

STATE OF NORTH CAROLINA

SPECIAL REVIEW

**CUMBERLAND COUNTY
DISPUTE RESOLUTION CENTER, INC.**

FAYETTEVILLE, NORTH CAROLINA

OCTOBER 1998

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

SPECIAL REVIEW

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DISPUTE RESOLUTION CENTER, INC.**

FAYETTEVILLE, NORTH CAROLINA

OCTOBER 1998

LETTER OF TRANSMITTAL

October 26, 1998

The Honorable James B. Hunt, Jr., Governor
The Honorable Burley B. Mitchell, Jr., Chief Justice
State Supreme Court
Mr. Dallas A. Cameron, Jr., Director
Administrative Office of the Courts
Mr. Joe Coffey, President
Cumberland County Dispute Resolution Center, 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 Cumberland County Dispute Resolution Center, Inc. The results of our review, along with recommendations for corrective actions, are contained in this report.

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

Respectfully submitted,

Ralph Campbell, Jr., CFE
State Auditor

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OVERVIEW

Cumberland County Dispute Resolution Center, Inc. (CCDRC) was established as a non-profit corporation in Fayetteville, North Carolina during 1987. CCDRC's purpose, as written in the Articles of Incorporation, was to establish and conduct a program that offered the community a convenient and confidential alternative to the courts for dispute resolutions. At the writing of this report, CCDRC offers mediation services, a Teen Court program, and inmate grievance services. The mediation services, provided free of charge, allows individuals with disputes to meet with trained mediators in an attempt to reach mutually satisfactory agreements. The Teen Court program deals with minor offenses, such as fights, shoplifting, and trespassing, committed by students normally between the ages of eleven and eighteen years. The Teen Court juries are composed of students who had previously completed the Teen Court program and/or volunteers. Either a judge or an attorney presides over the Teen Court. Punishments include community service, educational seminars, and serving as a member of the Teen Court jury. Additionally, CCDRC contracts with Cumberland County to aid in resolving disputes between jail inmates and staff.

The Center also offered an Education, Reconciliation, Responsibility (ERR) program, which ended in June 1998. This program taught communication skills, anger management, and methods for resolving conflicts to multiple juvenile offenders and their parents. CCDRC contracted with the Division of Youth Services within the

OVERVIEW (CONCLUDED)

N.C. Department of Health and Human Services (DHHS) to receive funding to operate its ERR program, receiving \$6,092 during 1995-96 and \$10,152 during 1996-97. During 1997-98, the United Way of Cumberland County provided funding for the ERR program.

CCDRC has received state appropriations through the Administrative Office of the Courts (AOC). The following list summarizes those appropriations since July 1995:

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INTRODUCTION

On May 19, 1998, we received a written request from the Administrative Office of the Courts (AOC) to review the financial practices of the Cumberland County Dispute Resolution Center, Inc. (CCDRC). For the fiscal year 1997-98, the General Assembly appropriated \$72,000 in State funds to CCDRC in which \$42,000 was designated for dispute settlement services and \$30,000 for the operation of the Teen Court program. According to AOC, it was concerned that CCDRC may have improperly expended those funds since the Center owed the Internal Revenue Service for unpaid payroll taxes, penalties, and interest. Additionally, AOC was concerned about CCDRC requesting an emergency advance of its 1997-98 dispute settlement funds earlier in the year and exhausting all of its State funds by mid-April 1998.

Based on the April 15, 1998 Board minutes, CCDRC's Board of Directors met for an emergency meeting "to decide what to do about the current status" of CCDRC and how to raise funds to sustain the Center through the remaining fiscal year. On April 20, 1998, the Board met again to discuss whether the Center should close. On April 30, 1998, CCDRC's Executive Director and two employees resigned. Since that date, CCDRC has employed only one individual, the Teen Court Coordinator. On June 25, 1998, the Board's President resigned, leaving the Vice President in the position of Acting President. The Vice President continued to perform the duties of the Board's President until a new President was elected during the August 20, 1998 Board meeting.

INTRODUCTION (CONCLUDED)

During our review, we were told that all funds received by CCDRC were deposited into one checking account. CCDRC did not document the source of funding for each check, thereby preventing us from determining which payments were made with state funds. Therefore, we reviewed all of CCDRC's expenditures and included any questionable ones in this report.

The Office of the State Auditor began its special review of CCDRC's records on June 29, 1998. We used the following procedures to conduct our review:

1. Interviews with current and former employees of CCDRC.
2. Interviews with current and former members of CCDRC's Board of Directors.
3. Interviews with individuals external to CCDRC.
4. Examination of correspondences between CCDRC and AOC.
5. Examination of CCDRC's expenditures.
6. Examination of other records pertaining to CCDRC.

This report presents the results of our Special Review conducted pursuant to G.S. §147-64.6(c)(16), rather than as a financial audit. CCDRC contracts annually with a private accounting firm to perform a financial audit. However, the last audit completed for CCDRC was for the 1995-96 fiscal year. According to the CPA firm used by CCDRC, the audit for the 1996-97 fiscal year has not begun.

FINDINGS AND RECOMMENDATIONS

1. CCDRC USED FUNDS PROVIDED FOR CURRENT OPERATIONS TO PAY DELINQUENT LIABILITIES OWED FROM PRIOR YEARS WITHOUT APPROVAL OF FUNDING AUTHORITIES.

This special review was requested by the Administrative Office of the Courts in part because of concerns generated by CCDRC's request for an emergency advance. It appears that the Center used funds provided for current operations to pay liabilities from prior years without obtaining approval from, or even addressing its funding sources. According to the July 17, 1997 Board minutes, the Internal Revenue Service (IRS) had notified CCDRC that it owed \$22,139.49 in federal withholding taxes due from 1995 and 1996. Our review of CCDRC's canceled checks indicated that CCDRC wrote checks totaling \$16,500 to the IRS during the 1997-98 fiscal year for unpaid taxes due from prior years. CCDRC also wrote two checks, each dated September 17, 1997, totaling \$1,928.24 to the North Carolina Department of Revenue for state withholding taxes due from January 1, 1997 through June 30, 1997. Further, CCDRC wrote one check for \$5,747.98, dated April 3, 1997, to the Employment Security Commission for unpaid unemployment taxes, interest, and penalties incurred from 1993 through 1996. According to information obtained from CCDRC's employee, CCDRC owed \$22,931.80 to the IRS as of August 10, 1998 and \$1,673.79 to the North Carolina Department of Revenue as of July 18, 1997 in delinquent taxes.

During our review, we questioned Board members about the delinquent taxes. According to one Board member, he believed taxes had not been withheld from

FINDINGS AND RECOMMENDATIONS (CONTINUED)

employees' salaries during those prior years. However, another Board member stated that she believed the taxes had been withheld from the employees' salaries, but that the Executive Director at that time had not submitted the withholdings to the appropriate agencies. CCDRC suspended, and then dismissed, that Executive Director from his position during 1995.

In addition, at the writing of this report, CCDRC's employee had identified \$13,353.45 in delinquent bills owed to various vendors. These debts include office supplies and other miscellaneous items purchased during the former Executive Director's tenure.

RECOMMENDATION

CCDRC's Board of Directors should identify its funding sources and make arrangements to liquidate outstanding liabilities. CCDRC should also document the funding sources for all of its disbursements, ensuring that funds are spent in accordance to grantors' specifications.

2. CCDRC COULD NOT PROVIDE MINUTES FROM SEVERAL BOARD OF DIRECTORS' MEETINGS.

According to G.S. §55A-16-01(a), a corporation should keep as permanent records minutes of all meetings of its members and board of directors. However, during our review of CCDRC's Board minutes, we were unable to locate documentation concerning eleven of CCDRC's Board meetings that were scheduled from July 1995 through May 1998. The missing documentation concerned meetings scheduled for

FINDINGS AND RECOMMENDATIONS (CONTINUED)

July and September 1995; July through December 1996; and March, April, and June 1997. According to one Board member, the Board did not meet every month from July 1996 through December 1996. However, we could not determine the months in which the Board did not meet.

RECOMMENDATION

CCDRC's Board of Directors should fully document all Board meetings. Copies of the Board minutes should be maintained in CCDRC's office. Further, the Board should document any cancellations of Board meetings, and maintain that documentation with the Board minutes.

3. CCDRC CHECK WRITING PROCEDURES WERE NOT FOLLOWED.

We reviewed all checks that cleared from CCDRC's checking account from July 1995 through June 1998. Although CCDRC's Corporate Bylaws stipulate that the Board's President and one other authorized Board member are required to sign each check, several checks were only signed by one Board member. We also identified thirty-two checks which contained a stamped signature of one of the Board members. According to that Board member, he kept a signature stamp in which only he, his secretary, and a former employee had access. This Board member stated that he authorized his secretary to use the stamped signature on one occasion; however, he was aware of one occasion in which the former employee used the stamped signature without his approval.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

We also identified six checks in which the former Executive Director signed this same Board member's name, and placed her initials following the signature. Although the Board member stated that he had authorized the former Executive Director to sign his name to checks on several occasions, he could not recall if those were the checks. According to the Board member, CCDRC personnel occasionally could not present the checks to him personally for his signature. Instead, the former Executive Director would telephone the Board member and briefly describe each check to him. The Board member could not recall which checks he had authorized the former Executive Director to sign. The former Executive Director denied signing the Board member's name to any other checks other than those six checks which contained her initials.

According to the former Executive Director, CCDRC attempted to obtain two signatures for each check. However, the former Executive Director stated that occasionally they could not contact a Board member who was authorized to sign checks. On those occasions, the former Executive Director decided to issue the checks with only one authorized signature. During our review, we identified twenty-three checks written from July 1997 through April 1998 with only one signature. Following the former Executive Director's resignation on April 30, 1998, CCDRC's Board issued all of its twenty-four checks written from May 1, 1998 through June 30, 1998 with only one authorized signature.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

CCDRC's Board of Directors should ensure that the check signing policy is communicated to CCDRC's employees responsible for preparing checks. Only the Board members authorized to sign checks should actually sign the checks. Additionally, since the Executive Director performs many of the fiscal related duties, the Board's Treasurer should periodically review CCDRC's bank reconciliations and canceled checks.

4. THE FORMER EXECUTIVE DIRECTOR RECEIVED EIGHTEEN CHECKS, TOTALING \$14,399.28, WHICH DO NOT APPEAR TO HAVE BEEN AUTHORIZED BY THE BOARD.

According to the former Executive Director, although another individual provided the Education, Reconciliation, Responsibility (ERR) training on one or two occasions, she was the primary trainer for the ERR program and actually provided ERR training from January 1996 through June 1998. CCDRC's ERR program contracts included salaries budgeted for ERR trainers. The former Executive Director stated that the ERR training she provided was not part of her duties as the Executive Director, so she was entitled to receive additional compensation for her training services. However, the former Executive Director chose to defer receiving payments for the ERR training she initially provided so that CCDRC could use the funds to pay other debts. During 1997, at her instruction, CCDRC issued her checks which were labeled as back payments for ERR training previously provided (see Schedule A, page 23). Additionally, the former Executive Director stated that she informed the Board

FINDINGS AND RECOMMENDATIONS (CONTINUED)

members on several occasions, both verbally and in a written memorandum, that she had deferred receiving her payments until CCDRC was fiscally able to pay.

According to the Board members we interviewed, they did not recall an agreement in which CCDRC would pay deferred salaries to the former Executive Director for ERR training provided. Nor did these Board members recall seeing the memorandum prepared by the former Executive Director which detailed the agreement. According to one Board member, she believed the ERR training was part of the Executive Director's duties, which would not entitle her to receive additional compensation. Another Board member stated that he recalled hearing the former Executive Director state that she would forego receiving payments for her ERR training services due to CCDRC's financial position. A third Board member, who co-signed the checks issued to the former Executive Director, stated that the former Executive Director began charging CCDRC \$500 per month for her ERR training services sometime during 1997. However, this Board member was not aware that the former Executive Director was receiving back pay for ERR training services provided in prior months. Additionally, the Board member who wrote the minutes for the July 17, 1997 Board meeting stated that she recalled the former Executive Director stating during that Board meeting that all bills from the 1996-97 fiscal year had been paid. This Board member included that statement in those minutes. We were unable to locate any mention of a back payment agreement with the former Executive Director in any Board minutes we reviewed.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

We identified eighteen checks payable to the former Executive Director in which the corresponding check request forms indicated ERR training payments. Ten of the eighteen check request forms labeled the checks as back payments for services provided months earlier. Documentation for seventeen of these checks indicated that the former Executive Director was paid for ERR training services provided from January 1996 through January 1998, and March 1998 through April 1998. However, one check (check 1797) lacked documentation as to the period in which the former Executive Director provided the ERR training. Documentation on that check request form only indicated ERR training fees. Although the former Executive Director endorsed this check and it cleared the account, the former Executive Director wrote “VOID lost check” on its check stub. The former Executive Director stated that she did not know why she wrote “VOID lost check” on the check stub. Further, the check request form for check 1710, dated January 27, 1998, indicated that the former Executive Director had received all back payments owed to her for the ERR training provided during 1996. However, the check request form for check 1750, dated March 6, 1998, indicated that the payment was for ERR training provided in 1996. Once again, the former Executive Director could not provide an explanation for check 1750 when documentation for check 1710 indicated she had received all payments owed from 1996.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

The Board members authorized to sign checks should thoroughly review all supporting documentation prior to signing any checks. Each check signer should document his or her approval on the actual invoice, receipt or other supporting documentation after signing a check. The Board should use whatever legal avenues are available to collect the \$14,399.28 in unauthorized payments the former Executive Director paid to herself. We are referring this finding to the State Bureau of Investigation for further review.

5. THE FORMER EXECUTIVE DIRECTOR RECEIVED ADDITIONAL PAYMENTS TOTALING \$7,648.45 UNDER QUESTIONABLE CIRCUMSTANCES.

We identified ten checks written to the former Executive Director, totaling \$7,648.45, which we could not locate adequate documentation to support (see Schedule B, page 24). Eight of these checks contained the signatures of two authorized Board members. Two of the checks contained only one signature of an authorized Board member. The Board member who signed nine of these checks stated he did not review supporting documentation for those checks labeled as employee payroll or reimbursement. A former Board President, who signed eight of the checks, stated that she did not usually look at supporting documentation, and only questioned a check if the amount appeared excessive.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

According to the former Executive Director, check 1382, for \$922.12, was payment for additional insurance expenses incurred from September 1996 through June 1997. The former Executive Director stated that the Board approved the reimbursement payment during its March 1997 Board meeting; however, we were unable to locate the minutes from the March 1997 Board meeting to confirm this action. Additionally, the Board members we interviewed stated they could not remember the Board approving such a payment.

The former Executive Director stated that check 1817, for \$874.39, labeled as unpaid vacation, actually was payment for her final two weeks of employment. However, we identified another check labeled as salary paid for her last two weeks of employment.

According to the former Executive Director, she could not recall the reason for the other ten checks which totaled \$5,851.94. Two of the ten checks were handwritten, and according to the former Executive Director, she wrote those checks. The former Executive Director confirmed that she wrote "VOID" on the check stub for one of these handwritten checks, but could not remember why she wrote it. Additionally, the former Executive Director stated that any checks written without supporting documentation would be payments for the Education, Reconciliation, Responsibility (ERR) training she provided. However, we identified other checks labeled as payments for her ERR training services, and all but one of those checks contained supporting documentation.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

The Board members authorized to sign checks should review all supporting documentation prior to signing any checks, and each check signer should document his or her approval on the actual invoice, receipt or other supporting documentation. Checks without adequate supporting documentation should not be signed. CCDRC should take action available to recover the \$7,648.45 in questionable payments made to the former Executive Director. Additionally, the Board's Treasurer should periodically review CCDRC's canceled checks and bank reconciliations. We are referring this finding to the State Bureau of Investigation for further review.

6. CCDRC ISSUED CHECKS TO A CONSULTANT UNDER QUESTIONABLE CIRCUMSTANCES.

At the direction of the former Executive Director, five checks totaling \$3,782.68 were written to an individual who was to provide various training services. According to the former Executive Director, this consultant was a friend of her husband who had volunteered at CCDRC prior to providing consulting services.

The first check written to this consultant, dated February 10, 1997 for \$1,200, was labeled as payment for training, snacks, curriculum and planning costs for Education Reconciliation, Responsibility (ERR) classes. These classes were to be offered from February 13, 1997 through May 14, 1997. Although the consultant and the former Executive Director stated the classes were given, we could not confirm with

FINDINGS AND RECOMMENDATIONS (CONTINUED)

supporting documentation that the consultant actually provided these classes. We noted the following items during the review of the remaining checks written to the consultant:

- The second check written to the consultant, dated February 25, 1997 for \$682.68, was labeled as reimbursement for ERR training curriculum. Supporting documentation for the reimbursement included a billing statement dated December 31, 1996 for purchases made in 1996 and an invoice dated January 17, 1997. The billing statement did not list the items purchased and the invoice listed the former Executive Director, not the consultant, as the customer. According to the consultant, he did not recall purchasing this material, nor could he explain why he received this payment. In a letter dated July 31, 1998, one of the vendors who supplied the curriculum notified CCDRC that payment had not been received for material costing \$294.23.
- The third check written to the consultant, dated May 13, 1997 for \$600, was labeled as mediation services provided for two-thirty day cycles of training. The written service contract did not document the specific dates of the training. Additionally, this contract was signed and dated only by the former Executive Director. The location reserved for the consultant's signature was blank. Further, the consultant did not endorse this check. Instead, the former Executive Director wrote "For Deposit Only" on the back of the check, along with her account number. The former Executive Director stated that she gave the consultant cash in return for the check, then deposited the check into her account. According to the consultant, he received \$600 cash, but did not recall actually providing the classes. He stated that he was still under contract with CCDRC to provide the training, and thought he would be providing the training during the summer of 1998. However, CCDRC has not contacted him.
- The fourth check written to the consultant was dated June 20, 1997 for \$600. The written service contract indicated this check paid for behavior modification classes for the Teen Court program. However, the contract was only signed and dated by the former Executive Director. The location reserved for the consultant's signature was blank. Additionally, a number labeled as a social security number was written on the face of the check, but the number was not a valid social security number. According to the consultant, he did not know why an invalid social security number was written on the check. However, he

FINDINGS AND RECOMMENDATIONS (CONTINUED)

stated he provided the classes as contracted and received \$600 for those services.

- The fifth check written to the consultant was dated July 15, 1997 for \$700. However, we could not locate documentation for this check. Additionally, the endorsement on this check does not appear to be the same as those on the previous checks. The consultant could not provide an explanation for the check.

As stated previously, we were unable to confirm if the consultant actually performed any of the services outlined in the contracts. Conversations with CCDRC's current employee, former employees, and Board members indicated that they did not know the consultant, nor were they aware of any services he provided. A former employee, whose name was listed on the check request form as the requestor of the consultant's fourth check, stated she had never heard of the consultant, nor had she requested that a check be written to him.

RECOMMENDATION

CCDRC's Board should approve all contractual service agreements prior to issuing checks to consultants. Board members authorized to sign checks should ensure that checks labeled as payments to consultants have been approved by the Board, and verify the existence of and the work performed by any consultants. CCDRC should obtain paid invoice documentation prior to issuing reimbursement checks to individuals. Additionally, CCDRC should take whatever action deemed necessary to recover the \$600 paid to the consultant for services not provided, plus any additional amounts in which CCDRC

FINDINGS AND RECOMMENDATIONS (CONTINUED)

determines should not have been paid to the consultant. We are referring this finding to the State Bureau of Investigation for further review.

7. THE FORMER EXECUTIVE DIRECTOR VIOLATED CCDRC'S CONFLICT OF INTEREST POLICY BY EMPLOYING HER HUSBAND.

Although CCDRC's Conflict of Interest Policy requires all CCDRC staff to avoid any real or perceived conflict of interest, the former Executive Director employed her husband to work at CCDRC. From January 1996 through August 1996, at the direction of the former Executive Director, CCDRC issued nineteen checks totaling \$8,550.31 to the former Executive Director's husband. We could not confirm the actual date he was employed from either the former Executive Director or CCDRC. The former Executive Director's husband continued working at CCDRC until the Board learned of his relationship with the former Executive Director, at which time he ceased working for CCDRC.

During our review, we identified two checks, each dated January 26, 1996 for \$457.20, with the notation, "Bi monthly salary for temp worker." According to the former Executive Director, although the two checks were dated on the same day, one check would have to be payment for services performed the first half of January, and the other check would be payment for services performed the last half of the month. However, since we could not identify the date of his employment, we could not confirm that one of the checks was payment for services actually performed during the first half of January.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

We also identified three other questionable checks. One check, dated May 28, 1996 for \$914.00, appeared to be a payroll check for the period May 16, 1996 through May 31, 1996, and another check, dated July 12, 1996 for \$914.00, appeared to be a payroll check for the period July 1, 1996 through July 15, 1996. However, each check amount was approximately twice the amount which normally was paid for a two week period. The former Executive Director stated that she did not know the reason for the check amounts. We could not determine the purpose of another check, dated June 26, 1996 for \$378.65, nor could the former Executive Director recall the reason for that check.

According to one of the Board members who signed these checks, he could not recall the reasons for them. He stated that he normally did not review supporting documentation for employee payroll checks.

RECOMMENDATION

The Board should take a more active role in the management of CCDRC and ensure that future Executive Directors are aware of and abide by CCDRC's conflict of interest policy. The Board members authorized to sign checks should ensure that supporting documentation is available for each check, thoroughly review the supporting documentation for completeness, and confirm the accuracy of the check amounts. We are referring this finding to the State Bureau of Investigation for further review.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

8. CCDRC ISSUED A \$2,300 CHECK TO ANOTHER CORPORATION'S AMERICAN EXPRESS ACCOUNT.

At the direction of the former Executive Director, CCDRC issued a check, dated September 26, 1997 for \$2,300, to American Express. According to one of the Board members who signed the check, he could not recall the reason for the check. Further, this same Board member did not know if CCDRC possessed an American Express card.

According to the former Executive Director, the American Express card belonged to a for-profit corporation in which she serves as the President. However, the former Executive Director stated that CCDRC owed her for purchases she had made with her own funds for CCDRC. These purchases included lunches for Board meetings, snacks at the training sessions, and expenses incurred with the Education, Reconciliation, Responsibility program. The former Executive Director stated that she allowed CCDRC to pay \$2,300 owed to her by writing a check directly to American Express. Although she said she submitted receipts to CCDRC for those expenditures, we were unable to locate them.

RECOMMENDATION

Once again, each Board member authorized to sign checks should ensure that supporting documentation is available for each check and thoroughly review supporting documentation for completeness. Additionally, the Board members authorized to sign checks should abide by the Board's policy concerning non-payroll checks with

FINDINGS AND RECOMMENDATIONS (CONTINUED)

amounts greater than \$500. The policy stipulates obtaining Board approval for those checks. We are referring this finding to the State Bureau of Investigation for further review.

9. **THE ADMINISTRATIVE OFFICE OF THE COURTS PAID CCDRC \$3,486 IN EXCESS OF THE AMOUNT APPROPRIATED FOR ITS TEEN COURT PROGRAM.**

FINDINGS AND RECOMMENDATIONS (CONTINUED)

According to information obtained from the Administrative Office of the Courts (AOC), AOC inadvertently paid CCDRC \$3,486 in excess of the amount appropriated for its Teen Court Program for the fiscal year 1997-98. In a letter dated May 7, 1998 to CCDRC's Board President, AOC requested CCDRC to return those funds by May 31, 1998. CCDRC's Board President responded to AOC's request in a letter dated May 22, 1998, stating that CCDRC's books were in the process of being reviewed. The Board President wrote that if CCDRC determined that AOC had actually overpaid, then arrangements would be made to return the funds. Further, CCDRC's President stated she would contact AOC approximately two weeks from the date of the letter. However, according to AOC, it wasn't until June 23, 1998 that CCDRC's Treasurer spoke with AOC concerning the overpaid amount. According to AOC, the Treasurer admitted that AOC had overpaid CCDRC, and stated that CCDRC would make arrangements to return the amount within six months as long as AOC continued to fund CCDRC in the following year. However, as of the writing of this report, CCDRC has not returned those funds.

RECOMMENDATION

AOC should take whatever action deemed necessary to recover the \$3,486 overpaid to CCDRC.

- 10. CCDRC'S RECORDS INDICATE THAT IT DID NOT REPORT TO THE INTERNAL REVENUE SERVICE OR THE NORTH CAROLINA DEPARTMENT OF REVENUE ALL COMPENSATION PAID TO EMPLOYEES AND CONTRACTORS.**

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Our review of the Forms W-2, Wage and Tax Statements, prepared for CCDRC's employees indicated that one Form W-2 did not contain the total compensation paid to an employee during 1997. We were also unable to confirm that a 1099 Miscellaneous Wage Income form was prepared for the remaining compensation paid to this employee. Additionally, we could not confirm that a 1099 Miscellaneous Wage Income form was completed for contractors hired by CCDRC.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

RECOMMENDATION

CCDRC should review its financial records to determine that all payments to employees and/or contractors have been properly reported. We are referring this finding to the North Carolina Department of Revenue for further review.

Schedule A
Questionable Checks Written to the Former Executive Director Marked as ERR Training Services
July 1996 – June 1998

Check Number	Date of Check	Amount of Check	Documentation on Check	Documentation On Check Stub	Documentation on Check Request Form
1404	04/25/97	\$ 1,300.00	None	IRA - Back payments, 13 months	ERR back payments for training, 1/96 - 3/96
1525	08/19/97	1,200.00	Training	*	ERR training, 3 sessions, June-Aug 1997
1549	09/12/97	895.89	None	*	Two ERR sessions April – May 1997
1582	10/09/97	500.00	None	*	ERR training - May 1996
1590	10/15/97	658.00	None	*	ERR training, remaining balance trainer salary, Oct 1997 (10 hrs overtime)
1606	10/31/97	500.00	Contract services	*	training for Sept 1997
1608	11/05/97	1,500.00	None	*	Back pay for ERR sessions, Oct - Dec 1996
1611	11/11/97	895.39	None	*	Back salary for ERR sessions, August 1996
1614	11/14/97	500.00	Training	*	ERR training fees, Nov 1997
1651	12/02/97	700.00	None	*	ERR training, Dec 1997
1688	12/19/97	500.00	None	*	ERR trainer, Aug 1996 - Sept 1996
1689	12/19/97	500.00	None	*	Back salary for ERR sessions, July 1996
1696	01/06/98	500.00	None	ERR training	ERR back payments for training, March/April 1996
1706	01/15/98	500.00	ERR salary	ERR salary - trainer fees	ERR, Jan 1998
1710	01/27/98	1,500.00	None	ERR training	ERR trainer, Jan - March 1997; Back payments complete for 1996
1730	02/17/98	750.00	ERR Mar-Apr 98	ERR trainer	ERR training fees, March 1998 - April 1998
1750	03/06/98	1,000.00	ERR training May - July 1996	ERR training	ERR training, May 1996 – July 1996, debt owed by CCDRC
1797	03/20/98	<u>500.00</u>	None	VOID lost check	ERR training fees
TOTAL:		<u>\$ 14,399.28</u>			

*According to CCDRC personnel, check stubs for the second half of 1997 are missing.

Source: Cumberland County Dispute Resolution Center, Inc.

Schedule B
Additional Questionable Checks Written to the Former Executive Director
July 1996 – June 1998

Check Number	Date of Check	Amount of Check	Documentation on Check	Documentation On Check Stub	Documentation on Check Request Form
1181	10/31/96	\$ 99.45	None	Contingency, re-payment of SSI taken out of insurance allotment	No Check Request Form
1382	04/08/97	922.12	None	Back insurance payments 9/95 - 3/97	Insurance extra (overflow from \$100 monthly amount from 9/96-3/97 (\$462.91) & end of fiscal year (\$264.52)
1438	05/13/97	922.12	Salary	Salary	No Check Request Form
1512	08/01/97	895.39	None	*	No Check Request Form
1524	08/18/97	642.98	Contingency - reimbursement	*	No Check Request Form
1547	09/15/97	895.39	None	*	No Check Request Form
1592	10/17/97	160.00	None	*	No Check Request Form
1650	12/02/97	1,362.22	None	*	No Check Request Form
1795	03/15/98	874.39	None	VOID	No Check Request Form
1817	04/14/98	<u>874.39</u>	Unpaid vacation	Vacation pay	Salary 4/16/98-4/30/98
	Total	<u>\$ 7,648.45</u>			

*According to CCDRC personnel, check stubs for the second half of 1997 are missing.

Source: Cumberland County Dispute Resolution Center, Inc.

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.

1. Funds used to pay delinquent liabilities owed from prior years. (Page 6)	\$ 24,176
2. Checks written to the former Executive Director which do not appear to have been authorized by the Board. (Page 10)	14,399
3. Additional unauthorized checks written to the former Executive Director without supporting documentation. (Page 13)	7,648
4. Questionable checks written to a consultant. (Page 16)	3,783
5. Checks written to the former Executive Director's husband. (Page 18)	8,550
6. Check written to a for-profit corporation's American Express account. (Page 20)	2,300
7. Amount overpaid by AOC to CCDRC. (Page 22)	<u>3,486</u>
Total Financial Impact	<u>\$ 64,342</u>

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**CUMBERLAND COUNTY
DISPUTE
RESOLUTION CENTER**

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**Response From The President Of The
Cumberland County Dispute Resolution Center
Board Of Directors**

The members of the Cumberland County Dispute Resolution Center Board Of Directors (hereinafter called "the board") appreciate the efforts of the Office Of The State Auditor in investigating this matter and providing the information contained in the Special Review. We have taken or are taking steps to implement all of the recommendations set forth in the Special Review. We are determined to ensure that such problems do not recur. This response is submitted after consultation with a majority of current members of the board, as well as the two current employees. All of those consulted were board members or employees during at least part of the time covered by the Special Review. Our response will include comments and additional information as to several of the matters addressed in the Special Review. It will iterate those steps we are taking in response to the problems identified therein. This response is not intended as a comprehensive answer to each and every allegation in the Special Review.

Members of the board believed that the CCDRC staff was maintaining minutes of our meetings. Such minutes routinely were prepared and presented for approval at the following meeting. In the summer of 1995, the board decided to meet bi-monthly rather than monthly. In October 1995, we resumed meeting on a monthly basis. In June 1996, the board directed that the staff be responsible for the board minutes. Board members remember minutes being presented and approved after that time. It was reasonable to conclude that the staff was maintaining those minutes appropriately. We do not know whether they simply were not saved or were later removed. We have located copies of minutes for two additional meetings, as well as documentation that there was no meeting in November 1996.

Minutes presently are being taken and maintained by the board secretary. We will maintain the original minutes in the CCDRC office in a filing cabinet designated for use by the board. Only the board will have access to that cabinet. The board secretary will maintain an additional copy of the minutes of all meetings. The board likewise will maintain documentation of canceled meetings.

The board has reiterated its policy on the signing of checks. Two board members authorized to sign checks must approve and sign every check. We have clarified that checks must be signed in person -- no signature stamps or verbal authorizations for someone else to sign the board member's name. Check signers must sign the check, initial the check stub, sign the check request form as approving the check and initial the invoice or other supporting document(s). The check request form will state that the board members approving it have reviewed the check request and supporting document(s). All the authorized check signers and both employees are familiar with this policy.

The board treasurer now reconciles the bank statements and reports to the board monthly on all expenditures. In future, the monthly treasurer's report will note which two board members signed each check, and whether any checks were signed without following the prescribed procedure.

None of the board members consulted were aware of any agreement to pay the former executive director for her ERR services separately or in addition to her regular salary. Board members considered her ERR work covered by her salary. Some board members recall her saying that providing that service herself was saving CCDRC the expense of paying someone to do it. Likewise, none of the board members consulted were aware of any agreement or authorization by the board to pay the former executive director any back pay for the ERR program.



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**Response From The President Of The
Cumberland County Dispute Resolution Center
Board Of Directors, Page 2**

The board members consulted were not aware of CCDRC contracting with the consultant referenced in the Special Review, nor of any services performed by that consultant. The board is adopting a policy that any use of an outside consultant requires prior approval of the board.

As stated in the Special Review, when the board learned that the former director was employing her husband, it mandated that he cease that employment. At that time, the board made inquiries concerning services performed by him. It did appear that he actually performed substantial services for CCDRC in return for his compensation. We have not determined that his services matched the actual amount paid, particularly with reference to the two larger checks and the June 26, 1996 check. An employee who worked at the CCDRC at the time confirms that his employment began at the beginning of January 1996. The board is adopting a policy that the hiring of any employee requires prior approval by the board.

No board member consulted recalled the board ever authorizing the payment of moneys to the American Express account referenced in the Special Review. No member recalls the board authorizing reimbursement to the former executive director for the expenses referenced in connection therewith. I strongly believe that the board would not approve the reimbursement of expenses in that manner.

The board is creating a petty cash fund to curtail the reimbursement of expenses advanced by employees from personal funds. That fund must be replenished each month by a check requested and approved by the usual procedure. Petty cash vouchers and supporting receipts must be presented with the check request. The treasurer will reconcile the petty cash fund each month and include that information in the monthly financial report to the board.

The board treasurer informed me yesterday that he has made arrangements for the funds overpaid by the Administrative Office Of The Courts to be reimbursed in increments over the period of a year.

With respect to the reporting of wages and other compensation to the IRS and N.C. Dept. of Revenue, it appears from other sections of the Special Report that a discrepancy probably has resulted from the payment of funds denominated as wages or other compensation that were not actually wages or other legitimate compensation. At this point the board believes that the legitimate wages were reported. Should further investigation show otherwise, we will arrange to pay any additional amounts owed. Our CPA firm now figures our payroll taxes to insure accuracy.

The board believed that CCDRC had almost finished paying the delinquent taxes. We were informed that CCDRC was paying \$1500 per month and that only one monthly payment was left to pay. Although the funding source for these payments was not specifically indicated, CCDRC did receive some funding which was not earmarked by contract to any particular use by CCDRC, and should have been available for this purpose without varying from a funding agreement. We are working with the IRS to resolve this problem.

The former director had informed the board on at least two occasions that CCDRC was current on its bills. This occurred at the July 17, 1997 board meeting as noted in the Special Review and at another board meeting late in 1997. On the second occasion, board members were discussing the possibility of a Christmas bonus for the executive director and staff. The director told the board that CCDRC was current on its obligations and funds were available for a bonus. After the former executive director had resigned, the board discovered that 32 checks to pay various bills had been written, presented to board members and signed, but were never sent to the creditors. This had further misled board members into believing that CCDRC was paying its creditors. The board believes that some of the outstanding debts may be for goods or services provided to others besides CCDRC. The board is working

**Response From The President Of The
Cumberland County Dispute Resolution Center
Board Of Directors, Page 3**

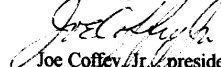
on clarifying this, and will notify any such vendors of who should be responsible for those debts. The board will include in the CCDRC budget a line item, funded by non-earmarked sources, to liquidate outstanding liabilities.

The CCDRC budgets will reflect the funding source(s) for any item funded by moneys subject to specific uses. The monthly financial report to the board will identify the funding source(s) for each expenditure of such funds. This also will be reflected on the check request form and the check stub. The board will maintain a post office box address separate from the CCDRC office address. We will have the bank statements and bills sent directly to the board at the PO box. Bank statements, check stubs, approved check requests and other related material will be maintained in the board's separate filing cabinet. This will enable the board better to monitor CCDRC's financial business. Board officers and members will directly and closely monitor all financial transactions.

The board intends to pursue any appropriate legal action necessary to recover funds to which CCDRC is entitled. We think it is appropriate to await the results of the further investigation by the State Bureau Of Investigation before undertaking such action.

As previously stated, the board is committed to protecting CCDRC from any further problems such as those indicated in the Special Review. We believe that the measures we are taking coupled with diligent oversight by the board will suffice to accomplish this purpose.

Respectfully submitted


Joe Coffey, Jr., president
Board Of Directors
Cumberland County Dispute
Resolution Center

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In accordance with G.S. §147-64.5 and G.S. §147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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October 26, 1998

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