



STATE OF NORTH CAROLINA

SPECIAL REVIEW

THE CONFLICT RESOLUTION CENTER, INC.

HICKORY, NORTH CAROLINA

NOVEMBER 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

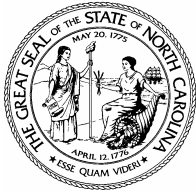
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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, The Conflict Resolution Center, Inc.

Pursuant to North Carolina General Statute §147-64.6(c)(16), we have completed a special review of The Conflict Resolution Center, Inc. This report includes the results of our review, along with recommendations for corrective action.

Copies of this report have been provided to the Governor, the Attorney General and other appropriate officials in accordance with North Carolina General Statute §147-64.6(c)(12).

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

November 28, 2007

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INTRODUCTION

The Office of the State Auditor received a request from the Chair of the Finance Committee of The Conflict Resolution Center, Inc. (Conflict Resolution Center) to review the organization's financial operations. Of particular concern to the Finance Committee was a loan made to the organization from its founder and former executive director. Our special review of the Conflict Resolution Center's financial operations included the following procedures:

- Review of all financial activity since the inception of the organization;
- Examination of available supporting documentation for revenues and expenditures of the organization;
- Interviews with current and former employees of the organization;
- Review of audited financial statements.

Our review was conducted pursuant to North Carolina General Statute § 146-64.6(c)(16). An independent public accounting firm conducts an annual financial audit of the Conflict Resolution Center. The appendix to this report includes a summary of audited revenues and expenditures for fiscal years 2001 through 2006.

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BACKGROUND

The Conflict Resolution Center, Inc. (Conflict Resolution Center) is a not-for-profit community mediation center based in Hickory, North Carolina. The mission of the Conflict Resolution Center is to promote respectful communication and effective conflict resolution to the citizens of Catawba, Burke, and Caldwell Counties. As a community center, the Conflict Resolution Center promotes collaborative problem solving, self-empowered conflict resolution, and social justice.

The Conflict Resolution Center receives funding from the North Carolina General Assembly through the Administrative Office of the Courts (AOC), Juvenile Crime Prevention Commission (JCPC) from Catawba, Burke, and Caldwell Counties, local county appropriations (Catawba and Caldwell), and various grants, contributions, and donations.

The Conflict Resolution Center is a member of the Mediation Network of North Carolina. The Mediation Network of North Carolina consists of 22 similar organizations and provides operational guidance to its members.

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FINDINGS AND RECOMMENDATIONS

1. THE FORMER EXECUTIVE DIRECTOR OBTAINED LOANS WITHOUT APPROVAL FROM THE ORGANIZATION'S BOARD OF DIRECTORS AND NO PROMISSORY NOTE EXISTS TO DOCUMENT A SIGNIFICANT FINANCIAL OBLIGATION OF THE ORGANIZATION.

The Conflict Resolution Center, Inc. (Conflict Resolution Center) is currently repaying a \$40,000 loan from the organization's former Executive Director. During the 2007 fiscal year, the Conflict Resolution Center was making monthly payments of \$570.11, a significant monthly financial obligation. The loan is scheduled to be repaid by May 31, 2010.

In March 2002, the former Executive Director of the Conflict Resolution Center borrowed \$27,000 at 5.25% from Mountain Bank in Morganton, North Carolina on behalf of the Conflict Resolution Center without notifying the Board of Directors. The loan's purpose was to support the operations of the organization, including payroll expenses. In December 2002, the former Executive Director of the Conflict Resolution Center loaned \$40,000 at 4.25% to the organization in further support of its operations and to pay off the loan from Mountain Bank. The Conflict Resolution Center wrote a check to Mountain Bank on December 3, 2002 for \$20,575.30 to pay off the remaining balance of the original \$27,000 loan. In March 2003, the Conflict Resolution Center started repaying the \$40,000 loan from the former Executive Director using unrestricted grant and local appropriation funding as well as revenue from fundraising and mediation training and workshops. The former Executive Director took full responsibility for the organization's solvency issues during 2001 and 2002 which necessitated the \$40,000 loan.

The Board of Directors of the Conflict Resolution Center was apparently made aware of the actions of the former Executive Director after the fact. Article 8 of Chapter 55A of the North Carolina General Statutes provides that "*...corporate powers shall be exercised by or under the authority of, and the affairs of the corporation managed under the direction of, its board of directors, except as otherwise provided in the articles of incorporation.*" Accordingly, the long-term financial burden for the organization as a result of the 2002 loans should have been discussed in advance with the organization's Board of Directors.

According to a representative of the accounting firm that conducted financial audits of the Conflict Resolution Center from 2002 through 2006, there was no promissory note or other supporting documentation for the \$40,000 loan from the former Executive Director to the Conflict Resolution Center. Still, the loan has been disclosed in the annual audited financial statements of the Conflict Resolution Center since the 2003 fiscal year audit. Minutes from the Board of Directors meetings apparently provided the basis for recording and disclosing the \$40,000 loan in the annual financial statements of the Conflict Resolution Center.

According to the minutes from the Board of Directors meetings, the loan is mentioned on three separate occasions: specifically, August 28, 2003, August 18, 2005, and November 17, 2005. The Board of Directors made comments in two meetings (August 18, 2005 and November 17, 2005) concerning the need for a loan agreement between the former

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Executive Director and the Conflict Resolution Center. Still, there is no evidence that the Board of Directors formally approved the loans described above. One member of the Board of Directors made several attempts to obtain a signed loan repayment agreement from the former Executive Director but none was ever provided.

RECOMMENDATION

The Conflict Resolution Center should obtain a loan agreement in the form of a promissory note to document the loan from the former Executive Director. The Board of Directors should approve all significant financial transactions and require adequate supporting documentation for all significant financial transactions to ensure the organization operates in compliance with applicable laws and regulations and in a transparent manner.

2. THE FORMER DIRECTOR OF FINANCE FAILED TO ISSUE INTERNAL REVENUE SERVICE (IRS) FORM 1099 FOR INTEREST PAID TO THE FORMER EXECUTIVE DIRECTOR FROM 2003 THROUGH 2005.

The Conflict Resolution Center made loan repayments to the former Executive Director from 2003 through 2006 (see Finding 1). These loan repayments included interest of \$5,485.18. However, the former Director of Finance for the Conflict Resolution Center said that no IRS Form 1099-INT's were issued to the former Executive Director for interest associated with the loan repayments for tax years 2003 through 2005. The former Director of Finance said this was an oversight. Upon notification of this omission, the Conflict Resolution Center issued an IRS Form 1099 to the former Executive Director on February 27, 2007 for the 2006 tax year in the amount of \$1,077.36.

According to documentation obtained from the public accounting firm that performed the annual financial audit for the Conflict Resolution Center, the amount of interest that should have been reported on IRS Form 1099 for the former Executive Director for tax years 2003 through 2005 was \$4,407.82.

According to federal tax regulations, IRS Form 1099 must be issued to individuals that receive \$10 or more in interest on loans made to not-for-profit organizations. Thus, the Conflict Resolution Center failed to comply with federal law and remains in noncompliance for tax years 2003 through 2005.

RECOMMENDATION

The Conflict Resolution Center should resolve its compliance status regarding the issuance of Form 1099's to its former Executive Director through legal consultation and the involvement of the public accounting firm that performed its annual financial audits. We also recommend that management include tax compliance services in the scope of an annual agreement with a public accounting firm for accounting and auditing services.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

3. THE CONFLICT RESOLUTION CENTER DID NOT COMPLY WITH THE PROVISIONS OF RESTRICTED GRANTS AND GIFTS.

During our review of funding sources and our efforts to determine if the Conflict Resolution Center was using restricted funding from state, county, or local agencies for the repayment of the loan to the former Executive Director, we noted several issues concerning restricted grants.

The Conflict Resolution Center deposited a grant from the Carpenter Foundation totaling \$5,311 on June 30, 2003 to purchase a copier. However, the organization never purchased a copier with the funds. The funds deposited in 2003 remained in the Conflict Resolution Center's account. Upon our identification of this issue in 2007, the Chair of the Finance Committee contacted a representative of the Carpenter Foundation to explain the status of the grant and seek permission to apply the grant to other technology needs such as computers, printers, and copiers instead of one large copier. The representative of the Carpenter Foundation granted this request but was disappointed the funds had not been used for the intended purpose in 2003.

The organization also received \$5,000 from the Rostan Family Foundation on November 5, 2005 to help develop and assist with long-term planning for a new Student Council on Human Relations (Student Council) at the two high schools in Burke County. The grant required the purchase of a laptop computer and the creation of a resource library for members and volunteers of the Student Council. When the funds were deposited, only \$3,200 of the \$5,000 was classified as restricted and the other \$1,800 was used to pay salaries for employees of the Conflict Resolution Center. The Conflict Resolution Center purchased a laptop computer for \$923.33 using a portion of the restricted funds. The organization never created the resource library for the Student Council.

We also noted two other grants received by the Conflict Resolution Center that appeared to be restricted but were not accounted for as restricted grants. The Janirve Foundation gave the Conflict Resolution Center \$2,000 to fund an Americorps Vista Volunteer for Burke County. The funds were deposited into the general operating account on October 21, 2005. We also noted funding from the Sisters of Mercy of North Carolina Foundation, Inc. for a two-year grant totaling \$25,433. The Conflict Resolution Center received \$14,997 in 2005 and \$10,436 in 2006. The grant was intended to help support the Youth Conflict Resolution Initiative by expanding the hours of the Director of Referrals and Volunteer Development. However, the organization did not classify this funding as restricted.

RECOMMENDATION

The Conflict Resolution Center should use restricted funding according to the provisions of the grant or gift. The organization should also develop a plan to restore the funding of the grants above to fulfill the original purpose of the grant or gift.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

4. EXPENDITURES FOR TELEPHONE SERVICE, CELLULAR TELEPHONE SERVICE, AND INTERNET SERVICE APPEARED EXCESSIVE AND WERE NOT SUPPORTED BY ADEQUATE DOCUMENTATION.

During our review of expenditures, we noted an unusually large amount of telecommunication expenses for an organization of this size. Upon inquiry of personnel, we learned that the organization paid for home office telephone service for several employees. We also noted that the organization paid for cellular telephone service and internet service for its employees.

We noted several large telephone bills. The 2002 fiscal year revealed total telephone and internet expenses of \$12,477 (see Appendix). In many instances, cellular telephone usage exceeded plan minutes resulting in extra charges. In other instances, cellular service included roaming charges which increased the monthly service charges. In some instances, employees acknowledged using cellular telephones for personal calls and reimbursed the organization. However, there may have been other personal calls that were not reimbursed. For example, we noted one collect call from Jamaica on December 18, 2002 for 25 minutes costing \$132.96 that was billed to one of the home office lines.

A lack of internal controls relative to monitoring telecommunication expenses resulted in excessive charges. Employees should have been held more accountable and reimbursed the organization for any personal use of these phones that resulted in excess charges. The excessive amount of telecommunication expenses during the 2002 fiscal year contributed to the solvency issues that ultimately required the former Executive Director to loan the organization \$40,000.

RECOMMENDATION

The Conflict Resolution Center should ensure that expenses related to its operations are not excessive and consistently support the mission of the organization. The Conflict Resolution Center should also ensure that all expenses of the organization are supported with adequate documentation.

5. THE CONFLICT RESOLUTION CENTER DID NOT MAINTAIN ADEQUATE DOCUMENTATION TO SUPPORT PAYMENTS TO EMPLOYEES AND CONTRACTORS.

During our review of compensation payments to employees and contractors, we specifically inquired about time sheets and other documentation for full-time, part-time, and contractual employees. We learned that the organization did not require employees to prepare time sheets. In addition, the organization was unable to provide adequate documentation supporting monthly or annual salaries or hourly rates of pay for employees. The Board of Directors received periodic budgets that included salaries for positions. However, liquidity issues and employee turnover caused these amounts to

FINDINGS AND RECOMMENDATIONS (CONTINUED)

change frequently. Without adequate supporting documentation, we could not determine if the Conflict Resolution Center paid its employees correctly.

In addition, the record keeping requirements of the Fair Labor Standards Act compel every covered employer to maintain certain records for each non-exempt employee, including hours worked each day and total hours worked each workweek. Thus, the Conflict Resolution Center failed to comply with this statutory requirement for its non-exempt employees.

The organization prepared contracts for the 2006 and 2007 fiscal years for the former Director of Finance. However, the 2006 contract was not signed by a representative of the Conflict Resolution Center. According to the 2007 contract, a monthly request for reimbursement required documentation of actual hours worked. Payments to the former Director of Finance were supported by invoices but the invoices did not include sufficient detail for hours worked.

RECOMMENDATION

The Conflict Resolution Center should develop policies and procedures that include requirements to document time worked for non-exempt employees to ensure compliance with the Fair Labor Standards Act. Moreover, all payments to employees and contractors should be supported by documentation that includes rates of pay and other contractual provisions.

6. THE CONFLICT RESOLUTION CENTER DID NOT MAINTAIN PROPER CONTROL OVER EQUIPMENT PURCHASES.

In response to an allegation that equipment such as computers, cell phones, Palm Pilots, and office furniture could not be located, we reviewed equipment purchases and attempted to locate the items. We noted several equipment purchases were made directly by employees who were then reimbursed by the organization.

As noted in a previous finding, until recently, the employees of the Conflict Resolution Center maintained home offices that required the use of various types of office equipment. Through inquiry and inspection, we determined that many items used in these home offices were never returned to the organization upon termination of employment or were returned broken and inoperable. The following items were placed in service between 2000 and 2004 and were either missing or returned to the organization in an inoperable condition.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

| | |
|---|------------|
| Magitronic Pentium Laptop Computer | \$2,300.00 |
| Brother MFC Telefax Machine | 534.22 |
| Verizon Wireless Cellular Telephone | 190.79 |
| Palm Pilot | 184.98 |
| Palm Pilot | 434.91 |
| HP Office Jet Printer | 741.42 |
| Palm Pilot | 199.99 |
| Windows ME Software Upgrade | 89.99 |
| Printer/Scanner/Fax | 379.96 |
| 3 Telephones | 489.94 |
| File Cabinet | 210.00 |
| Verizon Wireless Cellular Telephone | 199.99 |
| Fax Machine | 60.00 |
| Microsoft Office Software Package | 353.08 |
| Total | \$6,369.27 |
| Source: Inquiry and inspection of equipment | |

Although the market value and utility of these assets was arguably nominal based on placed-in-service dates, the Conflict Resolution Center lacked appropriate internal controls to ensure that assets purchased with organization funds were accounted for from the date of acquisition to the date of disposition. The Conflict Resolution Center did not have a capitalization policy for asset purchases nor did it have policies and procedures for purchases below a capitalization threshold to ensure accountability for all assets. Further, the organization did not have policies or procedures related to employment termination to ensure that all assets in the possession of employees were returned to the organization upon termination of employment.

In our review of equipment expenditures, we also noted that the Conflict Resolution Center purchased two computers and printers/copiers/scanners in December 2001 and February 2002 for \$1,683.75 each from the law firm of the former Executive Director's husband. There is no supporting documentation to substantiate that the amounts paid for the computers and printers represented fair market value. In addition, these purchases should have been approved by a member of the Board of Directors to dispel the appearance of a conflict of interest.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

We also discovered that a former employee purchased one of these computers and printers for \$500.00 through three payments to the Conflict Resolution Center between October 2003 and February 2004. According to an audit adjustment prepared by the public accounting firm, the computer was valued at \$1,427.15 and the accumulated depreciation as of June 30, 2004 totaled \$523.29 leaving \$903.86 as the book value for the computer. The public accounting firm removed the printer from the financial statements in 2005. There is no supporting documentation to determine if the employee's purchase of the computer represented a fair price for the computer and printer. This individual became a board member after he resigned from his position with the Conflict Resolution Center during the 2004 fiscal year.

RECOMMENDATION

The Conflict Resolution Center should develop procurement policies and procedures which include a capitalization policy. The policies and procedures should include provisions for accounting for assets below the capitalization threshold including taking an annual inventory of all equipment. The policies and procedures should also include requirements for obtaining competitive bids or quotes for purchases exceeding certain monetary thresholds.

The organization also needs to establish or enhance its conflict of interest policy regarding the acquisition of goods and services. The policy should include a requirement to document fair market value for acquisitions from related parties. Finally, the Conflict Resolution Center should require employee exit interviews to ensure that employees return equipment in working order.

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APPENDIX

| Conflict Resolution Center, Inc. | | | | | | |
|---|----------------|-----------------|----------------|----------------|----------------|----------------|
| Schedule of Income and Expenses | | | | | | |
| Fiscal Years 2001 - 2006 | | | | | | |
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Income and Support: | | | | | | |
| Public Support: | | | | | | |
| Local funds: | | | | | | |
| IOLTA | 1,120 | 1,120 | 1,120 | 1120 | 840 | 1,030 |
| Catawba & Caldwell County | 17,100 | 15,000 | 15,608 | 16,500 | 16,500 | 15,000 |
| Contributions and donations | 12,635 | 6,076 | 15,045 | 6,415 | 27,716 | 24,660 |
| United Way | 5,000 | 5,000 | 4,500 | 466 | 0 | 0 |
| Total | 35,855 | 27,196 | 36,273 | 24,501 | 45,056 | 40,690 |
| State funds: | | | | | | |
| JCPC | 32,197 | 45,690 | 52,656 | 56,000 | 58,900 | 54,536 |
| Legislature (AOC) | 37,000 | 37,000 | 31,118 | 33,967 | 33,967 | 33,967 |
| Total Public Support | 69,197 | 82,690 | 83,774 | 89,967 | 92,867 | 88,503 |
| Total Public Support | 105,052 | 109,886 | 120,047 | 114,468 | 137,923 | 129,193 |
| Other Revenue | | | | | | |
| Fundraising Revenue | 2,600 | 6,816 | 7,392 | 0 | 1,794 | 1,488 |
| Training and Workshops | 15,106 | 9,985 | 3,308 | 6,831 | 2,838 | 600 |
| Loss on Sale of Assets | 0 | 0 | (173) | (404) | (208) | (433) |
| Reimbursed Expenses for BMCC | 0 | 0 | 0 | 479 | 0 | 0 |
| Sales Tax Refund from Prior Years | 0 | 0 | 0 | 299 | 98 | 361 |
| Interest Income | 102 | 20 | 5 | 11 | 13 | 37 |
| Total Other Revenue | 17,808 | 16,821 | 10,532 | 7,216 | 4,535 | 2,053 |
| Total Income and Support | 122,860 | 126,707 | 130,579 | 121,684 | 142,458 | 131,246 |
| Expenses: | | | | | | |
| Audit and Accounting Services | 1,740 | 11,225 | 12,350 | 12,986 | 12,697 | 14,905 |
| Advertising | 30 | 49 | 108 | 0 | 0 | 0 |
| Board Meetings and Catering | 789 | 986 | 1,052 | 129 | 92 | 9 |
| Dues and Memberships | 808 | 657 | 1,632 | 1,793 | 1,955 | 1,260 |
| Fundraising Expense | 0 | 2,785 | 2,002 | 836 | 25 | 0 |
| Rent and Utilities | 0 | 0 | 0 | 2,180 | 3,736 | 2,420 |
| Printing and Postage | 1,813 | 4,733 | 1,305 | 1,380 | 1,008 | 750 |
| Staff Support | 21,175 | 10,864 | 0 | 11,787 | 0 | 0 |
| Telephone and Internet | 6,793 | 12,477 | 7,644 | 6,505 | 8,420 | 3,877 |
| Personnel | 67,340 | 104,935 | 87,286 | 62,381 | 86,402 | 67,280 |
| Payroll Taxes | 5,152 | 7,648 | 6,896 | 4,772 | 6,610 | 5,147 |
| Travel | 2,686 | 2,944 | 265 | 583 | 1,497 | 3,355 |
| Supplies-Office/Training/Other | 3,447 | 3,245 | 1,843 | 2,019 | 2,663 | 2,131 |
| Interest Expense | 0 | 522 | 1,427 | 1,554 | 1,372 | 1,198 |
| Training | 668 | 419 | 213 | 0 | 1,804 | 3,835 |
| Insurance | 174 | 0 | 874 | 3,850 | 11,901 | 14,500 |
| Equipment | 1,820 | 0 | 0 | 0 | 0 | 884 |
| Depreciation Expense | 592 | 1,348 | 1,793 | 1,602 | 1,507 | 733 |
| Miscellaneous Expense | 1,054 | 190 | 1,493 | 561 | 1,647 | 593 |
| Total Expenses | 116,079 | 165,027 | 128,183 | 114,918 | 143,336 | 122,877 |
| Surplus / (Deficit) | 6,781 | (38,320) | 2,396 | 6,766 | (878) | 8,369 |
| Source: Audited Financial Statements | | | | | | |

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RESPONSE FROM THE CONFLICT RESOLUTION CENTER, INC.



**THE
CONFLICT RESOLUTION
CENTER**

Leslie W. Merritt, Jr.
Office of the State Auditor
2 S. Salisbury St.
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Mr. Merritt:

The Board of Directors and I would like to express our gratitude to the Office of the State Auditor for this comprehensive study. We extend special thanks to David King and Gerald Hyde for the many hours of hard work that went into the preparation of this document. The issues addressed and the findings are precisely what we were hoping would be addressed when we, with the concurrence of the Director of the Mediation Network of North Carolina, requested that the state Auditor undertake this task.

Late last year, following an investigation by the board into the reasons for the departure of two key staff members on the same day in October, the Board undertook a restructuring of the Conflict Resolution Center. The Board had for some time been troubled by the undocumented loan to a former Director, but was not aware of the other problems addressed in your report until it began its investigation. The Board then called on the Director of the Mediation Network to advise and assist in the process. We were concerned with the irregularities we uncovered and with the center's overall performance. We are pleased that the State Auditor has performed an independent assessment and has made recommendations for the future. We have reorganized the Center from top to bottom, but there are still more changes necessary.

Our comments are attached. Thanks again for your help.

Respectfully,

Leonard E. Benade
Executive Director

**COMMENTS OF THE CONFLICT RESOLUTION CENTER ON THE SPECIAL REVIEW BY
THE OFFICE OF THE STATE AUDITOR**

- 1. THE FORMER EXECUTIVE DIRECTOR OBTAINED LOANS WITHOUT APPROVAL FROM THE ORGANIZATION'S BOARD OF DIRECTORS AND NO PROMISSORY NOTE EXISTS TO DOCUMENT A SIGNIFICANT FINANCIAL OBLIGATION OF THE ORGANIZATION.**

RECOMMENDATION

The Conflict Resolution Center should obtain a loan agreement in the form of a promissory note to document the loan from the former Executive Director. The Board of Directors should approve all significant financial transactions and require adequate supporting documentation for all significant financial transactions to ensure the organization operates in compliance with applicable laws and regulations and in a transparent manner.

RESPONSE

On August 31, 2007, the current Executive Director, after conferring with the Governance Chair of the CRC's Board and with the Director of the Mediation Network of North Carolina, informed the former Executive Director that the Center would no longer pay interest on the undocumented loan and would henceforth make payments of \$100/month toward the principal only. The previous monthly payments of principal and interest (\$577/month) were a significant drain on the center's resources.

- 2. THE FORMER DIRECTOR OF FINANCE FAILED TO ISSUE INTERNAL REVENUE SERVICE (IRS) FORM 1099 FOR INTEREST PAID TO THE FORMER EXECUTIVE DIRECTOR FROM 2003 THROUGH 2005.**

RECOMMENDATION

The Conflict Resolution Center should resolve its compliance status regarding the issuance of Form 1099's to its former Executive Director through legal consultation and the involvement of the public accounting firm that performed its annual financial audits. We also recommend that management include tax compliance services in the scope of an annual agreement with a public accounting firm for accounting and auditing services.

The current Executive director has notified the IRS of this situation. Form 1099-INTs for the tax years 2003 through 2005 will be sent to the former Executive Director for all interest earned on loan repayments in those years. This will be accomplished no later than January 30, 2008.

3. THE CONFLICT RESOLUTION CENTER DID NOT COMPLY WITH THE PROVISIONS OF RESTRICTED GRANTS AND GIFTS.

RECOMMENDATION

The Conflict Resolution Center should use restricted funding according to the provisions of the grant or gift. The organization should also develop a plan to restore the funding of the grants above to fulfill the original purpose of the grant or gift.

The CRC will initiate fund accounting this fiscal year by modifying its chart of accounts by December 31, 2007. All restricted grants and/or funds will be so noted on CRC's financial statements. The current Executive Director and CRC Board will review the Rostan, Janirve, and Sisters of Mercy grants to determine how much non-expenditure occurred and how to ensure that appropriate steps are taken to fulfill the original purpose of the funding in each case.

4. EXPENDITURES FOR TELEPHONE SERVICE, CELLULAR TELEPHONE SERVICE, AND INTERNET SERVICE APPEARED EXCESSIVE AND WERE NOT SUPPORTED BY ADEQUATE DOCUMENTATION.

RECOMMENDATION

The Conflict Resolution Center should ensure that expenses related to its operations are not excessive and consistently support the mission of the organization. The Conflict Resolution Center should also ensure that all expenses of the organization are supported with adequate documentation.

During the course of the restructuring process begun by the Board of Directors last October, the practice of working from home offices was eliminated. A large rented space in Hickory, which had been used only for training and mediations was converted to a central office. All staff are now required to work from this office. There is now one "bundled" business account that combines a single telephone line, dedicated fax line, and DSL internet service. The CRC no longer provides or pays for employee cell phones.

5. THE CONFLICT RESOLUTION CENTER DID NOT MAINTAIN ADEQUATE DOCUMENTATION TO SUPPORT PAYMENTS TO EMPLOYEES AND CONTRACTORS.

RECOMMENDATION

The Conflict Resolution Center should develop policies and procedures that include requirements to document time worked for non-exempt employees to ensure compliance with the Fair Labor Standards Act. Moreover, all payments to employees and contractors should be supported by documentation that includes rates of pay and other contractual provisions.

The CRC has initiated a system of time sheets to document all employees' work time (attached). Job descriptions have been created for all employees detailing specific duties of that position. Each job description outlines whether the position is exempt or non-exempt. Current rates of pay for each staff person are included in the employee's personnel file. A new/updated Personnel Policy was presented at the CRC Board of Director's meeting in October. Revisions have been made and it is expected that the Policy will be approved at the December Board of Director's meeting.

6. THE CONFLICT RESOLUTION CENTER DID NOT MAINTAIN PROPER CONTROL OVER EQUIPMENT PURCHASES.

RECOMMENDATION

The Conflict Resolution Center should develop procurement policies and procedures which include a capitalization policy. The policies and procedures should include provisions for accounting for assets below the capitalization threshold including taking an annual inventory of all equipment. The policies and procedures should also include requirements for obtaining competitive bids or quotes for purchases exceeding certain monetary thresholds.

The organization also needs to establish or enhance its conflict of interest policy regarding the acquisition of goods and services. The policy should include a requirement to document fair market value for acquisitions from related parties. Finally, the Conflict Resolution Center should require employee exit interviews to ensure that employees return equipment in working order.

The CRC will consider for adoption at its December Board of Directors meeting a formal set of Accounting and Financial Policies (attached). These policies will provide controls over the future expenditure of CRC funds.

CONFLICT RESOLUTION CENTER, INC. ACCOUNTING AND FINANCIAL POLICIES

DRAFT – November 2007

Purpose: These Policies are to assure that the Conflict Resolution Center, Inc. (CRC) practices are in accord with accepted business and accounting procedures. The funds, monies, and other valuables referred to are those ordinarily used as operating expense funds by the Executive Director and the staff in the daily conduct of CRC business.

Banking of CRC Operating Funds

Unless otherwise authorized by the Board of Trustees, all operating funds for the CRC will be deposited in a single bank in Hickory. This does not include Certificates of Deposit or other interest-bearing documents.

Receipts

Incoming mail should be sorted so the Office Manager opens any pieces likely to contain payments. Checks are endorsed by stamp (For Deposit Only). All such receipts are examined by the Bookkeeper and posted to the general ledger. A bank deposit is prepared by the Bookkeeper and checked for accuracy by the Executive Director. Deposits are made by the Bookkeeper.

A “thank you” letter acknowledges receipts for gifts, donations, or sponsorships. Receipts for program fees, classes or events are listed in scheduling books.

Disbursements

All disbursements are made by pre-numbered check. All checks require two authorized signatures. The President, Treasurer and Executive Director are authorized to sign checks by the Board of Directors. No checks are signed in advance or without prior explanation. All bank checks are controlled by the Bookkeeper in a locked file cabinet.

The CRC form, Request for Payment, and the original invoice must accompany all disbursements. The Request for Payment form includes the item or service, its cost, and to which department or program the item or service should be charged. The Request for Payment must be given in a timely manner to the Bookkeeper. No disbursements will be made from a monthly statement without the individual invoices. The Bookkeeper will prepare all checks and posts the general ledger. The Executive Director then reviews all invoices and Requests for Payment before signatures are requested.

Reconciliation of Cash

Bank accounts are reconciled each month by the Bookkeeper and then reviewed by the Executive Director and Treasurer. Functions of reconciliation include comparison of deposits and disbursements on bank statements with items posted on the general ledger, checks returned for not sufficient funds, fees charged, transfer of funds, interest earned, checks voided on general ledger, signatures and endorsement of cancelled checks etc.

Payroll

Payroll occurs on the 25th day of each month. Hourly employees must record hours worked on time sheets, which are then turned into the Bookkeeper for processing. The Bookkeeper will write the payroll checks and the Executive Director will review the time sheets and checks before signatures are requested. All payroll checks require two authorized signatures. The President, Treasurer and Executive Director are authorized to sign payroll checks by the Board of Directors.

CRC Credit Card

The CRC does not currently have a business credit card.

Charge Cards

The CRC has credit cards for specific vendors (e.g. Office Depot etc.) All orders on a CRC account require a Request for Payment and receipt.

Personal Charge Cards

If a personal charge card is used for a purchase, a written receipt and Request for Payment is required for reimbursement.

Petty Cash

The CRC does not currently utilize a petty cash system.

Reimbursements

Employees are reimbursed for authorized expenses related to the operations of the CRC. Reimbursement requests should be made on a regular basis (at least monthly) by completing a request for Payment form with the receipt.

Budgets

Each spring the Board of Directors will approve a budget for the CRC for the coming year based upon income and expense forecasts for the coming years and the previous year's actual income and expense numbers. The Bookkeeper will prepare monthly reports showing monthly and year to date actual numbers with comparison numbers for the previous two years.

Borrowing or Lending of CRC Funds

The Executive Director will see that none of the CRC funds are loaned to any person or institution without the express consent of the Board of Directors. Likewise, neither the Executive Director nor any staff member shall borrow money on behalf of the CRC from any party without the express consent of the Board of Directors.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, you may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647