

Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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July 29, 2002

Mr. Dan Marchesoni, Treasurer
Project Challenge North Carolina, Inc.
61 Windy Lane
Fletcher, North Carolina 28732

Dear Mr. Marchesoni:

We received an allegation through the State Auditor's Hotline concerning possible inappropriate use of grant funds by employees at Project Challenge. In addition, the allegations included violations of policy and improper use of organization vehicles. The following is a summary of allegations and our findings and recommendations based on information we gathered in interviews and examination of policy and financial records.

According to the Project Challenge Executive Director and the Chief Finance Administrator, the organization's funding sources include annual General Assembly appropriations, Department of Juvenile Justice funds, and Juvenile Accountability Incentive Block Grant monies administered by the Governor's Crime Commission. The Executive Director explained the General Assembly funds are to be used for administrative costs and to cover any shortfalls within each district, while Juvenile Justice monies are given to counties. Each county determines which organizations receive funds and the amount. He also explained the Crime Commission grant funds are used to help in expansion of the program.

The complaint alleged the Executive Director misused organization vehicles by using them for personal use, specifically for a diving excursion to Florida and at his daughter's wedding.

Interviews with the Executive Director and the Chief Finance Administrator substantiated the use of an organization van for a trip to Florida. The Executive Director said he and four other employees traveled in the van to the Florida Keys September 16-20, 1999. The Executive Director said the trip was a "team building" exercise for the administrative staff and the travel was supposed to occur at the end of a conference in Pinehurst. The conference in Pinehurst was cancelled because of a hurricane, but travel to Florida continued as planned. Review of the September 1999 mileage log for vehicle #30 notes a trip to Florida incurring 2,466 miles. Both the Executive Director and the Chief Finance Administrator stated the organization incurred no expense related to the travel. Additionally, all employees in question charged the Thursday, Friday and Monday spent traveling to vacation balances.

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In addition, an employee drove an organization vehicle to attend the Executive Director's daughter's wedding in the spring of 1999. The Executive Director stated he hired the employee in question to perform at the wedding ceremony but did not authorize use of the vehicle to attend the function. The Executive Director said he reprimanded the employee for personal use of the vehicle.

Upon questioning regarding the appropriateness of personal or third-party use of organization vehicles, the Executive Director stated Project Challenge Operational Policies and Procedures allow for personal and third-party use of organization vehicles.

The Executive Director said third-party use would be limited to volunteer or nonprofit organizations and such use of vehicles is evaluated on a case-by-case basis following unwritten guidelines for appropriateness.

The Project Challenge policy manual states:

Only an authorized Project Challenge Employee, Intern, or official Project Challenge volunteer may operate a Project Challenge vehicle. To become an official Project Challenge volunteer, able to operate Project Challenge vehicles, that person must be registered at the main office with the Chief Financial Administrator. A copy of that person's valid North Carolina driver's license will be required, and that persons [sic] driving record may be checked. All persons operating Project Challenge vehicles must read and understand and sign the 100 series of the operations manual and fill out a [sic] authorization form.

In addition, Project Challenge policies allow personal use of organization equipment and property, including telephones, cellular phones, calling cards, gas cards, vehicles or other equipment, with permission of supervisors.

According to accounting records and the Chief Financial Administrator, the vehicle in question was purchased in part with funds provided by the Governor's Crime Commission and Office of Juvenile Justice.

Upon learning of the organization policy allowing third-party and personal use of vehicles, we contacted the Grant Management Director at the Governor's Crime Commission. The Grant Management Director stated he does not feel personal or third-party use of any property purchased with Governor's Crime Commission grant funds is acceptable, regardless of the organization's own policies. Additionally, he stated only organization employees should use equipment paid for with grant funds, and only for official organization business purposes. He explained funds are given based on the needs of the organization, not third parties or personal needs of employees.

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Based upon our review and contact with the Governor's Crime Commission, we recommend Project Challenge's Board of Directors revise the organization's current policies regarding personal and third-party use of property, equipment and vehicles in order to comply with grant requirements. In addition, we recommend the Governor's Crime Commission consult with legal counsel to determine if they should seek reimbursement of \$764.46 (2,466 miles x \$0.31 federal reimbursement rate as of October 1999) for the use of the vehicle during the trip to Florida. Due to the number and turnover of organization vehicles we were not able to quantify the actual number or an associated cost for personal or third-party uses of all vehicles.

We are presenting our findings for your review and written response. The purpose of the response is to allow you the opportunity to outline any corrective actions taken or planned. We request the delivery of your written response by August 12, 2002.

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.

If you have any questions or wish to discuss this matter further, please contact us. We appreciate the cooperation received from Project Challenge staff during our review.

Sincerely,

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

Ralph Campbell, Jr., CFE
State Auditor

RCjr/mfd

cc: Wes Walters, Director of Fiscal Management
Governor's Crime Commission

Management letters and responses receive the same distribution as audit reports.

PROJECT CHALLENGE NORTH CAROLINA, INC.

"Helping Youth Serve Their Community"

August 9, 2002

Mr. Ralph Campbell, Jr., CFE
State Auditor
State of North Carolina
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Re: Project Challenge North Carolina

Dear Mr. Campbell:

I am in receipt of your letter of July 29, 2002, and the Confidential Draft that you sent to our Board Treasurer Mr. Dan Marchesoni. A copy of both have been forwarded to our Board Chairman Mr. Jon Yarbrough. I would like to take this opportunity to address several issues regarding the Confidential Draft.

A. Use of a Project Challenge van to travel to Florida

It is my understanding that the anonymous complainant alleged that I misused a Project Challenge van by driving it to Florida for personal business. Based on the language contained in the Confidential Draft, it appears that your office has found this allegation to be unsubstantiated. (See Confidential Draft, page 1 "Interviews with the Executive Director... substantiated the use of an organization van ..."). To the extent that your office is considering the trip personal, I offer the following for your consideration.

Throughout 1999, Project Challenge had been asked by what is now known as Department of Juvenile Justice and Delinquency Prevention to expand to several additional judicial districts throughout the state. With minimal funding, we took advantage of every opportunity to evaluate the growth of the organization and the services we provide. As a result of our growth, many of our employees were new and unfamiliar with our other staff and our mission. Our employees are spread across the entire State, and some staff provide services in as many as three counties and supervisors oversee as many as seven counties while still carrying a full caseload. This means that individual support for staff and supervisors is limited and that time training and team building is valuable. Consequently, we planned to utilize time both before and after a conference in Pinehurst to develop our team and to brainstorm ways Project Challenge could be more effective. We had a staffing and training session at the hotel in Pinehurst

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Mr. Ralph Campbell

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with all the employees of the organization on the afternoon prior to the conference. However, due to a hurricane, the conference was canceled. When the conference was canceled we continued with our plans to work after the conference and we used the time period traveling to Florida to develop new strategies for working with youth, improving our organization and evaluating the staff meeting that took place on Tuesday. During the time spent traveling as a team to Florida, we evaluated the issues Project Challenge was facing in the expansion and those discussions led to what is now a life skill component of the program. We identified a need to modify the sometimes extreme behavior of the court-involved youth we serve. We put our ideas in motion by later developing a relationship with Appalachian State University's "Bring It All Back Home" organization, that developed a "Life Skills" training program for the Project Challenge staff. This program teaches youth four basic skills: Following instructions, Asking permission, Accepting correction, Getting along with peers. These skills are now an intricate part of the Project Challenge system and contribute to our unparalleled 8% recidivism rate. This planning time had a direct impact on the youth we serve.

The location that was chosen in Florida was in no way an additional expense to our organization or our funding sources. Additionally, no spouses or family members were allowed as this was a working trip for supervisors and administrators. We traveled as a group and paid all the expenses. Had we remained in North Carolina the cost of these meetings would have been borne by Project Challenge. However, since the location that we decided on was outside of North Carolina, we agreed to cover the expenses ourselves.

The mileage log which you reference was misread. Mileage from the state surplus yard in Raleigh to our main office, 242 miles, was inadvertently included in that total and should be subtracted from the total of 2,466 miles. Additionally, approximately 500 miles represents travel to and from Pinehurst for the aborted conference and should also be excluded when determining mileage for the Florida trip. Thus the trip to Florida was approximately 1724 miles. Although the rate of .31 per mile was the federal reimbursement rate for travel as of October 1999, application of such a rate in the present situation would result in a windfall to the state in that one component of reimbursement is reimbursement for gasoline costs which, in this case, were borne entirely by the staffers who went on the trip. Assuming arguendo that Project Challenge should reimburse the Governor's Crime Commission, a more appropriate rate would be .16 per mile for a total reimbursement of \$275.84.

B. Personal use of Project Challenge Vehicles and Assets

The employee who attended the wedding referenced in the Confidential Draft did not have permission to use the Project Challenge van for such personal use and was reprimanded. Rest assured that employees who use vehicles for such personal purposes will be subject to appropriate disciplinary action.

The quote from the Project Challenge Policy Manual that you included in your draft is not related to the use of Project Challenge vehicles by outside agencies or staff. Rather, the quote is from Section 101 of the Policy Manual entitled "Drivers" and explains who may drive a Project Challenge vehicle. The parameters for the use of Project Challenge vehicles are set out in Sections 115 and 116 attached as Exhibits A and B. The statement following the quote is found in the Section 006 Standards of Conduct, "Unacceptable Activities" item #18. See Exhibit C. The only times that Project Challenge employees have been given permission to use a program vehicle has been for very short periods when their personal vehicle was being repaired or replaced and then only to go to and from work in addition to their work related travels.

Your Confidential Draft notes that our policies allow for personal use of organization equipment and property, including telephones, gas cards and other items with permission. After reviewing our records, I have found no time that permission was ever given for an employee to use any telephones, cell phone, calling cards, gas cards or other equipment for personal use. If there is a questionable charge on telephones bills, gas bills and the like, those charges are discussed with the employee and are recouped from the employee as necessary. Section 1301 of our Policy Manual clearly states, "All communication equipment is for business use only." See Exhibit D.

C. Third Party use of Project Challenge vans

During the time period relevant to your audit, our Grant Manager and the contact person for Project Challenge at the Governor's Crime Commission was Mr. Joel Rosch. Mr. Rosch was well aware that we allowed appropriate community organizations such as 4-H, schools, Department of Juvenile Justice and Delinquency Prevention programs, judges and Juvenile Crime Prevention Councils to use our vans with prior approval and subject to having proper insurance coverage. Our grant, in the section entitled "Project Operation," clearly states that "Project Challenge participates in community service collaborations and also shares staff, equipment and other resources with other agencies." See Exhibit E. While writing this grant one of the things that Mr. Rosch encouraged was the leveraging of the monies provided by the Governor's Crime Commission. By sharing our resources with other organizations, our communities and children are served far beyond the primary purpose of the resource. Additionally, both then and now we are told that collaboration and the sharing of resources is a mandate in order to receive funding.

We understand that the Grant Management Director "feels" that third party use of property purchased in whole or in part with funds provided by the Governor's Crime Commission is inappropriate. We welcome any guidance your office may provide on this issue. Rest assured that we are not seeking funding as a straw person for other community groups. We merely allow certain community agencies to access and utilize our vans when they otherwise would be idle. This does not seem to be inappropriate use of the vehicles.

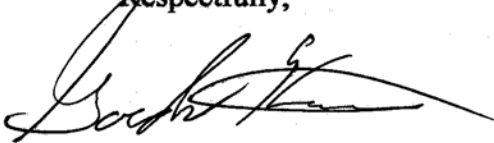
Mr. Ralph Campbell

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Again, thank you for the opportunity to respond to your Confidential Draft. Please know that the dedicated men and women who work for this organization work diligently to squeeze every bit of benefit from every dollar we receive to serve the children of North Carolina. We have a proven track record with service to thousands of youth throughout the State. We have continually reviewed our policies to make sure that they address statutorily and ethically the responsibility we have to our staff, funding sources and the children we serve.

Respectfully,

A handwritten signature in black ink, appearing to read 'Gordon Keath', written over a horizontal line.

Gordon Keath
President/CEO

cc: Jon Yarbrough, Chairman
Project Challenge North Carolina Inc.
Dan Marchesoni, Treasurer
Project Challenge North Carolina Inc.
Wes Walters, Director of Fiscal Management
Governor's Crime Commission

PROJECT CHALLENGE NORTH CAROLINA, INC.

POLICIES AND PROCEDURES

113 Smoking in Vehicles

There is to be no smoking inside Project Challenge vehicles.

114 Members of the Opposite Gender

Whenever possible, Project Challenge employees, interns, and official Project Challenge volunteers should not allow themselves to be alone with a participant of the opposite gender.

Exhibit A 115 Use of Vehicles by External Organizations

External organizations may use Project Challenge vehicles when available. Request for vehicle use is to be made to the District Supervisor. Organizations must agree to abide by the 100 series of the Project Challenge Operations Manual. District Supervisors must forward all relevant documentation to the Spruce Pine Office, including the vehicle use form. In the event of an accident or breakdown, outside agencies are responsible for the safe return of the vehicle to a Project Challenge location.

Exhibit B 116 Personal Use of Program Vehicles

Any personal use of Project Challenge vehicles must be requested in writing to the Supervisor. The Supervisor must submit all documentation to the main office.

117 Roadside Assistance

All Project Challenge employees are provided with AAA membership and cellular phones. In the event of roadside assistance is needed, contact AAA and Supervisor (and parents, if appropriate).

118 Damage

Theft, vandalism or other damage to Project Challenge vehicles must be reported immediately to the Supervisor.

119 Repairs

Any repairs or maintenance not listed on the Maintenance Log must be approved by a supervisor.

PROJECT CHALLENGE NORTH CAROLINA, INC.

POLICIES AND PROCEDURES

situation and your proposed solution, as well as list the requirements necessary for implementing your plan. The form also insures that you get maximum recognition for your contribution.

Exhibit C

006 Standards of Conduct

Whenever people gather together to achieve goals, some rules of conduct are needed to help everyone work together efficiently, effectively, and harmoniously. By accepting employment with us, you have a responsibility to Project Challenge North Carolina, Inc. and to your fellow employees to adhere to certain rules of behavior and conduct. The purpose of these rules is not to restrict your rights, but rather to be certain that you understand what conduct is expected and necessary. When each person is aware that she/he can fully depend upon fellow workers to follow the rules of conduct, our organization will be a better place to work for everyone.

Unacceptable Activities

Generally speaking, we expect each person to act in a mature and responsible way at all times. If you have any questions concerning any work or safety rule, or any of the unacceptable activities listed below, please see your supervisor for an explanation.

Note that the following list of Unacceptable Activities does not include all types of conduct that can result in disciplinary action, up to and including termination. Nothing in this list alters the at-will nature of your employment; either you or Project Challenge North Carolina, Inc. may terminate the employment relationship with or without reason, and in the absence of any violation of these rules.

1. Violation of any Project Challenge North Carolina, Inc. rule; any action that is detrimental to Project Challenge North Carolina, Inc.'s efforts to operate professionally.
2. Violation of security or safety rules or failure to observe safety rules or Project Challenge North Carolina, Inc. safety practices; failure to wear required safety equipment; tampering with Project Challenge North Carolina, Inc. equipment or safety equipment.
3. Negligence or any careless action which endangers the life or safety of another person.
4. Being intoxicated or under the influence of a controlled substance while at work; use, possession or sale of a controlled substance in any quantity while on Project Challenge North Carolina, Inc. premises, except medications prescribed by a physician which do not impair work performance.
5. Unauthorized possession of dangerous or illegal firearms, weapons or explosives on Project Challenge North Carolina, Inc. property or while on duty.

PROJECT CHALLENGE NORTH CAROLINA, INC.

POLICIES AND PROCEDURES

6. Engaging in criminal conduct or acts of violence, or making threats of violence toward anyone on Project Challenge North Carolina, Inc. premises or when representing Project Challenge North Carolina, Inc.; fighting, or provoking a fight on Project Challenge North Carolina, Inc. property, or negligent damage of property.
7. Insubordination or refusing to obey instructions properly issued by your supervisor pertaining to your work; refusal to help out on a special assignment.
8. Threatening, intimidating or coercing fellow employees on or off the premises at any time, for any purpose.
9. Engaging in an act of sabotage; negligently causing the destruction or damage of Project Challenge North Carolina, Inc. property, or the property of fellow employees.
10. Theft or unauthorized possession of Project Challenge North Carolina, Inc. property or the property of fellow employees; unauthorized possession or removal of any Project Challenge North Carolina, Inc. property, including documents, from the premises without prior permission from management; unauthorized use of Project Challenge North Carolina, Inc. equipment or property for personal reasons; using Project Challenge North Carolina, Inc. equipment for profit.
11. Dishonesty; falsification or misrepresentation on your application for employment or other work records; lying about sick or personal leave; falsifying reason for a leave of absence or other data requested by Project Challenge North Carolina, Inc.; alteration of Project Challenge North Carolina, Inc. records or other Project Challenge North Carolina, Inc. documents.
12. Breach of confidentiality of Project Challenge North Carolina Inc. information.
13. Spreading malicious gossip and/or rumors; engaging in behavior which creates discord and lack of harmony; interfering with another employees on the job; restricting work output or encouraging others to do the same.
14. Immoral conduct or indecency on Project Challenge North Carolina, Inc. property.
15. Conducting a lottery or gambling on Project Challenge North Carolina, Inc. premises.
16. Unsatisfactory or careless work.
17. Any act of harassment, sexual, racial or other; telling sexist or racist jokes; making racial or ethnic slurs.

PROJECT CHALLENGE NORTH CAROLINA, INC.

POLICIES AND PROCEDURES

18. Use of Project Challenge North Carolina, Inc. telephones, cellular phones, calling cards, gas cards, vehicles, or other equipment for personal use without the permission of your supervisor.
19. Smoking in Project Challenge vehicles, offices, or in the presence of Project Challenge participants.
20. Creating or contributing to unsanitary conditions.
21. Obscene or abusive language toward any supervisor, employee or participant; indifference or rudeness towards a supervisor or fellow employee; any disorderly/antagonistic conduct on Project Challenge North Carolina, Inc. premises.
22. Speeding or careless driving of Project Challenge North Carolina, Inc. vehicles.
23. Failure to immediately report loss or damage to, or an accident involving, Project Challenge North Carolina, Inc. equipment.
24. Failure to use your timesheet; alteration of your own timesheet or records or attendance documents; altering another employee's timesheet or records, or causing someone to alter your timesheet or records.

Exhibit D - 1301 Personal Use Of Communications Equipment-February 15, 2000

All communication equipment is for business use only. There is to be no use of Project Challenge communications equipment for personal use without the permission of a supervisor.

1302 Out Of State Telephone Calls-February 15, 2000

There should be no out of state telephone calls made using Project Challenge equipment. If an out of state call is made it must be in reference to a participant. In the event this occurs the participant's name and an explanation of the call must be given to the supervisor on company letterhead. A copy of this explanation should be forwarded to the main office.

1303 Availability Of Communications Equipment-February 15, 2000

All communications equipment should be kept in good working order. This includes replacing and/or recharging batteries as needed. All communications equipment should be turned on and ready to use during working hours. If equipment becomes lost, stolen, or damaged you must notify your supervisor and the main office within two business days.

1304 Wilderness Trips-February 15, 2000

The emergency contact person and support guide is required to have all issued communications equipment on their person twenty-four hours a day while the trip is out.

1305 Use of Computers-February 15, 2000

Project Challenge Computers may not be used for personal use. No downloading from the Internet or installation of personal software is permitted. No changes to the configuration of Project Challenge Computers are permitted.



The Problem:

In 1998 in Judicial District 6a there were 483 delinquency complaints resulting in 268 juveniles charged with delinquency of which 31 of these youth were committed to training schools. This is the highest training school commitment rate in North Carolina. During the same period in 6b there were 270 court involved youth (this includes both delinquent and undisciplined) of which 10 were committed to training school. With the changes in the juvenile justice code that begin in July 1999 both of these judicial districts are going to be required to provide community service opportunities for Diversion. This volume of children and community service hours at a minimum will require an increase in resources as well as the management of those resources. Most "at risk" youth today feel on the outside of the mainstream of society. In order to help them become more involved with their communities an effort must be made to identify and address the issues and circumstances that cause this feeling of alienation. These feelings are more apparent with youth located in rural and remote regions due to lack of resources in those areas. Problems such as drugs, gang activity, teen pregnancy, and school dropout rates are linked to these feelings of alienation and the need to belong. The problem, in short is that youth feel unable to be a worthwhile contributing member of their community. When youth learn that they can make a difference and that their input is needed and valued by the community as a whole they become a vital productive resource in the community.

Exhibit E

Project Operation:

Project Challenge has been designed to involve adjudicated youth in a variety of activities and experiences that both fulfill their obligation to the courts while building community involvement and a sense of belonging. The purpose of these activities is to 1) provide the courts with a community based resource that assists youth in fulfilling their conditions of probation or diversion contract requirement 2) build their capacity to involve themselves in their communities 3) instill self reliance and a positive self image. All participants are referred by either Juvenile Court or Juvenile Court Intake Counselors. Each child is assigned a specific number of community service hours and in some cases a financial restitution amount. Upon completing these requirements and a 3-5 day backpacking trip they are graduated from the program. Program and community service activities include; working with organizations such as Habitat for Humanity, Kiwanis, Lions Clubs, and Rotary Club. Helping the poor and needy by building gardens and wheelchair ramps, participating in food drives to support local food banks, as well as many other activities that support those that are in need or less fortunate. The purpose of these activities is to enable the youth the ability to meet volunteer oriented adult role models and to see touch and feel what it is like to be a giving person. Project Challenge also collaborates with many other agencies. Project Challenge participates in community service collaborations, and also shares staff, equipment, and other resources with other agencies. In addition the Wilderness Challenge Backpacking trips, along with other experiential education activities, build confidence, self-reliance, and decision and problem solving abilities. Program costs are low, in the first year with capitol expenditures the cost is still just \$2000.00 per participant for up to 12 months of service. This cost also may decline based on how quickly each participant completes their community service hours and their length of supervision. Based on data collected from other rural judicial districts the recidivism rates of Project Challenge program participants average less than 18%. Program Coordinators have a maximum caseload of 25 and in most cases serve 30 to 40 youth annually.