

STATE OF NORTH CAROLINA

SPECIAL REVIEW

JOHN A. HYMAN MEMORIAL YOUTH FOUNDATION, INC.

WARRENTON, NORTH CAROLINA

OCTOBER 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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FOUNDATION, INC.**

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Ralph Campbell, Jr.
State Auditor

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LETTER OF TRANSMITTAL

October 22, 2003

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
The Honorable Frank W. Ballance, Jr., Chairman of the Board of Directors
John A. Hyman Memorial Youth Foundation, Inc.

Ladies and Gentlemen:

Pursuant to General Statute §147-64.6(c)(16), we have completed a special review of allegations concerning the John A. Hyman Memorial Youth Foundation, Inc. The results of the review, along with recommendations for corrective action, 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 report 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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INTRODUCTION

We received an allegation through the State Auditor's Hotline concerning the possible misuse of state appropriations by the Chairman of the Board of the John A. Hyman Memorial Youth Foundation, Inc. (Foundation). Subsequently, members of the General Assembly, through their staff requested we investigate the use of state appropriations made to the Foundation (General Assembly members requests are confidential under the provisions of General Statute 120-129 through 134).

The Foundation received an average of \$211,500 in state appropriations, disbursed by the Department of Correction, each year since 1994 to provide substance abuse prevention and counseling. In early 2003, the Department of Correction requested financial information for the fiscal years ended June 30, 2001 and June 30, 2002. Soon after, local media questioned the legitimacy of the organization and compared grant recipients to campaign contributors. Members and staff of the North Carolina General Assembly inquired about the use of state appropriations based on the lack of specific supporting financial information. Due to the lack of information provided and the allegations of misuse of state funds in the news media, members of the North Carolina General Assembly requested the Office of the State Auditor determine if the appropriations were misused.

Prior to our review, the news media reported the Foundation's Executive Director was also the Director of the Human Relations Commission in the Department of Administration. On April 23, 2003, he resigned from his state position.

INTRODUCTION (CONTINUED)

We began a special review in April 2003 to determine if the state appropriations were used for their intended purpose. Due to the limited records and time constraints, the primary focus of our special review was for the time period July 1, 2000, through April 30, 2003, however, we did examine limited information dated prior to July 1, 2000, such as, state appropriations. We used the following procedures to conduct our special review.

General:

1. We obtained copies of articles of incorporation, bylaws, and other pertinent policies or regulations, such as session laws.
2. We identified bank accounts (checking, savings, CDs) used from July 1, 2000, through April 30, 2003.
3. We obtained bank statements and cancelled checks from July 1, 2000, through April 30, 2003.
4. We obtained general ledgers, if available, from July 1, 2000, through April 30, 2003, and reconciled the recorded transactions to the bank statement activity.

Receipts:

1. We identified sources of receipts from July 1, 2000, through April 30, 2003.
2. We determined the intended purpose of each source of revenue from July 1, 2000, through April 30, 2003.
3. We traced recorded receipts to the bank account deposits.

Disbursements:

1. We analyzed disbursements and investigated unusual payees, amounts, and other unusual circumstances.
2. We contacted grant recipients since July 1, 2000, and attempted to determine the amount received, the process for obtaining the grant, any conditions on usage, and the actual usage.

INTRODUCTION (CONCLUDED)

3. We interviewed individuals on the payroll from July 1, 2000, through April 30, 2003, to determine their responsibilities and rates of pay.

Assets and Liabilities:

1. We identified and inspected Foundation assets.
2. We did not identify any Foundation liabilities.

Program Services:

1. We verified services provided by examining supporting documentation and interviewing employees.
2. We quantified the number of clients served and compared the amounts to documentation submitted to the Department of Correction.

Other

1. We compared the Executive Director's state travel reimbursements to his Foundation travel reimbursements.
2. We compared grant recipients to campaign contributors.

This report presents the results of our special review. The review was conducted pursuant to G.S. § 147-4.6(c)(16) rather than a financial audit. The findings and recommendations in this report relate to areas where managerial oversight should be enhanced, or where, in our judgment, questionable activities or practices occurred. Further, we are providing additional information to meet the public's expectation of full disclosure.

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ORGANIZATION OVERVIEW

The John A. Hyman Memorial Youth Foundation, Inc. was incorporated on September 25, 1985. The primary purpose of the corporation, as detailed in the Foundation's bylaws, is "to engage in activities and promote programs designed for the physical, mental and intellectual development of young people residing in counties in the 1st and 2nd Congressional Districts of North Carolina, with a particular emphasis on such youth residing in the counties of Warren, Halifax, Northampton, Bertie, and Martin...to recognize the contributions of John Adam Hyman... and to work for the improvement of the lives of young people in the areas served by this Organization."

The Foundation bylaws state the Foundation shall consist of individuals and organizational members. Members meet annually and elect directors. The number of directors shall not be less than five nor more than twenty-five and shall elect a chairman, vice-chairman, secretary, treasurer, and other officers as deemed necessary. Neither the directors nor officers shall be compensated for serving on the board, but may be reimbursed expenses for attending board meetings and compensated for other services.

The Foundation operates The John A. Hyman Substance Abuse Program in Warren County, and The Halifax Project in Halifax County. In addition, the Foundation awards grants to nonprofit organizations. The John A. Hyman Substance Abuse Program rents office and classroom space in the Greenwood Baptist Church in Warren County.

ORGANIZATION OVERVIEW (CONTINUED)

The Halifax Project leases a house in Roanoke Rapids that serves as office space. The Foundation employs an average of ten persons in the following positions:

- An executive director
- A director of the Halifax Project
- Two administrative assistants
- Four counselors/case managers
- Two drivers

The John A. Hyman Substance Abuse Program

The John A. Hyman Substance Abuse Program's (Substance Abuse Program) mission is "to promote community wellness by providing high quality treatment and prevention services to those who wish to break free from the destructive nature of addiction." This is accomplished by offering a Driving While Impaired (DWI) treatment program and a drug abuse counseling program every Tuesday and Thursday from 6:00 PM to 8:00 PM. In addition, individual assessments and counseling are available. The Substance Abuse Program Office is open from 5:00 PM to 8:00 PM each Tuesday and Thursday. Clients can receive transportation to and from classes in the Foundation van.

To determine the number of clients treated through the Foundation's DWI and drug counseling program during the past three fiscal years, we examined client files for the time period of July 2000 to April 2003. The Foundation's client files indicated that 283 individuals received treatment for alcohol and drug abuse during this period.

ORGANIZATION OVERVIEW (CONTINUED)

We also examined attendance records for the same period to determine if clients attended the weekly DWI and drug counseling meetings. We found that 252 of the 283 clients had signed the weekly attendance rolls for the DWI and drug counseling meetings. We also found that 115 other individuals signed the attendance rolls, but the Foundation could not provide client files for these individuals.

The Halifax Project

The Halifax Project's mission is "to maintain a home and community based treatment program that addresses the whole person, and in doing so, pursue the development of a broad range of services and goals to meet the individual needs of the clients, allowing them to become productive members of society." This is achieved by identifying people in need of alcohol and/or drug treatment, providing counseling in their homes on the services available (Alcoholics Anonymous, Narcotics Anonymous, mental health counseling, medical doctors, etc.), as well as providing clients transportation to needed services. A leased house is used for an office with weekly staff meetings held on Wednesday nights at 6:00 PM. Counselors visit an average of 10 clients in their homes. If a client or the client's family is in need of transportation to doctor appointments, Alcoholics Anonymous meetings, Narcotics Anonymous meetings, or other appointments, the counselor completes a work order for the Halifax Project driver. The work order details the time of pickup and destination. The driver retrieves the work orders each Wednesday during the staff meeting or by telephone and completes the task. The driver

ORGANIZATION OVERVIEW (CONTINUED)

uses her own vehicle to transport the clients and is reimbursed for mileage.

Grants to non-profits

The Chairman of the Board of Directors (Chairman) awards grants to nonprofit organizations to support substance abuse programs and refers to them as mini-grants.

Funding Sources

The Foundation's major funding source was the State of North Carolina through special appropriations to fund "substance abuse programs." The appropriations were disbursed through the North Carolina Department of Correction. In addition, the Foundation received a small amount of funding each year from Warren County to provide counseling for Drug Treatment Court participants.

	<u>State Appropriations</u>
Fiscal Year Ended June 30, 1994	\$ 175,000 ¹
Fiscal Year Ended June 30, 1995	100,000 ¹
Fiscal Year Ended June 30, 1996	100,000 ²
Fiscal Year Ended June 30, 1997	250,000 ²
Fiscal Year Ended June 30, 1998	250,000 ²
Fiscal Year Ended June 30, 1999	312,500 ²
Fiscal Year Ended June 30, 2000	250,000 ²
Fiscal Year Ended June 30, 2001	250,000 ²
Fiscal Year Ended June 30, 2002	225,000 ²
Fiscal Year Ended June 30, 2003	<u>202,500</u> ² (Paid out \$101,250)
Total	<u>\$2,115,000</u>

¹Source: Schedule of Private Organizations Receiving State Funds

²Source: North Carolina Department of Correction

ORGANIZATION OVERVIEW (CONCLUDED)

Accounting Systems

The Foundation maintains three checking accounts and one savings account. Excess funds are invested in certificates of deposit. The Chairman maintains custody of the checkbooks. The Chairman and the Administrative Assistant/Treasurer have signatory authority on the accounts. The Administrative Assistant/Treasurer writes checks for most recurring operating expenses, such as payroll, telephone service and utilities. The Chairman signs larger checks, such as grant awards, sponsorships, and fund transfers.

A manual check register is used to account for receipts and disbursements. For the fiscal years ended June 30, 2001, and June 30, 2002 a general ledger was prepared using only one of the checking accounts. In addition, the general ledger did not include assets and liabilities, other than cash.

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FINDINGS AND RECOMMENDATIONS

1. THE DISBURSEMENT OF FOUNDATION FUNDS TO INDIVIDUALS ASSOCIATED WITH THE CHAIRMAN THROUGH HIS CHURCH AND POLITICAL CAMPAIGNS CREATED AN APPEARANCE OF A CONFLICT OF INTEREST.

Former North Carolina State Senator Frank Ballance served as vice chairman of the Senate Appropriation Committee Subcommittee on Justice and Public Safety which oversaw the budget for the Department of Correction from 1993 to 2002. In addition, he served as Deputy President Pro Tem from 1997 to 2002. During those time periods, the following state appropriations were made to the John A. Hyman Memorial Youth Foundation, Inc. to support substance abuse programs. The appropriations were included in the North Carolina Department of Correction's budget.

Fiscal Year Ended June 30, 1994	\$ 175,000 ¹
Fiscal Year Ended June 30, 1995	100,000 ¹
Fiscal Year Ended June 30, 1996	100,000 ²
Fiscal Year Ended June 30, 1997	250,000 ²
Fiscal Year Ended June 30, 1998	250,000 ²
Fiscal Year Ended June 30, 1999	312,500 ²
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Fiscal Year Ended June 30, 2002	225,000 ²
Fiscal Year Ended June 30, 2003	<u>202,500</u> ² (Paid out \$101,250)
Total	<u>\$2,115,000</u>

¹Source: Schedule of Private Organizations Receiving State Funds

²Source: North Carolina Department of Correction

During the same time period, former State Senator Ballance served as Chairman of the

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Board of Directors for the John A. Hyman Memorial Youth Foundation, Inc. He maintained custody of the checkbook and signatory authority over the checking accounts for the Foundation. He also served as Chairman of the Board of Deacons for Greenwood Baptist Church, which leased space to the Foundation from 1994 to the present.

During the last three years, the Foundation employed the Pastor of Greenwood Baptist Church as its Executive Director, the Treasurer for the Frank Ballance Senate Campaign as an administrative assistant, and the Campaign Manager for the Frank Ballance Senate Campaign as the director of The Halifax Project. The Halifax Project leases a house owned by the director's relatives for use as an office.

Former State Senator Ballance's mother served on the Foundation Board and was an employee of a nonprofit organization that received a mini-grant from the Foundation. The Foundation's salaried administrative assistant also served as assistant secretary on the Foundation's Board and as treasurer of former State Senator Ballance's political campaigns.

In addition, the pastor of Nebo Baptist Church (a mini-grant recipient) is the husband of one of the former Foundation board members and a current State Senator.

Also, some mini-grant recipient employees contributed to former State Senator Ballance's political campaigns. A schedule identifying political campaign contributors who were connected to organizations that received mini-grants is presented in Schedule 1.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

These multiple relationships between the parties creates, at a minimum, the appearance of a conflict of interest.

RECOMMENDATION

We recommend the North Carolina General Assembly require members to fully disclose their relationships (financial and/or authoritative) with nonprofit groups that seek and receive state funding. Further, we recommend the General Assembly develop rules to prevent conflicts of interest such as those described in this report.

2. THE CHAIRMAN WROTE A \$5,000 FOUNDATION CHECK TO HIS DAUGHTER'S COMPANY FOR SERVICES THAT WERE NOT COMPLETED.

The Chairman wrote a Foundation check dated February 12, 2001, payable to "Trimet P.C. Services" for \$9,432.94 (see exhibit 1). The memo portion of the check reads "7 PCs Computer etc. Re Lab". The check was endorsed "Gary Lee". The invoice supporting the payment revealed the purchase of seven computers for \$6,000, one hub and router for \$399, "SYSTEM/NETWORK CABLE INSTALLATION" for \$2,500, and taxes of \$533.94. The total of the invoice was \$9,432.94 (see exhibit 2).

According to Gary Lee, the Foundation contracted with him to set up a network of six computer workstations and install a seventh computer in the John A. Hyman Substance Abuse Program office. Mr. Lee said he made three visits to Greenwood Baptist church to install the computers. He said on the first visit he delivered the equipment and on the second visit he installed the router and made all necessary cable

FINDINGS AND RECOMMENDATIONS (CONTINUED)

connections. During the third and final visit, he trained the Chairman's daughter on the use of the systems. He said he did not receive assistance installing the hardware or software and was paid \$9,432.94 for the equipment, installation, and warranty.

The Chairman wrote a check dated April 9, 2001, payable to "Consultech" for \$5,000 (see exhibit 3). The memo portion of the check reads "For Computer Lab GBC." The check was endorsed "Valerie Ballance T/A Consultech Valerie Ballance" (see exhibit 4). Valerie Ballance is the Chairman's daughter.

According to the Chairman, the Executive Director contracted with his daughter's company to coordinate the installation of a computer lab and train the staff and clients. He wrote a Foundation check to her company based on the amount agreed upon by the Executive Director and his daughter.

According to the Chairman's daughter, she had a contract with the Foundation to (see exhibit 5):

- Coordinate, set up and implement a network of computers for the computer-learning center at the John A. Hyman Substance Abuse Program.
- Train Foundation staff on computer use and how to troubleshoot network problems.
- Design and teach four computer classes at the computer-learning center.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The Chairman's daughter said she made three or more trips to Greenwood Baptist Church to help Gary Lee install the computers. She said she spent approximately 8 hours installing the computers and estimated she spent roughly 15 hours on the phone and reading computer material. According to the Chairman's daughter she spent 15 hours traveling between Chapel Hill and Warrenton and about 40 hours in total on the project.

The Chairman's daughter said she never conducted the training classes with the staff and never taught the four classes at the computer-learning center. She said she was scheduled to teach the staff on a Saturday, but her mother called and said a church member had volunteered to do so.

Based on the testimony of the Chairman's daughter, she assisted in the installation of the computer systems. She admits she did not fulfill her contractual obligation of training Foundation staff in using the computers and troubleshooting problems. She collected material to use in teaching the classes; however, she did not teach the 4 computer classes.

Based on the testimony of Gary Lee, the Chairman's daughter provided no assistance installing the hardware and software for the network.

The Chairman's daughter did not complete all the duties specified in the contract but was paid the full amount. In addition, the amount of her contract was \$5,000, twice the amount paid to Mr. Lee for installing the equipment.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

In addition the Chairman violated the Foundation's conflict of interest policy by contracting with his daughter. The policy states:

No officer, employee, or agent of the Agency shall participate in the selection, award, or administration of a purchase or contract with a vendor where, to his knowledge, any of the following has a financial interest in that purchase or contract:

- 1) The officer, employee, or agent;*
- 2) Any member of their immediate family;*
- 3) Their partner;*
- 4) An organization in which any of the above is an officer, director, or employee;*
- 5) A person or organization with whom any of the above individual is negotiating or has any arrangement concerning prospective employment....*

RECOMMENDATION

The Foundation should comply with its conflict of interest policy and seek reimbursement of funds associated with payments for services that were not rendered.

3. THE FOUNDATION DID NOT FOLLOW BEST PRACTICES IN PROVIDING GRANTS TO NONPROFIT ORGANIZATIONS FOR SUBSTANCE ABUSE TREATMENT AND PREVENTION.

Overview

From July 1, 2000, to April 30, 2003, the Foundation issued 37 checks to 24 nonprofit organizations totaling \$231,000. Of the 37 checks issued to nonprofit organizations, the Foundation's chairman signed 23. The Foundation's administrative assistant signed the other 14. The notation "mini-grant" was included in the memo section of each check as well as in the check register. According to the Chairman, he authorized the "mini-grant" disbursements to support substance abuse treatment and prevention programs. In response to our initial inquiries about the mini-grants, the Chairman said

FINDINGS AND RECOMMENDATIONS (CONTINUED)

the supporting documentation for the mini-grants had been lost or inadvertently destroyed. For that reason, we contacted each of the organizations to determine if the funds were used for the intended purpose of substance abuse treatment and prevention.

The mini-grant disbursements for the past three fiscal years are summarized in the following table.

JOHN A. HYMAN MEMORIAL YOUTH FOUNDATION, INC.				
Mini-Grants (Fiscal Years 2001-2003)				
Mini-Grant Recipient	Fiscal 2001	Fiscal 2002	Fiscal 2003	Totals
Atlantic District Fair	\$ 2,500	\$ 2,500	\$ 3,000	\$ 8,000
Bertie Rural Health Association	20,000		12,500	32,500
Church on the Rock		2,500	4,000	6,500
Conetoe Chapel Missionary Baptist Church	10,000			10,000
Eastern NC Theological and Technical Institute			5,000	5,000
Ebenezer Baptist Church – Atom, Inc.		7,500		7,500
The Educational Council of the Memorial, Forest Inc.		2,000		2,000
Fork Chapel Missionary Baptist Church	6,500			6,500
Gateway Community Development Corporation		6,500		6,500
Hollister REACH, Inc.		1,500	5,000	6,500
Ivory Hill Baptist Church and Ivory Foundation	7,500		1,500	9,000
Mount Olive Missionary Baptist Church	6,500			6,500
Nebo Baptist Church	4,500		1,500	6,000
Nebo ROADS Program			25,000	25,000
Norlina Improvement Corporation			5,000	5,000
Oak Grove Baptist Church	7,500			7,500
Oak Level United Church of Christ		7,500		7,500
Roanoke Chapel Baptist Church	10,000	5,000	5,000	20,000
Roanoke Salem Baptist Church			7,500	7,500
Spring Hill Baptist Church	6,000			6,000
United Shiloh Missionary Baptist Association	5,000			5,000
United Solid Rock Faith Ministries	6,500			6,500
Walnut Grove Baptist Church	5,000	3,500	4,000	12,500
White Oak Baptist Church		7,500	8,500	16,000
Totals	\$ 97,500	\$ 46,000	\$ 87,500	\$ 231,000

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Each mini-grant recipient was asked to provide an accounting of the disposition of the grant funds and respond to a series of questions about the grant administration process.

Schedule 2 summarizes the results of our findings related to the use of grant funds and the grant administration process. Most of the mini-grant recipients did not provide access to their accounting records, so we relied on information they provided without substantiation.

Use of Grant Funds

The legislation that appropriated funds to the Foundation simply provided that the funds be used for “substance abuse treatment and prevention”. These terms were not defined further by the legislature, the Department of Correction, or the Foundation. As a result, we found the mini-grants were used for a wide variety of purposes.

Some organizations used their mini-grants directly for substance abuse treatment and prevention, but some organizations did not. For example, one organization simply passed its funding along to another organization to fund a Habitat for Humanity project. Another organization used its funding to repair the roof of one of its buildings. Several organizations used their funds to purchase electronic equipment such as computers, DVD players, televisions, and VCRs. One organization used the funding for its after-school and summer day-camp programs. Several organizations

FINDINGS AND RECOMMENDATIONS (CONTINUED)

used the funding for field trips to museums, ball games and amusement parks. Many organizations used the funding to provide food at social events. One organization initially said it had not used its funding, then later said it used its funding for college scholarships.

In general, it appeared that many organizations used funding from the Foundation to meet various financial obligations. Although many of these organizations are oriented toward community service, it is not apparent that many of the funded activities and expenditures were directly related to substance abuse treatment and prevention.

Grant Administration

We found that the administration of the mini-grant program was inconsistent. Some mini-grant recipients submitted requests to the Foundation for funding. Other mini-grant recipients said the Foundation's chairman made them aware of potential funding and asked them to submit a request to the Foundation. Whether funding was solicited or unsolicited, the Foundation did not utilize a structured methodology or specific selection criteria to select grant recipients. Most grant recipients were asked to report on the use of their funding, but some were not required to submit reports. Most mini-grant recipients stated they received an award letter from the Foundation and several stated the award letters allowed their organization to use a percentage of the mini-grant funds to compensate the pastor or program director (see exhibit 6 and 7).

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Stewardship of State Appropriations

It is the obligation of any organization that receives a state appropriation to ensure that expenditures from that appropriation are consistent with its stated purpose. When an organization elects to distribute state appropriated funds to other organizations, it should ensure these sub-grantees expend their grant funds in a manner that is consistent with the purpose of the original state appropriation.

In the case of grantors and grantees, this expectation is usually enforced through a grant agreement that includes restrictions, provisions, and reporting requirements.

Before a grant is made to an organization, applications or proposals should be submitted to the granting organization to determine if potential grant recipients possess the ability to fulfill the objectives of the state appropriation. As a general rule, potential grant recipients should be evaluated on criteria similar to the following:

- Is the potential grantee capable of carrying out the work described in the proposal?
- Are systems in place to ensure that grant funds will be managed within the terms and conditions of the grant agreement?
- Is the organization a going concern with an established governance structure and good management systems and staff?
- Is there evidence of mismanagement or fraud and abuse in the organization's recent history?
- Is the proposed budget appropriate for carrying out the activities?

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The Foundation chairman acknowledged few if any of the grant recipients were selected using formal selection criteria. The Foundation chairman appeared to select the grant recipients based on his belief that the organizations were worthy recipients.

Access to Funding and Selection of Grant Recipients

The administration of grants in a structured manner allows all qualified organizations equal access to state funding. The absence of objective evaluations of potential grant recipients can lead to the use of grant funds for other than the original legislative intent. The absence of formal selection criteria raises questions about the legitimacy of the mini-grants because of the relationship between the leaders of the organizations that received mini-grants and the Foundation chairman (Schedule 1).

RECOMMENDATION

The Foundation should implement a formal process for the award and administration of grants. The process should include procedures for inviting applications, evaluation criteria, selection methods, award notifications, and reporting results. A committee of the board of directors should award grants only after an evaluation of potential grant recipients and their programs is completed and documented. Grant recipients should be selected based on their ability to fulfill the objectives of the original funding source, e.g., state or federal government, or private contributors. The original funding source should be identified in grant award letters and grant recipients should be notified of any applicable audit provisions associated with the original funding.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Grant recipients should be required to report annually on the use of the grant award and a committee of the board of directors should evaluate the recipient and decide if continued funding is appropriate.

4. THE CHAIRMAN AWARDED MINI-GRANTS TO AN ORGANIZATION THAT EMPLOYED HIS MOTHER.

During fiscal years 2001 and 2003, the Foundation Chairman issued mini-grants of \$20,000 and \$12,500, respectively, to the Bertie County Rural Health Association, a nonprofit organization. After we began our review, the Bertie County Rural Health Association reimbursed the \$12,500 mini-grant to the Foundation.

According to the Executive Director of the Bertie County Rural Health Association, the \$20,000 was used to pay the salaries of a project director, two part-time coordinators and two part-time teachers in a program called “Triple D” (Don’t Do Drugs). The project director, who is the Foundation Chairman’s mother and a Foundation board member, was paid \$5,544.25 from the \$20,000 “mini-grant”. This is a violation of the Foundation’s conflict of interest policy that states:

No officer, employee, or agent of the Agency shall participate in the selection, award, or administration of a purchase or contract with a vendor where, to his knowledge, any of the following has a financial interest in that purchase or contract:

- 1) The officer, employee, or agent;*
- 2) Any member of the immediate family;*
- 3) Their partner;*
- 4) An organization in which any of the above is an officer, director, or employee;*
- 5) A person or organization with who any of the above individual is negotiating or has any arrangement concerning prospective employment....*

FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

We recommend the Foundation abide by its conflict of interest policy and board members disclose any potential conflicts of interest. If a conflict of interest exists, board members should exclude themselves from any related discussions and decisions.

5. THE FOUNDATION DISBURSED FUNDS TO VARIOUS ORGANIZATIONS AND INDIVIDUALS OUTSIDE THE SCOPE OF SUBSTANCE ABUSE TREATMENT AND PREVENTION.

During the past three fiscal years (2001-2003), the Foundation issued checks that totaled \$11,706.60 to nineteen organizations and individuals outside the scope of substance abuse and prevention. The Foundation's chairman signed each of the checks listed in the following table.

CHECK NUMBER	DATE	PAYEE	AMOUNT	DESCRIPTION
1583	07/17/00	1 st Baptist Church	\$ 250.00	Anniversary Banquet – Pastor Joyner
1635	10/27/00	Warren County High School Band Boosters Club	2,500.00	Booster Club Sponsorship
1637	10/31/00	Charles W. Williamson Bar Foundation	300.00	Scholarship banquet tickets
1653	11/22/00	Warren County Drug Treatment Program	35.00	Client Dinner
1669	12/14/00	Photography by Gregory Thompson	300.00	Senior Citizen Dinner
1807	08/06/01	The Whole Village Program	75.00	Sponsorship
1827	09/08/01	Subway	280.90	Youth Forum
1828	09/08/01	Roy Burroughs	100.00	Youth Forum
1829	09/08/01	Curtis Gatewood	100.00	Sponsorship
1849	10/16/01	American Boosters	865.70	Sponsor of cups for WCHS
1882	12/07/01	Mahalie Jackson	1,700.00	200 banquet meal sponsorship NAACP

FINDINGS AND RECOMMENDATIONS (CONTINUED)

CHECK NUMBER	DATE	PAYEE	AMOUNT	DESCRIPTION
1966	05/06/02	American Cancer Society	200.00	Relay for Life Sponsor
1978	05/31/02	Greenwood Baptist Church	1,200.00	Banquet co-sponsorship
2006	7/31/02	Nebo Family Life Center	1,000.00	Shirley Caesar Concert
2049	9/30/02	Greenwood Baptist Church	850.00	Sponsorship of Youth Forum
1111	02/12/02	YBM 6	500.00	Support B-Ball League
1112	02/12/02	Gateway CDC, Inc.	650.00	Youth Program – Church Basketball League
1113	02/18/02	Lee Kearney	550.00	Special Work on Substance Abuse Center
1114	03/23/02	Pequimmons County NAACP	250.00	Annual Banquet Sponsorship
		Total	\$11,706.60	

Although the original state appropriation to the Foundation was for substance abuse treatment and prevention, the disbursements listed in the table are more appropriately characterized as charitable contributions. Although many of these organizations may be worthy recipients of charitable contributions, the state appropriation to the Foundation was intended specifically for substance abuse treatment and prevention. Thus, the Foundation expended its substance abuse treatment and prevention funds from the State of North Carolina in a manner beyond its original intent.

The Foundation's chairman said most of these "sponsorships" were intended to promote awareness of the substance abuse program operated by the John A. Hyman Memorial Youth Foundation, Inc.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

As stated in a previous finding, non-profit organizations funded primarily with state appropriations must ensure their expenditures are consistent with the purpose of the state appropriation.

RECOMMENDATION

The Foundation should implement procedures to ensure that all expenditures of state appropriated funds are consistent with the intent of the original state appropriation.

6. THE FOUNDATION HAS NOT COMPLIED WITH VARIOUS STATE AND FEDERAL REGULATIONS.

As noted in the introductory section of this report, concerns about the Foundation's operations arose from the failure to file annual financial reports with the North Carolina Department of Correction. In addition, the Chairman acknowledged the Foundation also neglected to file annual financial reports with the federal government as required by law. During the course of our review, we followed up on these issues and determined the Foundation was not in compliance with other state and federal regulations.

State Compliance Issues

In a letter to the Foundation's Executive Director dated January 7, 2003, the Controller of the Department of Correction noted that the Foundation was not in compliance with the reporting requirements for nonprofit organizations that receive state funding. Specifically, the Controller stated that financial statements had not been

FINDINGS AND RECOMMENDATIONS (CONTINUED)

filed with the Department of Correction for the fiscal years ended June 30, 2001 and June 30, 2002.

The letter also stated that the State of North Carolina could not continue funding the Foundation unless it complied with the reporting requirements.

In a letter dated January 22, 2003, the Chairman of the Foundation responded to the Department of Correction by stating that its financial statements for 2001 and 2002 were being prepared by its CPA in Winston-Salem, North Carolina, and would be submitted upon receipt.

North Carolina General Statute 143-6.1 (Reports on use of State funds by non-State entities) states:

(c)Grantee Receipt and Expenditure Reports. - A grantee that receives, uses, or expends between fifteen thousand dollars (\$15,000) and three hundred thousand dollars (\$300,000) in State funds annually, except when the funds are for the purchase of goods or services, must file annually with the State agency that disbursed the funds a sworn accounting of receipts and expenditures of the State funds. This accounting must be attested to by the treasurer of the grantee and one other authorizing officer of the grantee. The accounting must be filed within six months after the end of the grantee's fiscal year in which the State funds were received...

The Foundation submitted the documents referenced for this report as Exhibit 8 and Exhibit 9 to the Department of Correction in late April 2003. These documents included independent auditor's reports and statements of revenues and expenses with accompanying notes for the fiscal years ended June 30, 2001 and June 30, 2002.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The submission of these reports in late April 2003 constitutes a violation of G.S. 143-6.1. The statute requires submission of the reports within six months of the organization's fiscal year end. Moreover, in comparing our analysis of the Foundation's fiscal activity to the fiscal activity reported to the Department of Correction, we discovered the following discrepancies:

- Reported expenses included a \$4,500 disbursement (check) that was never issued.
- Reported expenses included a \$102 disbursement (check) that never cleared the bank.
- Reported expenses included transfers of \$30,000 (not expenses) from one checking account to another checking account.
- The account activity of a second checking account was omitted from the reported expenses.
- The account activity of a third checking account was omitted from the reported expenses.

Thus, the amounts reported as expenditures to the Department of Correction for the fiscal years ended June 30, 2001 and June 30, 2002 were inaccurate.

Other State Regulatory Issues

In response to a complaint received about the operational activities of the Foundation's Substance Abuse Program, the North Carolina Department of Health and

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Human Services – Division of Mental Health, Developmental Disabilities, and Substance Abuse Services (Mental Health) conducted a site visit on June 4, 2003. The Mental Health team found that the Foundation was in violation of G.S. 122C-142.1(f) for failing to charge clients of the substance abuse program a required fee. In addition, the team found seven violations of the *North Carolina Administrative Code* for failing to document the performance of clinical and administrative procedures in client records.

Note: A copy of the Mental Health report is included with this report as exhibit 10.

Federal Compliance Issues

Form 990s

The Internal Revenue Service (IRS) issued a determination letter on December 9, 1985, granting the Foundation its tax-exempt status under internal revenue code 501(c) 3. The letter from the IRS states the Foundation is required to file Form 990 *Return of Organization Exempt from Income Tax, only if your gross receipts are normally more than \$25,000.*

As noted above, the Foundation's gross receipts have exceeded the \$25,000 threshold for many years. Nonetheless, the Foundation failed to file the required Form 990s with the IRS.

The federal government (IRS) could impose significant monetary penalties for failure to file required information returns.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

In response to questions about the Foundation's progress toward filing the returns with the IRS, both the Chairman and the Foundation's administrative assistant said the Foundation's certified public accountant was working on it.

Form 1099s

As noted in another finding, the Foundation employed a firm doing business as Consultech to provide computer services. A payment was made to this firm during 2001 in the amount of \$5,000. According to its owner (the Chairman's daughter), Consultech was not an incorporated business at the time it received the \$5,000 payment from the Foundation.

Federal Regulations (the Internal Revenue Code) require organizations to report payments exceeding \$600 to unincorporated businesses on IRS Form 1099-MISC annually.

There is no evidence that the foundation issued an IRS form 1099-MISC to Consultech in 2001 in violation of this federal reporting requirement.

Form W-2s

During the last several years, the Foundation has employed an individual to provide counseling to the clients of the substance abuse program and instruct classes on a periodic basis. It is apparent this individual is an employee of the Foundation and not an independent contractor. The employee is paid an hourly wage but has never been included in the *Paychex* system, the Foundation's payroll service. Thus, the employee

FINDINGS AND RECOMMENDATIONS (CONTINUED)

has received compensation without having payroll taxes withheld, or a W-2 prepared and filed with the IRS.

IRS *Publication 15 – Employer’s Tax Guide* states:

Generally, a worker who performs services for you is your employee if you can control what will be done and how it will be done.

Wages subject to Federal employment taxes include all pay you give an employee for services performed.

Again, the IRS could impose significant monetary penalties for failing to withhold and pay employment taxes and file required information returns.

RECOMMENDATION

The Foundation should establish adequate financial policies, procedures, and controls to ensure compliance with all state and federal reporting requirements as stated herein.

The Foundation should establish adequate operational policies, procedures, and controls to ensure compliance with the laws and regulations governing its substance abuse services as stated in the Division of Mental Health report referenced herein.

7. THE CHAIRMAN WROTE A FOUNDATION CHECK PAYABLE TO GREENWOOD BAPTIST CHURCH FOR RENT TOTALING \$35,000 WITHOUT ANY SUPPORTING DOCUMENTATION.

On August 8, 2000, the Chairman wrote a Foundation check to Greenwood Baptist Church for \$35,000. On June 25, 2001, he wrote a second Foundation check to Greenwood Baptist Church in the amount of \$750 for rent. Both checks were written when he served as chairman of the board of deacons for Greenwood Baptist Church.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

According to the Chairman, the \$35,000 check was a “rent settlement” to cover monthly rent. He said the original rent charged by Greenwood Baptist Church was \$2,500 a month. He said in 1995, the rent was reduced to \$18,000 a year and later was reduced to \$7,500 a year. He said there was no written contract, and “we made a settlement with the church that we thought was fair”.

We found no written lease agreements to support the disbursements.

RECOMMENDATION

We recommend the Foundation execute written lease agreements to support rental disbursements.

8. THE FOUNDATION RETAINED STATE APPROPRIATIONS BY TRANSFERING AND CLASSIFYING FUNDS AS ADMINISTRATIVE COST.

During the time period examined, the Chairman wrote two Foundation checks totaling \$30,000 and classified the checks as administrative cost.

Check Number	Date	Payee		Amount		Description
1667	12/14/2000	John A. Hyman Foundation	\$	5,000.00		Administrative Cost
1808	08/06/2001	John A. Hyman Special Account		25,000.00		Administrative Cost
		Total	\$	30,000.00		

These two checks were classified as expenses, when in fact, they were transfers from one Foundation checking account to another. According to the Chairman, he thought the Foundation could charge an administration fee for managing the mini-grants, so he

FINDINGS AND RECOMMENDATIONS (CONTINUED)

transferred the money from one checking account to another and classified it as administrative cost.

It is not uncommon for grant agreements to permit grantees to retain a portion of grant funds to cover the cost of administering grants. However, in this case, the Foundation did not have a grant agreement with the state, allowing the Foundation to retain a portion of the appropriation to cover administrative expenses. Furthermore, there was no documentation that detailed how the Foundation determined the amount of administrative expenses charged to the state.

As of April 30, 2003, the Foundation had accumulated approximately \$300,000 in cash. These accumulated funds were maintained in checking and savings accounts and invested in certificates of deposit.

RECOMMENDATION

We recommend the Foundation reimburse the state any of the approximately \$300,000 that has not been expended on substance abuse programs.

9. IN FISCAL YEARS 2001-2003, THE FOUNDATION PAID BOARD MEMBERS FOR ATTENDING ITS ANNUAL MEETING IN VIOLATION OF ITS BY-LAWS.

During fiscal years 2001-2003, the Foundation Board members received an annual payment of \$250. According to the Chairman, these payments were made at the annual meetings to reimburse the board members for the cost of attending the

FINDINGS AND RECOMMENDATIONS (CONTINUED)

meetings. During the time period examined, a total of \$12,700 was paid to board members. These board members included the mother of the chairman, the chairman, the administrative assistant, and the wife of a mini-grant recipient.

The Foundation bylaws state board members and officers can not be compensated for their services, but “may be reimbursed by the corporation for expenses actually incurred in attending regular and special meetings of the Board...” According to the Chairman, all members received a check for \$250 regardless of their actual expenses.

RECOMMENDATION

We recommend the Foundation only reimburse board members in accordance with its bylaws.

10. THE EXECUTIVE DIRECTOR WAS REIMBURSED BY THE FOUNDATION AND THE STATE FOR THE SAME EXPENSE.

We compared the Executive Director’s travel reimbursements from the North Carolina Department of Administration while serving as the Director of Human Relations Commission to his travel reimbursements from the Foundation for the period July 1, 2000, through April 30, 2003. We noted one instance where the same motel receipt was submitted to both organizations for reimbursement (see exhibit 11). Both organizations reimbursed the Executive Director \$52.87 for this expense.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

In addition, we found no evidence supporting the reimbursement of hotel stays by the Foundation other than hotel receipts. There was no reimbursement forms stating the purpose of the trips and other details. Two of the receipts were for hotel stays in Henderson, and one was for a stay in Creedmoor. Both locations are in close proximity to Greenwood Baptist Church.

According to the Executive Director, he does not recall the circumstances surrounding the expense.

RECOMMENDATION

We recommend the Foundation Chairman consult with the Department of Administration and determine which organization should seek reimbursement.

CONCLUSION

This report details the activities funded by the John A. Hyman Memorial Youth Foundation, Inc. The funds were appropriated by the General Assembly for the prevention and treatment of substance abuse. Beginning with the language in the appropriation bill and commencing with the lack of grant agreements between the Foundation and the recipients of the mini-grants, there was no additional guidance on how the funds should be used. The Foundation and the mini-grantees used the funds for a broad variety of purposes. Furthermore, the reports submitted by the Foundation to the Department of Correction and General Assembly did not detail how the funds were used by the grantees.

In addition, the findings in this report show that the process of selecting recipients of the mini-grants was not formalized and was controlled almost entirely by the Chairman of the Foundation. The closed nature of the selection process, combined with the extensive inter-relationships of Hyman Foundation employees, grant recipient employees, and political contributors, raises serious questions about the fairness and openness of the process.

The findings demonstrate the need for improved oversight and accountability of state funds. In some cases the mini-grant recipients were not aware that they were actually receiving state funds. The findings reveal that some mini-grants were used for activities that bear only a remote relationship to substance abuse treatment and prevention. Increased oversight of grants to nonprofits is required to assure that future appropriations are used for the purposes intended.

CONCLUSION (CONCLUDED)

The 2003 session of the General Assembly took steps to assure that recipients of state funds provide the state with adequate and timely reports on the activities supported by those funds with amendments to General Statute 143-6.1. The findings in this report demonstrate that improvements are needed to enhance the accountability and oversight of state tax dollars. We recommend that the General Assembly, Office of State Budget and Management and the executive and judicial branches continue those efforts with a comprehensive review of the oversight of grants to nongovernmental agencies.

Taxpayers expect the General Assembly and other State officials to ensure that their money is properly used. Certainly, many nonprofit agencies in North Carolina perform a tremendous service for their communities and are deserving of State assistance in those efforts. But that assistance must come with sufficient oversight and accountability to be sure that the funds are properly used.

STATEMENT OF QUESTIONED COSTS

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 taxpayers resulting from the findings of our review. We simply are noting areas where managerial oversight should be enhanced, or where, in our judgment, questionable activities or practices occurred.

1. Payment to Consultech for work that was not completed.	\$ 5,000.00
2. Mini-grant disbursements to nonprofit organizations.	231,000.00
3. Disbursements to organizations outside the scope of substance abuse treatment and prevention.	11,706.60
4. Payment to the Foundation Chairman's church for rent without supporting documentation.	35,000.00
5. Retention and classification of state funds as administrative cost.	30,000.00
6. Payments to board members in violation of Foundation by-laws.	12,700.00
7. Duplicate travel reimbursement to the Foundation's Executive Director.	<u>52.87</u>
Total	<u>\$325,459.47</u>

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SCHEDULE 1

**John A. Hyman Memorial Youth Foundation, Inc.
Campaign Contribution Analysis (2001-2003)**

CONTRIBUTOR TO THE COMMITTEE TO ELECT FRANK BALLANCE, JR	CAMPAIGN CONTRI-BUTIONS	RELATIONSHIP TO JOHN A. HYMAN MEMORIAL YOUTH FOUNDATION, INC. AND FRANK BALLANCE, JR.	POSITION / NAME OF ORGANIZATION	DISBURSEMENTS FROM THE JOHN A. HYMAN MEMORIAL YOUTH FOUNDATION, INC				
				MINI-GRANTS	EMPLOYEE COMPEN-SATION ²	BOARD MEMBER COMPEN-SATION	INDEPEN-DENT CONTRAC-TOR COMPEN-SATION	RENTAL PAYMENTS
Valerie Ballance	\$1,000.00	Independent Contractor / Chairman's Daughter	Owner / Consulttech				\$5,000.00	
Alice Ballance ¹	\$2,000.00	Employee of Mini-Grant Recipient / Foundation Board Member / Chairman's Mother	Director / Bertie County Rural Health Association's "Don't Do Drugs" Program *			\$750.00		
Tecumsah Brayboy	\$500.00	Employee of Mini-Grant Recipient	Pastor / Walnut Grove Baptist Church	\$12,500.00				
Dock Brown	\$250.00	Owner of Foundation's Leased Property / Relative of Foundation Employee	N/A					\$1,800.00
E. Ray Bynum	\$2,000.00	Employee of Mini-Grant Recipient	Pastor / White Oak Baptist Church	\$16,000.00				
Moore H Bynum	\$1,000.00	Employee of Mini-Grant Recipient	Bishop / United Solid Rock Faith Ministries	\$6,500.00				
Dupont L. Davis	\$500.00	Employee of Mini-Grant Recipient	Director / Atlantic District Fair	\$8,000.00				
Leroy Douglas	\$1,000.00	Employee of Mini-Grant Recipient	Pastor / Spring Hill Baptist Church	\$6,000.00				
Robert L. Holloman	\$2,500.00	Employee of Mini-Grant Recipient	Pastor / Nebo Baptist Church	\$31,000.00				
Velma M. Holloman	\$2,000.00	Spouse of Mini-Grant Recipient / Foundation Board Member	N/A			\$750.00		
James M. Johnson	\$500.00	Employee of Mini-Grant Recipient	Director / Hollister REACH, Inc.	\$6,500.00				
James E. Jones, Jr.	\$500.00	Employee of Mini-Grant Recipient	Pastor / Mount Olive Baptist Church	\$6,500.00				
Richard E. Joyner	\$250.00	Employee of Mini-Grant Recipient	Pastor / Conetoe Chapel Missionary Baptist Church	\$10,000.00				
Eddie Lawrence	\$2,500.00	Employee of the Foundation	Executive Director / John A. Hyman Memorial Youth Foundation, Inc.		\$90,000.00			
Martin W. Lawrence	\$1,300.00	Son of Foundation's Executive Director	N/A					
Charles E. McCollum	\$1,000.00	Employee of Mini-Grant Recipient	Pastor - Director / Oak Grove Baptist Church & Eastern NC Theological and Technical Institute	\$12,500.00				
Melinda Soloman Harris	\$2,473.33	Employee of the Foundation	Director / The Hallifax Project		\$72,000.00			
Eugene Taylor	\$1,000.00	Employee of Mini-Grant Recipient	Pastor / Roanoke Salemm Baptist Church	\$7,500.00				
Albert Thompson ¹	\$1,000.00	Employee of Mini-Grant Recipient	Director - Consultant / Bertie County Rural Health Association *	\$32,500.00				
Thomas L. Walker	\$1,500.00	Employee of Mini-Grant Recipient	Pastor / Ebenezer Baptist Church	\$7,500.00				
Leon White	\$500.00	Employee of Mini-Grant Recipient	Pastor / Oak Level United Church of Christ	\$7,500.00				
Totals	\$25,273.33			\$170,500.00	\$162,000.00	\$1,500.00	\$5,000.00	\$1,800.00

¹Ms. Alice Ballance and Dr. Albert Thompson received payments of \$5,544.25 and \$3,150.00 for services, equipment, and supplies from the Bertie County Rural Health Association. Ms. Ballance served as the Director of the Association's "Don't Do Drugs" program and Dr. Thompson is the Association's Director.

²Compensation for the past 3 fiscal years.

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SCHEDULE 2

**John A. Hyman Memorial Youth Foundation, Inc.
Mini-Grants Fiscal Years 2001-2003**

	Mini-Grant Recipient	Funds Received 2001-2003	Use of Funds	Grant Request Submitted	Award Letter Specified Use of Funds	Required Annual Report
1	Atlantic District Fair	\$ 8,000.00	The fair manager said the funds were used for the fair's operational expenses, including financial prizes for 1st, 2nd and 3rd place finishes in the youth art contest. The fair manager also said the fair draws approximately 1,500 to 2,000 youth annually.	No	No	Yes
2	Bertie County Rural Health Association	\$ 32,500.00	The executive director said the funds were passed through to an organization led by the Foundation's mother (a drug prevention program known as Triple D - Don't Do Drugs). Triple D provided a ledger of disbursements and canceled checks for staff salaries, renovations, rent, utilities, computers and books. Note: On June 3, 2003, the Association issued a cashier's check in the amount of \$12,500 to the Foundation. This amount is equal to the fiscal 2003 mini-grant.	Yes	Yes	Yes
3	Church on the Rock	\$ 6,500.00	The church's pastor provided documentation in the form of invoices, canceled checks, etc. for the purchase of a children's bus (\$750), a stereo for the bus (\$50), bus lettering (\$214), and other operational expenses of the church related to children's ministries, including children's equipment and utility bills.	No	Yes	Yes
4	Conetoe Chapel Missionary Baptist Church	\$ 10,000.00	The church's pastor provided documentation in the form of canceled checks for the purchase of computers (\$7,169.94) and various other expenses of the church.	Yes	No	Yes

SCHEDULE 2 (continued)

John A. Hyman Memorial Youth Foundation, Inc. Mini-Grants Fiscal Years 2001-2003						
	Mini-Grant Recipient	Funds Received 2001-2003	Use of Funds	Grant Request Submitted	Award Letter Specified Use of Funds	Required Annual Report
5	Eastern NC Theological and Technical Institute	\$ 5,000.00	The organization's President said the mini-grant funds were passed through to another entity known as the Divine Unity League. Documentation was provided in the form of canceled checks, and receipts to support the expenditures for an enrichment program for youth, establishment of a curriculum for the education of future ministers, annual trips to amusement parks, a museum, NC Central Univ. open house, financial incentives for students who earned A's and B's and for equipment, supplies, and umpires for the church softball league.	No	Yes	No
6	Ebenezer Baptist Church - Atom, Inc.	\$ 7,500.00	The church's associate pastor provided copies of checks made payable to Mt. Zion Christian Church for a Habitat for Humanity project. The project is a collaborative effort of several organizations in the Rocky Mount area and is known as the "Clark Street Project". The project provides affordable housing and economic development for at-risk families in the area. Clients are also provided with temporary financial assistance for telephones, utilities, and other needs.	Yes	Yes	Yes
7	The Educational Council of the Memorial Forest, Inc.	\$ 2,000.00	The organization's president stated in a letter to the Foundation's Chairman that the Hyman mini-grant was used to repair the roof of the Educational Council building. The building is used for 4-H club meetings, a Halloween costume ball, an Easter egg hunt, black history and Martin Luther King celebrations, vacation bible school, and weekly youth bible classes. The president also provided copies of canceled checks to substantiate that a contractor had been paid to repair the building's roof.	Yes	Yes	Yes

SCHEDULE 2 (continued)

John A. Hyman Memorial Youth Foundation, Inc. Mini-Grants Fiscal Years 2001-2003						
	Mini-Grant Recipient	Funds Received 2001-2003	Use of Funds	Grant Request Submitted	Award Letter Specified Use of Funds	Required Annual Report
8	Fork Chapel Missionary Baptist Church	\$ 6,500.00	The church's pastor said the mini-grant funds were used to purchase teaching tools to support his substance abuse prevention program for youth. The teaching tools included a television, an overhead projector, a DVD player, a VCR, a computer monitor and keyboard, a laptop computer, a printer / copier / fax / scanner and instructional compact discs and video tapes.	Yes	Yes	No
9	Gateway Community Development Corporation	\$ 6,500.00	The Executive Director said the mini-grant funds were used for rent, utilities, printing, hosting special events such as a Martin Luther King day festival, attendance at ballgames, and purchasing food for special events.	No	No	Yes
10	Hollister REACH, Inc.	\$ 6,500.00	The church's pastor said the organization used the mini-grant funds to provide after-school and summer daycamp programs. Activities provided during these programs included physical fitness, speakers from Halifax Sheriff's Office and the Twin County Rural Health Department, museum trips and swimming facilities.	No	Yes	Yes
11	Ivory Hill Baptist Church and Ivory Foundation	\$ 9,000.00	The pastor of the church said the mini-grant funds were primarily used to host the Family, Friends, and Community Festival - a one day event for two to three thousand individuals. Remaining funds were used for the Helping Hands Youth Program, a quarterly seminar addressing drugs, AIDS and teen pregnancy, as well as for the Recast Program, which makes use of retired teachers to provide instruction to students not in the public school system.	Yes	Yes	Yes

SCHEDULE 2 (continued)

<p align="center">John A. Hyman Memorial Youth Foundation, Inc. Mini-Grants Fiscal Years 2001-2003</p>						
	Mini-Grant Recipient	Funds Received 2001-2003	Use of Funds	Grant Request Submitted	Award Letter Specified Use of Funds	Required Annual Report
12	Mount Olive Missionary Baptist Church	\$ 6,500.00	The church's senior pastor said 30% of the funds paid administrative costs and the remaining funds paid for substance abuse resources such as materials for classes, pamphlets and refreshments. In addition, the funds were used to aid in providing various programs such as the Back to School Conference, HIV/AIDS banquet with emphasis on drug abuse prevention, summer camp which included drug abuse prevention topics, and the Youth Ball which teaches etiquette and self-esteem.	Yes	Yes	Yes
13	Nebo Baptist Church	\$ 6,000.00	The pastor said that the \$4,500 mini-grant was used to take youth on trips and the \$1,500 mini-grant was used to host an appreciation/recognition banquet at the church's family life center.	No	Yes	Yes
14	Nebo ROADS Program	\$ 25,000.00	The church pastor provided a list of expenditures associated with the mini-grant. The list included \$11,787.13 for rent and access to the church's family life center. The family life center houses the "Reaching Out Against Drugs" program. The pastor said participants in the program have access to classrooms, a computer lab, a fitness center and other building facilities. The pastor also said the remaining \$13,212.87 was used to compensate individuals for their service to the program.	No	Yes	Yes
15	Norlina Community Development Association	\$ 5,000.00	The organization's president and the Norlina Librarian stated that the mini-grant funds would be used by the library to purchase a computer, software, books, and magazines on drug related issues. In addition, the organization plans to host various speakers over the next two years.	Yes	No	No

SCHEDULE 2 (continued)

John A. Hyman Memorial Youth Foundation, Inc. Mini-Grants Fiscal Years 2001-2003						
	Mini-Grant Recipient	Funds Received 2001-2003	Use of Funds	Grant Request Submitted	Award Letter Specified Use of Funds	Required Annual Report
16	Oak Grove Baptist Church	\$ 7,500.00	The church pastor said the mini-grant funds were passed through to another entity known as the Divine Unity League. Documentation was provided in the form of canceled checks and receipts to support the expenditures for an enrichment program for youth, establishment of a curriculum for the education of future ministers, annual trips to amusement parks, a museum, NC Central Univ. open house, financial incentives for students who earned A's and B's and for equipment, supplies, and umpires for the church softball league.	No	Yes	No
17	Oak Level United Church of Christ	\$ 7,500.00	The church pastor declined to meet with auditors to review the use of the mini-grant funds.	No	No	No
18	Roanoke Chapel Baptist Church	\$ 20,000.00	The church pastor said the funds were used to implement a drug awareness program for children and their parents, educating them on the use and detection of drugs in the home. In addition, the funds allow the organization to provide counseling and treatment for persons already using drugs.	Yes	Yes	Yes
19	Roanoke Salem Baptist Church	\$ 7,500.00	The church pastor said the funds were used for staff salaries (\$2,700), postage (\$185), stipends (\$500), transportation/outings (\$2000), food (\$1200), printing (\$600), travel for staff (\$300).	Yes	Yes	Yes

John A. Hyman Memorial Youth Foundation, Inc. Mini-Grants Fiscal Years 2001-2003						
	Mini-Grant Recipient	Funds Received 2001-2003	Use of Funds	Grant Request Submitted	Award Letter Specified Use of Funds	Required Annual Report
20	Spring Hill Baptist Church	\$ 6,000.00	The church pastor said the mini-grant funds were used for a computer class for 10 youth and for three youth trips. The trips were to Lancaster, Pennsylvania, Kings Dominion and Harrisburg, Pennsylvania for approximately 330 children. The funds paid for bus rentals and admission fees. The funds were also used to host a community awareness Saturday night event.	Yes	Yes	Yes
21	United Shiloh Missionary Baptist Association	\$ 5,000.00	The Director reported to the Foundation in November 2002 and to auditors that the mini-grant funds were still in the organization's building fund. The Director said that the organization had not secured sufficient funding to construct a proposed facility. Later, the Project Director said the mini-grant funds were used to provide scholarships to college bound youths (\$4,400) and for a workshop to promote teen fitness (\$600).	Yes	Unknown	Yes
22	United Solid Rock Faith Ministries	\$ 6,500.00	The organization's Bishop said the mini-grant funds were used for transportation of the substance abuse program director to the prison and jail to counsel inmates, furniture for the program director's office, substance abuse classes and food for the food bank for individuals in need.	No	Yes	Yes
23	Walnut Grove Baptist Church	\$ 12,500.00	The church pastor said the mini-grant funds were used to host law enforcement officers speaking engagements, weekly meetings for parents and youth, the church picnic, cultural arts activities, books/videos/tapes on drug prevention and abuse and field trips for youth.	Yes	Yes	Yes

SCHEDULE 2 (concluded)

**John A. Hyman Memorial Youth Foundation, Inc.
Mini-Grants Fiscal Years 2001-2003**

	Mini-Grant Recipient	Funds Received 2001-2003	Use of Funds	Grant Request Submitted	Award Letter Specified Use of Funds	Required Annual Report
24	White Oak Baptist Church	\$ 16,000.00	The church pastor provided documentation in the form of canceled checks for a variety of expenditures from the mini-grant funds including weekly youth meetings, weekly outreach meetings with single mothers and their children, the mentoring program at Halifax County schools, Youth Day speakers, trips to amusement parks and a trip to New York.	Yes	No	Yes
	Totals	\$ 231,000.00				

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Security enhanced document. See back for details.

**JOHN A. HYMAN MEMORIAL YOUTH
FOUNDATION, INC.**
SUBSTANCE ABUSE PROGRAM
P X 22 PH. 252-257-4122
V NTON, NC 27589

1703

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9725 WEATHERING CT
 ZEBULON, NC 27597
 1919-737-4587 fax 1919-404-1861

Invoice No.

INVOICE**Customer**

Name JOHN HYMAN SUBSTANCE ABUSE PROGRAM
 Address _____
 City WARRENTON State NC ZIP _____
 Phone 257-4122

Date 2/9/01
 Order No. _____
 Rep _____
 FOB _____

Qty	Description	Unit Price	TOTAL
5	PENTIUM III 800MHZ SYSTEM UNIT 64MB MEMORY/13.5 GIG HARD DRIVE/1.44MB FLOPPY CDROM MULTIMEDIA KIT/NETWORK CARD 15" MONITOR/WINDOWS MILLENIUM/OFFICE 2000	\$800.00	\$4,000.00
1	PENTIUM III 800MHZ SYSTEM UNIT 64MB MEMORY/20.6 GIG HARD DRIVE/1.44MB/ZIP CDROM MULTIMEDIA KIT/PCI FAX MODEM 15" MONITOR/WINDOWS MILLENIUM/OFFICE 2000	\$950.00	\$950.00
1	PENTIUM III 800MHZ SYSTEM UNIT 128 MB MEMORY/20.6 GIG HARD DRIVE/ZIP/1.44MB CDROM MULTIMEDIA KIT/PCI FAX/CDROM WRITER 17" MONITOR/WINDOWS MILLENIUM/OFFICE 2000	\$1,050.00	\$1,050.00
1	NETWORK HUB & ROUTER	\$399.00	\$399.00
1	SYSTEM/NETWORK CABLE INSTALLATION	\$2,500.00	\$2,500.00

SubTotal **\$8,899.00**Shipping & Handling **\$0.00**Taxes NC **\$533.94****TOTAL \$9,432.94****Payment Details**

- ☐ Cash
☒ Check
☐ Credit Card

Name _____

CC # _____

Expires _____

Office Use Only

THANK YOU.

HAVE A BLESSED DAY

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JOHN A. HYMAN MEMORIAL YOUTH
FOUNDATION, INC.
SUBSTANCE ABUSE PROGRAM
PO BOX 22 PH. 252-257-4122
WARRENTON, NC 27589

1740

DATE 4/9/01 68-112/531
94001

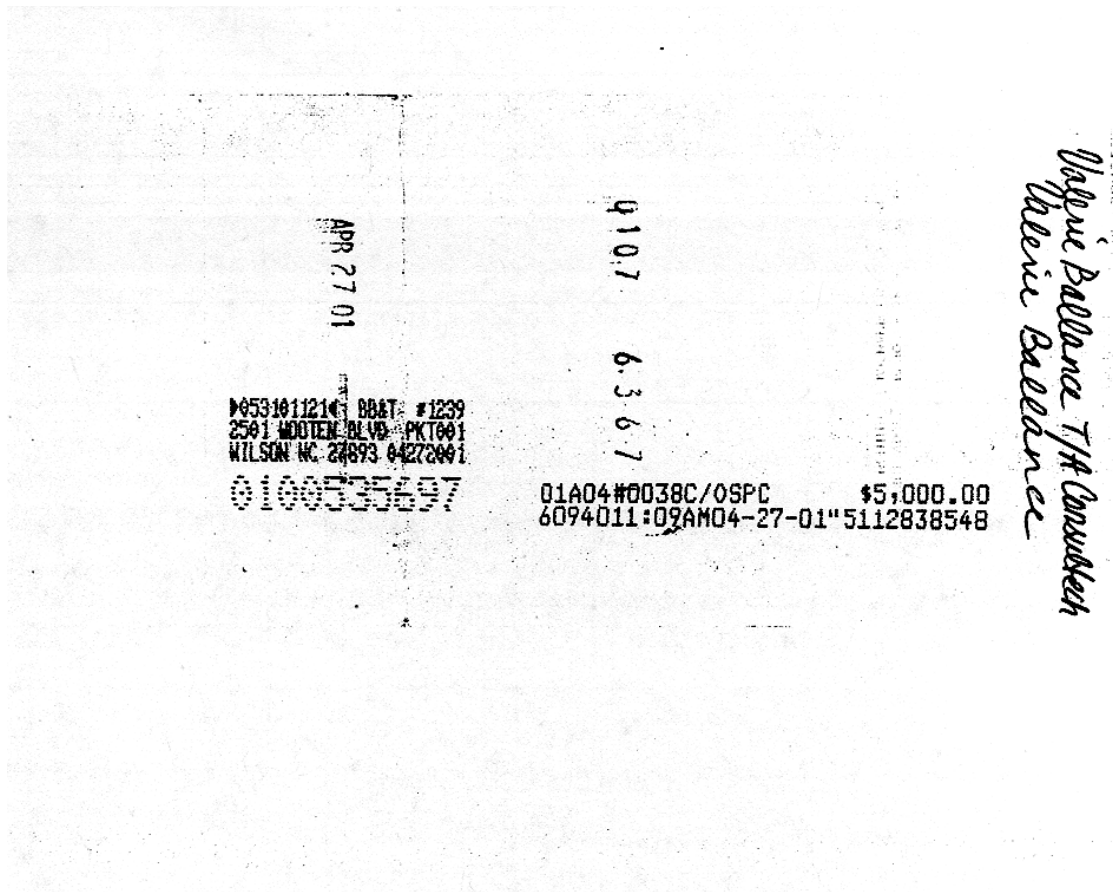
PAY TO THE ORDER OF Consultech \$ 5,000.00
Five Thousand & 00/100 DOLLARS

BB&T
BRANCH BANKING AND TRUST COMPANY
WARRENTON, NORTH CAROLINA

FOR Computer Lab GSE Linda Kellum

⑈001740⑈ ⑆053101121⑆5112838548⑈ ⑆0000500000⑆

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AGREEMENT

THIS AGREEMENT, entered into this 3rd day of February, 2001 by and between Consul Tech hereinafter called the "Contractor") and the John A. Hyman Memorial Youth Foundation, Inc. (hereinafter called the "Agency").

WITNESS THAT:

WHEREAS, the Agency desires to engage the Contractor to render certain technical or professional services which are described in this Agreement;

NOW THEREFORE, the parties signing this Agreement do mutually agree to the terms and conditions discussed below:

1. **Employment of Contractor:** The Agency agrees to engage the Contractor and the Contractor agrees to perform the services set forth in this Agreement. The Contractor is hired as an independent contractor and not as an agent or employee of the Agency.
2. **Area Covered.** The Contractor shall perform all necessary services provided under this contract in connection with and respecting all of the laws of the State of North Carolina.
3. **Scope of Services.** The Contractor, in connection and cooperation with the Agency, shall within time and fund constraints stated within this Agreement, do, perform, and carry out in a satisfactory and proper manner, as determined by the Agency, the following services:
 - Coordinate, set up and implement a network of computers for the computer-learning center at the John A. Hyman Substance Abuse Program.
 - Train Hyman staff on computer use and how to troubleshoot with potential network problems.
 - Design and teach four computer classes at Computer-learning center.
4. **Term of Contract.** The term of this contract is effective beginning upon execution and will terminate June 30, 2001.
5. **Compensation.** The Agency agrees to pay the Contractor a total amount not to exceed \$5,000.00 as compensation for the services described in paragraph 3. The Contractor agrees to provide the Agency with the Contractor's correct taxpayer identification number or Social Security number upon the execution of this Agreement.
6. **Contract Administrator.** Eddie W. Lawrence is designated Contract Administrator for this contract. The Contract Administrator is responsible for (1) providing liaison with the Contractor, and (2) obtaining approval of work accomplished by the Contractor. The Contract Administrator's location is Greenwood Baptist Church, State Road 1001, the mailing address is P.O. 22, Warrenton, NC 27589, and his telephone number is (252) 257-1551.

The Agency may, in its discretion, change the Contract Administrator at any time; if so, the Agency shall notify the Contractor, in writing, of the change.

7. Data to be Furnished to Contractor. All information, data, reports and records, available without cost, and necessary for the carrying out of the work as outlined shall be furnished to the Contractor without charge by the Agency.
8. Liability for Loss or Damage. Except for loss or damage due to its own negligence, the Agency shall not be responsible to the Contractor for loss or damage to any of the Contractor's property that is in the Agency's possession, in the possession of other public or private agencies, or in the possession of anyone else to whom delivery is made by the Agency in the ordinary course of business.
9. Insurance. The Contractor shall furnish all worker's compensation, liability insurance, and other insurance as may be required to protect the Contractor and the Agency from claims that may result from the performance of the terms of this Agreement.
10. Indemnification. The Contractor agrees to save and hold harmless the State of North Carolina, its officer, agents, and employees from any claim which may arise out of the performance of this contract. In addition, the Contractor agrees to indemnify the state for any costs it may incur as the result of any unauthorized acts by the Contractor.
11. Termination of Contract for Cause. If, through any cause, the Contractor shall fail to fulfill in time and proper manner his/her obligations under this Contract, or if the contractor shall violate any of the covenants, agreements, or stipulations of this Contract, the Agency shall have the right to terminate this Contract by giving written notice to the Contractor of such termination and specifying the effective date thereof. In such event, the Contractor shall cease work immediately upon receipt of such notice, all finished or unfinished documents, data, studies, surveys, models, and reports prepared by the Contractor under the Contract shall become the property of the Agency, and the Contractor shall be entitled to receive just and equitable compensation for any satisfactory work completed on such documents.

Notwithstanding the above, the Contractor shall not be relieved of liability for damages sustained by the Agency by virtue of any breach of the Contract by the Contractor and the Agency may withhold any payments to the Contractor for the purpose of set-off until such time as the exact amount of damages due the Agency from the Contractor is determined.

12. Termination for Convenience of Agency. The Agency may terminate this Contract at any time by giving written notice to the Contractor of such termination and specifying the effective date thereof. In that event, all finished or unfinished documents and other materials as described in Paragraph 7 above shall become the property of the Agency. If the contract is terminated by the Agency, the Contractor will be paid cost not to exceed any amount which bears the same ratio to the total services of the contractor covered by this Contract, less payments of compensation previously made, provided, however, that if less than 60 percent of the services covered by this contract have been performed upon the effective date of such termination, the Contractor shall be reimbursed (in addition to the above payment) for that portion of actual out-of-pocket expenses (not otherwise reimbursed under this Contract) attributable to uncompleted portion of the services covered by this Contract. If this Contract is terminated due to the fault of the Contractor, Paragraph 7 concerning termination shall apply.
13. Interest of Contractor. The Contractor expressly states that he presently has no interest and shall not acquire any interest, direct or indirect, which would conflict in any manner or degree with the

performance of services required to be performed under this Contract. The Contractor further states that in the performance of this Contract, no person having any such interest shall be employed.

14. **Finding Confidential.** No reports, information, data, etc., given to or prepared or assembled by the Contractor under this Contract shall be made available to any individual or organization by the Contractor without the prior written approval of the Agency.
15. **Equal Employment Opportunity.** This Agreement does not contemplate the services of any other individual other than the Contractor in satisfying the performance requirements of this Agreement. The Agency and the Contractor acknowledge that it is the policy of the State that in the performance of services or consultants, contractors will not discriminate against any employee or applicant for employment because of race, color, religion, sex, national origin, age or disability.
16. **Assignability.** The Contractor shall not assign any interest in this Agreement (whether by assignment or novation) without prior written consent of the Agency.
17. **Officials Not to Benefit.** In accordance with G.S. 14-234 and G.S. 143-63, no public official may directly or indirectly benefit or otherwise participate in the expenditure of public funds, under this Contract. Nor shall any public official be awarded by rebate, gifts or otherwise any money or anything of value. Nor shall there be any possible obligation or contract for future reward or compensation. The Contractor expressly states that no public official has any interest in this contract or its proceeds.
18. **Publication, Reproduction and Use of Material.** No material produced in whole or in part under this Contract shall be subject to copyright in the United States or in any other country. The Agency shall have unrestricted authority to publish, disclose, distribute and otherwise use, in whole or in part, any reports, data, or other materials prepared under this Contract.
19. **Audits and Inspections.** At any time during normal business hours and as often as the Agency may deem necessary, there shall be made available to the Agency, for examination, all of its records with respect to all matters covered by this Agreement and will permit the Agency to audit, examine and make excerpts or transcripts from such records, and to make audits of all contracts, invoices, materials, payrolls, records of personnel, conditions of employment and other data relating to all matters covered by this Agreement.
20. **Compliance with Laws.** The Contractor is required to comply with laws, codes, rules, regulations, and licensing requirements that are applicable to the conduct of its business and the work to be performed, including those of Federal, State, and local agencies having jurisdiction and/or authority.
21. **Availability of Funds.** It is understood and agreed between the Contractor and the Agency that G.S. 143-34.2 requires that the payment of compensation specified in this agreement, its continuation or any renewal or extension of this Agreement, is dependent upon and subject to the allocation and appropriation of funds to the Agency for the purposes set forth in this Agreement.
22. **Situs.** It is agreed between the parties to this Agreement that the place of this contract, its situs and forum, shall be Warren County, North Carolina, where all matters, whether sounding in contract or tort, relating to validity, construction, interpretation and enforcement of this Agreement, shall be determined.

IN WITNESS WHEREOF, the Agency and the Contractor have executed this Agreement as of the date first written.

ATTEST:

By Eddie W. Lawrence
(Program or Agency Head)

ATTEST:

By _____
Secretary or assistant Secretary

(Print Name Above)

Phyllis M. Ballance
(Contractor)

245-41-7564
Taxpayer ID or Soc. Sec. No.

Note: If the Contractor is a corporation, this contract shall be signed by the corporation's president, vice-president, or an assistant vice-president who has the actual authority to bind the corporation to this contract, and shall be attested to by the corporation's secretary or assistant secretary. Further, the corporate seal shall be affixed to this contract.

JOHN A. HYMAN MEMORIAL YOUTH FOUNDATION, INC.
Post Office Box 22
Warrenton, North Carolina 27589
Frank W. Ballance, Jr., Chairman of Board

January 19, 2002

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Re: Grant Application For [REDACTED]

Dear [REDACTED]:

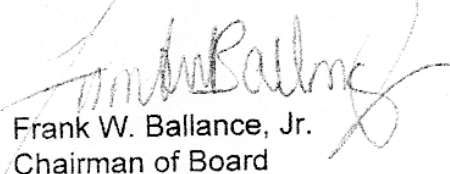
I am pleased to inform you that the John A. Hyman Memorial Youth Foundation, Inc. has approved your mini grant request in the amount of \$2500.00. Our foundation, which was chartered in 1985, currently focuses on substance abuse prevention and treatment.

The purpose of this mini grant is to promote the development or continuation of a prevention program within your ministry or organization. Please feel free to contact our director Eddie W. Lawrence or staff regarding referrals. We request that you give us an annual report indicating the success of your efforts and the number of lives touched by your program. We also request that a minimum of 30% of these funds be used to compensate the Pastor, who will be responsible for establishing and directing the program, with the balance being used for expenses of the program.

Thank you for your interest in rescuing lives and preventing others from becoming victims of drugs, alcohol and other destructive substances and behavior.

Very truly yours,

JOHN A. HYMAN MEMORIAL
YOUTH FOUNDATION, INC.


Frank W. Ballance, Jr.
Chairman of Board

&
E.W. Lawrence
Executive Director

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JOHN A. HYMAN MEMORIAL YOUTH FOUNDATION, INC.
Post Office Box 22
Warrenton, North Carolina 27589
Frank W. Ballance, Jr., Chairman of Board

December 31, 2002

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Re: Mini Grant

Dear [REDACTED]

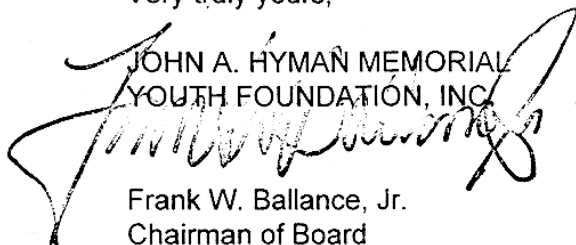
I am pleased to inform you that the John A. Hyman Memorial Youth Foundation, Inc. has approved your mini grant request in the amount of \$7,500.00. Our foundation, which was chartered in 1985, currently focuses on substance abuse prevention and treatment.

The purpose of this mini grant is to promote the development or continuation of a prevention program within your organization. Please feel free to contact our director Eddie W. Lawrence or staff regarding referrals. We request that you give us an annual report indicating the success of your efforts and the number of lives touched by your program.

We also request that any compensation for the Pastor or other program director be set at an amount not to exceed 25% of the grant funds. The balance may be used for program and support services.

Thank you for your interest in rescuing lives and preventing others from becoming victims of drugs, alcohol and other destructive substances and behavior.

Very truly yours,


JOHN A. HYMAN MEMORIAL
YOUTH FOUNDATION, INC.

Frank W. Ballance, Jr.
Chairman of Board

&
E.W. Lawrence
Executive Director

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**JOHN A. HYMAN MEMORIAL YOUTH
FOUNDATION, INC.**

SUBSTANCE ABUSE PROJECT

JUNE 30, 2001

**DAVID C. HINTON, CPA P.A.
CERTIFIED PUBLIC ACCOUNTANT**

**JOHN A. HYMAN MEMORIAL YOUTH
FOUNDATION, INC.**

SUBSTANCE ABUSE PROJECT

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Statement of Revenues and Expenses	2
Notes to Financial Statement	3

DAVID C. HINTON, CPA P.A.

W. 4TH ST, SUITE 110 WINSTON-SALEM, NC 27101 TELEPHONE: 336-724-4261 FAX: 336-727-9738
Member: American Institute of Certified Public Accountants; North Carolina Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
John A. Hyman Memorial Youth Foundation, Inc.

I have audited the accompanying statement of revenues and expenses for the Substance Abuse Project of the John A. Hyman Memorial Youth Foundation, Inc. (a nonprofit organization) for the year ended June 30, 2001. This financial statement is the responsibility of John A. Hyman Memorial Youth Foundation, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of revenues and expenses of the Substance Abuse Project. I believe that my audit provide a reasonable basis for my opinion.

The accompanying statement was prepared to present the revenues and expenses of the Substance Abuse Project of the John A. Hyman Memorial Youth Foundation, Inc. received from the North Carolina Department of Correction as described in Note 3 and is not intended to be a complete presentation of the Foundation's assets and liabilities.

In my opinion, the accompanying statement of revenues and expenses present fairly, in all material respects, the results of operations of the Substance Abuse Project of the John A. Hyman Memorial Youth Foundation, Inc. for the year ended June 30, 2001 as described in Note 3 in conformity with auditing standards generally accepted in the United States of America.

This report is intended solely for the information and the use of the board of directors and management of John A. Hyman Memorial Youth Foundation, Inc. and the North Carolina Department of Correction and is not intended to be and should not be used by anyone other than these specified parties.



David C. Hinton, CPA P.A.
April 18, 2003

JOHN A. HYMAN MEMORIAL YOUTH FOUNDATION, INC.
 SUBSTANCE ABUSE PROJECT
 STATEMENT OF REVENUES AND EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2001

REVENUES

Grants	\$ 250,000	
Interest Income	<u>5,250</u>	
Total Revenues		\$ 255,250

EXPENSES

Salaries	101,670	
Payroll Taxes	8,231	
Contractual Services	12,393	
Prevention Program Mini Grants	97,500	
Sponsorships	4,030	
Projects	2,000	
Supplies	1,849	
Telephone	3,281	
Transportation	4,211	
Rent	37,550	
Utilities	2,642	
Repairs	475	
Accounting	2,000	
Payroll Processing	1,087	
Travel	348	
Equipment Purchases	9,751	
Miscellaneous	<u>292</u>	
Total Expenses		<u>289,310</u>
Excess Revenue over Expenses		\$ <u>(34,060)</u>

See notes to financial statement.

**JOHN A. HYMAN MEMORIAL YOUTH FOUNDATION, INC.
SUBSTANCE ABUSE PROJECT
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 1 - ORGANIZATION

The John A. Hyman Memorial Youth Foundation, Inc. is a private, non-profit corporation chartered in North Carolina in 1985 for the purpose of helping those who have fallen as victims to substance abuse to establish or reestablish their lives. The Foundation's primary source of income is a Substance Abuse Project grant from the North Carolina Department of Correction.

NOTE 2 - ACCOUNTING POLICIES**BASIS OF ACCOUNTING**

The statement of revenues and expenses of the Substance Abuse Project have been prepared on the accrual basis of accounting.

REVENUE RECOGNITION

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

INCOME TAX STATUS

The Foundation is exempt from federal and state income taxes as provided for in Section 501(c)(3) of the Internal Revenue Code.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

DONATED SERVICES

The value of services provided by various volunteers, who make substantial contributions of time and effort for the furtherance of the Project's programs, is not reflected in the financial statements since it is not subject to objective measurement or valuation.

NOTE 3 - SUBSTANCE ABUSE PROJECT

The accompanying statement represents revenues and expenses of a grant received from the North Carolina Department of Correction. The statement is not intended to be a complete presentation of assets, liabilities, revenues and expenses of the John A. Hyman Memorial Youth Foundation, Inc.

NOTE 4 - CASH RESERVE

As of June 30, 2001, the Foundation's Substance Abuse Project had a \$100,000 certificate of deposit held in reserve for future expansion. The certificate of deposit was generated from a surplus of prior years allocations.

JOHN A. HYMAN MEMORIAL YOUTH FOUNDATION, INC.
SUBSTANCE ABUSE PROJECT
NOTES TO FINANCIAL STATEMENT- cont.
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 5 - RENT

The amount for rent includes a payment of \$35,000 to its landlord for the period March 1, 1996 through August 31, 2000, \$750 for current rental expense, and \$1,800 for the Halifax project.

**JOHN A. HYMAN MEMORIAL YOUTH
FOUNDATION, INC.**

SUBSTANCE ABUSE PROJECT

JUNE 30, 2002

**DAVID C. HINTON, CPA P.A.
CERTIFIED PUBLIC ACCOUNTANT**

**JOHN A. HYMAN MEMORIAL YOUTH
FOUNDATION, INC.**

SUBSTANCE ABUSE PROJECT

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DAVID C. HINTON, CPA P.A.

633 W. 4TH ST. SUITE 110 WINSTON-SALEM, NC 27101 TELEPHONE: 336-724-4261 FAX: 336-727-9738
Member: American Institute of Certified Public Accountants; North Carolina Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
John A. Hyman Memorial Youth Foundation, Inc.

I have audited the accompanying statement of revenues and expenses for the Substance Abuse Project of the John A. Hyman Memorial Youth Foundation, Inc. (a nonprofit organization) for the year ended June 30, 2002. This financial statement is the responsibility of John A. Hyman Memorial Youth Foundation, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of revenues and expenses of the Substance Abuse Project. I believe that my audit provide a reasonable basis for my opinion.

The accompanying statement was prepared to present the revenues and expenses of the Substance Abuse Project of the John A. Hyman Memorial Youth Foundation, Inc. received from the North Carolina Department of Correction as described in Note 3 and is not intended to be a complete presentation of the Foundation's assets and liabilities.

In my opinion, the accompanying statement of revenues and expenses present fairly, in all material respects, the results of operations of the Substance Abuse Project of the John A. Hyman Memorial Youth Foundation, Inc. for the year ended June 30, 2002 as described in Note 3 in conformity with auditing standards generally accepted in the United States of America.

This report is intended solely for the information and the use of the board of directors and management of John A. Hyman Memorial Youth Foundation, Inc. and the North Carolina Department of Correction and is not intended to be and should not be used by anyone other than these specified parties.



David C. Hinton, CPA P.A.
April 18, 2003

JOHN A. HYMAN MEMORIAL YOUTH FOUNDATION, INC.
 SUBSTANCE ABUSE PROJECT
 STATEMENT OF REVENUES AND EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2002

REVENUES		
Grants	\$ 225,000	
Interest Income	<u>3,947</u>	
Total Revenues		\$ 228,947
EXPENSES		
Salaries	104,652	
Payroll Taxes	8,498	
Contractual Services	7,650	
Prevention Program Mini Grants	47,500	
Sponsorships	4,522	
Supplies	1,377	
Telephone	3,555	
Transportation	5,889	
Rent	1,800	
Utilities	2,877	
Repairs	882	
Payroll Processing	1,045	
Administrative Fees	25,000	
Printing	110	
Equipment Purchases	183	
Miscellaneous	<u>18</u>	
Total Expenses		<u>215,558</u>
Excess Revenue over Expenses		<u>\$ 13,389</u>

See notes to financial statement.

**JOHN A. HYMAN MEMORIAL YOUTH FOUNDATION, INC.
SUBSTANCE ABUSE PROJECT
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE 1 - ORGANIZATION

The John A. Hyman Memorial Youth Foundation, Inc. is a private, non-profit corporation chartered in North Carolina in 1985 for the purpose of helping those who have fallen as victims to substance abuse to establish or reestablish their lives. The Foundation's primary source of income is a Substance Abuse Project grant from the North Carolina Department of Correction.

NOTE 2 - ACCOUNTING POLICIES**BASIS OF ACCOUNTING**

The statement of revenues and expenses of the Substance Abuse Project have been prepared on the accrual basis of accounting.

REVENUE RECOGNITION

Contributions received are recorded as ~~unrestricted~~, ~~temporarily restricted~~ or ~~permanently restricted~~ support, depending on the existence and/or ~~nature of any donor~~ restrictions.

Donor-restricted support is reported as an increase in temporarily or ~~permanently restricted~~ net assets, depending on the nature of the restriction. When a restriction ~~expires~~ (that is, when a stipulated time restriction ends or purpose restriction is accomplished), ~~temporarily restricted~~ net assets are reclassified to unrestricted net assets and reported in the ~~statement of activities as~~ net assets released from restrictions.

INCOME TAX STATUS

The Foundation is exempt from federal and state income taxes as provided for in Section 501(c)(3) of the Internal Revenue Code.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

DONATED SERVICES

The value of services provided by various volunteers, who make substantial contributions of time and effort for the furtherance of the Project's programs, is not reflected in the financial statements since it is not subject to objective measurement or valuation.

NOTE 3 - SUBSTANCE ABUSE PROJECT

The accompanying statement represents revenues and expenses of a grant received from the North Carolina Department of Correction. The statement is not intended to be a complete presentation of assets, liabilities, revenues and expenses of the John A. Hyman Memorial Youth Foundation, Inc.

NOTE 4 - CASH RESERVE

As of June 30, 2002, the Foundation's Substance Abuse Project had a \$100,000 certificate of deposit held in reserve for future expansion. The certificate of deposit was generated from a surplus of prior years allocations.

JOHN A. HYMAN MEMORIAL YOUTH FOUNDATION, INC.
SUBSTANCE ABUSE PROJECT
NOTES TO FINANCIAL STATEMENT- cont.
FOR THE YEAR ENDED JUNE 30, 2002

NOTE 5 - RENT

The amount for rent includes a payment of \$1,800 for the Halifax project.

Division of Mental Health, Developmental Disabilities, and Substance Abuse Services

Community Policy Management Section

Justice Systems Innovations Team

**Justice Team DWI Provider/Facility Complaint
and
Technical Assistance/Quality Improvement Follow-Up Summary**

Date Complaint Received: 05 / 07 / 03 DMH/DD/SAS DWI Facility Code: 50193

Name of Licensed Facility: John A. Hyman Substance Abuse Program

Address of Licensed Facility: P.O. Box 22
1302 Martin Luther King Blvd.
Warrenton, NC 27589

Complaint Received from: ☐ Consumer ☐ Family Member ☐ Provider ☒ OtherCPM Justice Team Lead Staff: Michael Eisen Date Summary Completed: June 4, 2003

**1. Brief Description of Complaint of DWI Provider/Facility
(with reference to relevant NC Statute and/or Licensure Rule)**

As per GS 122C-142.1 (f) Fees. – A person who has a substance abuse assessment conducted for the purpose of obtaining a certificate of completion shall pay to the assessing agency a fee of fifty dollars (\$50.00). A person shall pay to a treatment facility or school a fee of seventy-five dollars (\$75.00). The complaint received stated that the above agency was not requiring that clients pay the fees as described.

**2. Summary of Justice Team Staff Communications and Actions regarding Complaint
(Who, what, when, where, etc.)**

Michael Eisen, Director/Office of DWI Services left a message for Lisa Hayes, QSAP, on May 8, 2003. Ms. Hayes returned call on May 9, 2003 and spoke with Spencer Clark, CPM Director of Operations. Ms. Hayes confirmed that the John A. Hyman SA Program did not charge clients the required \$50.00 DWI assessment fee or the required \$75.00 fee for treatment. Mr. Clark informed Ms. Hayes of GS 122C-142.1 (f). Ms. Hayes stated that she would inform Mr. Eddie Lawrence, Executive Director, and immediately initiate charging required fees. Spencer Clark received a letter of confirmation by Eddie Lawrence and Lisa Hayes on May 13, 2003. Mr. Lawrence was contacted on May 16, 2003 and notified by Brenda Schuler that a site visit was scheduled with Mr. Eisen for Friday, May 23, 2003. Site visit completed May 23, 2003 by Michael Eisen and Antonio Coor.

3. Summary of Key Findings Related to Complaint

- Fees – review of client records indicated that required fees were not charged and/or collected. Ms. Hayes indicated that clients were not charged fees because of their inability to pay.

Recommendation: reviewed GS 122C-142.1 (f) Fees. Establish a fee charged/fee collected administrative record as well as record in client file. Receipt should be presented to client at time of payment.

- Client Records – a pattern of non-compliance existed for the following elements

1. 10 NCAC 14V .3807 (b) DWI Substance Abuse Assessment Elements

"A face to face clinical interview shall be conducted, in a licensed facility, with the individual, by a substance

abuse counselor in accordance with the minimum qualifications specified in Rule .3808 of this Section. The purpose of this interview is to formulate a *DSM diagnosis* and arrive at a *service level recommendation* consistent with the placement criteria accepted by ASAM."

Finding: Client records did not adequately document clinical interview, DSM diagnosis, and service level recommendation.

Recommendation: Each client record should contain the above elements.

2. 10 NCAC 14V .3807 (c) DWI Substance Abuse Assessment Elements

"In addition to the clinical interview, the clinician performing the assessment shall administer to the individual an *approved standardized test* and must review the *complete driving record* as defined in Rule .3805 in this Section, as well as verify the *alcohol concentration* reading at the time of arrest."

Finding: Client records did not adequately document administration of an approved standardized test, complete driving record and verification of alcohol concentration at the time of arrest.

Recommendation: Each client record should contain the above elements.

3. 10 NCAC 14V .3807 (d) DWI Substance Abuse Assessment Elements

"The agency or individual performing the assessment shall have the individual execute the *appropriate release of information* form per 42 C.F.R., Part 2. This form provides permission for the assessing agency to communicate with and report its findings to the DMH/DD/SAS, the area authority, the Division of Motor Vehicles, the Court, the Department of Corrections, the agency providing the recommended treatment or education and any agency or individual the client requests to be so informed."

Finding: Client records did not adequately document that an appropriate release of information was executed.

Recommendation: Each client record should contain the above elements.

4. 10 NCAC 14V .3809 Responsibilities of Assessing Agency

(a) "Following the completion of the assessment process, which may include a staffing conference and review of the assessment by the supervisor, the agency or clinician performing the assessment shall *inform the individual of the service level required*."

Finding: Client records did not adequately document that the individual was informed of the service level required.

(b) "If treatment is required the individual shall be informed, in writing, of any *other available treatment facilities* within the county, both private and public, which provide the level of required treatment."

Finding: Client records did not adequately document that the individual was informed in writing of any other available treatment facilities.

(d) "The agency or clinician performing the assessment shall inform the client of the possible consequences of failing to comply with required treatment or ADETS."

Finding: Client records did not adequately document that the client was informed of the possible consequences of failing to comply with treatment or ADETS.

(e) "All persons assessed shall be provided written documentation that explains the requirements for reinstatement of the drivers license, including the minimum hours and duration of service. If a level of treatment is required, this written documentation shall be in the form of a *client contract* that minimally addresses program requirements and fees."

Finding: Client records did not adequately document requirements for reinstatement of the drivers license in the form of a client contract.

Recommendation: Each client record should contain the above elements.

5. 10 NCAC 14V .3810 (a) Responsibilities of Treatment and ADETS Providers

"All providers shall conduct an *orientation/intake* interview with every client being admitted to a level of treatment, in which the *assessment, diagnosis and placement* shall be *reviewed* in the light of the client's current situation and an individual *treatment plan* shall be developed in compliance with 10 NCAC 14V .02 located in the Licensure Rules as defined in Rule .3805 (16) of this Section."

Finding: Client records did not adequately document that an intake was conducted and that an individual treatment plan was developed.

Recommendation: Each client record should contain the above elements.

6. 10 NCAC 14V .3502 (a) Staff

"The services of a certified alcoholism counselor, a certified drug abuse counselor or a certified substance abuse counselor shall be available to each client."

Finding: Client records did not adequately document that a certified substance abuse counselor was made available to each client.

Recommendation: Each client record should contain the above element.

7. 10 NCAC 14V .3503 (b) Operations

"Before discharging the client, the facility shall complete a *discharge plan* for each client and refer each client who has completed services to the level of treatment of rehabilitation in accordance with the client needs."

Finding: Client records did not adequately document that a discharge plan was completed for each client.

Recommendation: Each client record should contain the above element.

▪ **Agency Recommendations –**

1. Reviewed Policy and Procedure manual which presented documentation guidelines and samples
2. Identified and reviewed clinical significance of required rules which serve to improve client outcomes
3. Established ongoing technical assistance through consultation with Office of DWI Services

▪ **General Recommendations –**

1. Submit copy of Certified Substance Abuse Counselor contract
2. Immediate implementation of increased contact with Certified Substance Abuse Counselors and/or Clinical Supervisor to establish improved review process
3. Obtain North Carolina Mental Health, Developmental Disabilities and Substance Abuse Laws and Rules

4. Summary of Planned Follow-Up by Justice Team Staff

- Lisa Hayes, QSAP, notified Michael Eisen, Director-Office of DWI Services, on Friday, May 30, 2003 of initiation of corrective action as described above. Ms. Hayes reiterated commitment to being in compliance with the intention of providing best practice to DWI clients.
- Follow up site visit within 90 days.
- Written progress report from John A. Hyman Substance Abuse Program, pertaining to findings listed above, to be received by the Office of DWI Services/Division of Mental Health, Developmental Disabilities and Substance Abuse Services within ten (10) days from receipt of this summary.
- Office of DWI Services is available for telephone consultation.

No confidential client information may be disclosed on the DWI Provider Facility Complaint and Follow-Up Summary. Confidentiality of substance abuse client information is protected under state law and regulations including North Carolina General Statutes 122C-51 through 56 and federal law and regulations including Confidentiality of Alcohol and Drug Abuse Patient Records (42 CFR, Part 2) and the

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CREEDMOOR, NC 27522

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Date: 04/25/01

Page: 1 of 1

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Arrival Date: 04/24/01 21:03

Departure Date: 04/25/01 06:59

Frequent Traveler ID:

You were checked out by: KIW

You were checked in by: JB

LAWRENCE, EDDIE

RALEIGH, NC 27603

04/24/01	ROOM CHARGE	#215 LAWRENCE, EDDIE	48.50
04/24/01	STATE TAX	STATE TAX	2.91
04/24/01	OCCUPANCY TAX	OCCUPANCY TAX	1.46
04/25/01	VISA PAYMENT	CHECKOUT	-52.87
		Acct: XXXXXXXXXXXXX6774 Exp: 04/04	

Balance Due: 0.00

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Card Number: XXXXXXXXXXXXX67

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RALEIGH, NC 27603

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**JOHN A. HYMAN MEMORIAL YOUTH FOUNDATION, INC.
Post Office Box 22
Warrenton, North Carolina 27589
Frank W. Ballance, Jr., Chairman of Board**

RESPONSE TO THE SPECIAL REVIEW OF THE JOHN A. HYMAN FOUNDATION

First, let us say that we are pleased to have the opportunity to address the special review of the John A. Hyman Foundation (JAHF) by the State Auditor's Office. Your unbiased review has been beneficial in two ways. It has humbled us and given us needed guidance in what we must do to improve the manner in which we give our assistance to the people and communities we strive to serve. Your review has also provided the Foundation with the opportunity to clarify misconceptions about our mission, purpose, and structure that have often been advanced by persons seeking to hurt our efforts in order to satisfy their own political agenda.

The John A. Hyman Foundation (JAHF) was incorporated to honor the first African-American Congressman from North Carolina. Presently, it operates the John A. Hyman Substance Abuse Program in Warren County, North Carolina, as well as the Halifax Project in Halifax County, North Carolina. The JAHF also gives mini-grants to other non-profit organizations to support their substance abuse treatment and prevention programs. It is, and has been, the intention of the Foundation, its officers, its Chairperson, and its board members to create activities designed to help people who have, or are at risk of developing, substance abuse problems. It has also been their intent to support people and organizations whose programs, activities, and very existence foster positive spiritual, physical, emotional, and educational growth in people of all ages so that they may avoid the ills of substance abuse.

In a rural, poor, and multi-racial area such as that served by the JAHF, the battle to keep people from substance abuse and help them when they fail in their struggle is a complicated and multi-faceted undertaking. While statewide and national programs may help, the majority of the battle is fought on the local level. Consequently, small outreach organizations, various non-profits, and quite often churches are the frontlines in this struggle. Indeed, in rural communities,

churches are often the backbone of a community's social and spiritual life, regardless of creed or color. In addition, they are also usually the impetus driving a community's fight against society's many social ills, for it is often the churches' pastors and members who are the people most motivated to assume this monumental task. Moreover, the Foundation sometimes chose to use certain places and people in an effort to streamline its operation as well as make it more cost efficient by using people the Chairman knew he could trust to do a good and solid job in places that were suitable and convenient to the Chairman while he simultaneously tried to fulfill his numerous public and private obligations.

Therefore, the JAHF has attempted to provide financial assistance to these groups because they are best situated to reach and impact the lives of the youth and adults in the communities served through education, training, recreation, spiritual uplifting, family enhancement, strengthening of community bonds, treatment, and counseling, both for the family and the individual. As a result, the JAHF has provided mini-grants to these churches and other non-profit organizations so that they may strengthen their programs and activities, which have been designed to treat and prevent substance abuse and to continue to make a positive impact on the communities they serve. For example, grantees used funding from JAHF mini-grants to provide alternative programming or recreational activities to youth who might have otherwise gravitated toward drugs, alcohol, or other anti-social behavior. Other grantees used funding to purchase computers, computer software, and other materials and equipment to be used in tutorial programs, literary or art classes, and youth meetings to encourage educational achievement, spiritual strength for individuals or families, self-improvement or esteem, and upward mobility. These programs are designed to protect against the lures of violence, crime, and other unhealthy activities that accompany or invite substance abuse. Therefore, all of these activities advance the mission of the JAHF.

In short, the goal of the JAHF is not simply treatment, but prevention, which can and must be accomplished in a variety of ways. We believe that we have achieved this goal and that the moneys spent by the Foundation have been used for that purpose. We believe that the action of the JAHF have left an indelible impression on the community it has served by virtue of the positive impact these programs have made on countless North Carolina citizens.

That being said, the JAHF also acknowledges that it has made its share of mistakes. These mistakes, particularly those enumerated in your report, are the result of overwork, lack of administrative staff, inattention to detail, and lapses in record-keeping and reporting, and regulatory interpretation.

In conclusion, the JAHF is proud of its charter and the work it has done. Having read the report, however, it is chagrined at its administrative shortcomings and what, at times, can only be characterized as shortsightedness. It will work hard to learn from its mistakes and will take corrective action. It appreciates the opportunity to address the issues raised by the special review and looks forward to continuing in its efforts to serve the public at large.

Submitted by:

The John A. Hyman Foundation

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DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 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 22, 2003

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