

STATE OF NORTH CAROLINA

SPECIAL REVIEW

LIFE AFTER LIFE, INC.

RAEFORD, NORTH CAROLINA

OCTOBER 2008

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

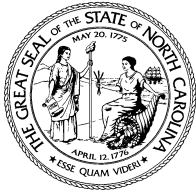
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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Life After Life, Inc.
Board of Directors, Hoke County Domestic Violence and Sexual Assault Center, Inc.

Pursuant to North Carolina General Statute §147-64.6(c)(16), we have completed a special review of Life After Life, 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) which requires the State Auditor to provide written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee.

Leslie W. Merritt, Jr.

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

October 22, 2008

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INTRODUCTION

The Office of the State Auditor, via letter sent to the Southeastern District office of the North Carolina State Bureau of Investigation, received a request from the Hoke County Sheriff, a member of the Life After Life, Inc. (Life After Life) Board of Directors. The Sheriff requested assistance in the investigation of an alleged misappropriation of funds at Life After Life, the local Hoke County domestic violence center in Raeford.

Our special review of the allegations 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 of employees of the organization, Board members, and individuals external to the organization including vendors and bank representatives.
- Review of financial statements and tax returns.

Our review was conducted pursuant to North Carolina General Statute § 146-64.6(c)(16) rather than a financial audit.

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BACKGROUND

Life After Life Inc. (Life After Life) was a not-for-profit, community domestic violence and sexual assault center based in Raeford, North Carolina. The mission of Life After Life was to serve domestic violence clients and sexual assault victims in Hoke County and the surrounding areas. The organization was founded in July 2006 and ceased operations in June 2008 following the April 2008 termination of the Executive Director and suspension of grants by the North Carolina Department of Crime Control and Public Safety's Governor's Crime Commission and the North Carolina Department of Administration's Council for Women/Domestic Violence Commission.

Life After Life received funding from the North Carolina General Assembly in the form of a Sexual Assault Grant, Domestic Violence Grant, and a grant for a pro-rata share of marriage license fees collected in North Carolina. In addition, Life After Life received a Federal Victims of Crime Act (VOCA) grant, Hoke County local appropriations, and various private grants, contributions and donations. The Governor's Crime Commission has overall oversight for the administration of the Federal and State grants.

Life After Life's Executive Director shared responsibility with the Board of Directors (Board) for overall direction of the program. The Executive Director administered the work delegated by the Board, carried out the day-to-day operations of the agency, and was responsible for effective program management and the direction of program activities. The Executive Director was required to keep the Board continually apprised of the financial status of the organization and to secure approval for out-of-the-ordinary financial transactions such as the securing of loans, leases, purchase of assets, or capital improvements.

The primary responsibility of the Board of Directors was to set policy, plan strategy, set goals, establish a mission statement, and generate financial and community support of the program. This duty also included the establishment of a long-term funding strategy.

On May 20, 2008, Life After Life, Inc.'s name was changed to Hoke County Domestic Violence and Sexual Assault Center, Inc. (Hoke) by the filing of Articles of Amendment with the North Carolina Department of the Secretary of State. Hoke was established with a new Board of Directors, Board President, and Executive Director for the fiscal year beginning July 1, 2008.

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FINDINGS AND RECOMMENDATIONS

1. THE EXECUTIVE DIRECTOR SUBMITTED ALTERED DOCUMENTS TO SECURE A BANK LOAN FOR LIFE AFTER LIFE.

Without Life After Life's Board of Directors' knowledge or approval, the Executive Director discussed securing an \$18,000 loan with a bank loan officer in early March 2008. The loan officer told us that the Executive Director informed him that the loan was necessary due to a delay in State funding.

To process the loan, the loan officer requested a copy of Life After Life's State grant agreement and a copy of the State grant deposit notification letter (in this case, an e-mail) to Life After Life. The Executive Director prepared a facsimile cover sheet indicating Life After Life's Project Director had prepared the material on March 5, 2008. The Executive Director attached and faxed an altered North Carolina Office of the State Controller "Direct Deposit Notification" e-mail which indicated that a deposit of \$25,000 from the North Carolina Council for Women would be electronically deposited into Life After Life's checking account around April 11, 2008. The Executive Director also attached a copy of a grant award agreement between Life After Life and the North Carolina Governor's Crime Commission for the fiscal year July 1, 2007 through June 30, 2008.

Based on this altered State document, the loan officer approved the \$18,000 loan for Life After Life. The promissory note signature page is dated March 12, 2008 and signed by the loan officer and the Executive Director for Life After Life. Due to his prior dealings with the Executive Director, the loan officer did not require Board authorization or the signature of a Board member.

After loan approval, the bank applied \$8,250.51 to pay-off a January 17, 2008 Life After Life note and the bank deposited the remaining \$9,749.49 into Life After Life's "Shelter" checking account. On March 13, 2008, a bank online transfer of \$9,696.47 was made to Life After Life's regular checking account.

When asked about the fax forwarded to the bank on March 5, 2008, the Executive Director denied that she had forwarded the fax to the bank. She denied that she had altered the State notification letter and she denied that she had prepared the inaccurate facsimile cover sheet. The Executive Director stated repeatedly that the former Project Director must have prepared and forwarded the faxed documents to the loan officer at the Executive Director's request. Following interviews of the former Project Director and other employees of Life After Life, we established that the former Project Director was out-of-state on personal business on March 5 - 6, 2008 and, therefore, could not have sent the fax as the Executive Director claimed.

RECOMMENDATION

The Board of Directors for Hoke County's new domestic violence center should require the new Executive Director to keep them informed of the organization's financial status and major financial transactions and obtain Board approval to secure any bank loans needed by the organization. The Board should also request local banks to notify them when any loans are requested by the organization or its Executive Director to ensure the Board has given its approval for the loan.

Note: Finding referred to the District Attorney for North Carolina Judicial District 16A and the North Carolina State Bureau of Investigation.

2. THE EXECUTIVE DIRECTOR PROVIDED LOANS FROM HER PERSONAL BUSINESS TO LIFE AFTER LIFE, MADE REPAYMENTS WITHOUT BOARD APPROVAL, AND DID NOT CREATE PROMISSORY NOTES TO DOCUMENT THE SIGNIFICANT FINANCIAL OBLIGATIONS OF THE ORGANIZATION.

In addition to her responsibilities with Life After Life, the Executive Director also owns One Stop Real Estate and Investments, Inc. (One Stop). In July and August 2006, the Executive Director loaned Life After Life \$16,000 of One Stop funds to support the beginning operations, including payroll expenses, of Life After Life. The Executive Director used Life After Life funds to repay One Stop the \$16,000 on October 26, 2006. The Executive Director did not inform the Board of these transactions nor were there any promissory notes or other supporting documentation for the loans or their repayment. Board members did not become aware of these transactions until June/July 2007 when a State Auditor representative investigated an unrelated complaint.

During October 2006 through August 2007, the Executive Director provided additional payments from One Stop to Life After Life totaling \$6,762.37. Of this total, three checks (for \$2,000, \$2,000, and \$320, respectively) were labeled "Charitable Contributions" in One Stop's accounting records. The Executive Director used Life After Life funds to repay One Stop the sum of \$15,334.40 -- \$8,572.03 in excess of the amount actually paid by One Stop. Once again, the Board was not informed of these loans or repayments and the Executive Director provided no supporting documentation for these transactions.

In January 2008, Life After Life's Victim and Court Advocate and the Project Director became suspicious when the Executive Director requested the Project Director write a \$5,000 check to One Stop. They informed the Board President and the Executive Director was later terminated due to suspicion of embezzlement.

When contacted regarding the loans and resulting overpayment, the Executive Director stated that she had kept the Board informed of the loans and financial difficulties encountered when trying to keep the organization running. The Executive Director added that she had personally funded the purchase of other equipment and supplies and provided

FINDINGS AND RECOMMENDATIONS (CONTINUED)

other monies to Life After Life. Further, she claimed that One Stop had not been overpaid. However, the Executive Director was unable to provide documentation to support these claims. Based on interviews of other Life After Life personnel and Board members and the lack of additional documentation, the Executive Director's claims can not be verified.

RECOMMENDATION

Life After Life's Board of Directors should seek restitution from the Executive Director for the \$8,572.03 in overpayment to One Stop Real Estate and Investments, Inc. If a direct appeal to the Executive Director does not yield results, necessary legal action should be initiated.

The Board of Directors for Hoke County Domestic Violence and Sexual Assault Center (Hoke) should implement procedures prohibiting related party transactions which create, or give the appearance of, a conflict of interest. The Hoke Board should approve all loans to and from the organization. These loans should be properly documented in the Board minutes and with a promissory note issued. Finally, the Hoke Board should direct its Treasurer to review all payees/payments made by the organization on a monthly basis for internal control purposes.

Note: Finding referred to the District Attorney for North Carolina Judicial District 16A and the North Carolina State Bureau of Investigation.

3. THE EXECUTIVE DIRECTOR DID NOT MAINTAIN ADEQUATE RECORDS TO SUPPORT THE USE OF GRANT FUNDS AND USED GRANT FUNDS FOR PURPOSES UNRELATED TO THE PROGRAM.

Life After Life ceased operations June 30, 2008. For our review, limited records were available at Life After Life's office. Discussions with other employees indicate that the Executive Director ordered the shredding of some records prior to her termination on April 22, 2008. Supporting documentation in the form of invoices and receipts could not be located to justify expenditures of some grant funds.

Prior to December 2007, the Executive Director submitted monthly cost reports to the Governor's Crime Commission (GCC) to receive reimbursements for expenditures based on the grant's budget requirements. The Executive Director had not submitted complete documentation as requested in prior months and, after December 2007, Life After Life submitted no more monthly cost reports for reimbursement.

The business purpose for \$10,856.50 in expenditures for the following could not be established:

- \$4,485.05 -- Life After Life bank debit card purchases (for vendors such as Wal-Mart, Shop-N-Save, Hooters, Pizza Hut)

FINDINGS AND RECOMMENDATIONS (CONTINUED)

- \$4,672.59 -- ATM/cash withdrawals (cash withdrawals of \$2,237.24 and \$1,080.00 with no annotations or supporting documentation)
- \$1,698.86 -- check purchases (request for travel reimbursements for Executive Director and Project Director, \$885.37 and \$813.49 respectively, with no supporting documentation)

When requested, the Executive Director could not provide any documentation to validate the business purpose of the preceding expenditures.

In addition, we found unauthorized expenditures of grant funds in the amount of \$12,355.68 as follows:

- \$419.00 -- bank service fees and overdraft charges (strictly non-reimbursable by grant)
- \$7,243.11 -- equipment purchases (such as projection system costing \$6,184.40; digital GPS costing \$213.49; and digital camera costing \$426.99)
- \$2,250.00 -- accounting services (potential conflict of interest since the Board Treasurer was being paid “to balance Life After Life’s books”)
- \$1,071.17 -- employee salary (paid to new Project Director hired without Board approval)
- \$1,372.40 -- insurance costs (for unauthorized AFLAC insurance policy)

RECOMMENDATION

The Board of Directors for Life After Life should request restitution from the Executive Director for the above undocumented and/or unauthorized expenditures of grant funds (\$23,212.18). If a direct appeal fails, the Board should pursue legal action to recover the grant funds.

The Board of Directors for Hoke County Domestic Violence and Sexual Assault Center should direct the Board’s Treasurer to review all expenditures of the organization on a monthly basis for internal control purposes.

Note: Finding referred to the District Attorney for North Carolina Judicial District 16A and the North Carolina State Bureau of Investigation.

4. EXECUTIVE DIRECTOR USED HER COMPUTER FOR PURPOSES UNRELATED TO LIFE AFTER LIFE’S PROGRAM.

Our review of recovered files contained on a Life After Life laptop computer used exclusively by the Executive Director indicated files for One Stop Real Estate and Investments, Inc., One Stop Mortgage, and One Stop Insurance Services Inc -- all businesses owned by the Executive Director. In addition, our forensic analysis revealed

FINDINGS AND RECOMMENDATIONS (CONTINUED)

erotic photographs of the Executive Director and other pornographic materials contained on the laptop.

According to Life After Life's State and Federal grant agreements signed by the President, Board of Directors, and the Executive Director, "*Grantee shall adequately safeguard all purchases (of equipment) and shall assure that they are used solely for authorized purposes.*" The Board did not establish any additional guidelines in its bylaws for the authorized use of equipment for official purposes only.

When questioned about the photographs, the Executive Director was not forthcoming. However, she finally acknowledged that the photographs of her had been transferred from her personal computer to e-mail them to her husband who was stationed overseas with the U.S. Army. The Executive Director never admitted any knowledge of the other pornographic photographs.

When questioned about the many One Stop files on the laptop, the Executive Director stated that she had been given permission by one or two Board members to transfer her One Stop files from her personal computer to the Life After Life computer. This claim was denied by the two Board members that the Executive Director cited.

The Executive Director did admit that, after she was terminated, she deleted all the files on the laptop. She would not give an explanation for the deletions, however.

RECOMMENDATION

The Board of Directors for Hoke County Domestic Violence and Sexual Assault Center should establish guidelines for the use of the organization's computers for authorized purposes only with strict prohibitions against viewing pornographic files on the computers.

Note: Finding referred to the District Attorney for North Carolina Judicial District 16A and the North Carolina State Bureau of Investigation.

5. THE EXECUTIVE DIRECTOR CONDUCTED HER OTHER BUSINESSES ON THE PREMISES OF LIFE AFTER LIFE.

The Executive Director, in addition to operating Life After Life, owned several other businesses. She owned One Stop Real Estate and Investments Inc., One Stop Insurance Services Inc., and One Stop Mortgage. The Executive Director conducted the "One Stop" businesses on the Life After Life premises using Life After Life office supplies and equipment (including telephones, copier, and facsimile machine) and the Life After Life conference room as a meeting place for One Stop clients.

In addition, other employees of Life After Life conducted One Stop business and were paid by One Stop. Their One Stop work was conducted while being paid as Life After Life

FINDINGS AND RECOMMENDATIONS (CONTINUED)

employees. These Life After Life employees confirmed that they performed One Stop business on Life After Life premises during regular work hours.

The Executive Director would not respond when asked if she conducted any One Stop business on-site at Life After Life. However, she did admit that she saw One Stop clients at Life After Life and used the Life After Life postage meter for One Stop business but added that she reimbursed Life After Life for the postage. A review of Life After Life bank account deposits indicated that few, if any, reimbursements were made by One Stop for use of Life After Life postage, supplies, equipment, or employees.

RECOMMENDATION

The Board of Directors for Hoke County Domestic Violence and Sexual Assault Center should establish guidelines prohibiting the use of organizational equipment, supplies, inventory, employees, and office space for the conduct of any other activities for other than bonafide organizational business. The Board should stress strict adherence to this policy to the Executive Director, employees, and Board members.

6. LIFE AFTER LIFE NEVER UTILIZED THE LEASED HOUSE AS A VICTIM'S SHELTER.

On May 1, 2007, the Executive Director leased a house to be used as an emergency shelter for victims of domestic violence. The lease agreement was signed by the Executive Director and the Board President. Life After Life paid a \$1,000 deposit and the rent was \$500 per month for a five-year period with the rent to increase by 20% for each year of the agreement. The shelter has never been habitable, even when first leased, and is located in an unsafe area 10 miles from Life After Life's office.

Life After Life received State grant funds to maintain a shelter for victims; however, even with this lease and payments made of \$3,596.04, there was no operating shelter in Hoke County. During Life After Life's existence, all victims were referred to surrounding county shelters.

The Executive Director stated that she was aware of the shelter's condition at the time of lease. Also, according to the Executive Director, the Board President was aware of the shelter's condition along with the Central Regional Director for the North Carolina Council for Women/Domestic Violence Center which provided grant monies for Life After Life.

RECOMMENDATION

Although no State grant funds are available for the fiscal year ending June 30, 2009, the Board of Directors and Executive Director for Hoke County Domestic Violence and

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Sexual Assault Center (Hoke) should apply to the Governor's Crime Commission for additional grant funding to include shelter monies for the fiscal year beginning July 1, 2009. When a shelter is established by Hoke, the Board of Directors should ensure funds are used to provide a safe and operational shelter for the victims and their families.

7. THE EXECUTIVE DIRECTOR OF LIFE AFTER LIFE HAS NOT RETURNED THE EQUIPMENT IN HER POSSESSION AT THE TIME OF HER TERMINATION.

The Life After Life Board terminated the Executive Director on April 22, 2008. The Board directed the Executive Director *"to turn over all properties belonging to Life After Life, Inc. Including, but not limited to all financial records, personnel files, online accounts and passwords, cell phones, computers (including donated lap tops), keys to office and shelter, etc. Failure to do so could result in legal action."*

At her termination, the Executive Director had the following equipment items in her possession:

- Digital GPS – purchased December 21, 2007 for \$246.28 (including warranty cost)
- Sony Camcorder – purchased December 21, 2007 for \$213.49 (including warranty cost)
- Digital Camera – purchased June 14, 2007 for \$426.99
- 4 GB Flashdrive – purchased January 16, 2008 for \$138.76
- Toshiba Laptop – purchased December 18, 2006 for \$800.61

On July 25, 2008 the Executive Director admitted that the GPS and the Toshiba laptop were still in her possession. She claimed that she was paying for the GPS personally and that she had bought and paid for the Toshiba laptop herself. The Executive Director stated that she had filed a police report because the camera had been stolen (without its case) from the Life After Life office. Existing Life After Life records indicate that all the above items were purchased with Life After Life grant funds.

RECOMMENDATION

The Board of Directors for Life After Life should request the Executive Director return all the equipment purchased with Life After Life funds. If this direct approach fails, the Board should report these missing Life After Life assets to the local police or sheriff departments to take the necessary steps to secure the return of the assets.

Note: Finding referred to the District Attorney for North Carolina Judicial District 16A and the North Carolina State Bureau of Investigation.

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RESPONSE FROM LIFE AFTER LIFE, INC.

Orace Pollard
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Mr. Pollard,

Thank you very much for the opportunity to review the findings of your office's investigation of Life After Life's Executive Director.

As you know, the Executive Director was terminated immediately upon the Board of Director's internal investigation which disclosed misappropriation of funds.

Please note that upon receiving notification of dismissal, The Executive Director was asked to return all property belonging to Life After Life including but not limited to all financial records, personnel files, online accounts and passwords, cell phones, computers (including donated lap tops), and keys to the office and shelter, etc.

To date, all of the requested items were not returned to include keys to the building and shelter.

In closing, the recommendations are accepted and as per my response, further efforts will be made to secure property belonging to Life After Life.

Sincerely,

Melba L. Aiken

Orace Pollard
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Finding 1. Concur.

Recommendation to Life After Life: N/A.

Finding 2. Concur.

Recommendation to Life After Life: Concur. Life After Life has/will take steps to secure restitution from Executive Director.

Finding 3. Concur.

Recommendation to Life After Life: Concur. Life After Life has/will take steps to secure restitution from Executive Director.

Finding 4. Concur.

Recommendation to Life After Life: N/A.

Finding 5. Concur.

Recommendation to Life After Life: N/A.

Finding 6. Concur.

Recommendation to Life After Life: N/A.

Finding 7. Concur.

Recommendation to Life After Life: Concur. Life After Life has/will request the Executive Director return all equipment and has/will report to local police.

Hoke County Domestic Violence & Sexual Assault Center, Inc.

112 East Elwood Avenue
Raeford, North Carolina 28376
Tel (910) 878 – 0118 Fax (910) 878 – 0117

Anna McPhatter
Board Chair

Anna Rivera
Executive Director

October 14, 2008

The Honorable Leslie W. Merritt, Jr.
State Auditor
North Carolina Office of the State Auditor
2. S. Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699 – 0601

Dear State Auditor Merritt:

The Hoke County Domestic Violence & Sexual Assault Center appreciates the opportunity to review and respond to the draft report following your office's investigation of the alleged misappropriation of funds at the Life after Life Inc.

The Hoke County Domestic Violence & Sexual Assault Center Inc., response to the following findings:

1. Executive Director submitted altered documents to secure a bank loan for Life after Life.
Response: The HCDVSA Board of Directors has instituted a procedure for the Executive Director to present all financial status, major financial transactions, to include all bank loans. A new financial institution has been identified and all transactions require two signatures.
2. The Executive Director provided loans from her personal business to Life after Life, made repayments without board approval, and did not create promissory notes to document the significant financial obligations of the organization.
Response: The HCDVSA Board of Directors acknowledges and accepts the recommendation of the State Auditor.
3. The Executive Director did not maintain adequate records to support the used of grant funds and used grant funds for purposes unrelated to the program
Response: The HCDVSA Board of Directors acknowledges and accepts the recommendation of the State Auditor.

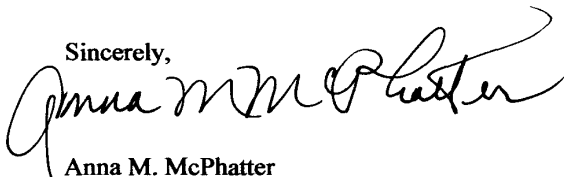
Hoke County Domestic Violence & Sexual Assault Center, Inc.

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4. Executive Director used her computer for purposes unrelated to Life after Life's program
Response: The HCDVSA Board of Directors acknowledges and accepts the recommendation of the State Auditor.
5. The Executive Director conducted her other businesses on the premises of Life after Life.
Response: The HCDVSA Board of Directors acknowledges and accepts the recommendation of the State Auditor.
6. Life after Life never utilized the leased house as a victim's shelter.
Response: The HCDVSA Board of Directors acknowledges and accepts the recommendation of the State Auditor. The Board of Directors and the Executive Director of HCDVSA will reapply for the Governor's Crime Commission funding in the new fiscal year. Upon funding the HCDVSA Center Board of Directors will ensure that all funds are used to provide a safe and operational shelter for the victims and their families.
7. The Executive Director of Life after Life has not returned the equipment in her possession at the time of her termination.
Response: The HCDVSA Board of Directors acknowledges and accepts the recommendation of the State Auditor.

Again, we appreciate the opportunity to respond to this report and appreciate the professionalism of the auditor that conducted the fieldwork and the drafted report. If you have any further questions or desire further clarification, please do not hesitate to contact me.

Sincerely,



Anna M. McPhatter
Chairperson, Hoke County Domestic Violence & Sexual Assault Center, Inc.

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