

STATE OF NORTH CAROLINA

SPECIAL REVIEW

COASTAL COMMUNITY ACTION, INC.

HAVELOCK, NORTH CAROLINA

JULY 1999

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

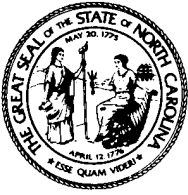
STATE AUDITOR

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HAVELOCK, NORTH CAROLINA

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RALPH CAMPBELL, JR.
STATE AUDITOR

STATE OF NORTH CAROLINA
Office of the State Auditor

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LETTER OF TRANSMITTAL

July 12, 1999

The Honorable James B. Hunt, Jr., Governor
The Honorable Michael E. Ward, State Superintendent
North Carolina Department of Public Instruction
Mr. H. David Bruton, M.D., Secretary
North Carolina Department of Health and Human Services
Mr. Bevin W. Wall, Chairperson
Coastal Community Action, Inc.
Mr. Charles T. Trent, Executive Director
Coastal Community Action, 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 Coastal Community Action, Inc. (CCA). 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,

A handwritten signature in cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr., CFE
State Auditor

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OVERVIEW

Coastal Community Action, Inc. (CCA) is a non-profit corporation organized to fulfill charitable and educational purposes. The mission of CCA is “to assist individuals and families to overcome poverty conditions; help remove barriers that keep people from achieving self-sufficiency; develop jobs and housing for very low to moderate income persons; and provide comprehensive programs designed to improve the economically disadvantaged and elderly people without regard to race, creed, handicap, sex or national origin.” In striving to complete its mission, CCA offers the following programs to the citizens of Carteret, Craven, Jones and Pamlico counties:

- Head Start,
- Section 8 Housing,
- Weatherization,
- Heating Appliance,
- Repair and Replacement,
- Urgent Repairs,
- Support Our Students,
- Family Planning,
- Community Services,
- Self-Sufficiency,
- Income Management
- Employment Survival,
- Emergency Assistance,
- Foster Grandparents,
- Senior Companions, and
- Retired Senior Volunteers.

Coastal Community Actions’ central administration is located in Havelock, North Carolina and its Head Start administration is located in Morehead City, North Carolina. A board of directors appoints an Executive Director who governs Coastal Community Action, Inc. The Head Start program has a Director who reports to the Executive Director and the Head Start Advisory Board.

OVERVIEW (CONCLUDED)

The majority of CCA resources are used to operate the Head Start program. The Head Start program is a federal program designed to give children whose families fall below the poverty line the best in education, nurture and safe environments. CCA Head Start has seven child development centers, forty classrooms, four nurseries, and a regional family resource center. CCA Head Start provides these services to the residents of Carteret, Craven, Jones and Pamlico Counties. CCA Head Start employs approximately 150 people and serves approximately 800 children.

CCA receives approximately 87 percent of its revenue from state and federal sources. During the fiscal year ending September 30, 1998, CCA had total Head Start revenue of \$5,732,260. Of that amount, \$4,763,019 was received from federal grants and \$81,177 was received from state grants.

INTRODUCTION

We received a request from the CCA Executive Director to investigate the following allegations that had been brought to his attention.

- ◆ The Head Start Director awarded contracts without requiring bids.
- ◆ The Head Start Director authorized payments to a Contractor although the work had not been completed.
- ◆ The Head Start Director allowed a Contractor to split large projects into multiple small projects in order to avoid the bidding process.

We used the following procedures to conduct our special review:

- ◆ Interviews with employees of CCA.
- ◆ Interviews with persons external to CCA.
- ◆ Examination of pertinent CCA records.
- ◆ Inspection of certain CCA facilities.

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. Coastal Community Action, Inc., contracts with a private certified public accounting firm to perform an annual financial audit.

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FINDINGS AND RECOMMENDATIONS

1. COASTAL COMMUNITY ACTION, INC. PAID A CONTRACTOR ON SEVERAL OCCASIONS FOR WORK HE HAD NOT PERFORMED.

During the course of our review, we visited several Head Start Centers and found repair and renovation projects that had been started but had not been completed. In all cases, the Contractor hired to complete these projects had been paid for most, if not all, the work.

For example, the Contractor submitted an invoice on April 29, 1997, in the amount of \$240 for painting the water-damaged wall and ceiling in the cafeteria at the F.R. Danyus Head Start Center (See Exhibit 1). According to the Facilities Coordinator, the ceiling and wall have never been painted. After observing the cafeteria ceiling and wall, it is apparent the work had not been performed (See Exhibits 2 and 3).

The Contractor admitted he did not paint the ceiling and wall at the F. R. Danyus Head Start Center. He said he performed other work in place of painting and should have submitted an invoice for the work actually completed. The Contractor said his invoices did not always reflect the work he performed. According to the Contractor, both the Transportation Coordinator and the Head Start Director were aware the invoices he submitted were not always accurate.

Additionally, on July 27, 1998, the Contractor received \$9,500 for installing ceiling grids and tile in two hallways located at the F.R. Danyus Head Start Center. On November 4, 1998, the Contractor received an additional \$11,865 for installing

FINDINGS AND RECOMMENDATIONS (CONTINUED)

insulation and lighting in these same two hallways. On February 18, 1999, we visited the F.R. Danyus Head Start Center and found that only the ceiling grids had been installed. The tile, insulation and lighting had not been installed in either hallway (See Exhibit 4). In fact, new bids were received in January 1999 for additional renovations that included the repair work that had not been completed by the Contractor. The Contractor submitted a bid for the work that he has already been paid for and never completed.

Furthermore, in June 1998, the Contractor was invited to bid on replacing the roof at the Beaufort Head Start Center. The Contractor was awarded the bid at \$64,600. On June 16, 1998, the Contractor was paid \$32,300 for start up costs. The Contractor received an additional \$10,000 on August 25, 1998. According to the Head Start Director, the Contractor ceased working on the roof in August 1998 due to Hurricane Bonnie. Nevertheless, the Contractor still received an additional \$15,000 after he stopped working on the roof. After examining the roof, we estimated that approximately 20% of the work had been completed (See Exhibits 5 through 10). However, the Contractor has been paid a total of \$57,300, approximately 89% of the total bid.

The Contractor said he stopped working on the roof at the Beaufort Head Start Center because employees complained about the fumes he was creating. He said he notified both the Transportation Coordinator and the Head Start Director when he stopped working on the roof. The Contractor said he would complete the roof whenever he

FINDINGS AND RECOMMENDATIONS (CONTINUED)

was told to do so. The Center's Director, however, stated none of the employees complained about the fumes. In fact, she complained the Center's roof leaked every time it rained because the work has not been completed. The Center's Maintenance employee laid tarpaulin on the unfinished roof in an attempt to stop the flow of water in the building. He said each time it rained, he had to remove the ceiling tiles in order for them to dry.

During the course of our review, the Beaufort Head Start Center was closed due to unsafe conditions. According to the Director of Inspections for the Town of Beaufort (Director of Inspections), the Center's ceiling tiles are on the verge of falling throughout the building. Additionally, he said moisture was found in the ceiling lights and fire alarms creating a fire hazard. Furthermore, mold and mildew were evident throughout the Center. The Director of Inspections determined the conditions stated above were attributed to severe water damage caused by the uncompleted roof. On March 22, 1999, the Director of Inspections, the Beaufort Fire Chief, a Child Care Consultant with the Department of Health and Human Services, Division of Facility Services and two Environmental Health Specialist with the Carteret County Health Department performed an unannounced inspection of the Beaufort Head Start Center. At that time, the building was ordered closed to protect the welfare of the children.

According to the Facility Coordinator, all work should be completed and inspected prior to payment. The Facility Coordinator stated that approximately two years ago, he was relieved from responsibilities of managing repair and renovations at the Head

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Start Centers. The Facility Coordinator said the Head Start Director assigned the Transportation Coordinator with the responsibility for hiring contractors, preparing requisitions and managing the projects.

According to the Transportation Coordinator, approximately two years ago, the Facility Coordinator was injured and absent from work for an extended period of time. The Transportation Coordinator stated, during that time, the Head Start Director gave him the Facility Coordinators' responsibilities. The Transportation Coordinator said he continued coordinating repairs for the centers after the Facility Coordinator returned to work because the repairs needed to be done quickly. The Transportation Coordinator admitted he did not have the expertise necessary to hire contractors and inspect their work. The Transportation Coordinator said he continued to use the same Contractor that had been used in the past. According to the Transportation Coordinator, he asked the Contractor for estimates on various projects. The Transportation Coordinator said he prepared a requisition for all estimates less than \$5,000 and forwarded the requisition to the CCA central office for approval. Once he received an approved purchase order, the Transportation Coordinator instructed the Contractor to begin work.

The Transportation Coordinator stated that he did not inspect the Contractor's work to insure the work was completed. Nonetheless, once the Contractor submitted an invoice, he would forward the invoice to the CCA Comptroller for payment.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

According to the Comptroller, once the invoice was received, she assumed the work was completed and payment was made. A review of the payments made to the Contractor revealed, in some instances, a copy of a proposal was submitted, not an invoice; however, payment was made. Furthermore, the documents submitted do not indicate if the work had been completed, rather the documents duplicated the information stated in the original proposal. The Comptroller could not provide us with any documentation that indicated the work had been completed.

RECOMMENDATION

We recommend that the Facilities Coordinator and not the Transportation Coordinator, be allowed to coordinate repairs and renovations. We further recommend the Facilities Coordinator and Center Director inspect each job prior to authorizing payment to a contractor. The Facilities Coordinator and the Center Director should each sign the purchase order verifying the work has been completed. The Comptroller's Office should not make payments until receiving verification the work has been completed. We also recommend CCA take whatever actions deemed necessary including legal, to recoup the money paid for the incomplete work.

2. THE CONTRACTOR SUBMITTED, AND THE HEAD START DIRECTOR ACCEPTED, PROPOSALS UNDER \$5,000 TO AVOID THE COMPETITIVE BIDDING PROCESS.

According to the Comptroller, CCA is required to obtain bids for projects estimated to cost \$5,000 or more. The Comptroller, Head Start Director, and the Contractor all

FINDINGS AND RECOMMENDATIONS (CONTINUED)

said that \$5,000 was the threshold for bidding projects, but CCA could not provide us with a written policy. It appears the \$5,000 threshold was an understood policy because Head Start regulations require all projects estimated to cost \$10,000 or more be subjected to a formal bidding process.

The Contractor, referred to in Finding 1, submitted, and the Head Start Director accepted, proposals under \$5,000 in order to avoid a formal bidding process. In several instances, the Contractor submitted numerous proposals for one project so each proposal would remain less than \$5,000, although the total cost of the project exceeded \$5,000.

The Contractor said he was familiar with the purchasing regulations because he had worked as a consultant for another Head Start Program. He admitted keeping his proposals under \$5,000 to avoid the bidding process.

According to the Transportation Coordinator, he was aware that he should have obtained a minimum of three bids for any project costing \$5,000 or more. He said he requested the Contractor provide estimates on various projects. The Transportation Coordinator said when he received the Contractor's proposals which were under \$5,000, he prepared a requisition and forwarded it to CCA's central office for a purchase order. The Transportation Coordinator stated that when he received the proposals, he was not aware the Contractor was splitting the proposals to avoid the bidding process. However, during our review, the Transportation Coordinator stated

FINDINGS AND RECOMMENDATIONS (CONTINUED)

it was obvious the proposals were submitted in a manner to circumvent the bidding process.

Based on our review, we believe the Transportation Coordinator should have realized the intent of the Contractor at the time the proposals were submitted. For example, the Contractor submitted three separate proposals to repair a damaged roof at one of the Head Start centers. He divided the estimates into three separate, smaller estimates. Two of these proposals were submitted on the same day. When a roof was damaged at another Head Start Center, the Contractor again submitted four separate proposals within 30 days of one another, ranging from \$3,045 to \$4,780. However, the most apparent instance is when the Contractor was asked to provide an estimate on lowering the ceiling in two hallways at one of the Head Start centers. Rather than submitting one proposal with the entire cost, the Contractor submitted five separate proposals dividing the work into stages in order to keep each proposal under \$5,000. Although, these proposals were not dated, the requisitions completed by the Transportation Coordinator were all approved by the Head Start Director on June 18, 1998.

From August 1996 through December 1998, the Contractor was paid \$282,459 for various projects. Of the \$282,459 paid to the Contractor, \$175,379 was paid for projects that were not solicited for bids. During the same time period, the Contractor submitted bids for two projects. In each instance, the Contractor was awarded the project. The Head Start Director stated the Contractor was awarded one of the

FINDINGS AND RECOMMENDATIONS (CONTINUED)

projects because his proposal was the lowest bid meeting the specifications. A review of the Contractor's proposal revealed the proposal did not meet specifications.

In addition, the Contractor submitted a quote for catering a Head Start Banquet. The original quote was for \$5,485. The CCA Comptroller rejected the quote because she said the proposal had to be formally bid. The Contractor then submitted a second quote for \$4,972.04 and was hired to cater the banquet.

In our opinion, acts described above violated 45CFR Subtitle A (10-1-98 Edition) 74.43 Competition Policy which states,

All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade...

RECOMMENDATION

We recommend CCA provide and educate each employee on the written procurement procedures. We further recommend CCA review each proposal submitted by contractors to insure the competitive bidding procedures are followed. We also recommend CCA comply with applicable Head Start regulations requiring that they seek open and free competition to the maximum extent practical.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

3. THE COMPTROLLER ISSUED PURCHASE ORDERS THAT VIOLATED THE COMPETITIVE BIDDING PROCESS AND AUTHORIZED PAYMENTS TO A CONTRACTOR WITHOUT VERIFICATION THE WORK HAD BEEN COMPLETED.

According to the Head Start Director, the Transportation Coordinator was responsible for obtaining all repair and renovation proposals for the last two years. Any projects costing \$5,000 or more were subject to a formal bidding process. The Head Start Director stated the Transportation Coordinator prepared the specifications for each project costing \$5,000 or more and received all proposals. The Head Start Director said he reviewed the proposals along with the Transportation Coordinator, but he was responsible for awarding the contracts.

All proposals, along with a requisition authorized by the Head Start Director were forwarded to CCA's Comptroller, for a purchase order to be issued. According to the Comptroller, each payment was made to the contractor once the work was completed and an invoice was submitted. As stated in the first finding, in some instances we were unable to locate supporting documentation other than the initial proposal and requisition. Furthermore, in all instances, we found no documentation verifying the work had been completed. Therefore, we question why the Comptroller authorized payment to the Contractor (referred to in Finding 1 and 2) without adequate documentation. We further question why the Comptroller continued to approve purchase orders for the Contractor when it was obvious the proposals were submitted in a manner to avoid the formal bidding process.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

For example, on June 18, 1998, the Transportation Coordinator submitted five separate proposals for one project at the F. R. Danyus Head Start Center. The proposals ranged from \$3,380 to \$4,720 each. On the June 22, 1998, the Comptroller authorized five separate purchase orders. According to the Transportation Coordinator, the Comptroller never questioned why five separate proposals were submitted for one project, nor did she question why the project was not solicited for bids. The Comptroller stated she was not aware the Contractor was splitting proposals until the issue was raised by CCA staff. She said it became evident after she reviewed the documentation.

RECOMMENDATION

CCA should update the written procurement procedures and educate the employees on their responsibilities. The procedures should clearly define each employee's role in the process and employees should be held responsible for abiding by the procedures.

4. CCA HIRED AN UNLICENSED CONTRACTOR THAT PERFORMED BUILDING REPAIRS AND RENOVATIONS WITHOUT THE REQUIRED BUILDING PERMITS.

According to the Transportation Coordinator, he did not verify the Contractor (referred to in Findings 1, 2 and 3) was properly licensed or obtained the necessary building permits for each project. The Transportation Coordinator said the Contractor told him he was licensed by the North Carolina Plumbing and Electrical Boards. However, the State Board of Plumbing Contractors was unable to locate a license in

FINDINGS AND RECOMMENDATIONS (CONTINUED)

the name of the Contractor or the two business names he used. Additionally, the State Board of Electrical Contractors stated the Contractor's electrical license has been inactive since June 1995.

Furthermore, we determined the Contractor did not obtain the necessary building permits for the work we observed. According to the Director of Inspections for the Town of Beaufort, a licensed general contractor should perform all work on a public building; and a building permit is required for any projects estimated at costing \$5,000 or more. The Contractor in question is not a licensed general contractor, nor did he obtain any permits for the work performed at the Beaufort Head Start Center.

According to the Chief Building Inspector for the City of New Bern, the Contractor did not obtain the required building permits for the work performed at the F. R. Danyus or the Duffyfield Head Start Centers. In fact, the Chief Building Inspector said building plans should have been submitted and approved by a New Bern City Building Inspector, the Craven County Health Department, the New Bern City Fire Inspector and a Childcare Licensing Consultant prior to starting any work. Additionally, the Chief Building Inspector said some of the work performed by the Contractor required an electrical and, or a plumbing license. Furthermore, he said none of the work performed by the Contractor had been inspected.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

The Supervisor of Inspections for Carteret County stated no permits have been issued for the work performed by the Contractor at the Godette Head Start Center located in Harlowe, North Carolina.

RECOMMENDATION

We recommend CCA verify all contractors employed are properly licensed.

We further recommend CCA ensure the proper agencies have inspected all building projects prior to and after the completion of the work.

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. We are questioning all payments made to the Contractor from August 1996 to December 1998, since the competitive bidding process was circumvented, work was paid for but not completed, the contractor did not possess the required licenses, and the required inspections were not performed.

\$ 282,459

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Proposal

Page No. _____ of _____ Pages

QUEEN STREET SERVICES
1201 QUEEN ST. SUITE D.
NEW BERN, NC 28561
(919) 637-4641

Exhibit 1

PROPOSAL SUBMITTED TO CCA	PHONE	DATE 4-29-97
STREET	JOB NAME Paint Lunch Rm wall	
CITY, STATE AND ZIP CODE Beaufort	JOB LOCATION FR OANUS	
ARCHITECT B Mayo	DATE OF PLANS	JOB PHONE Payment Request

We hereby submit specifications and estimates for:

(1) Paint stained & water DAMAGED wall
and ceiling In Lunch Rm APPROX. 820 Sq FT

\$ 240.00

We Propose hereby to furnish material and labor — complete in accordance with above specifications, for the sum of:

dollars (\$ _____).

Payment to be made as follows:

All material is guaranteed to be as specified. All work to be completed in a workmanlike manner according to standard practices. Any alteration or deviation from above specifications involving extra costs will be executed only upon written orders, and will become an extra charge over and above the estimate. All agreements contingent upon strikes, accidents or delays beyond our control. Owner to carry fire, tornado and other necessary insurance. Workers are fully covered by Workmen's Compensation insurance.

Authorized Signature

James P. [Signature]

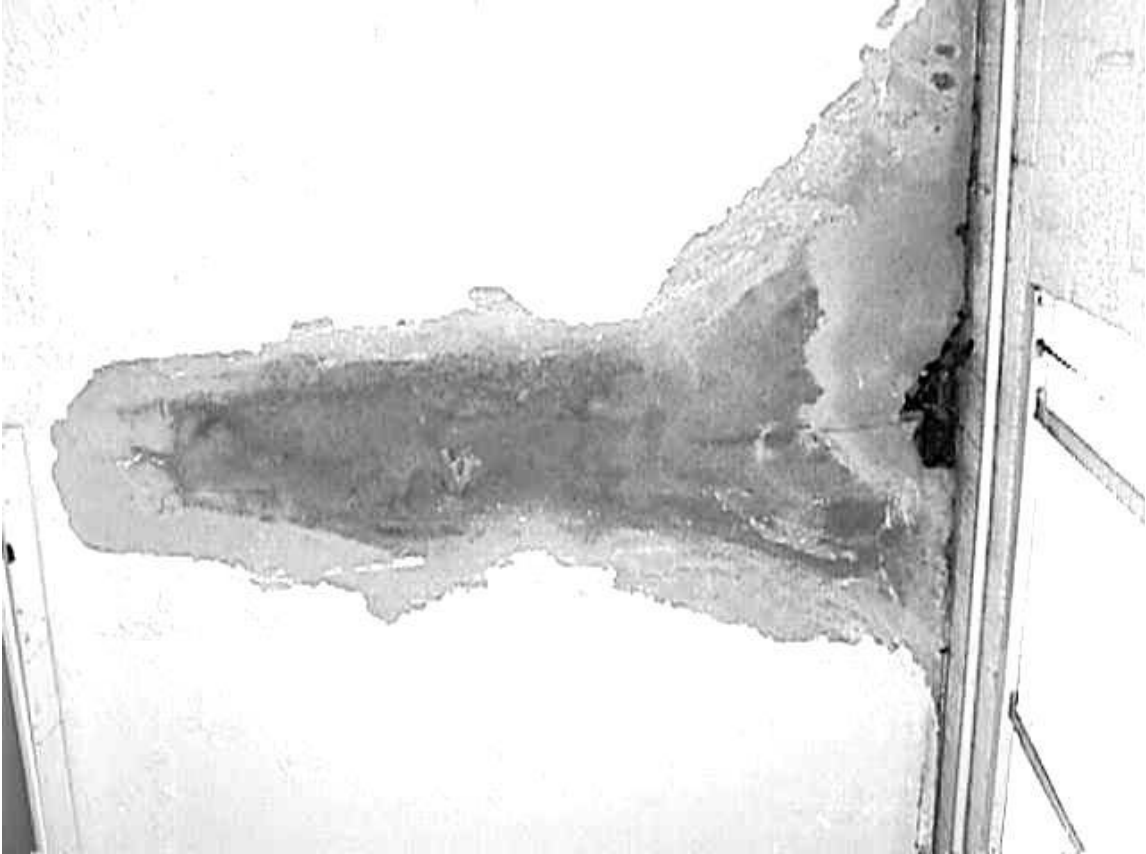
Note: This proposal must be withdrawn by us if not accepted within _____ days.

Acceptance of Proposal — The above prices, specifications and conditions are satisfactory and are hereby accepted. You are authorized to do the work as specified. Payment will be made as outlined above.

Signature _____

Signature _____

Date of Acceptance: _____



F. R. Danyus Head Start Center Cafeteria Ceiling



F. R. Danyus Head Start Center Cafeteria Ceiling



F. R. Danyus Head Start Center Hallway



Beaufort Head Start Center Roof



Beaufort Head Start Center Roof



Beaufort Head Start Center Roof

Exhibit 8



Beaufort Head Start Center Roof

Exhibit 9



Beaufort Head Start Center Roof

Exhibit 10



Beaufort Head Start Center Roof

*Response from the Executive Director of
Coastal Community Action, Inc.*

Coastal Community Action, Inc.

475 US Highway 70 West • P.O. Box 1007 • Havelock, NC • 28532
(252) 444-3272 • FAX (252) 444-3911

Charles T. Trent
Executive Director

Notes for Response to State Auditors Report

Charles A. Beasley
Deputy Director

Item 1: As stated in the findings on page 5 of this audit, jobs were contracted, work was not completed, and inaccurate invoices were submitted. Admittedly, all of this was known by the Transportation Coordinator and the Head Start Director. None of the aforementioned was known in the Administrative Offices of CCA. The employees housed in the Administrative Office seldom are onsite of the various Head Start Facilities. CCA relied upon the Head Start Director to manage all of the facilities improvements and identify invoices that needed to be paid. Therefore, it is the responsibility of the Head Start Director to maintain the facilities and assure that contracted work is completed. The work referred to at F.R. Danyus on pages 5 and 6 was paid after an invoice was received from the Head Start Office. A new bid for further renovations was received in the Finance Office on November 23, 1998. The requisitions had been completed and signed by the Head Start Director on October 16, 1998 and November 20, 1998, respectively. Neither of these purchase orders was approved because of complaints received by this office regarding the contractor in question. Apparently, the contractor began work on these projects without approval from this office. One of the purchase requisitions requested grid and tile in three classrooms. The previous requisitions in June were for grid and tile in two different hallways.

**Executive
Committee**

Bevin W. Wall
Chairman of the Board

Martin Beach
Vice Chairman

Robert Gray
Corporate Secretary

Laura Bryant
Treasurer

Included in the new Financial Policies and Procedures Manual written by the Comptroller last year is the requirement that all invoices are approved by signature before being processed by the Finance Office. This was not a written procedure in the current manual that is in use. This manual will have to continue to be used until problems with the Head Start Policy Council can be resolved and the new manual is approved by Coastal Community Action's Board of Directors and put into place. Expected date of implementation is October 1, 1999.

Item 2: The \$5,000 threshold was the understood policy for bidding projects because the outdated Financial Policies and Procedures Manual stated \$500. At the time that manual was written, \$500 was the appropriate level for the capitalization of equipment; therefore, the same amount was used for bidding purposes. When the capitalization amount was changed so was the bidding threshold. Per several conversations with two different consultants for HHS, \$5,000 was also the threshold they understood to be in place. In fact, \$10,000 is the minimum threshold stated in OMB A-102. However, the individual agency has discretion to set its own threshold as long as it does not exceed the \$10,000 limit. The Board of Directors will be asked to set a \$5,000 threshold at its next regularly scheduled meeting in August, 1999. A Contracting Manual was being written during the course of this requested investigation. This manual is separate from the Financial Policies and Procedures Manual in that it outlines the specific procedures for purchases

PRIVATE CORPORATION -- PUBLIC MISSION

A private non-profit corporation serving Carteret, Craven, Duplin, Jones, Lenoir, Onslow and Pamlico Counties

of varying amounts. Efforts are under way to move towards a centralized purchasing process but presently a lack of funds prevent us from being able to acquire the staff needed to do so. However, the acquisition of a contract/procurement specialist through our FEMA Hazard Mitigation grant will provide the agency with a higher level of expertise to complete and implement a centralized component. This should take place in the next sixty (60) days.

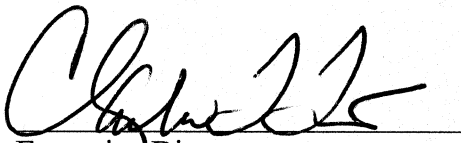
Item 3: As stated in items 1 and 2, a Financial Policies and Procedures Manual has been written as well as a Contracting Manual. (See attachments) The Contracting Manual was approved by CCA's Board of Directors on June 22, 1999. Employees roles and signature authority are outlined in these documents and will be followed after each are approved by the appropriate bodies. The purchase order used by the agency was redesigned in October, 1998. These new purchase orders were utilized beginning in November, 1998. These purchase orders provide for up to four signatures with signatures required of the Comptroller and the Executive Director. Only one signature was required on the old purchase order. These purchase orders were signed by either the Executive Director or the Deputy Director initially. The Executive Director also authorized the Comptroller to sign purchase orders in the Spring of 1998. Therefore, the Comptroller began to approve the purchase orders to verify the items were budgeted and that funds were available. All programs with the exception of Head Start fill out their own purchase orders and submit them for approval. Head Start prepares purchase requisitions and a purchase order is written up from an approved requisition. This is changed in the new Financial Manual so that all programs follow the same procedures. This office requested for several months to have the Head Start Director supplement the duties of one of his employees to handle financial matters in their admin office so that there would be clearer communication between the two offices regarding financial issues.

Purchase requisitions were not always received at one time when jobs were being split to avoid the bid process. Seeing all of the requisitions after the fact and putting them all together, it becomes clear what the Head Start Director was doing. It was not obvious at the time the requisitions were being sent. The requisitions were written up to perform different jobs in different sections of the building being renovated. Items that were less than \$5,000 very seldom had proposals other than that stated and authorized by the Head Start Director on a purchase requisition. What the audit report refers to as an "initial proposal" was in fact what was brought to the Finance Office by someone from the Head Start Admin Office as an invoice. As explained to the auditors, the contractor in question used the same stationary regardless of whether he was submitting a proposal or an invoice. In fact, in all instances a label was used to cover the word proposal on his stationary. If in fact the Contractor sent this "initial proposal" to the Head Start Director so that the Director could prepare his requisition, the Head Start Director must have held the document to submit as an invoice at the time he was prepared to pay the Contractor. Those "initial proposal" documents were not received in the Finance Office at the time the requisitions were received and purchase orders issued. Proposals were usually only received for larger jobs where three proposals would be attached to the purchase requisition at the time they were received.

Item 4: The addition of a contracting specialist in accordance with the Contracting Manual requirements will guarantee that future contracts are outlined with the specific licensing and permits requirements for each job up available for bid.

Questioned costs:

Per review of the information provided by the audit report's Statement of Financial Impact, we disagree with the questioned costs. The statement is made that all payments to the Contractor are being questioned. We disagree with the amount shown as a questioned cost. We have not been provided with a schedule to tie back to the number that is shown as the questioned amount. No break out of the funds by source has been provided for us to address specifically by item. We disagree with the blanket statement that work was paid for but not completed and that the competitive bid process was circumvented. We now know of particular instances where that occurred because we brought it to the attention of the State Auditor's Office, but we disagree that it occurred in all cases of the items examined. As stated in the above items, measures have been taken to enhance the bidding process and the system of internal controls surrounding that process. As soon as we were made aware that incidents of this nature were taking place, we immediately prohibited further contractual relationships with the Contractor in question and stopped any and all payments requested by the Contractor. More detailed procedures and responsibilities have been and are continuing to be established to prevent similar incidents in the future.


Executive Director

7/6/99
Date

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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

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Frank W. Ballance, Jr.	Representative Martha B. Alexander
Senator Patrick J. Ballantine	Representative E. Nelson Cole
Senator Roy A. Cooper, III	Representative James W. Crawford, Jr.
Senator James Forrester	Representative W. Pete Cunningham
Senator Wilbur P. Gulley	Representative Ruth M. Easterling
Senator David W. Hoyle	Representative Joe Hackney
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Mr. Thomas L. Covington	Director, Fiscal Research Division

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Other Parties

Ms. Janice Cole
Ms. Patricia Ford-Roegner
Mr. Albert Hallmark

U.S. Attorney, Eastern District of North Carolina
Director, Region IV, U.S. Department of Health and
Human Services
Regional Inspector General for Investigations, Region
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July 12, 1999

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