



STATE OF NORTH CAROLINA

SPECIAL REVIEW

**NORTH CAROLINA COALITION OF FARM
AND
RURAL FAMILIES, INC.**

FAYETTEVILLE, NORTH CAROLINA

JULY 1998

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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LETTER OF TRANSMITTAL

July 1, 1998

The Honorable James B. Hunt, Jr., Governor
Mr. Hernando Palmer, Chairman
N.C. Coalition of Farm and Rural Families, Inc.
Dr. Carolyn Prince, Executive Director
N.C. Coalition of Farm and Rural Families, Inc.
Members of the North Carolina General Assembly

Ladies and Gentlemen:

Pursuant to General Statute §147-64.6(c)(16), we have completed our special review into allegations concerning the North Carolina Coalition of Farm and Rural Families, Inc. The results of our review, along with recommendations for corrective actions, are contained in this report.

Respectfully submitted,

Ralph Campbell, Jr., CFE
State Auditor

TABLE OF CONTENTS

	PAGE
OVERVIEW.....	1
INTRODUCTION	5
FINDINGS AND RECOMMENDATIONS	7
CONCLUSION	23
SCHEDULES	
Schedule A.....	25
Schedule B	27
Schedule C.....	28
STATEMENT OF FINANCIAL IMPACT	29
RESPONSE FROM THE CHAIRMAN OF THE BOARD	31
DISTRIBUTION OF AUDIT REPORT	33

OVERVIEW

The North Carolina Coalition of Farm and Rural Families, Inc. (Coalition) was established as a non-profit corporation in Durham, North Carolina during 1987. The Coalition's mission includes promoting self-help economic development by providing financial, technical, and marketing assistance to minority and limited resource farmers and rural families. Services provided by the Coalition in the past include establishing a regional packing and shipping facility for farmers; negotiating contracts to sell farmers' produce; assisting farmers in farm planning, soil testing, crop selection, production scheduling, and modern production techniques; and sponsoring production workshops. According to the Board's Treasurer, services were supposed to be provided to limited resource farmers throughout North Carolina. Currently, the Coalition's administrative office is located in Fayetteville, North Carolina.

On April 4, 1989, the Coalition entered into an agreement with the Self-Help Credit Union (credit union) to establish a Revolving Loan Fund Program. The Coalition initially deposited \$300,000 of state funds in an account with the credit union in order to guarantee loans for farmers. These loans were designated to aid qualified farmers in developing, maintaining, and expanding economic opportunities through the Small Farm Horticultural Marketing Project. The Coalition established a loan committee composed of three members of the Coalition's Board who were to determine the loan terms, approve the loans, and re-negotiate terms if a borrower defaulted. The credit union used its own funds

OVERVIEW (CONTINUED)

to disburse loan proceeds and deduct delinquent payments from the Revolving Loan Fund Account. On October 1, 1996, the Coalition terminated the agreement with the credit union and ceased the Revolving Loan Fund Program due in part to the large number of loan defaults.

In addition to operating its headquarters in Fayetteville, the Coalition has operated, on a limited basis, the Carolina Harvest Packing Shed, a regional packing and shipping facility in Rose Hill, North Carolina. Farmers are able to wash, grade, pack, cool, and ship their locally grown produce from this facility.

The Coalition has contracted to receive state and federal funding on several occasions.

The following list summarizes those contracts since 1993:

- ◆ The Coalition contracted with the U. S. Department of Health and Human Services (HHS), Office of Community Services to receive a \$398,000 Urban and Rural Community Economic Development Grant for the period September 30, 1995 through February 28, 1997. However, HHS extended the grant period, at the request of the Coalition, through February 28, 1998. These funds were designated to fund the continuing development of the Small Farm Agribusiness Development Project. As of December 31, 1997, the Coalition had received \$273,501.02 from this contract.
- ◆ The Coalition received the following State appropriations for its Small Farm Economic Development Project:
 - \$250,000 during the 1993-94 fiscal year;
 - \$250,000 during the 1994-95 fiscal year;
 - \$145,000 during the 1996-97 fiscal year; and
 - \$250,000 during the 1997-98 fiscal year.

As of December 31, 1997, the Coalition had received \$125,000 of the state funds appropriated for the 1997-98 fiscal year.

OVERVIEW (CONCLUDED)

- ◆ The Coalition received state funds of \$13,525 during the 1994-95 fiscal year and \$15,835 during the 1995-96 fiscal year through the N.C. Association of Black Lawyer's Land Loss Prevention Project, Inc.
- ◆ The Coalition contracted with the U. S. Department of Agriculture, Rural Development Office (formerly the Farmers Home Administration) to receive a \$42,837 grant during the 1993-94 fiscal year.
- ◆ The Coalition contracted with the NC Rural Economic Development Center, Inc. to receive a \$20,000 grant of state funds from February 1, 1993 through January 31, 1994 for the support of the Coalition's Small Farm Assistance Program.
- ◆ The Coalition also contracted with the NC Rural Economic Development Center, Inc. to receive a \$245,000 grant of state funds for the support of the Coalition's Small Farm Economic Development Project. The effective period of the contract was August 1, 1995 through July 31, 1996.

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INTRODUCTION

We received allegations through the State Auditor's Hotline concerning the NC Coalition of Farm and Rural Families, Inc. (Coalition). The allegations raised issues regarding the Revolving Loan Fund Program and lack of recordkeeping.

We used the following procedures to conduct our special review of these allegations:

1. Interviews with employees of the Coalition.
2. Interviews with members of the Coalition's Board of Directors.
3. Interviews with individuals external to the Coalition.
4. Examination of contracts between the Coalition and other entities who received state or federal funding.
5. Examination of records pertaining to the loans awarded by the Coalition.
6. Field visit to the Coalition's Carolina Harvest Packing Shed in Rose Hill, North Carolina.
7. Examination of other records pertaining to the Coalition.

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. The Coalition contracts annually with a private accounting firm to perform a financial audit. The last audit completed was through December 31, 1995. The audit for the calendar year ending December 31, 1996 is still in progress.

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FINDINGS AND RECOMMENDATIONS

1. THE COALITION DID NOT ESTABLISH DETAILED POLICIES AND PROCEDURES FOR AWARDING LOANS NOR MAINTAIN COMPLETE RECORDS OF ITS LOAN ACTIVITIES.

During October 1988, the Coalition's Board of Directors adopted the Revolving Loan Fund Policy Guidelines, the written procedures for administering and awarding loans. According to the guidelines, the Loan Committee would meet four times each year to review and act upon loan related requests, recording the minutes of its meetings. However, the guidelines did not stipulate the number of Loan Committee members, nor the process by which the Loan Committee would approve loans. Our review of the Coalition's Board minutes indicated that the Board appointed three members from its Board to serve on the Loan Committee, with one of these members acting as the Chair. The Chair was authorized to approve loan requests not exceeding \$10,000. However, the Board's minutes did not specify the loan approval process for loans exceeding \$10,000.

During our review of the Coalition's loan records, we were unable to locate complete documentation, including loan applications and loan approval forms, for all loans awarded. According to the Loan Committee's Chair, a loan application was submitted and a loan approval form was completed for each loan awarded. However, according to the other two Loan Committee members, they could not recall meeting separately from the other Board of Directors to discuss and approve loans. Discussions on the loans were held during the full Board meetings. We were unable to verify that the Loan Committee

FINDINGS AND RECOMMENDATIONS (CONTINUED)

actually met, discussed, and approved loans since the Loan Committee did not record minutes of its meetings.

RECOMMENDATION

Prior to establishing a program, the Coalition should establish detailed policies and procedures for administering that program. If the Coalition should re-establish the Revolving Loan Fund Program, which is under consideration, a Loan Committee should be established in which all members are actively involved in the approval process. The Loan Committee should actually meet, taking minutes of all meetings and documenting the Committee's decisions on each loan application. Loan approval forms should be signed by the Loan Committee members, indicating their approval. The Coalition should establish specific criteria for the acceptance or rejection of loan applications.

- 2. THE COALITION FAILED TO FOLLOW ITS GUIDELINES AND PROCEDURES FOR THE REVOLVING LOAN PROGRAM AND SUFFERED A SIXTY-PERCENT DEFAULT RATE ON THE LOANS AT A COST OF \$318,245.72.**

According to information obtained from the Self-Help Credit Union (credit union), the Coalition awarded sixty-five loans, totaling \$658,495.34, to thirty-five farmers from 1989 through 1996 (See Schedule A, pages 25-26).

During our review of the loan documents, we identified the following:

FINDINGS AND RECOMMENDATIONS (CONTINUED)

- ◆ According to the Chair of the Loan Committee, loans were awarded based on the recommendations received from the Coalition's staff. However, based on our review of the Coalition's loan documentation, we could not locate staff recommendations for all loan recipients. Further, documentation for one recipient indicated that the Coalition's staff did not recommend a loan since the farmer already had an outstanding loan with the Coalition.
- ◆ According to information obtained from the credit union, the credit union declared twenty-one (60%) loan recipients in default on one or more of their loans, resulting in the Coalition paying the credit union \$318,245.72 (See Schedule B, page 27). The Coalition awarded ten of these loans (totaling \$132,462.55) to recipients with one or more existing outstanding loans. According to one Loan Committee member, he considered repayments of ten to twenty percent of the loans awarded as a "great accomplishment" for the Coalition.
- ◆ According to the consultant employed by the Coalition to review the loan practices, the Coalition has collected \$37,823.91 from recipients on loans declared in default by the credit union (See Schedule B, page 27). The consultant stated that she obtained these amounts from journals kept by the Coalition; funds received by the Coalition were recorded in these journals by the Coalition. However, when we requested documentation of loan repayments made directly to the Coalition from loan recipients, the Executive Director stated that she did not have that information.
- ◆ According to the Revolving Loan Fund Policy Guidelines, the Loan Committee was not authorized to approve loans exceeding \$30,000. However, on April 15, 1993, the Coalition violated these guidelines by awarding a loan in the amount of \$41,528.39. Based on documentation obtained from the credit union, the proceeds from this loan were used to pay the outstanding balances of six loans previously awarded to the recipient (See Recipient #14, Contract #4-270728, in Schedule A).
- ◆ According to documentation obtained from the credit union, the Coalition awarded four loans, totaling \$55,614.11, to recipients who had prior loans declared in default by the credit union (See Schedule C, page 28). The Coalition had paid the credit union the outstanding balances due on these defaults, yet still awarded additional loans to these recipients. Only Recipient #9 paid in full on loan #4-219234.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

- ◆ One loan approval form, documenting the approval of the \$15,000 loan to Recipient #28 (loan #4-342535), contained only the signature of the Coalition's former Executive Director, not members of the Loan Committee. According to the Loan Committee's Chair, he could not remember the exact circumstances of the \$15,000 loan, nor could he explain why the loan approval form contained only the former Executive Director's signature. The credit union transferred the unpaid balance of \$14,985 to the Coalition at the termination of the Revolving Loan Fund Program.
- ◆ Documentation in a loan recipient's file (Recipient #10) indicated that the Coalition paid a \$500 debt owed by this recipient without including it in his loan balance. We could not locate documentation indicating that the recipient reimbursed the Coalition for this amount.
- ◆ At the termination of the Revolving Loan Fund Program, the credit union transferred the balances of eleven loans, totaling \$142,522.64, to the Coalition. According to information provided by the Coalition's Executive Director and the consultant of the Coalition, the Coalition has not collected payments on seven of these loans. Partial payments, totaling \$22,928.80, have only been collected on four of these loans.
- ◆ According to the loan recipients' applications, each loan recipient was a farmer.

RECOMMENDATION

- **The Coalition should attempt to collect outstanding loan balances from loan recipients. The Coalition should document all payments made by loan recipients, listing the recipient's name, the loan number, amount paid, date of payment, and remaining balance due. This information should be current and readily available for review when requested by authorized personnel.**
- **Policies and procedures should contain controls to detect and prevent unauthorized loans from being paid such as loan #4-342335. The**

Coalition should pursue the collection of this loan from the recipient and the former Executive Director, if he can be held legally liable since he allowed the funds to be disbursed without proper approval.

- **The Coalition should determine if the \$500.00 awarded to Recipient #10 has been re-paid to the Coalition. If the amount has not been re-paid, the Coalition should request reimbursement from Recipient #10.**
- **Based on the large percentage of unpaid loans, the Coalition should carefully consider the benefits of re-establishing this program. If the program is re-established, the Coalition should maintain detailed and complete records of each loan.**

3. THE COALITION PROVIDED THIRTY-FIVE LOANS TO FARMERS IN SIXTEEN COUNTIES, PRIMARILY IN EASTERN NORTH CAROLINA.

When the Legislature awarded state funds to the Coalition in 1989 for the establishment of the Revolving Loan Fund Program, the intent was to help minority and limited resource farmers throughout North Carolina. The distribution of loans made from 1989 through 1996 reflects that this program was used primarily in a few eastern North Carolina counties. Of the thirty-five recipients of loans during this period, twenty-one were in Duplin, Halifax, and Sampson counties. Loan recipients resided in the following counties:

Duplin (9)

Gaston (1)

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Halifax (7)	Granville (1)
Sampson (5)	Greene (1)
Warren (2)	Johnston (1)
Bertie (1)	Martin (1)
Camden (1)	Northampton (1)
Chowan (1)	Pasquotank (1)
Cleveland (1)	Wake (1)

The Treasurer of the Board stated that no advertising of the loan program was done. Farmers were made aware of the program by word of mouth only. There were only two loans made outside of Eastern North Carolina. These loans were in Gaston and Cleveland counties.

Twelve of the twenty-one loan defaults occurred with recipients from Duplin, Halifax, and Sampson counties. Seven of the nine loan recipients in Duplin County defaulted on their loans.

RECOMMENDATION

If the revolving loan program is revived, the program should be structured to ensure that the funds will be made available to eligible farmers throughout the state. Information on such a loan program should be widely disseminated across the state to eligible participants.

4. THE COALITION'S UNAUTHORIZED ACTION IN CONTRACTING WITH A BOARD MEMBER GIVES THE APPEARANCE OF A CONFLICT OF INTEREST.

Effective March 1, 1995, a Board of Directors (Board) member from The North Carolina Coalition of Farm and Rural Families, Inc. (Coalition) resigned from the Board. On that

FINDINGS AND RECOMMENDATIONS (CONTINUED)

same day, the Coalition entered into an agreement with this Board member to act as a consultant to the Coalition. The consultant's primary role was to evaluate the Revolving Loan Fund Program and recommend ways the Coalition could collect on loans declared in default by the Self-Help Credit Union. According to the Board's Treasurer, the Board discussed contracting with the Board member while she was serving as a board member. However, the Board minutes we reviewed did not address the issues of the consultant, the rate of pay, nor the services to be provided. Further, since the signing of the contract coincided with the consultant's tenure on the Board, an appearance of a conflict of interest exists. The consultant's standing as a member of the Board could have influenced the decision to engage her as a consultant.

RECOMMENDATION

The Board should avoid the appearance of a conflict of interest as stated in the Coalition's Conflict of Interest Policy. The Board should ensure that its minutes are complete and document discussions concerning the Coalition's expenditures.

5. THE COALITION COULD NOT PROVIDE DOCUMENTATION AUTHORIZING AN INCREASE IN THE AMOUNT PAID TO A CONSULTANT.

As previously discussed in the fourth finding, the Coalition contracted with a consultant to evaluate the Revolving Loan Fund Program and recommend ways the Coalition could collect on loans declared in default by the Self-Help Credit Union. On March 1, 1995, the

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Coalition contracted to pay the consultant \$1,000 per month for services provided from March 1, 1995 through December 31, 1995. The contract stipulated that the services would terminate on December 31, 1995, “unless otherwise determined.” However, the Coalition continued to pay the consultant through September 1997 without documenting the extension in the Board minutes or signing a new contract. In July 1996, the Coalition increased the amount paid to the consultant, paying her \$1,666 per month for services and \$400 per month for travel expenses, totaling \$2,066 per month. The Board minutes do not reflect a discussion of the pay increase, nor could the Coalition provide us with a written contract authorizing the pay increase. Based on this lack of documentation, it does not appear that the Board authorized this action. Although the Board’s Treasurer signed the checks that paid both the contracted amount and the increased amount, he stated that he was unaware of the increase in amount paid to the consultant. According to the Board Treasurer and the current Executive Director, neither knew who authorized the increased amount. According to records provided to us, the Coalition paid the consultant \$46,990 from March 1995 through September 1997, which included \$36,990 during the period in which a written contract did not exist.

RECOMMENDATION

The Coalition should ensure that written contracts exist for services provided by consultants. These contracts should be signed by authorized personnel, indicate the amount of pay, and the type of services to be provided. The Board Treasurer should be aware of the amounts paid to

consultants and ensure that the amounts are properly authorized prior to signing any checks.

6. THE COALITION DOES NOT APPEAR TO HAVE BENEFITED FROM WORK PERFORMED BY THE CONSULTANT.

From March 1995 through September 1997, the Coalition paid the previously mentioned consultant \$46,990. According to the contract, the consultant's duties were to:

- ◆ Assess the characteristics and services provided to small farmers served by the Coalition.
- ◆ Assist the Board of Directors and Executive Director to respond to critical issues challenging the operation of the organization.
- ◆ Assess the impact of current policies, programs, operational procedures and practices engaged by employees.
- ◆ Develop a report reflective of research findings and viable recommendations for the successful operation of the Coalition.

According to the December 1995 Board meeting minutes, the consultant provided the following recommendations to the Board:

- ◆ *The Coalition should review all policies and procedures, especially concerning employment and the Revolving Loan Fund Program. The Coalition should obtain complete financial records from potential loan recipients and improve its procedures for denying loans.*
- ◆ *The Coalition should clearly define the roles of the Coalition's employees and contractors as they relate to the Coalition's mission. The Coalition needs to prepare policies and procedures for contractual agreements.*
- ◆ *The Coalition should prepare procedures for performing a fixed asset inventory. An inventory of all fixed assets should be performed.*
- ◆ *The Coalition should establish performance evaluation criteria for employees.*

FINDINGS AND RECOMMENDATIONS (CONTINUED)

- ◆ *The Coalition should establish leave and compensatory time policies.*

Although the consultant made these recommendations in December 1995, the Board continued to operate the Revolving Loan Fund Program through September 1996, awarding three loans in 1996. The Coalition's policy and procedure manual was not updated until 1998. The Coalition did not receive the consultant's finalized report until April 1998. We question whether the Coalition, Board, or farmers benefited from the \$46,990 paid to the consultant, especially since her above referenced presentation of recommendations occurred during the December 1995 Board meeting and appears to have been largely ignored. Additionally, based on our conversations with Board members and the Executive Director, neither appeared concerned that the consultant's finalized report due in December 1997 had not been submitted.

RECOMMENDATION

The Coalition should carefully evaluate its needs and objectives prior to obtaining the services of consultants. The Coalition should document the role of each consultant in a current contract, specifically detailing the Coalition's expectations of the consultant. Timelines should be established for the submission of progress reports by consultants. The Coalition should monitor the progress of each consultant to ensure that all

contracted services are provided during the period in which contracted.

Furthermore, before engaging a consultant, the Coalition should ensure current employees cannot better perform the services.

If the Coalition engages a consultant in the future, the contracts should be drafted to assure that the consultant is not paid in full until the final product is delivered and accepted.

7. THE COALITION FAILED TO OPERATE ITS PACKING SHED DURING THE PREVIOUS TWENTY MONTHS.

The Coalition has operated the Carolina Harvest Packing Shed (packing shed) since 1992, a facility in which minority and limited-resource farmers are able to grade, pack, cool, and ship their produce. The primary purpose of the packing shed is to organize the efforts of farmers to collectively supply major markets. The Coalition has negotiated contracts and shipped locally grown produce from the packing shed to wholesale and retail outlets. During July 1996, the Coalition suspended its operations due to an internal reorganization. As a result, farmers were unable to use the packing shed during the 1996 harvest season. According to the Executive Director, the packing shed remained closed during 1997 due to continued reorganization within the Coalition and structural repairs performed on the packing shed. However, the Coalition plans to re-open the packing shed this year.

According to a Semi-Annual Report submitted by the Coalition to the General Assembly in 1996, the Coalition also planned to sell the packing shed to the Eastern Carolina Growers

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Cooperative, a group composed of farmers who organized in 1996. The Cooperative planned to assume the responsibilities of the packing shed's operations, allowing the Coalition to initiate a new project for minority and limited-resource farmers in another part of the state. However, according to the Executive Director, there are no plans to sell the packing shed to the Cooperative. She said that there has been discussion about leasing the shed to the Cooperative, but nothing has yet been decided. When asked about the report submitted to the General Assembly, she said that it was prepared before her employment and she knew nothing about it.

RECOMMENDATION

The Coalition should resolve internal reorganizations in a timely manner, limiting the adverse effects on farmers. Before initiating any new projects, the Coalition should evaluate the benefits to farmers by seeking the involvement of the farmers.

The Coalition should also ensure that reports submitted to the General Assembly are accurate and current.

8. THE COALITION HAS SUFFERED FROM A GENERAL LACK OF LEADERSHIP.

Throughout the course of this special review, we experienced difficulty and frustration in our attempts to obtain information concerning the operation of the Coalition. For instance, when we asked for the amount collected on loan repayments since

FINDINGS AND RECOMMENDATIONS (CONTINUED)

September 1996, the Executive Director said that she did not have that information. She referred us to the consultant who the Coalition had previously hired to review its loan practices, stating that the consultant could provide us with that information. According to the consultant, she and the Executive Director had discussed the loan repayments months earlier, and documentation of those repayments were available at the Coalition. Further, the Executive Director did not know the process in awarding loans to farmers, the reason the consultant was being paid following the contract's expiration, or the amount paid to the consultant. Although the loans were awarded prior to her employment, the Executive Director has been employed since February 5, 1997. She has been employed long enough to have learned about the Coalition's activities.

Also frustrating were the limited hours the Executive Director was available to answer questions. She commutes daily from her home in South Carolina to Fayetteville, North Carolina. While we were on site at the Coalition's office, the Executive Director usually arrived at the office between 9:30AM and 10:00AM. She normally departed from the Coalition office between 2:00PM and 3:00PM for the day. On other numerous occasions, when we called the Coalition's office in the morning seeking information from the Executive Director, we were told that she was enroute to Fayetteville from South Carolina. As of the writing of this report, we have not received all information requested several weeks ago from the Executive Director, nor has she returned our telephone calls. The Coalition pays the Executive Director \$55,000 per year in salary and \$400 per month in travel expenses.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

We interviewed the Treasurer of the Board. He was not able to answer questions concerning the payments to the consultant hired to review the loan practices, even though he had signed checks paid to the consultant. He did not know why the consultant's pay had increased from \$1,000 per month to \$1,666 per month plus a \$400 monthly travel allowance. We did not understand why the Treasurer did not know about the consultant's pay increase. We asked the Treasurer if he had ever signed any of the Coalition's blank checks. The Treasurer said that he had never signed a blank check. Thus, we were unable to obtain an explanation as to why the Treasurer did not know about this consultant's pay increase. Additionally, the Treasurer did not know what services a second consultant, receiving \$3,910 per month, was providing to the Coalition. We were finally told by the Executive Director that this consultant was working on a grant project awarded by the Department of Health and Human Services.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

We interviewed other Board members, but they were not able to provide much insight into the Coalition's day-to-day operations. They depend on the Executive Director to obtain information on how to provide services to farmers.

The bylaws of the Coalition do not require or provide for rotation of the Board of Directors. Thus, the same Directors have served year after year since the establishment of the organization.

RECOMMENDATION

We recommend prior to awarding any new funding, the Legislature compare the mission of the Coalition with the results of its activity and determine if it is achieving what the Legislature had intended when funding was made available. The Legislature should evaluate the Coalition's current leadership structure to determine if the organization can meet the needs of the farmers for whom the organization was created.

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CONCLUSION

The Coalition was established and funded to promote self-help economic development for minority and limited resource farmers and rural families throughout the state. The questions raised in this report touch on the Coalition's ability to execute its mission, not the worthiness of its goals.

The lack of records and cooperation in providing information have made it difficult to assess the Coalition's programs. However, the information that was available reveals programs of limited geographic distribution that have ceased operations because of reorganizations, repairs, and the exhaustion of funds. The revolving loan fund program could not sustain itself while experiencing a 60% rate of default.

The Coalition's expenditures appear questionable given that it had to close the revolving loan fund program and the packing shed. Not only has the Coalition's Board employed an out-of-state executive director, but it also continued to retain a consultant who did not deliver the finalized report for twenty-eight months after the initial presentation of her recommendations to the board.

The finding that immediately precedes this conclusion notes that the Coalition has had the same board members since its establishment in 1987. Given the problems experienced by the Coalition, it is apparent that changes are needed in the board and the operations of the Coalition.

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**SCHEDULE A
NORTH CAROLINA FARM AND RURAL FAMILIES, INC.
LOANS AWARDED TO FARMERS BY THE COALITION
1989-1996**

LOAN RECIPIENT	RECIPIENT'S ADDRESS (COUNTY)	LOAN #	DATE OF LOAN	AMOUNT OF LOAN	TOTAL AMOUNT OWED BY RECIPIENT*
Recipient #1	Duplin	4-181934	05/18/89	\$ 30,000.00	\$ 74,368.51
Recipient #2	Halifax	4-182033	05/17/89	30,000.00	
Recipient #3	Wake	4-183633 4-183634 4-183635	05/31/89 05/31/89 07/07/89	3,000.00 5,000.00 11,264.02	
Recipient #4	Halifax	4-189033	06/30/89	7,500.00	
Recipient #5	Granville	4-197023 4-197033 4-197034	02/17/94 04/06/90 04/19/90	23,846.56 13,168.82 7,080.00	68,005.36
Recipient #6	Halifax	4-206133	12/31/89	30,000.00	8,386.59
Recipient #7	Gaston	4-208934	01/17/90	7,091.00	16,324.82
Recipient #8	Duplin	4-212833	02/09/90	9,500.00	21,705.46
Recipient #9	Sampson	4-219233 4-219234 4-219237	03/15/90 03/01/92 05/04/90	3,500.00 3,067.55 18,000.00	46,669.45
Recipient #10	Sampson	4-219235 4-219236 4-219238 4-219239 4-219240 4-219241	05/10/91 12/19/91 04/23/92 05/26/93 05/19/94 06/14/94	3,500.00 3,500.00 6,000.00 8,918.06 3,519.00 2,500.00	27,206.07
Recipient #11	Northampton	4-224333	04/12/90	30,000.00	
Recipient #12	Duplin	4-230433	06/04/90	16,842.57	36,150.98
Recipient #13	Cleveland	4-270129	04/17/91	8,150.00	
Recipient #14	Duplin	4-270728 4-270729 4-270733 4-270734 4-270735 4-270736 4-270737 4-270738	04/15/93 04/30/91 06/05/91 06/12/91 11/08/91 03/13/92 04/23/92 10/20/92	41,528.39 5,000.00 6,500.00 5,091.54 6,000.00 10,152.58 10,000.00 2,803.19	51,890.21
Recipient #15	Halifax	4-271529 4-271533	05/03/91 06/17/92	1,500.00 1,500.00	2,446.50
Recipient #16	Halifax	4-271629 4-271633 4-271634	05/03/91 06/17/92 06/28/96	1,000.00 2,000.00 27,200.00	22,982.16
Recipient #17	Sampson	4-273429	05/10/91	4,000.00	7,600.70
Recipient #18	Greene	4-274533	06/01/91	6,000.00	
Recipient #19	Camden	4-282633 4-282634	08/08/91 09/30/91	12,250.76 28,548.22	76,899.25

**SCHEDULE A
NORTH CAROLINA FARM AND RURAL FAMILIES, INC.
LOANS AWARDED TO FARMERS BY THE COALITION
1989-1996**

LOAN RECIPIENT	RECIPIENT'S ADDRESS (COUNTY)	LOAN #	DATE OF LOAN	AMOUNT OF LOAN	TOTAL AMOUNT OWED BY RECIPIENT*
Recipient #20	Warren	4-282635 4-282636 4-282637	03/24/94 06/07/94 05/25/95	15,000.00 1,500.00 5,000.00	14,209.99
Recipient #21	Bertie	4-290623	10/30/91	14,000.00	

		4-290633	06/05/92	4,494.21	5,267.02
Recipient #22	Martin	4-297433	01/29/92	2,082.71	3,550.96
Recipient #23	Chowan	4-299433	02/18/92	13,000.00	
	Chowan	4-299434	06/05/92	5,104.86	
Recipient #24	Duplin	4-300233	02/24/92	5,686.36	5,490.15
Recipient #25	Duplin	4-306833	04/23/92	5,891.88	
Recipient #26	Johnston	4-309533	05/19/92	5,087.67	
		4-309534	05/20/94	5,000.00	
Recipient #27	Duplin	4-341829	05/14/93	6,500.00	
Recipient #28	Sampson	4-342333	05/24/93	10,000.00	
		4-342334	01/25/95	10,000.00	
		4-342335	04/04/95	15,000.00	22,518.12
Recipient #29	Duplin	4-342733	05/27/93	5,000.00	7,011.31
Recipient #30	Duplin	4-342833	05/27/93	7,521.00	10,546.40
Recipient #31	Warren	4-370433	05/10/94	1,500.00	1,202.46
Recipient #32	Halifax	4-370533	05/10/94	1,500.00	
Recipient #33	Halifax	4-387233	12/29/94	25,291.00	24,091.20
Recipient #34	Pasquotank	4-389334	01/30/95	20,261.00	
		4-389335	06/10/96	9,000.00	35,706.22
Recipient #35	Sampson	4-423529	03/08/96	<u>9,052.39</u>	<u>10,057.25</u>
TOTALS:				<u>\$ 658,495.34</u>	<u>\$ 600,287.14</u>

*Note: Includes unpaid loan balance through 1/31/98, and accumulated interest.

Sources: The Self-Help Credit Union, the Coalition, and the consultant hired by the Coalition to review the loan practices.

SCHEDULE B
NORTH CAROLINA FARM AND RURAL FAMILIES, INC.
LOANS DECLARED IN DEFAULT BY THE SELF-HELP CREDIT UNION
1989-1996

<u>LOAN RECIPIENT*</u>	<u>LOAN #</u>	<u>DATE OF LOAN</u>	<u>AMOUNT OF LOAN</u>	<u>AMOUNT IN DEFAULT***</u>	<u>DATE OF CHARGE OFF</u>	<u>AMOUNT PAID DIRECTLY TO THE COALITION****</u>
Recipient #1	4-181934	05/18/89	\$ 30,000.00	\$ 37,323.25	03/18/91	\$
Recipient #3	4-183635 **	07/07/89	11,264.02	13,237.60	10/31/90	
Recipient #5	4-197033	04/06/90	13,168.82	16,313.66	02/11/92	
	4-197034 **	04/19/90	7,080.00	8,488.38	12/01/95	
Recipient #7	4-208934	01/17/90	7,091.00	8,192.92	03/18/91	7,209.12
Recipient #8	4-212833	02/09/90	9,500.00	11,206.34	06/18/91	
Recipient #9	4-219233	03/15/90	3,500.00	4,385.70	02/11/92	
	4-219237 **	05/04/90	18,000.00	19,468.99	03/18/91	100.00
Recipient #10	4-219238 **	04/23/92	6,000.00	7,660.53	03/28/96	
	4-219239 **	05/26/93	8,918.06	10,382.89	03/28/96	
	4-219240 **	05/19/94	3,519.00	4,203.86	03/28/96	
	4-219241 **	06/14/94	2,500.00	3,077.45	03/28/96	1,112.00
Recipient #12	4-230433	06/04/90	16,842.57	19,566.92	11/06/91	2,432.00
Recipient #13	4-270129	04/17/91	8,150.00	9,725.68	09/30/92	9,475.68
Recipient #14	4-270728 **	04/15/93	41,528.39	47,016.70	03/21/95	5,000.00
Recipient #15	4-271529	05/03/91	1,500.00	1,322.75	01/06/92	
	4-271533	06/17/92	1,500.00	1,766.53	11/04/93	3,110.57
Recipient #16	4-271633	06/17/92	2,000.00	2,355.43	11/04/93	982.54
Recipient #17	4-273429	05/10/91	4,000.00	4,740.00	02/03/93	399.00
Recipient #19	4-282633	08/08/91	12,250.76	14,485.66	02/03/93	
	4-282634 **	09/30/91	28,548.22	33,470.79	02/03/93	3,310.00
Recipient #22	4-297433	01/29/92	2,082.71	2,464.19	06/21/93	
Recipient #23	4-299434 **	06/05/92	5,104.86	1,749.40	06/06/94	
Recipient #24	4-300233	02/24/92	5,686.36	4,537.31	03/21/95	
Recipient #29	4-342733	05/27/93	5,000.00	720.22	03/15/94	5,000.00
Recipient #30	4-342833	05/27/93	7,521.00	5,743.55	03/15/94	4,693.00
Recipient #31	4-370433	05/10/94	1,500.00	1,105.71	03/28/96	
Recipient #34	4-389334	01/30/95	20,261.00	23,533.31	06/23/96	
TOTALS:			<u>\$ 284,016.77</u>	<u>\$ 318,245.72</u>		<u>\$ 42,823.91</u>

*Note: Recipient # corresponds to Recipient # listed in Schedule A, page 25.

**Note: Loans awarded to recipients who had existing outstanding loans.

***Note: Includes unpaid loan balance through 1/31/98, and accumulated interest.

****Note: Payments received by the Coalition as of 1/31/98, from recipients whose loans were declared in default by the credit union.

Source: The Self-Help Credit Union, the Coalition, and the consultant hired to review loan practices.

SCHEDULE C
NORTH CAROLINA COALITION OF FARM AND RURAL FAMILIES, INC.
SCHEDULE OF LOANS AWARDED TO RECIPIENTS WHO HAD PRIOR LOANS DECLARED IN DEFAULT
1989-1996

<u>LOAN RECIPIENT</u>	<u>LOAN #</u>	<u>DATE OF LOAN</u>	<u>AMOUNT OF LOAN</u>	<u>AMOUNT PAID BY COLITION ON DEFAULT LOANS *</u>	<u>DATE DECLARED IN DEFAULT</u>
Recipient #5	4-197023	02/17/94	\$ 23,846.56		
prior loan	4-197033	04/06/90	13,168.82	\$ 16,313.66	02/11/92
Recipient #9	4-219234	03/01/92	3,067.55		
prior loan	4-219233	03/15/90	3,500.00	4,385.70	02/11/92
prior loan	4-219237	05/04/90	18,000.00	19,468.99	03/18/91
Recipient #15	4-271533	06/17/92	1,500.00		
prior loan	4-271529	05/03/91	1,500.00	1,322.75	01/6/92
Recipient #16	4-271634	06/28/96	27,200.00		
prior loan	4-271633	06/17/92	2,000.00	2,355.43	11/4/93
			<u>\$ 55,614.11</u>		

*Note: Includes unpaid balance and accumulated interest at the date loan declared in default.

Source: The Self-Help Credit Union.

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

1. Loan defaults that were eventually paid by the Coalition, less amounts collected by the Coalition. Loans were awarded without sufficient procedures in place to determine the soundness of the loans. See Auditor's Note #1.	\$ 275,422
2. Loan amounts paid by the Coalition, following the termination of the Revolving Loan Fund Program, which have not been collected from loan recipients. See Auditor's Note #2.	124,594
3. A debt paid by the Coalition on behalf of a farmer, which was not included with the farmer's loan.	500
4. Fees paid to a consultant. The consultant was paid \$10,000 under a contract she was involved in discussing while a member of the Board of Directors. The remaining \$36,990 was paid to the consultant for twenty-one months after the contract expired.	<u>46,990</u>
	<u>\$ 447,506</u>

Auditor's Note #1: The Coalition originally paid the credit union \$318,245.72 on loans declared in default. According to the Coalition and the consultant employed to review the Coalition's loan practices, the Coalition has collected \$42,823.91 on these loans.

Auditor's Note #2: The Coalition originally paid the credit union \$142,522.64 on transferred loans at the termination of the Revolving Loan Fund Program. Based on information provided by both the consultant employed to review the Coalition's loan practices and the Executive Director, the Coalition has collected \$17,928.80 from recipients on their transferred loans.

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*Response from the
Chairman of the Board*



May 7, 1998

Mr. Ray Mozingo
Audit Manager
Fraud, Waste, and Abuse Section
300 N. Salisbury Street
Raleigh, NC

Dear Mr. Mozingo:

In response to your audit team findings, we agree that the finding exist or existed. This is why in June of 1996 after an internal audit, we felt it necessary to close our office to get a handle on our fiscal office and administrative "management".

We truly want to be accountable to our audience and the to the people of North Carolina.

This is why after our initial surface finding, we felt we needed to dig deeper. We commissioned a total comprehensive review of our revolving loan fund. Those recommendations from that review are in the process of being implemented. We hired a new Executive Director with more programming experience and we acknowledge we must strengthen administratively. From May, 1997 to November, 1997, two board members and executive director were trained under Southern Rural Development initiatives to build strong boards of non-profit organizations throughout the south.

Subsequently, the total Board did comprehensive strategic planning for the organization. During this time, the Board reviewed and where necessary revised our vision, mission, goals, objectives, strategies, etc. Board and employee policy manuals have been developed. As a result, employees have been evaluated for the first time.

A fall out from this is that we are now in the process of restaffing our program staff. With marketing being an integral part of our mission, we have developed a management plan for our packing facility with an option to lease to local farmers or manage it ourselves.

We acknowledge that our Board must be strengthened, so we have contacted two new board members who have agreed to serve unofficially. This will be taken up at our next Board meeting.

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910.860.9948 VOICE • 910.860. 9951 FAX • nccfrf@mindspring.com

Mr. Mozingo
Page 2
May 7, 1998

We further apologize for any knowing or unknowing inconvenience we may have caused you or your staff. However, as an organization, we are still trying to get this bull by the horns and are committed to get through this tough period of our existence so that we can be an asset to the agricultural and rural community.

Again we acknowledge your finding, and we further acknowledge that these are a reflection of uninformed administrative and business practices but, we are singularly or minutely comfortable that there were no instances of fraud or other illegalities.

Sincerely,



Board Chairman



Secretary

Auditor's Note: We received additional allegations that required investigation after this response was received. The results did not change the report but did delay its release.

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Other Legislative Officials

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Mr. Thomas L. Covington	Director, Fiscal Research Division

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Mr. Willard Dean

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Chairman, N.C. Rural Economic Development Center, Inc.

Director, Administration for Children and Families, Office of Community Services, DHHS

Business and Utilities Director, U.S. Department of Agriculture, Rural Development Office

July 1, 1998

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