TO RENT VEHICLES FOR HIS PERSONAL USE.

We found ten 4-H Council checks totaling \$1,593.89 payable to a local car rental agency during the period October 11, 1995 through June 3, 1997. The former 4-H

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Agent stated he rented three vehicles for personal use to drive to the annual state conferences. He said he rented a Toyota Camary, a convertible Camaro and a subcompact car and estimated the total cost at \$700. In addition, the former 4-H Agent said he filed mileage reimbursement with NCSU each time he rented a vehicle for personal use (This was addressed by an internal audit report issued by NCSU). The former 4-H Agent admitted he should not have rented the vehicles and received the mileage reimbursements. The former 4-H Agent said the other charges were for the rental of vans and cars to transport participants of the camps.

RECOMMENDATION

We recommend the Carteret County Cooperative Extension Service take whatever actions are deemed necessary to recoup the \$700 paid to the car rental agency for the vehicles rented for personal use by the former 4-H Agent. We have referred this finding to the State Bureau of Investigation.

13. THE FORMER 4-H AGENT WROTE CHECKS TO THREE CARTERET COUNTY COOPERATIVE EXTENSION SERVICE EMPLOYEES TOTALING \$8,721.40

During the period March 31, 1995 through July 31, 1997, the former 4-H Agent wrote 47 checks totaling \$8,721.40 payable to three Carteret County Cooperative Extension Service employees and gave one employee a \$750 money order (refer to Finding 4). We were unable to locate any documentation to support the payments, therefore, we

FINDINGS AND RECOMMENDATIONS (CONTINUED)

interviewed all three employees in an attempt to ascertain the reasons for the payments.

During the period March 18, 1995 through November 11, 1996, the Administrative Assistant received 26 checks and one money order totaling \$4,567.22 (see Schedule 5). According to the Administrative Assistant, she could not recall why she received payments totaling \$1,204.73. She said \$932.49 may have been reimbursements for supplies and travel and \$1,850 may have been bonus payments. She recalled the former 4-H Agent giving her \$580 to pay her taxes since no taxes were withheld from her 1994 county checks. According to the Administrative Assistant, the former 4-H Agent told her she did not need to complete travel reimbursement forms, so she submitted travel mileage on a “post-it note” every three months. She said on several occasions, the former 4-H Agent handed her a check and said, “good job.” She said she currently has no documentation to support the money she received, because she gave all of her receipts to the former 4-H Agent.

During the period March 3, 1997 through July 29, 1997, the former 4-H Agent gave twelve 4-H Council checks totaling \$3,276.25 to the ASSETS Program Coordinator (see Schedule 6). According to the ASSETS Program Coordinator, she was reimbursed \$704.25 for supplies, travel, and meals; was given \$2,272 in salary and bonus payments; and does not remember why she was given the \$300. She said she began work on March 3, 1997 and, on the same day, the former 4-H Agent gave her a \$272 check.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

According to the ASSETS Program Coordinator, she never knew when or how much she was going to be paid. She said on one occasion, the former 4-H Agent gave her a \$200 money order as compensation for working after hours.

During the period June 22, 1996 through June 2, 1997, the former 4-H Agent wrote nine checks totaling \$1,627.93 to the former Childcare Coordinator (see Schedule 7). According to the former Childcare Coordinator, the former 4-H Agent gave her three \$400 checks to cover the cost of her health insurance, since she was not eligible to receive benefits as a part-time employee. She said her health insurance premium was only \$250, and the former 4-H Agent told her to keep the additional \$150. The former Childcare Coordinator also said the former 4-H Agent gave her a \$50 Christmas bonus and \$377.93 for supplies, travel and additional work she performed. She said that at least on one occasion, the former 4-H Agent gave her a gift certificate for a free manicure.

Additionally, the Extension Service Secretary said on two occasions the former 4-H Agent gave her \$250 in cash. The Extension Service Secretary said the former 4-H Agent gave her \$250 and told her it was for doing a good job. She said prior to the former 4-H Agent leaving for Cherokee County, he again gave her \$250 in cash. The Extension Service Secretary said she never provided additional work for the former 4-H Agent outside her normal job duties.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

The former 4-H Agent said the payments to the employees were reimbursements for travel and camp expenses, as well as salaries and bonuses for working additional hours at camp. The former 4-H Agent said he paid the former Childcare Coordinator's health insurance with the approval of the Director. The former 4-H Agent said he does not have documentation to support the payments to the Carteret County Cooperative Extension Service employees.

RECOMMENDATION

We recommend the Carteret County Cooperative Extension Service take whatever actions are deemed necessary to recoup the \$8,721.40 paid to the Carteret County Cooperative Extension Service employees by the former 4-H Agent. We further recommend that Cooperative Extension employees report any unusual checks, cash or gifts given to them by other Cooperative Extension employees. We have referred this finding to the State Bureau of Investigation.

Statement of Financial Impact

The following schedule represents a quantification of the items examined during our special review. We cannot completely quantify the tangible benefits or detriment, if any, to the taxpayer resulting from the findings of our review. We are simply noting 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.

A. Inappropriate Disbursements - Checks written for the personal benefit of the former 4-H Agent, members of his family and other employees.

1. Checks written to the former 4-H Agent. (Finding 1)	\$ 11,909.19
2. Checks written to the former 4-H Agent's family members. (Finding 1)	5,358.94
3. Checks written to Desktop Designs. (Finding 2)	10,875.00
4. Carteret County checks written to Desktop Designs. (Finding 2)	5,000.00
5. Check written to Cooperative Extension Service employee. (Finding 3)	3,000.00
6. Funds not deposited. (Finding 4).	5,000.00
7. Checks written to cash. (Finding 6)	3,730.00
8. Check written for printer. (Finding 7)	209.88
9. Funds paid for personal car rental. (Finding 12)	700.00
10. Checks written to other Extension employees. (Finding 13)	<u>8,721.40</u>
Total unauthorized disbursements	\$ 54,504.41

B. Questionable Expenditures - Since no supporting documentation existed for any of the expenditures, we question the remainder of the expenditures for the time period of March 31, 1995 through August 29, 1997, less the inappropriate disbursements stated above.

Total Questionable Expenditures	<u>\$ 85,147.61</u>
Total Financial Impact	<u><u>\$ 139,652.02</u></u>

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Dear Ray:

This is the hardest letter that I have ever written but I felt it necessary so that I could begin to rectify and correct several discrepancies in my life and most importantly with my soul. I realize now that many times in our lives God gives us the opportunity to not only help people but also the opportunity to correct problems. I am so thankful that God gives us the opportunity to receive repentance and that with that repentance comes a new opportunity to be the kind of person that we should.

The past week has been very hard for me for several reasons. First, the move hasn't been the easiest but I felt like it was something that I needed to do. I greatly appreciate all the times that you stood up for me and for all the times that you looked out for me, both as an agent and as a friend. I appreciate the times that you listen to me when I couldn't speak to my Dad and for all the support that you gave me. In hindsight, I realize that in many ways, I lost my conscience while I was there. And that is no fault of your own or anybody else. I said things that weren't fair, things that weren't right and things that did not bring glory or honor to His name. I am now making a concerted effort not to do those things ever again. I still stumble but prayer has once again become a powerful force in my life. I am thankful for His love and support.

Secondly, I have realized what a beautiful wife and family I have. God has truly blessed me with a wonderful spouse and loving children that I cannot and will not take for granted anymore. I realize that everything I do has a bearing on their life and I will never again do anything that jeopardizes their faith in me as a father, husband or provider.

Finally, and most importantly, I realize that I have committed a sin that can no longer go covered-up and for this I turn to you and not only ask for your forgiveness but also to ask for your assistance. It is something that I am not proud of and it is something that I am very ashamed of. I realize that chances are no one would ever know but I know and God knows and so something needs to be done to correct it. I only ask that you try and understand my plight and bear with me while I try and make amends. I believe in repentance and I believe

that God forgives but I also believe that we should correct our errors and I aim to do just that.

While I was there I watched the compassion that you had for others and the times you bent over backwards to help others who were in need. I am still amazed at how much you were always willing to give others and felt compelled to do the same. At times, I helped people with excess monies from the grants that we received, especially if there was carry-over money. Whether that was right or wrong, I felt at the time that it was the right thing to do. I have always tried to be a very caring person and wanted to be able to help others. At times, the person that was in need and needed help was myself. And that was wrong!! Several times, I helped myself with the intentions of putting the money back when I got caught up. I never did!! On one occasion, I helped someone else that was not associated with the program and new that it was wrong but felt like I could put in back in but I haven't... Until now!! I could offer a lot of excuses and make up a bunch of lies but I will one day stand before the Creator and He will know just as I will know. Regardless of what others do, it is time to set the correct the sin.

Starting today, I want to make restitution for the money that was taken. I realize that you can turn this over to a legal official or the University and tomorrow I could be without a job and facing charges. I ask that you give me the chance to fix it. It was never a lot of money but it adds up. Even if it was only one dollar, my soul is worth more than that. Heaven is too precious. I ask for your forgiveness and your patience. I let you down, I let the staff down, I let God down and now I realize that I let my family down. Finances are tight right now. Two house payments, the truck needs work but this is more important than all of that.

As of Monday, there are no separate checking accounts in Cherokee County CES.. All is being handled through the County Finance Office. No temptation, no problems. I really want to make this CED position work and make you and others proud of what I can do but to do that I need to fix this problem. I ask for your forgiveness, your patience and your prayers. I have put a check in the mail today. I'm truly sorry for any problems this may have caused or is causing.. I cannot go back

and re-set time but I can make ammends as best I know how and
work diligently everyday to keep it from happening again...

With a great deal of respect and gratitude--

eric

*Desktop Designs
Post Office Box 654
Raleigh, North Carolina 27571*

April 28, 1995

Mr. Eric Matthews
ASSETS Program Coordinator
Carteret County Cooperative Extension Service
Courthouse Square
Beaufort, North Carolina 28516

Dear Mr. Matthews:

Having received your correspondence of April 12, 1995, requesting training, evaluation and feedback regarding your summer camp program staff, we look forward to working with you in the next few months.

Please consider this your confirmation and invoice for the full amount of \$3000 which will include all of the elements outlined in your original correspondence. Payment should be made in the form of a money order or cashier's check made payable to H.C. Edwards preceeding the June 12 beginning date for your camp.

The details outlined in your correspondence shall serve as our contract.

We appreciate this opportunity to work with you and look forward to an interesting and rewarding relationship with you and your program.

Sincerely,

H.C. Edwards

*Desktop Designs
Post Office Box 654
Rolesville, North Carolina 27571*

Memorandum

TO: Eric Matthews
FROM: HC Edwards
RE: Payment of Contract
DATE: June 20, 1995

Thank you for your prompt payment of the \$3000 contract with Desktop Designs.

We have enjoyed working with your organization on this project and look forward to future cooperative projects.

Best wishes for continued success.

*Desktop Designs
Post Office Box 654
Rolesville, North Carolina 27571*

June 21, 1995

Mr. Eric Matthews
ASSETS Program Coordinator
Carteret County Cooperative Extension Service
Courthouse Square
Beaufort, North Carolina 28516

Dear Mr. Matthews:

In light of the changed reporting requirements conveyed to me, completion of the contract will not be possible per our original agreement. The \$1500 reimbursement is enclosed made payable as per your instructions.

Enclosed are the materials thus far assembled as well as the disc containing pagemaker and microsoft word files of your information.

If you have any questions or need additional information, please do not hesitate to contact me.

I regret that our differences in negotiating the conclusion for this project could not be overcome satisfactorily. Thank you for your cooperation in this matter.

Sincerely,

H.C. Edwards

**Checks Written to Ronald E. Matthews, Jr.
Former Carteret County 4-H Agent
March 31, 1995 - August 29, 1997**

Schedule 1

	Date of Check	Check Number	Payee	Amount of Check	Signatures on Check	Endorsement on Check
1.	04/17/95	658	Eric Matthews	\$ 500.00	Ronald E. Matthews	Eric Matthews
2.	05/24/95	685	Ronald Matthews, Jr.	148.57	Margaret Taylor & Eric Matthews	Eric Matthews
3.	08/18/95	762	Eric Matthews	487.32	Lindy R. Potter & Ronald Matthews	Eric Matthews
4.	09/27/95	770	Eric Matthews, Jr.	211.74	Ronald Matthews	Eric Matthews
5.	10/31/95	797	Eric Matthews	250.00	Ronald Matthews	Eric Matthews
6.	11/13/95	803	Eric Matthews	250.00	Ronald Matthews, Jr.	Eric Matthews
7.	12/11/95	805	Eric Matthews	100.00	Ronald Matthews, Jr.	Eric Matthews
8.	12/18/95	806	E. Matthews	200.00	Ronald E. Matthews, Jr.	Accepted for Deposit by State Employees Credit Union
9.	02/26/96	821	Eric Matthews	157.21	Ronald E. Matthews, Jr.	Eric Matthews
10.	04/01/96 *	828	Eric Matthews	75.00	Ronald E. Matthews, Jr.	Eric Matthews
11.	05/07/96	844	Eric Matthews	400.00	Ronald E. Matthews, Jr.	Eric Matthews
12.	06/11/96	874	E. Matthews	600.00	Ronald E. Matthews, Jr.	Eric Matthews
13.	07/24/96	914	Eric Matthews	192.00	Ronald E. Matthews, Jr.	Eric Matthews
14.	08/02/96	922	Eric Matthews	226.61	Margaret Taylor & Ronald E. Matthews	Eric Matthews
15.	08/21/96	915	Eric Matthews	850.00	Ronald E. Matthews, Jr.	Eric Matthews
16.	09/11/96	935	Eric Matthews	225.42	Margaret Taylor & Ronald E. Matthews	Eric Matthews
17.	11/11/96	968	Ronald Matthews, Jr.	200.00	Eric Matthews	Ronald Matthews, Jr.
18.	11/25/96	970	Eric Matthews	2,400.00	Eric Matthews	Accepted for Deposit by State Employees Credit Union
19.	12/09/96	969	Eric Matthews	400.00	Ronald E. Matthews, Jr.	Eric Matthews
20.	02/24/97	1019	Eric Matthews	300.00	Ronald E. Matthews, Jr.	Eric Matthews
21.	03/25/97	1032	Eric Matthews	350.00	Ronald E. Matthews, Jr.	Eric Matthews
22.	05/19/97	992	Eric Matthews	1,000.00	Ronald E. Matthews, Jr.	Eric Matthews
23.	05/30/97	1036	Ronald Matthews, Jr.	1,347.82	Margaret M. Taylor	Ronald Matthews, Jr.
24.	07/16/97	997	Eric Matthews	537.50	Ronald E. Matthews, Jr.	Eric Matthews
25.	07/16/97	1046	Eric Matthews	<u>500.00</u>	Ronald E. Matthews, Jr.	Eric Matthews
Total				\$ <u>11,909.19</u>		

*Date the check cleared the bank. Date on the check is not legible.

**Checks Written to Ronald E. Matthews, Jr.'s Family Members
March 31, 1995 - August 29, 1997**

Schedule 2

	Date of Check	Check Number	Payee	Amount of Check	Signatures on Check	Endorsement on Check
1.	03/31/95	654	Sharon Matthews	\$ 117.53	Ronald E. Matthews	Sharon Matthews
2.	05/04/95	668	Ronald Matthews, Sr.	300.00	Ronald E. Matthews, Jr.	Ronald Matthews
3.	05/05/95	670	Sharon Matthews	121.78	Ronald E. Matthews, Jr.	(First name not legible) Matthews
4.	05/10/95	674	Ronald & Cherry Matthews	500.00	Lindy R. Potter & Ronald Matthews,	Ronald Matthews & Cherry Matthews
5.	05/10/95	675	Sharon Matthews	271.47	Lindy R. Potter & Ronald Matthews	Sharon Matthews
6.	08/03/95 *	642	Sharon Matthews	519.98	Ronald Matthews, Jr.	Ronald E. Matthews, Jr.
7.	04/25/96	833	Sharon Matthews	159.87	Ronald Matthews, Jr.	Sharon Matthews
8.	05/24/96	856	Cherry Matthews	200.00	Ronald Matthews, Jr.	Cherry Matthews
9.	05/24/96	857	Sharon Matthews	250.00	Ronald E. Matthews, Jr.	Sharon Matthews
10.	06/05/96	870	Cherry Matthews	700.00	Ronald E. Matthews, Jr.	Cherry Matthews
11.	06/07/96	872	Sharon Matthews	500.00	Ronald E. Matthews, Jr.	Sharon Matthews
12.	06/29/96	902	Sharon S. Matthews	418.31	Ronald E. Matthews, Jr.	Sharon Matthews
13.	01/01/97	1001	Sharon S. Matthews	200.00	Ronald Matthews	Sharon Matthews
14.	04/16/97	891	Sharon Matthews	100.00	Ronald Matthews	Sharon Matthews
15.	05/23/97	996	Sharon Matthews	<u>1,000.00</u>	Ronald E. Matthews, Jr.	Sharon Matthews
			Total	\$ <u><u>5,358.94</u></u>		

*Date the check cleared the bank. Date on the check is not legible.

**Checks Written to Desktop Designs
Carteret County 4-H Council Checking Account
March 31, 1995 - August 29, 1997**

Schedule 3

	<u>Date of Check</u>	<u>Check Number</u>	<u>Payee</u>	<u>Amount of Check</u>	<u>Signatures on Check</u>	<u>Endorsement on Check</u>
1.	06/16/95	716	Desktop Designs	\$ 1,000.00	Margaret M. Taylor	Ronald E. Matthews Desktop Designs
2.	07/07/95	741	Desktop Designs	2,500.00	Margaret M. Taylor & Ronald E. Matthews	(NOT LEGIBLE)
3.	01/22/96	811	Desktop Designs	500.00	Ronald E. Matthews	For Deposit Only, Desktop Designs, Ronald Matthews, Jr.
4.	02/13/96	816	Desktop Designs	275.00	Ronald E. Matthews	Ronald E. Matthews, Jr.
5.	04/29/96	836	Desktop Designs	1,000.00	Ronald E. Matthews	Desktop
6.	05/10/96	848	Desktop Designs	600.00	Ronald Matthews, Jr.	Desktop Designs Ronald Matthews, Jr.
7.	06/25/96	889	Desktop Designs	2,000.00	Ronald E. Matthews, Jr.	Ronald E. Matthews, Jr.
8.	07/06/96	890	Desktop Designs	500.00	Ronald E. Matthews, Jr.	Desktop Designs Ronald E. Matthews, Jr.
9.	07/17/96	910	Desktop Designs	<u>2,500.00</u>	Eric Matthews	Ronald E. Matthews, Jr.
		Total		<u>\$ 10,875.00</u>		

Checks Written to Cash
Carteret County 4-H Council Checking Account
March 31, 1995 - August 29, 1997

Schedule 4

	<u>Date of Check</u>	<u>Check Number</u>	<u>Payee</u>	<u>Amount of Check</u>	<u>Signatures on Check</u>	<u>Endorsement on Check</u>
1.	05/17/95	680	Cash	\$ 250.00	Margaret M. Taylor & Ronald E. Matthews, Jr.	Margaret Taylor
2.	06/26/96	895	Cash	800.00	Margaret M. Taylor & Ronald E. Matthews	(None)
3.	07/03/96	904	Cash	400.00	Ronald E. Matthews, Jr.	Ronald E. Matthews, Jr.
4.	10/15/96	954	Cash	80.00	Ronald E. Matthews, Jr. & Margaret M. Taylor	Carteret County 4-H
5.	05/28/97	972	Cash	400.00	Ronald E. Matthews, Jr. & Lisa Johnson	(None)
6.	06/24/97	998	Cash	1,500.00	Margaret M. Taylor & Ronald E. Matthews, Jr.	(None)
7.	06/12/97	1053	Cash	150.00	Ronald E. Matthews, Jr.	Eric Matthews & Margaret Taylor
8.	07/29/97	1096	Cash	<u>150.00</u>	Lisa Johnson & Ronald E. Matthews, Jr.	Lisa Johnson
			Total	<u>\$ 3,730.00</u>		

**Carteret County 4-H Council Checking Account
Payments to Carteret County Extension Office Employees
March 31, 1995 - August 29, 1997**

Schedule 5

Date of Check or Money Order	Check or Money Order Payee	Check Number	Amount of Check or Money Order	Employee Explanation as to the Reason for the Payment
04/18/95	Shelia Kelly	659	\$ 100.00	Does not know.
04/21/95	Shelia Kelly	661	50.00	Does not know.
05/02/95	Shelia Kelly	664	86.80	Does not know.
05/05/95	Shelia Kelly	669	17.49	Travel reimbursement
05/24/95	Shelia Kelly	684	250.00	Does not know.
06/06/95	Shelia Kelly	691	45.60	Travel reimbursement.
06/23/95	Shelia Kelly	735	400.00	A bonus.
08/18/95	Shelia Kelly	764	15.00	Does not know.
10/10/95	Shelia Kelly	790	12.70	For supplies.
02/06/96	Shelia Kelly	814	580.00	Reimbursement for payroll taxes.
02/19/96	Shelia Kelly	820	89.67	Does not know.
02/29/96	Shelia Kelly	823	10.26	Does not know.
03/17/96	Shelia Kelly	824	79.31	May have been for supplies.
04/10/96	Shelia Kelly	829	75.00	Does not know.
04/25/96	Shelia Kelly	832	50.00	Money to cover travel expenses.
05/02/96	Shelia Kelly	839	105.50	Does not know.
05/22/96	Shelia Kelly	853	400.00	A bonus.
06/05/96	Shelia Kelly	869	112.00	Does not know.
06/18/96	Shelia Kelly	Money Order	750.00	A bonus.
06/18/96	Shelia Kelly	888	75.00	Does not know.
06/25/96	Shelia Kelly	894	127.68	Mileage reimbursement.
06/27/96	Shelia Kelly	898	300.00	May have been a bonus.
08/02/96	Shelia Kelly	921	346.39	May have been mileage reimbursement.
08/02/96	Shelia Kelly	923	150.00	May have been mileage reimbursement.
08/26/96	Shelia Kelly	928	135.50	Does not know.
10/16/96	Shelia Kelly	955	100.00	Does not know.
11/26/96	Shelia Kelly	973	103.32	Mileage reimbursement.
Total			\$ 4,567.22	

Carteret County 4-H Council Checking Account
Payments to Carteret County Extension Office Employees
March 31, 1995 - August 29, 1997

Schedule 6

<u>Date of Check or Money Order</u>	<u>Check or Money Order Payee</u>	<u>Check Number</u>	<u>Amount of Check or Money Order</u>	<u>Employee Explanation as to the Reason for the Payment</u>
03/03/97	Lisa Johnson	1025	\$ 272.00	A salary check.
03/24/97	Lisa Johnson	945	18.94	Reimbursement for supplies.
04/23/97	Lisa Johnson	1038	20.42	Reimbursement for sandwiches.
04/29/97	Lisa Johnson	1034	33.48	March 1997 travel reimbursement.
05/07/97	Lisa Johnson	976	40.92	Reimbursement for supplies.
05/19/97	Lisa Johnson	993	1,000.00	A bonus for working at Marine Science Camp.
05/29/97	Lisa Johnson	1009	206.15	May 1997 travel reimbursement.
06/11/97	Lisa Johnson	1052	234.34	May have been for a conference.
07/01/97	Lisa Johnson	1078	300.00	Does not know.
07/15/97	Lisa Johnson	1088	400.00	A bonus for working at Camp Mitchell.
07/17/97	Lisa Johnson	1093	150.00	Money to pay for meals for 3 kids at 4-H Congress.
07/29/97	Lisa Johnson	1095	600.00	A bonus for escorting kids to 4-H Congress.
	Total		<u>\$ 3,276.25</u>	

**Carteret County 4-H Council Checking Account
 Payments to Carteret County Extension Office Employees
 March 31, 1995 - August 29, 1997**

Schedule 7

Date of Check or Money Order	Check or Money Order Payee	Check Number	Amount of Check or Money Order	Employee Explanation As to the Reason for the Payment
06/22/95	Renee Deese	721	\$ 75.00	Working at camp as an intern.
11/05/96	Renee Deese	964	400.00	Reimbursement for health insurance.
11/26/96	Renee Deese	974	50.00	Christmas bonus.
01/14/97	Renee Deese	1003	85.84	May have been reimbursement for supplies.
01/21/97	Renee Deese	1007	400.00	Reimbursement for health insurance.
02/26/97	Renee Deese	1020	80.00	May have been additional reimbursement for health insurance.
02/28/97	Renee Deese	1024	37.09	Does not know.
03/24/97	Renee Deese	1033	100.00	May have been for travel expenses.
06/02/97	Renee Deese	1012	400.00	Reimbursement for health insurance.
Total			\$ 1,627.93	

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NC STATE UNIVERSITY

919.515.2191 (phone)
919.831.3545 (fax)

June 15, 1998

Mr. Ralph Campbell, Jr., State Auditor
State of North Carolina
Office of the State Auditor
300 N. Salisbury Street
Raleigh, N.C. 27603-5903

*Response from the Chancellor of
North Carolina State University*

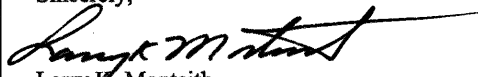
Dear Mr. Campbell:

We have reviewed the draft report on your special review of North Carolina State University, North Carolina Cooperative Extension Service, Carteret County Cooperative Extension Service. The report provides insightful and useful information which will help guide the Cooperative Extension Service in preventing future occurrences. The report contains recommendations to NC State University, Carteret County, North Carolina Division of Youth Services and the North Carolina Division of Child Development. Also many of the findings are referred to the State Bureau of Investigation for further investigation. The recommendations directed to NC State University addressed recoupment of inappropriate disbursements and handling of funds within the Carteret County Extension Office. NC State University shall take appropriate action, in cooperation with the State Bureau of Investigation whose criminal investigation of this same matter is ongoing, to effect recoupment of the funds as identified in the recommendations under findings #1, #2, #3, #4, #6, #7, #11, #12, and #13.

In response to NC State University's Internal Auditor Report on this matter issued March 30, 1998 and noted in your report, the North Carolina Cooperative Extension Service reviewed their policy "Effective Financial Controls at the County Level." Significant revisions have been made to the policy to provide for better control and more effective monitoring at the various organizational levels. A draft copy of the revised policy is attached for your review. Corrective action, on the recommendations under Findings #1, #2, #4, #6, and #13, in your report addressing the handling of funds within the Carteret County Extension Office, shall be taken in conjunction with the implementation of this revised policy on July 15, 1998.

We appreciate the cooperation and diligent investigation of this unfortunate incident.

Sincerely,



Larry K. Monteith
Chancellor

Enclosure

cc: James L. Oblinger, Dean, College of Agriculture and Life Sciences
Jon F. Ort, Associate Dean and Director, Cooperative Extension Service
George Worsley, Vice Chancellor for Finance and Business
Mary Elizabeth Kurz, University General Counsel

DRAFT

NCCES ADMINISTRATIVE HANDBOOK

POLICIES

**EFFECTIVE FINANCIAL CONTROLS
AT THE COUNTY LEVEL**

The following are requirements for adequate control of funds that are the direct responsibility of Extension.

REQUESTS AND OPPORTUNITIES FOR FUNDING

The County Director should be informed of all requests/opportunities for external funding. All applications for grants and contracts must be pre-approved by the County Extension Director and District Director using FORM 1 entitled “*Processing Form for External Grants and Contracts by County Extension Agents*”. Copies of the abstract, budget and processing form should also be sent to the District Director.

SYSTEMS TO MANAGE COUNTY FUNDS

County Extension Centers should limit their handling of non-appropriated funds as much as possible. Extension Centers can use several methods or avenues for handling these funds. Acceptable options for appropriate and adequate financial controls are:

- A. Funds administrated through county finance departments.
- B. Extension employees appointed and trained as a deputy finance officer by the county and serving in this capacity.
- C. Funds handled by non-university persons who are serving as an official board of directors such as county advisory councils, foundations or volunteer associations, school boards, and other non-profit organizations.
- D. Approved procedures that meet the requirement of adequate internal controls listed below.

It is important that all options above meet the requirements for adequate internal control of funds.

PRINCIPLES OF CASH MANAGEMENT - INTERNAL CONTROL

Employees/persons who are authorized to handle/process cash or checks shall adhere to the following principles of cash management:

RECEIPTS AND DEPOSITS

All cash funds on-hand are kept at a minimum effective amount and subject to periodic audits. Cash must be protected through the use of either bank facilities, vaults, or lock cash drawers and centralized to the maximum extent possible.

Cash receipts are controlled at the earliest possible point. Receipts are issued for all cash collections, check collections and other income related transactions (credit cards, etc). Receipt books must be pre-numbered and self-copying (e.g. carbon copy). An approved cash management officer should be appointed and be accountable for all issued numbered receipts. Unissued receipts forms must be kept under adequate control by the cash management officer. Incoming checks are restrictively endorsed immediately upon receipt (e.g. FOR DEPOSIT ONLY TO THE NAME/NUMBER OF THE AUTHORIZED ACCOUNT).

All cash receipts are deposited daily as required by G.S. 159-31 (see Appendix Q). All deposits are made in a previously approved depository.

Someone other than the cash management officer who receives the funds must make the bank deposits. The cash management officer is not allowed to sign checks or reconcile the bank accounts and is not responsible for noncash accounting records such as accounts receivable or the general ledger.

Duplicate deposit tickets are prepared so that one copy can be validated by the bank and returned to compare with the receipt records. The bank deposit ticket can be attached to the appropriate final entry in the cash management officer's receipt book for verification. If a county has sufficient staff, a third person should maintain account records.

EXPENDITURES AND DISBURSEMENTS

It is important that each county responsible for collecting and disbursing funds complete FORM 2 entitled "*Annual Accounting for Funds at the County Level*". This form must be kept updated on an annual basis and is due to the District Extension Director by July 1. Additionally, any time during the year when a new account is established or added, notification shall be sent to the District Extension Director.

Pre-numbered checks are used for all disbursements. The supply of unused checks are adequately controlled and safeguarded. Payment of duplicate invoices or statements is prohibited. The practice of signing blank checks is prohibited. Making checks to the order of "Cash" is prohibited. All voided checks must be accounted for and effectively canceled.

All checks require co-signatures. It is recommended that each county unit appoint one or two individuals (staff or agents) as having check writing authority. These individuals should provide one of the co-signatures. The second signature represents a final approval authority. The final authority approves expenditures and disbursements which must be established at a higher level than the level of the request (e.g. County Extension Director would sign for any staff member; County Finance would sign for County Extension Director, etc.). No individual can co-sign a check to themselves.

FUND RAISING

Fund raising managed through county centers should provide adequate controls to insure that all solicited funds are accountable. When developing fund raising guidelines, it is beneficial to officially designate who can solicit funds for each event, who will be solicited to donate, and what the funds will be used for. For all donations, the principles of cash management must be followed.

AUDITING ACCOUNTS

There must be periodic reviews of all financial transactions as well as an independent review or audit annually. Audit should be performed by someone other than those handling or responsible for the funds. All financial records and supporting documentation of transactions must be retained in accordance with the appropriate deposition schedule (s) and open to review upon request.

The following general procedures are to be used in conducting an audit. Additional procedures may be appropriate in certain circumstances.

- Verification of Cash Balances:
 1. Count all cash on hand — Follow-up on any I.O.U's, cash advances or personal checks of the account custodian in the undeposited receipts or other funds, if established. Trace undeposited receipts into bank deposits and cash records.
 2. Reconcile all bank accounts — Reconcile the bank statement at the end of the accounting period. Follow-up on any checks long outstanding and all other unusual reconciling items. Verify that there are two signatures on all checks. Review check endorsements for payee comparison and second endorsements. Follow-up on any checks made payable to "Cash" or "Bearer." Account for checks (used and blank). Determine whether the monthly reconciliations are performed by someone other than the check signers. If not, they must be reviewed and approved by some other person whose duties do not include the handling of cash.
 3. Obtain a bank statement directly from the bank for a period of not less than 10 days immediately following the reconciliation date for the end of the period. Determine that the "in transit or outstanding" reconciling items have been accepted by

the bank. Any earlier reconciling items still outstanding as of this statement date should be given special attention to establish their validity. Follow-up on any checks made payable to "Cash" or "Bearer."

- Examination of Cash Transactions:
 1. Review sources of income and prove addition of cash receipts record.
 2. Reconcile total recorded cash received to total deposits shown by bank statements for related period.
 3. Compare daily totals of cash received with daily deposits for evidence of withholding of receipts from deposit (select a representative period of time or a number of transactions if there is a large volume).
 4. Examine vouchers, invoices, receipts or other data in support of all disbursements. Determine if the documents are original, adequately support the disbursements and note other features which may be required to make the data examined satisfactory authority for the disbursements. Determine if disbursements were authorized in a budget, minutes of the Governing Board or were compatible with the organizational mission or responsibilities as provided in the Charter and Bylaws.
 5. Prove addition of cash disbursements record and trace to report/ledger.
 6. Reconcile total of recorded disbursements to total debits shown by bank statements for the related period.

COUNTY STAFF RESPONSIBILITIES:

It is the responsibilities of every staff member to report the suspected misuse of funds to the District Extension Director.

REIMBURSEMENT POLICY AND PROCEDURES FOR THE PROTECTION OF EMPLOYEES WITH THE NORTH CAROLINA COOPERATIVE EXTENSION SERVICE

1. Reimbursements will be processed according to existing Extension/County government policy and procedures.
2. Accuracy for the reimbursement data is the responsibility of the claimant. Original receipts *must* be provided for all reimbursements (unless otherwise exempted by another governing policy).
3. All approval for reimbursements requires a review at a level higher than the request being made; e.g., County Extension Director reviews the request for reimbursement for an agent or volunteer, etc.

All exceptions will be approved by the District Extension Director. In other words, no individual can approve any transaction for oneself.

4. All reimbursement requests *must* have appropriate documentation on file for a period of three years from date of transaction or until any audits in progress at that time are completed.
5. Any suspicion of misappropriated funds must be reported immediately to the District Extension Director.
6. Individuals will not receive duplicate reimbursement for the same expense. When submitting a request for reimbursement of official travel expenses to your county, special grant projects, or sources other than NCSU, you are to attach a copy of your official Travel Report for the period of time included in the request. However, if the Travel Report is not available at the time of the official travel request to the county, submit it at the end of the month. When the need arises for county faculty to make multiple trips to the same location on the same day, the multiple trips to the same location should be documented on the travel log. County faculty members should notify their supervisor of the need to make multiple trips to the same location.

FORM 1

N.C. COOPERATIVE EXTENSION SERVICE

**Processing Form for External Grants and Contracts
by
County Extension Agents**

We have reviewed the grant proposal developed by

(Name and Title of Agent)

to be submitted to _____
(Funding Agency)

entitled _____
(Title of Proposal)

for _____ from _____ to _____
(Total Amount Requested) (Beginning Date) (Termination Date)

Our signatures below indicate approval and support of proposal as written:

County Extension Director _____ Date _____

District Extension Director _____ Date _____

County Manager or Designee _____ Date _____

APPENDIX Q

General Statute 159-32. Daily Deposits

Except as otherwise provided by law, all taxes and other moneys collected or received by an officer or employee of a local government or public authority shall be deposited in accordance with this section. Each officer and employee of a local government or public authority whose duty it is to collect or receive any taxes or other moneys shall deposit his collections and receipts daily. If the governing board gives its approval, deposits shall be required only when the moneys on hand amount to as much as two hundred fifty dollars (\$250.00), but in any event a deposit shall be made on the last business day of the month. All deposits shall be made with the finance officer or in an official depository. Deposits in an official depository shall be immediately reported to the finance officer by means of a duplicate deposit ticket. The finance officer may at any time audit the accounts of any officer or employee collecting or receiving taxes or other moneys, and may prescribe the form and detail of these accounts. The accounts of such an officer or employee shall be audited at least annually. (1927, c. 146, s. 19; 1929, c. 37; 1939, c. 134; 1955, cc. 698, 724; 1971, c. 780, s. 1; 1973, c. 474, s. 27.)

FORM 2

ANNUAL ACCOUNTING FOR FUNDS AT THE COUNTY LEVEL

COUNTY _____

DATE _____

All Extension accounts are handled through the University or County Finance Officer:

Yes ____ No ____

If NO, complete the following:

Name of Account	Co-signature Authority (Names)		Highest Balance During the Year	Date of Last Audit	Name(s) of Auditor(s)
	Check Writing Authority	Approval Authority			

Approved by County Extension Director (Signature) _____

Date _____

Approved by District Extension Director (Signature) _____

Date _____

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Carteret County Government

Board of Commissioners
Sam Stell, Chairman
Bettie Bell, Vice Chairman
Doug Brady
Carl Huff
Pat Joyce
Jimmy LaShan
Mac Wells



Robert M. Murphy
County Manager
Tel: (252) 728-8450
Fax: (252) 728-2092

Response from Carteret County

June 19, 1998

Mr. Ralph Campbell, Jr., CFE
State Auditor
Office of the State Auditor
300 N. Salisbury Street
Raleigh, NC 27603-5903

Dear Mr. Campbell:

The County reviewed the accompanying audit and consulted with the County's Auditors and the staff of the Office of the State Auditor. The County also has thoroughly reviewed and evaluated its internal control procedures. We are confident that the County's internal controls are adequate and that the findings in the audit are not the result of inadequate policies or procedures. Nevertheless, we will strengthen our controls as noted below to provide additional assurance that activities of the type noted in the audit will not occur again.

The County Commissioners and management recognize our public trust responsibilities in managing the public's monies. The County intends to pursue vigorously the prosecution of any individual who violated that trust.

Our review has been limited by the fact that most of the findings contained in the report deal with an account (4-H Council) that is not a County bank account and over which the County had no control or authority. Moreover, the activity noted in the findings began long before the current Board of Commissioners and County Manager assumed office. It should be noted that there were at least four County Managers during the period these activities took place.

There were certain community based alternative grant funds administered by the County that were disbursed by the County Finance Office to the 4-H Council's account. The checks were issued following the submission of invoices and or disbursement requests prepared by the former 4-H agent and apparently bearing the approving signature of the County Extension Director, which is consistent with the County's internal control practices. We will strengthen our procedures by requiring that all disbursements of state and federal funds on behalf of County agencies be paid directly to the vendor after proper documentation has been reviewed and approved by the appropriate personnel.

Carteret County Courthouse • Courthouse Square • Beaufort, North Carolina 28516-1898

Mr. Ralph Campbell
June 19, 1998
Page 2

There were a number of "mini-grants" that were awarded by the State where the funds were apparently sent directly to the 4-H agent. These monies were deposited in the 4-H Council account by the 4-H agent and were not accounted for by the County. The County will request that the State send all grant funds directly to the County Finance Office to insure that the funds will be appropriately administered.

In addition, the County will require that all agencies and organizations receiving significant funds from the County, whatever their source, present evidence that their accounts have received independent review. We would expect this review to take the form of an independent audit, but in certain circumstances the County may accept a year end 990 tax return prepared by an accountant or a review of all records by the County Finance Office.

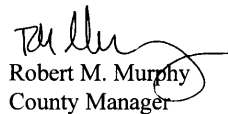
The former County Finance Director performed certain professional services for the former 4-H agent. The County requires that all outside employment be reported to the County Manager and any conflicting outside employment will be grounds for disciplinary action up to and including dismissal. The County Manager will restate this policy to all employees.

Additionally the County will educate its department heads and supervisory staff on their oversight responsibilities. They will be reminded that they should only sign documents that they have properly reviewed and for which they are prepared to assume responsibility.

The County will also check with the State to determine the results of their monitoring procedures and reports they receive from the various County departments.

The County Attorney and I appreciated the meeting with you last week to discuss the audit. Please call me if you want to discuss any of the points of this letter.

Sincerely,


Robert M. Murphy
County Manager

RMM/jd

cc: County Attorney

4-H.LTR

Distribution of Audit Report

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

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Senator Ed N. Warren	Representative Stephen W. Wood
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

June 24, 1998

ORDERING INFORMATION

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State of North Carolina
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Raleigh, North Carolina 27602-5903

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As required for disclosure by G. S. §143-170.1, 225 copies of this public document were printed at a cost of \$_____, or _____¢ per copy.