



STATE OF NORTH CAROLINA

INVESTIGATIVE REPORT

**REGGIE KILLOUGH'S CHRIST TEAM, INC.
(GOD'S COUNTRY FREE CLINICS, INC.)**

MARION, NORTH CAROLINA

JULY 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

INVESTIGATIVE REPORT

**REGGIE KILLOUGH'S CHRIST TEAM, INC.
(GOD'S COUNTRY FREE CLINICS, INC.)**

MARION, NORTH CAROLINA

JULY 2010

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

Beth A. Wood, CPA
State Auditor

AUDITOR'S TRANSMITTAL

The Honorable Beverly Perdue, Governor
Members of the North Carolina General Assembly
Mr. Lanier M. Cansler, Secretary, North Carolina Department of
Health & Human Services
Reverend Reggie Killough, President, Reggie Killough's Christ Team, Inc.

Pursuant to North Carolina General Statute §147-64.6(c)(16), we have completed our investigation of allegations concerning grant funds provided to Reggie Killough's Christ Team, Inc. The results of our investigation, along with recommendations for corrective action, are contained in this report.

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).

Respectfully submitted,



Beth A. Wood, CPA
State Auditor

July 21, 2010

TABLE OF CONTENTS

	PAGE
INTRODUCTION	1
ORGANIZATION AND CONTRACT OVERVIEW	3
FINDINGS AND RECOMMENDATIONS	7
APPENDIX	13
AUDITOR'S NOTE.....	15
RESPONSE FROM GOD'S COUNTRY OUTREACH	19
RESPONSE FROM NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES.....	33
ORDERING INFORMATION	37

INTRODUCTION

The Office of the State Auditor received a request from the North Carolina Department of Health and Human Services, Office of Rural Health and Community Care (Rural Health) to investigate potential misuse of grant funds provided to Reggie Killough's Christ Team, Inc. (Christ Team) for the operation of a free medical clinic. Before contacting the Office of the State Auditor, Rural Health received a complaint from one of the clinic's Advisory Board members who expressed concern over the use of grant funds. In response to the complaint, a Rural Health official made a site visit to the Christ Team offices in Marion, North Carolina. The clinic's Executive Director refused to provide the Rural Health official with bank statements, cancelled checks, or board minutes. However, Rural Health's limited review disclosed a lack of internal controls and questionable business practices.

To conduct our investigation of the potential misuse of grant funds, we performed the following procedures:

- Review of all Christ Team financial activity relating to the use of grant funds including a detailed analysis of bank statements
- Examination of available supporting documentation for revenues and expenditures of the clinic
- Interviews of Christ Team and medical clinic officers; the medical clinic's former volunteer physician, former employees, and Advisory Board members; and individuals external to Christ Team and the medical clinic including local business owners and managers

This report presents the results of our investigation. It was conducted pursuant to North Carolina General Statute § 147-64.6(c)(16).

[This Page Left Blank Intentionally]

ORGANIZATION AND CONTRACT OVERVIEW

Reggie Killough's Christ Team, Inc.

Reggie Killough's Christ Team, Inc., originally incorporated under the name Help Ministries, Inc. in April 1970, was established to (a) promote and foster the preaching of the Christian Gospel to operate missions, churches, and Christian service institutions, and (b) to organize, conduct and carry on efforts for the general promotion of the Christian Gospel.¹ Help Ministries officially changed its name to Reggie Killough's Christ Team, Inc. (Christ Team) on March 15, 1972.

Christ Team operates under the name God's Country Outreach. Affiliated organizations in Marion, North Carolina, include God's Country Free Clinics, Inc. (Clinic), a thrift shop doing business as "God's Country IOU Love Center & Thrift Store," and God's Country Church under the name "IOU Love Experience." The corporation also operates a thrift store and the "Beach Preach Outreach" in Daytona Beach, Florida.

God's Country Free Clinics, Inc.

On June 23, 2009, Christ Team officials registered God's Country Free Clinics, Inc. with the North Carolina Department of the Secretary of State as a separate but affiliated non-profit charitable or religious corporation. The primary purpose of the Clinic was to promote and improve the health condition of people in McDowell County who could not obtain adequate health care.

Originally, the Clinic was provided free space at the McDowell County Health Department. Starting March 14, 2009, the Clinic served clients from 5:30 p.m. through 9:00 p.m. on Tuesdays and 8:00 a.m. through 12:00 p.m. on Saturdays. However, the Health Department terminated the arrangement effective June 30, 2009. Subsequently, the Clinic set up operations at a warehouse that was used by Christ Team to store items for the thrift shop and to conduct church services.

The Clinic organization consisted of an Executive Director (the wife of Christ Team's President), a volunteer physician as Medical Director, a Clinic Director, a part-time Bookkeeper (the daughter-in-law of Christ Team's President), volunteer workers, and 11 Advisory Board members. The original Clinic Director informed us that she was hired in February 2009 to work 20 to 30 hours per week. She resigned in mid-May 2009 because she could not meet the time requirements which had grown to 40 to 60 hours per week. The second Clinic Director began working as a volunteer in February 2009 and became the Clinic Director in mid-May 2009. The second Clinic Director said she resigned July 9, 2009 due to concerns about the Clinic's operations and differences with the Executive Director.

The volunteer physician began providing services in mid-February 2009, travelling from Waynesville, North Carolina, twice each week. He told us that he began having concerns about the Clinic's financial operations in April 2009. He said that he could not

¹ Articles of Incorporation, April 1970

ORGANIZATION AND CONTRACT OVERVIEW (CONTINUED)

understand how the grant funds were used and requested that the Executive Director bring financial statements to the April 2009 Advisory Board meeting. He said that the Executive Director brought only a one-page financial summary providing little information. He ceased providing volunteer services to the Clinic on July 22, 2009 and sent an e-mail to the Advisory Board members detailing his concerns. Following his resignation and e-mail, most of the Advisory Board members also resigned. The last Advisory Board meeting was held on July 28, 2009. The Clinic continued serving clients through late August 2009 by registering clients and then referring them to local physicians for medical care.

North Carolina Department of Health and Human Services, Office of Rural Health and Community Care

The Office of Rural Health and Community Care (Rural Health) assists communities in obtaining low-cost access to medical care. Rural Health helps to place medical, psychiatric, and dental providers in communities throughout the state.

House Bill 2436 of the 2007 Session of the General Assembly awarded Rural Health \$2 million in recurring funds and \$4 million in one-time funds for Community Health Grants. The purpose of the funds was to:

- Increase access to preventive and primary care services for uninsured or medically indigent patients in existing or new health center locations
- Establish community health center services in counties where no such services exist
- Create new services or augment existing services provided to uninsured or medically indigent patients including primary care and preventive medical services, dental services, pharmacy, and behavioral health
- Increase capacity necessary to serve the uninsured by enhancing or replacing facilities, equipment, or technologies

Organizations eligible to apply for the funds include federally-qualified health centers, health centers that meet the criteria for federally-qualified health centers, State-designated centers, free clinics, public health departments, school-based health centers, and other not-for-profit clinics that provide care to underserved populations. During the 2008-09 fiscal year, Rural Health awarded 43 new project grants totaling \$4,263,035.

Community Health Center Grant Contract

On November 25, 2008, Rural Health provided a \$75,000 Community Health Grant to Reggie Killough's Christ Team, Inc. The effective period of the grant was from December 01, 2008 through June 30, 2009. The grant contract included funding for the following program expenses:

ORGANIZATION AND CONTRACT OVERVIEW (CONCLUDED)

Table 1 Grant Contract Funding	
<u>Expense</u>	<u>Amount</u>
<u>Staff Salaries:</u>	
Part-time Executive Director	\$17,500
Part-time Clinical Director	14,000
Part-time Bookkeeper	5,142
Staff fringe benefits	4,332
<u>Temporary/contract staff:</u>	
Certified Public Accountant	3,000
<u>Facility Expenses:</u>	
Telephone/Internet	2,100
<u>General Supplies:</u>	
Medical or Dental Supplies	10,000
Office Supplies	4,836
Pharmaceutical Supplies	10,000
<u>Capital Expense:</u>	
Computers	2,500
Otoscope/Ophthalmoscope Diagnostic Sets	<u>1,590</u>
Total	<u>\$75,000</u>

The overall objective of the grant was to increase access to preventive and primary care services for uninsured or medically indigent patients, to establish a community health center, and to create new or augment existing services provided to qualifying patients.² Although Rural Health issued the grant funds on December 10, 2008, no clients received services until March 14, 2009.

² Grant contract, Scope of Work

[This Page Left Blank Intentionally]

FINDINGS AND RECOMMENDATIONS

1. THE EXECUTIVE DIRECTOR USED \$61,886 IN GRANT FUNDS FOR PURPOSES UNRELATED TO THE CLINIC.

On December 15, 2008, Christ Team deposited \$75,000 in grant funds into a Mountain 1st Bank & Trust account in Marion, North Carolina. The next day, the Executive Director began transferring funds to a Florida bank account established for another Christ Team organization. These transferred funds and the remaining grant funds in the North Carolina account were then used for purposes unrelated to the Clinic's operations and not allowed by the grant contract. Ultimately, Christ Team misused \$61,885.67 of grant funds.

Our investigation determined that Christ Team used over \$28,000 of grant funds to pay Federal tax liabilities unrelated to the Clinic's operations. Further, \$10,642.20 in grant funds was paid to Marion thrift store employees and employees of affiliated organizations in Florida who did not provide any services to the Clinic. In addition, the Executive Director spent \$8,833.24 of grant funds by cashing checks made payable to "cash" and for a health savings account that was never established and by making ATM withdrawals. The Executive Director was unable to provide any explanation or documentation as to how these cash withdrawals benefitted Clinic operations. As shown in the Appendix, page 13, only \$13,114.33 of the \$75,000 in grant funds was actually used for allowable purposes for the Clinic.

The Executive Director admitted that some grant funds were used for purposes unrelated to the grant contract. She said, "We realize that Christ Team is obligated for that money" and she agreed that "there were some categories that were not funded." However, when presented with the total amount that we determined was misused, the Executive Director said, "Christ Team had an obligation to pay it back...but not \$62,000." Instead, the Executive Director claimed that grant funds were eventually spent on Clinic operations because other funds were later used to pay some Clinic expenses.

The Executive Director maintained a report titled "Transaction Detail by Account" for expenditures covering staffing, medical supplies, pharmacy supplies, office expenses, telephone/telecommunications, and contract accounting services. These reports made it appear that only allowable expenditures were charged to the grant. However, our analysis of the bank activity revealed a significantly different reality.

On December 16, 2008, the Executive Director wire transferred \$36,642 to Riverside National Bank in Holly Hill, Florida. This transfer represented the total gross salaries allowed under the grant contract through June 30, 2009. The Executive Director said that the funds were transferred to process payroll. Although the Clinic did not begin providing services to clients until March 14, 2009, subsequent wire transfers were made to the Florida bank on January 6, 2009 (\$14,527.72), January 15, 2009 (\$4,527.72), and March 13, 2009 (\$4,000.00). In total, the Executive Director transferred \$59,697.44 of grant funds to the Florida account.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

On January 8, 2009, just 23 days after transferring the \$36,642 to the Florida account for salaries, the entire amount was spent. However, only \$973.01 of that amount was used for allowable Clinic salaries. By March 19, 2009, just five days after the Clinic began providing medical services to clients, the entire \$59,697.44 in grant funds transferred to the Florida account was depleted. All remaining grant funds in the North Carolina account were spent by May 20, 2009.

RECOMMENDATION

Rural Health should seek to recover all grant funds that were not used in accordance with the grant contract. In addition, Rural Health should not provide any further grant funds to this entity or other organizations affiliated with Christ Team's management.³ Rural Health should request that the North Carolina Office of State Budget and Management place Christ Team and its affiliated organizations on the "Suspension of Funds to Grant Recipients for Noncompliance" list in accordance with North Carolina General Statute § 143C-6-23(f).

Note: Finding referred to the District Attorney for North Carolina Judicial District 29A and the North Carolina State Bureau of Investigation.

2. THE EXECUTIVE DIRECTOR MISREPRESENTED THE USE OF GRANT FUNDS TO STATE OFFICIALS.

On June 29, 2009 (one day before the grant period ended), the Executive Director wrote checks from the Mountain 1st Bank & Trust account to two local pharmacies totaling \$18,123.35, a local Certified Public Accountant (CPA) for \$3,000, and an online medical supply equipment company for \$1,595. However, the Executive Director never sent these checks. In addition, no agreements existed with those entities and the bank balance was only \$297.04 on the date the checks were written. The Executive Director recorded those checks in the "Transaction Detail by Account" report to give the appearance that these expenses were incurred during the grant period. The Executive Director presented the two unsent pharmacy checks to the Rural Health official during an August 2009 site visit and all four unsent checks to representatives from the Office of the State Auditor in October 2009 in a further attempt to misrepresent the use of grant funds.

The Executive Director attached a letter to each unsent check that was payable to the pharmacies and the CPA. The letters to the pharmacies stated that the checks were to establish a medical supplies account for \$9,422.74 and a prescription assistance account for \$8,700.61, respectively. The accompanying letter to the CPA stated that the unsent check was to set up a retainer for monthly and quarterly reporting and an audited financial statement. Attached to the unsent check to the medical supply equipment company was a printout from a website product description of an

³ As a result of allegations, Rural Health did not provide second-year funding.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Otoscope and Ophthalmoscope wall diagnostic station. The unsent checks to the pharmacies and the CPA matched the amount the Transaction Detail by Account report showed as remaining grant fund balances for medical supplies, pharmaceutical supplies, and contract services while the unsent check to the medical supply company exceeded the total grant allowance for equipment by \$5.

Representatives from both pharmacies and the CPA recalled having brief conversations with the Executive Director regarding setting up accounts. However, they all confirmed that they had never seen the letters, received any checks, nor established any verbal or written agreements for services. Both pharmacy representatives told us that they could not accommodate what they believed the Executive Director wanted. The CPA said that he remembered receiving a telephone call from a lady about the Clinic but did not know exactly what she was requesting, other than that she wanted the services to be provided free of charge.

When we asked the Executive Director for justification for writing the checks given the bank balance, she said that they “fully expected to get the second year funding” and that she “wrote out the checks to show what was left in the grant.” She added, “The idea was that, when the money was funded, we would go ahead” with making those payments. Under this scenario, using year-two funding to pay for legitimate expenses already provided by year-one funding would be a misuse of funds. Because no agreements existed between Christ Team and the pharmacies or the CPA and no order was placed with the online equipment company, her explanation is implausible. Further, we believe the Executive Director’s admission that first year grant funds had been previously used for other purposes, combined with the \$297.04 bank balance on the date these unsent checks were written, demonstrates the Executive Director’s intent to misrepresent the actual use of grant funds.

RECOMMENDATION

Rural Health should not provide additional funding to Christ Team or any organizations affiliated with Christ Team’s management. In addition, Rural Health should seek to recover all the funds not used in accordance with the original grant contract.⁴ Rural Health should request that the North Carolina Office of State Budget and Management place Christ Team and its affiliated organizations on the “Suspension of Funds to Grant Recipients for Noncompliance” list in accordance with North Carolina General Statute § 143C-6-23(f).

Note: Finding referred to the District Attorney for North Carolina Judicial District 29A and the North Carolina State Bureau of Investigation.

3. THE EXECUTIVE DIRECTOR MISREPRESENTED THE CLINIC’S FINANCIAL CONDITION TO THE ADVISORY BOARD.

The volunteer physician who served as Medical Director expressed concerns about

⁴ As a result of allegations, Rural Health did not provide second-year funding.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

the Clinic's finances and requested that the Executive Director bring financial statements to the April 2009 Advisory Board meeting. At the April 28, 2009 meeting, the Executive Director submitted to the Advisory Board an income statement dated April 27, 2009 that presented a false picture of the Clinic's financial condition.

The statement showed a fund balance of \$48,871.64 available to the Clinic including \$37,121.00 in remaining "restricted" grant funds to be spent by June 30, 2009. On April 28, 2009, only \$466.76 in grant funds remained available in the North Carolina bank account and the total bank balance was only \$522.76. Also, no grant funds remained available in the Florida bank account and that account was overdrawn by \$424.74 on that date. The submission of an inaccurate and misleading financial statement demonstrates the Executive Director's intent to misrepresent the actual use of grant funds.

RECOMMENDATION

Rural Health should not provide additional funding to Christ Team or any organizations affiliated with Christ Team's management. In addition, Rural Health should seek to recover all funds not used in accordance with the original grant contract.⁵ Rural Health should request that the North Carolina Office of State Budget and Management place Christ Team and its affiliated organizations on the "Suspension of Funds to Grant Recipients for Noncompliance" list in accordance with North Carolina General Statute § 143C-6-23(f).

Note: Finding referred to the District Attorney for North Carolina Judicial District 29A and the North Carolina State Bureau of Investigation.

4. THE PRESIDENT/BOARD CHAIR AND THE OUTREACH OFFICER MADE FALSE STATEMENTS REGARDING OVERDUE TAXES.

To obtain grant funds, Christ Team officers attested to certain facts. On November 28, 2008, Christ Team's President/Board Chair (the husband of the Clinic's Executive Director) and the Outreach Officer signed a sworn statement that Christ Team had no "overdue tax debts . . . at the federal, State, or local level." However, the Internal Revenue Service filed notices of federal tax liens totaling \$81,610.37 against Christ Team with the Clerk of Court in Volusia County, Florida for unpaid payroll withholding taxes assessed from October 2006 through June 2008.

Although the Executive Director provided an installment agreement approved by the Internal Revenue Service for the taxes included in the liens, the effective date of that agreement was February 20, 2009. The Executive Director said that "we had an agreement" but she was unable to provide documentation of any agreement in existence prior to the grant award. Thus, Christ Team owed federal payroll taxes on the date the sworn statement was signed.

⁵ As a result of allegations, Rural Health did not provide second-year funding.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

North Carolina General Statute § 143C-6-23(c) states:

No Overdue Tax Debts. – Every grantee shall file with the State agency or department disbursing funds to the grantee a written statement completed by that grantee's board of directors or other governing body stating that the grantee does not have any overdue tax debts, as defined by G.S. 105-243.1, at the federal, State, or local level. The written statement shall be made under oath and shall be filed before the disbursing State agency or department may disburse the grant funds. A person who makes a false statement in violation of this subsection is guilty of a criminal offense punishable as provided by G.S. 143C-10-1.

General Statute § 105-243.1 defines an overdue tax debt as an amount that remains unpaid for 90 days or more after it becomes collectable if the taxpayer did not enter into an installment agreement within 90 days from the collectable date or failed to make payments under the agreement. Failure to comply with this provision is a Class A1 misdemeanor as specified by General Statute § 143C-10-1(b).

RECOMMENDATION

Rural Health should consult with the Internal Revenue Service as well as assist the District Attorney and/or the State Bureau of Investigation concerning the grantee's false statements regarding overdue taxes. If it is determined that the grantee violated State law, Rural Health should seek to recover the entire \$75,000 in grant funds.

Note: Finding referred to the District Attorney for North Carolina Judicial District 29A and the North Carolina State Bureau of Investigation.

5. CHRIST TEAM RETAINED POSSESSION OF LAPTOP COMPUTERS PURCHASED WITH GRANT FUNDS.

Christ Team used grant funds to purchase four laptop computers. The grant contract stipulates that, at the termination of the contract, the contractor should contact Rural Health for instructions as to the disposition of any property purchased with grant funds. Although the grant contract terminated on June 30, 2009, the Executive Director did not contact Rural Health for disposition instructions.

The Executive Director said that the computers were assigned to the Executive Director for use at home and when traveling, the Executive Director's son to develop a PowerPoint presentation for the Clinic, the Medical Director to access medical information, and the Clinic Director for client information. The Executive Director acknowledged her failure to contact Rural Health regarding the equipment return.

RECOMMENDATION

Rural Health should instruct the Executive Director to immediately return the computers to their possession.

[This Page Left Blank Intentionally]

APPENDIX

Misuse of Grant Funds			
Category	North Carolina Account	Florida Account	Total
ATM Cash Withdrawals	\$967.00	\$1,200.00	\$2,167.00
Auto Repairs		536.94	536.94
Bank Fees	45.00	207.10	252.10
Checks For Cash	4,166.24		4,166.24
Credit Card Payments		500.00	500.00
Debit Card Purchases		2,052.96	2,052.96
Executive Director's Health Savings Account ¹	2,500.00		2,500.00
Internal Revenue Service Tax Payments		28,122.79	28,122.79
Liability Insurance Premiums	841.00		841.00
Miscellaneous	133.96	631.04	765.00
Payroll to Killough Family Members ²		2,836.95	2,836.95
Payroll to Florida Employees		7,918.08	7,918.08
Payroll to Marion Thrift Store Employees		2,724.12	2,724.12
Rent Payments for Florida Operation		4,973.88	4,973.88
NC Taxes Unrelated To Grant		584.43	584.43
Utility Charges	944.18		944.18
Totals	\$9,597.38	\$52,288.29	\$61,885.67
¹ Check cashed by the Executive Director ² Unallowable salaries plus bonuses paid to the Executive Director and the Executive Director's husband (Christ Team President), son, and daughter-in-law (Clinic bookkeeper)			
Source: Bank statements from Mountain 1 st Bank and Trust and Riverside National Bank			

[This Page Left Blank Intentionally]

AUDITOR'S NOTE

The response to this report from Christ Team includes numerous inaccuracies and false statements and attempts to recant prior statements made by Christ Team officials to Office of the State Auditor (OSA) representatives. In addition, Christ Team's response defames OSA officials (claims of "intimidating"), former Clinic employees and Advisory Board members, and local business operators who willingly provided information to assist in the investigation. None of those unsupported statements disprove the unequivocal evidence accumulated throughout our investigation that was corroborated by objective third parties.

Introduction:

In their response, Christ Team admits that concerns were expressed by the Medical Director about "spending too much money" but says that credit was not given "for those funds being expended." The Medical Director's concerns were related to budgeted contract amounts and financial reports that showed large amounts of *recorded* expenses. However, our analysis of bank accounts showed that grant funds were instead **spent** on other items in contrast to what the financial reports indicated.

The response claims that "the Health Department did not terminate the arrangement with the free clinic." However, during our initial meeting on September 28, 2009, the Executive Director told us that the Health Department's new director informed Christ Team that the Clinic could not use the Health Department's offices after the lease ended on June 30, 2009.

The response claims that "the second Clinic Director did not resign" but instead "walked out of a management meeting and never returned to work." In this context, the difference is immaterial. In addition, the second Clinic Director confirmed that she resigned on July 9, 2009.

1. THE EXECUTIVE DIRECTOR USED \$61,886 IN GRANT FUNDS FOR PURPOSES UNRELATED TO THE CLINIC.

At no point in the Investigative Report or in any discussions with Christ Team officials did OSA indicate that a separate bank account for grant funds was required. Instead, our bank account analysis revealed that funds were transferred to a Florida bank account and then used for purposes unrelated to the Clinic. If the grant funds had actually been spent on Clinic operations out of the Florida account, we would not have questioned those costs.

The Christ Team response notes that we "infer the Executive Director withdrew cash for personal benefit." The Executive Director admitted that some purchases and cash withdrawals were made for personal items such as dinners and hotels when traveling. She told us that Christ Team intended to reimburse the grant for those expenses. In addition, the response repeatedly makes references to expenses being "charged to the free clinic, and accounted for under the grant." It is important to recognize that the response

AUDITOR'S NOTE (CONTINUED)

does not provide evidence that grant funds were actually spent on Clinic operations but instead references accounting entries to attempt to justify the expenditure of funds.

In the response, the Executive Director disputes our contention that a health savings account was never established. We found no evidence that a check was ever written to a bank or insurance provider to establish a health savings account. Instead, we found a check made payable to "Shirley Killough-Health Savings Account" that was subsequently cashed by the Executive Director. Further, the Executive Director told us on March 8, 2010 that she was unable to set up a health savings account through a regular bank account but instead needed to establish an investment services account. She still has not provided any documentation to support the establishment of a health savings account.

In the response, Christ Team claims that \$16,747 of grant funds remains unspent and they attached a check to the grant provider for that amount. However, our analysis of bank account records revealed that those funds were exhausted by May 20, 2009. Moreover, the total bank balance for the North Carolina account was just \$297.04 and the Florida account was overdrawn by \$532.89 on June 30, 2009, the day the grant period ended. Any subsequent Clinic-related expenses must have been paid with funding from other sources because all actual grant funds had been used. Therefore, it is irrelevant that Christ Team paid for Clinic operations after the grant funds were spent. Further, the Executive Director previously informed us that the checks identified in finding 2 were not sent because year-two funding was needed. If grant funds remained at year-end, checks should have been sent to the pharmacists, CPA, and medical supply company.

2. THE EXECUTIVE DIRECTOR MISREPRESENTED THE USE OF GRANT FUNDS TO STATE OFFICIALS.

The response claims that "no misrepresentation was made to state officials regarding the remaining money to be disbursed under the grant." However, our analysis revealed that there was no "remaining money" from the grant on the date these checks were written because those funds had already been spent. Further, the Executive Director recorded these checks in the accounting records even though they were not sent and no funds were available to pay those amounts.

The response refers to a discussion with Rural Health officials regarding funds that remained available for prescriptions and medical supplies. At the time of that discussion, Rural Health officials were led to believe that grant funds were available to meet these requirements. As noted in the report, the bank balance was only \$297.04 on the date these checks were written. It was only after we confronted the Executive Director regarding the bank balance that she admitted to us her intent to use second-year funding to meet the \$22,718.35 written for these items. In addition, if \$16,747 remained in the grant as claimed in the response to the previous finding, the Executive Director should have used those funds for these items.

AUDITOR'S NOTE (CONTINUED)

In the response, Christ Team claims that they arranged for prescription accounts with two local pharmacies. This contention was directly refuted by both pharmacies. Representatives from both pharmacies said that they could not accommodate what the Executive Director wanted. Contrary to the claims in the response, the pharmacies had not received “intimidating phone calls” from Advisory Board members or OSA investigators. In fact, pharmacies representatives’ first knowledge of the existence of the unsent letters and checks was when we personally visited each pharmacy. The accusation that OSA investigators engaged in any intimidating activities with anyone associated with this investigation is indisputably false.

The response’s assertions regarding the services requested from a CPA directly contradict the statements provided by the CPA and a staff member. Nevertheless, the disagreements over arrangements for prescription drugs, financial reporting, and medical supplies are essentially irrelevant because all grant funds had already been spent by Christ Team prior to these checks being written.

Finally, during our initial inquiries, the unsent checks and supporting letters were presented to us on the basis that there were funds available to pay for these items. The Executive Director recorded those checks in the transaction detail report as grant expenses even though the checks were never sent. These items were funded in the grant contract but Christ Team had previously used those funds for other purposes. Only after we determined that there were insufficient funds available did the Executive Director acknowledge that year-two funding would have been needed to pay these expenses.

3. THE EXECUTIVE DIRECTOR MISREPRESENTED THE CLINIC’S FINANCIAL CONDITION TO THE ADVISORY BOARD.

The response claims that the financial statement presented to the Advisory Board showed “actual expenses...itemized and any remaining funds to be expensed for the clinic.” As our investigation revealed, the “monthly statement” presented to the Advisory Board on April 28, 2009 indicated that there was \$48,871.64 available to the Clinic including \$37,121.00 of remaining “restricted” funds. However, on that date, the North Carolina bank account balance was only \$522.76 and the Florida bank account was overdrawn by \$424.74. The Executive Director still argues that \$16,747 was never spent from the grant. On the contrary, our analysis showed that all grant funds were spent by May 2009.

4. THE PRESIDENT/BOARD CHAIR AND THE OUTREACH OFFICER MADE FALSE STATEMENTS REGARDING OVERDUE TAXES.

With its response, Christ Team provided a letter that it claimed to be **from** the IRS. That letter stated that a “verbal agreement” was reached on September 28, 2008 between the IRS and Christ Team for overdue taxes. We questioned the validity of this letter because IRS letterhead does not appear on the letter. We contacted the IRS revenue officer who stated, “*The taxpayer prepared the letter [emphasis added]* and asked me to sign. I did

AUDITOR'S NOTE (CONCLUDED)

sign the letter. *I didn't check the accuracy of the statement* [emphasis added] because it *appeared to reflect my memory of events* [emphasis added].”

The revenue officer's supervisor told us that the IRS does not enter into “verbal agreements” and that any “interim payments” made prior to a written, formal agreement are “not an installment.” In addition, an IRS Disclosure Office official informed us that the IRS does “not do informal agreements” and confirmed that no agreement existed until the written, formal agreement was signed in February 2009. The Executive Director refused to provide us authorization to request the IRS case file to verify her statements regarding a “verbal agreement.”

As a result, we do not believe a “verbal agreement” is sufficient to meet the requirements of the General Statutes. We agree that tax payments were made prior to the formal agreement on February 20, 2009 because our analysis of bank transactions revealed that \$28,122.79 of grant funds were used to pay taxes to the IRS.

5. CHRIST TEAM RETAINED POSSESSION OF LAPTOP COMPUTERS PURCHASED WITH GRANT FUNDS.

In its response, Christ Team states that “the Executive Director did not acknowledge failure to contact Dept of Rural Health regarding the equipment return.” However, the Executive Director admitted to us on March 8, 2010 that she had not contacted Rural Health about the disposition of the laptop computers. In fact, the documentation provided with the response clearly indicates that the Executive Director first contacted Rural Health about these computers in an e-mail on June 11, 2010.

GOD'S COUNTRY OUTREACH
PO Box 67
Marion, NC 28752
Phone 828-652-9000

June 14, 2010

Beth A. Wood, CPA
State Auditor
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

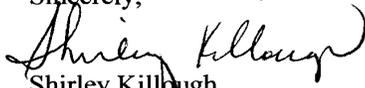
Dear Ms. Wood:

Attached please find our response to Investigative Report for Reggie Killough's Christ Team, Inc. (God's Country Free Clinic).

As you can see from our responses, we believe you should accept the enclosed check and documents as settlement in full of this investigation.

If you have questions, please call 828-652-9000.

Sincerely,


Shirley Killough
Executive Director

**RESPONSE TO INVESTIGATIVE REPORT FOR REGGIE KILLOUGH'S
CHRIST TEAM, INC.:**

Clarification is needed relating to page 3 – God's Country Free Clinics, Inc.

The free clinic operated as Reggie Killough's Christ Team, Inc. d/b/a God's Country Medical Ministries. A new corporation was formed on 6/23/09 i/n/o God's Country Free Clinics, Inc. The new corporation was formed so that the free clinic would be set up separate and apart from Reggie Killough's Christ Team, Inc. Paperwork was in process to obtain a 501-c-3 approval, and the planned agenda at the last Advisors Board Meeting was to elect officers for the new corporation.

The intent on the part of Christ Team management and directors was to assure that the local community of McDowell County manage and support the free clinic. It was never the intent to control the clinic, nor in any way take funding from the clinic for any other outreach ministry of Christ Team.

The new officers were never elected at the meeting, because Dr. Teater, Medical Director, had forwarded his email and list of complaints to a select list of board members. As a result, the last meeting was spent going over his list of concerns.

None of Dr. Teater's concerns about spending too much money on Executive Director salary, telephone and office expenses, etc. were even addressed by the Investigative Report. In fact, the Investigative Report gives no credit for those funds being expended.

Although the clinic did not serve patients until March 14, 2009, grant funds were used beginning January, 2009 to pre-qualify patients, recruit and train volunteers and organize for the opening in mid-March.

The Health Department did not terminate the arrangement with the free clinic. We were forwarded a renewal lease, which we chose not to sign. Numerous discussions regarding a move to a building solely for the free clinic are documented in Board of Advisors minutes. The free clinic had outgrown the space provided by the health department, particularly with little to no storage, no permanent office space and the inflexibility of hours at that location. We stopped seeing patients there after Dr. Teater resigned as Medical Director in late July. The clinic was relocated to the building that housed our church and offices. It was a metal pre-fab building, but was not used to store items for the thrift store as referred to in the report. It did provide storage for some free clinic items.

The second Clinic Director did not resign. She walked out of a management meeting, and never returned to work when she was asked for an explanation regarding her continual complaints about the health department facility. She had been extremely emotional during her employment, including crying in the hallway during clinic hours

and displaying numerous emotional instabilities. She was hired solely based on Dr. Teater's strong recommendation, only to later learn she is on disability.

The Medical Director attended every Advisory Board meeting until his resignation in July. At each Advisory Board meeting a financial report was reviewed, and Dr. Teater even commented on the expenses being in line with other free clinics. This is documented in Advisory Board minutes that were furnished to the Investigative Team.

Dr. Teater asked for a special meeting with the Executive Director and President on July 9, and asked that financial statements be furnished. The latest Form 990 filed for Christ Team, and an up to date report on funds expensed under the grant were presented. He focused questions on line items such as supplies and telephone expenses, and questioned salaries being paid and budgeted for the following year. This was after the same information had been reviewed in Advisory Board meetings on a month-by-month basis.

Dr. Teater's primary focus is on his own medical practice in Haywood County, and serves uninsured clients at certain times during the week. The structure of his office, including his Executive Director and medical staff positions, are quite different than the structure of the McDowell clinic. Knowing a new corporation had been formed solely for the free clinic, Dr. Teater suddenly questioned the whole structure and financial accountability.

The clinic continued serving clients through August 2009, primarily to assist existing clients. When Dr. Teater resigned without notice, he cut all contacts with patients and refused to give refills on existing medications. A local doctor was willing to review medications and write short-term refills at no charge to the patient. This was a stopgap measure until we could find another Medical Director.

Money under the second year grant could have provided funds to hire a part time Medical Director and/or Physicians Assistant. After the documents were signed for the second year funding, Dr. Teater's actions and the request for an investigation by an anonymous caller caused NC Department of Rural Health to withdraw funding. This was after the clinic had operated two additional months past the end of the original grant period.

FINDINGS & RECOMMENDATIONS:

1. THE EXECUTIVE DIRECTOR USED \$61,886 IN GRANT FUNDS FOR PURPOSES UNRELATED TO THE CLINIC.

RESPONSE:

There is nothing in the contract with Dept of Rural Health that mandates a separate bank account be maintained for the grant. Christ Team operates several bank accounts at various locations. The payroll account for Christ Team is maintained at a bank in Daytona Beach, and all employees for the free clinic were paid through that account. As funds were expended for the free clinic, they were charged to the free clinic under an accounting program, not simply by the account from which they were written.

The auditor's comments infer the Executive Director withdrew cash for personal benefit. All withdrawals are documented as transfers to other Christ Team accounts or charged to appropriate expenses. Only legitimate expenses for the free clinic were charged to the free clinic, and accounted for under the grant. These are included in the annual report submitted to the state, and attached to this response. The comments also incorrectly infer a health savings account was never established.

The annual report required by the state was filed (as mentioned above) and shows \$58,253 in expenditures for the free clinic. (A copy is attached.) The report shows an unexpended grant fund balance of \$16,747. The auditors were furnished cancelled checks and supporting invoices for all of the expenditures, but there is no mention of that in the Investigative report.

We reviewed with the auditors expenditures under the grant. To say \$61,886 was misused is to totally ignore the establishment and success of the free clinic in McDowell County. There is no mention in the Investigative Report of salaries that were paid, training of volunteers, establishment of communication systems, printing of brochures, and the medical treatment and prescription assistance provided to the approximately 400 uninsured patients that were served under the grant.

A check for \$16,747 is enclosed representing obligation for any grant funds that were not expended.

THIS FINDING AND RECOMMENDATION BY THE INVESTIGATIVE TEAM SHOULD BE DELETED, AND VERIFICATION SHOULD BE ISSUED BY THE STATE TO SETTLE THIS PROCEEDING IN FULL.

2. THE EXECUTIVE DIRECTOR MISREPRESENTED THE USE OF GRANT FUNDS TO STATE OFFICIALS.

RESPONSE:

No misrepresentation was made to state officials regarding the remaining money to be disbursed under the grant. In fact, this situation was fully discussed with a number of state officials, and with the Board of Advisors.

When a representative from Dept of Rural Health named Tammy visited the free clinic offices before the end of the grant period in June 2009, there was discussion with the Executive Director regarding funds that remained to be expended to patients for prescriptions and medical supplies. Since the clinic served its first patients in March, it would not spend this entire category by the end of June. This had been discussed and documented in Advisory Board minutes that were provided to the Investigative team. Opening an account with a pharmacy was a suggestion by Dr. Nisha Patel, and is documented in the Board minutes.

Tammy did not indicate any concern about this. It was later mentioned to John Price with the Department of Rural Health in a telephone discussion with the Executive Director. Mr. Price was told of the pending accounts to be set up at local pharmacies. He suggested the checks be held, since it was not clear whether this would be acceptable in funding it this way, and whether we would even have the funding for the second year.

Prior to the conversation with John Price, the Executive Director had met with two pharmacists to discuss the accounts we would like to set up. One indicated he needed approval from his regional manager to do so, but did not believe that would be a problem, since they have a similar account set up for another non-profit group in the local community which functions in a similar manner.

The other pharmacist indicated he handles a similar account with Department of Social Services in McDowell County.

Each of the pharmacists was expecting to hear back from the free clinic when we were ready to setup the accounts. The follow up with the pharmacists was postponed after the conversation with John Price at Dept. of Rural Health.

According to the Investigative Report, neither of the pharmacists believes they could accommodate what we needed. This is after the pharmacists received several intimidating phone calls from Advisory Board members and representatives from the investigative team.

Regarding the \$3,000 retainer to the CPA, the Executive Director called the CPA and his assistant on at least two occasions to discuss the new corporation that was formed, God's Country Free Medical Clinics, Inc. He was advised a new corporation had been formed to house the free clinic, and we were completing paperwork to attain 501-c-3 status. This would require a CPA to sign off on the document.

In addition to that, the CPA was advised we would be setting up bookkeeping and accounting services going forward for the free clinic. There was never a request of the CPA to provide services "free of charge", as mentioned in the Investigative Report. Maybe he became confused when it was mentioned in the conversation that a local attorney had donated his time in setting up the new corporation.

The check for \$1,595 that was mentioned in the Investigative Report for medical equipment was issued but never released or funded. The Otoscope and Ophthalmoscope wall diagnostic station was not needed while at the Health Department facility. Once a new location was established, the equipment was to be purchased.

The original checks and documentation (letters, proposed expenses, etc.) were furnished to the Investigative team only to be as transparent as possible. We were always very clear in discussions with state officials that the checks were never released and never funded. Instead, it has been construed as a "misrepresentation of the use of grant funds to state officials."

THIS FINDING & RECOMMENDATION SHOULD BE DELETED FROM THE INVESTIGATIVE REPORT.

3. THE EXECUTIVE DIRECTOR MISREPRESENTED THE CLINIC'S FINANCIAL CONDITION TO THE ADVISORY BOARD.

REPOSE:

The financial reports submitted to the Advisory Board were presented to report income designated for the free clinic. It did not report any other income for Christ Team, nor did it reflect any expenses for Christ Team that were not associated with the free clinic. Actual expenses were itemized, and any remaining funds to be expensed for the clinic were indicated as restricted (NC Dept of Rural Health Grant) and unrestricted.

The free clinic was a program of Christ Team, Inc. It did not operate as a corporation, and financial statements were not presented to the Advisory Board. The board was presented a monthly statement as mentioned in paragraph one, presenting a picture of income the free clinic produced and remaining funds to be disbursed for the clinic.

THIS FINDING & RECOMMENDATION SHOULD BE DELETED FROM THE INVESTIGATIVE REPORT.

**4. THE PRESIDENT/BOARD CHAIR AND THE OUTREACH OFFICER
MADE FALSE STATEMENTS REGARDING OVERDUE TAXES.**

RESPONSE:

Documentation is enclosed from the IRS officer, indicating an Installment Agreement, had been reached on 9/19/08. Although the formal agreement issued by IRS was dated 2/20/09, the verbal agreement was in place on 9/19/08, and payments were made under the agreement prior to 2/20/09.

**THIS SHOULD BE DELETED FROM THE INVESTIGATIVE REPORT'S
FINDINGS & RECOMMENDATIONS.**

**5. CHRIST TEAM RETAINED POSSESSION OF LAPTOP COMPUTERS
PURCHASED WITH GRANT FUNDS.**

RESPONSE:

The four laptops have not been returned to NC Department of Rural Health. The Executive Director did not acknowledge failure to contact Dept of Rural Health regarding the equipment return, as reported in the Investigative Report. There were discussions with the investigative team about the laptops to be returned. There was never any question about them being returned while the clinic continued to operate. It was simply a matter of whether the free clinic would continue, and/or if the equipment could be retained or purchased after the investigation.

As per the attached email correspondence with Allison Owen with the NC Department of Health and Human Services, we are awaiting instructions.

**THIS SHOULD BE DELETED FROM THE FINDINGS &
RECOMMENDATIONS.**

March 29, 2010

Reginald Killough, President
Reggie Killough's Christ Team, Inc.
PO Box 265010
Daytona Beach, FL 32126

Re: Reggie Killough's Christ Team, Inc. – TAX ID 56-0990367

Dear Mr. Killough:

This letter will verify that a verbal agreement had been reached by 9/28/08 for an Installment Agreement to cover 941 payroll taxes for the periods 6/30/06; 9/30/06; 12/31/06; 6/30/07 and 3/31/08.

The agreement was reached after documentation requested from Christ Team was submitted to me on 9/19/08. The formal Installment Agreement covering this period is dated 2/20/09, but payments were made under the proposed agreement prior to the document dated of 2/20/09.

Sincerely,


Michael Kurciviez
Revenue Officer

INTERNAL REVENUE SERVICE
M. KURCIVIEZ STOP ~~5687-3736~~ 3728
921 N. NOVA RD, STE B
HOLLY HILL, FL 32117-4121

38-258-4100 X 235

RE: Laptops purchased Under Grant - Reggie Killough's Christ team, Inc.

From: **Owen, Allison** (allison.owen@dhhs.nc.gov)
Sent: Wed 6/16/10 2:28 PM
To: Shirley Killough (sakillough@hotmail.com)
Cc: Price, John (john.price@dhhs.nc.gov)

Shirley,

We are working with the State Auditor's Office on responding to the audit. Probably we will reclaim the computers; however, a final decision cannot be made until we receive further instructions from the Auditor. Thank you for your patience. I will let you know something as soon as I get the final word.

Thanks,
Allison

From: Shirley Killough [mailto:sakillough@hotmail.com]
Sent: Wednesday, June 16, 2010 1:07 PM
To: NC Department of Rural Health
Subject: FW: Laptops purchased Under Grant - Reggie Killough's Christ team, Inc.

Allison, I need to respond to an Investigative Report by June 21st, and the laptops being returned is a part of the report. Should I forward this email to another individual or is it something you are working on?

Just need some direction in a short time frame. Thank you!

From: sakillough@hotmail.com
To: allison.owen@ncmail.net
Subject: Laptops purchased Under Grant - Reggie Killough's Christ team, Inc.
Date: Fri, 11 Jun 2010 15:52:42 -0400

Allison, I need instructions regarding four laptops that were purchased under the free clinic grant. Total grant funds for this expenditure were \$2,500. Should they be returned and to whom? Are they available for sale to our non-profit, and if so, how much?

Please let me know if you need additional information regarding this. Thanks!

Shirley Killough, Executive Director God's Country Outreach
cell#386-290-6530

The New Busy is not the old busy. Search, chat and e-mail from your inbox. [Get started.](#)

The New Busy is not the too busy. Combine all your e-mail accounts with Hotmail. [Get busy.](#)

Email correspondence to and from this address is subject to the North Carolina Public Records Law and may be disclosed to third parties by an authorized State official. Unauthorized disclosure of juvenile, health, legally privileged, or otherwise confidential information, including confidential information relating to an ongoing State procurement effort, is prohibited by law. If you have received this e-mail in error, please notify the sender immediately and delete all records of this e-mail.

<http://sn139w.snt139.mail.live.com/mail/PrintShell.aspx?type=message&cpids=e73fe32d-...> 6/16/2010

Schedule of Receipts and Expenditures

Organization		
Name	Reggie Killough	
Tax ID #:	560990367	
Fiscal Year Ended:	December, 2009	
Address:	PO BOX 67, MARION NC	
Contact Information:	SHIRLEY KILLOUGH / 828 659 9615 / SAKILLOUGH@HOTMAIL.COM	
Date of This Report:	2010-04-07	
Preparer of This Report NCID:	GODSCOUNTRY	
a. Receipts:		
Funding State Agency	Programs/Title	Program Total
DHHS-Central Admin.	1 CARRYOVER FOR 2008 Community Health Grant CONTRACT # 90008344 (PAYMENT WAS RECIEVED DEC. 15, 2008)	\$75,000.00
Total Receipts:		\$75,000.00
Expenditures:		
Category	CARRYOVER FOR 2008 Community Health Grant CONTRACT # 90008344 (PAYMENT WAS RECIEVED DEC. 15, 2008)	
Personnel	\$44,335.22	
Contracted Services	\$0.00	
(a) Total Personnel/Contracted Srvcs Costs:	\$44,335.22	
Office Supplies & Materials	\$4,540.94	
Service Related Supplies	\$1,876.55	
(b) Total Supplies & Material Costs:	\$6,417.49	
Travel	\$0.00	

Communications & Postage	\$2,085.05
Utilities	\$944.18
Printing & Binding	\$0.00
Repair & Maintenance	\$0.00
Meeting/Conference Expense	\$0.00
Employee Training (no travel)	\$0.00
Classified Advertising	\$0.00
In-State Board Meeting Expenses	\$0.00
(c)Total Non-Fixed Operating Expense:	\$3,029.23
Office Rent (Land, Buildings, etc.)	\$240.00
Furniture Rental	\$0.00
Equipment Rental (Phones, Computers, etc.)	\$0.00
Vehicle Rental	\$0.00
Dues & Subscriptions	\$0.00
Insurance & Bonding	\$1,571.00
Books/Library Reference Materials	\$0.00
Mortgage Principal, Interest and Bank Fees	\$0.00
(d)Total Fixed Charges & Other Expenses	\$1,811.00
Buildings & Improvements	\$0.00
Leasehold Improvements	\$0.00
Furniture/Non-Computer Equip., \$500+ per item	\$0.00
Computer Equipment/Printers, \$500+ per item	\$2,500.00
Furniture/Equip., under \$500 per item	\$0.00
(e)Total Property & Equipment Outlay:	\$2,500.00
Purchase of Services	\$0.00
Contracts with Service Providers	\$160.00
Stipends/Scholarships/Bonuses/Grants	\$0.00
(f)Total Services/Contracts:	\$160.00
Food:	\$0.00
(g)Total Other Expenses:	\$0.00
Total Expenditures: (Sum a thru g):	\$58,252.94
Unexpended Grant Balance Available for Expenditure:	
Beginning of the Year	\$75,000.00
End of the Year	\$16,747.06
NOTE: If total receipts, expenditures, beginning or ending unexpended grant balance available for expenditures is	

\$500,000 or more, an audit is required *by G.S. 143C-6-23*

* [Click here](#) to make requests to OSA Administrator

[Home](#) | [Regulations](#) | [Publications and Reports](#) | [Contact Us](#) | [Help](#) | [logoff](#)

[This Page Left Blank Intentionally]



North Carolina Department of Health and Human Services

2001 Mail Service Center • Raleigh, North Carolina 27699-2001

Tel: 919-733-4534 • Fax: 919-715-4645

Beverly Eaves Perdue, Governor

Lanier M. Cansler, Secretary

June 17, 2010

Beth A. Wood, CPA, State Auditor
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Ms. Wood:

Thank you for the opportunity to review the draft audit report for Reggie Killough's Christ Team, Inc. in McDowell County. In accordance with your request, we offer the following responses to the findings and recommendations that fall under the jurisdiction of the Department of Health and Human Services, Office of Rural Health and Community Care.

OSA Finding 1: The Executive Director used \$61,886 in grant funds for purposes unrelated to the clinic.

OSA Recommendation: Rural Health should seek to recover all grant funds that were not used in accordance with the grant contract. In addition, Rural Health should not provide any further grant funds to this entity or other organizations affiliated with Christ Team's management. Rural Health should request that the North Carolina Office of State Budget and Management place Christ Team and its affiliated organizations on the "Suspension of Funds to Grant Recipients for Noncompliance" list in accordance with North Carolina General Statute 143C-6-23(f).

Note: Finding referred to the District Attorney for North Carolina Judicial District 29A and the North Carolina State Bureau of Investigation.

DHHS Response: Christ Team had been granted a second year of funding based upon their reported expenditures and performance measures. Upon notification of issues with the grantee, the Director of the Office of Rural Health held the contract and contacted the Office of the State Auditor. No subsequent payments were made under the contract. The contract is no longer valid and will not be paid. Christ Team was made aware of this suspension of funding until the State Auditor had completed the audit work. Upon release of the audit to Christ Team, the Office will seek to recover the \$61,886 in grant funds that were used for purposes unrelated to the clinic.

OSA Finding 2: The Executive Director misrepresented the use of grant funds to State officials.

OSA Recommendation: Rural Health should seek to recover all grant funds that were not used in accordance with the grant contract. In addition, Rural Health should not provide any further grant funds to this entity or other organizations affiliated with Christ Team's management. Rural Health should request that the North Carolina Office of State Budget and Management place Christ Team and its affiliated organizations on the "Suspension of Funds to Grant Recipients for Noncompliance" list in accordance with North Carolina General Statute 143C-6-23(f).

Note: Finding referred to the District Attorney for North Carolina Judicial District 29A and the North Carolina State Bureau of Investigation.

DHHS Response: Christ Team had been granted a second year of funding based upon their reported expenditures and performance measures. Upon notification of issues with the grantee, the Director of the Office of Rural Health held the contract and contacted the Office of the State Auditor. No subsequent payments were made under the contract. The contract is no longer valid and will not be paid. Christ Team was made aware of this suspension of funding until the State Auditor had completed the audit work. Upon release of the audit to Christ Team, the Office will seek to recover all grant funds that were used for purposes unrelated to the clinic (either \$61,886 as stated in finding one or \$75,000 in finding four). In addition, DHHS has requested that the North Carolina Office of State Budget and Management place Christ Team and its affiliated organizations on the "Suspension of Funds to Grant Recipients for Noncompliance" list in accordance with North Carolina General Statute 143C-6-23(f).

OSA Finding 3: The Executive Director misrepresented the clinic's financial condition to the Advisory Board.

OSA Recommendation: Rural Health should seek to recover all grant funds that were not used in accordance with the grant contract. In addition, Rural Health should not provide any further grant funds to this entity or other organizations affiliated with Christ Team's management. Rural Health should request that the North Carolina Office of State Budget and Management place Christ Team and its affiliated organizations on the "Suspension of Funds to Grant Recipients for Noncompliance" list in accordance with North Carolina General Statute 143C-6-23(f).

Note: Finding referred to the District Attorney for North Carolina Judicial District 29A and the North Carolina State Bureau of Investigation.

DHHS Response: Christ Team had been granted a second year of funding based upon their reported expenditures and performance measures. Upon notification of issues with the grantee, the Director of the Office of Rural Health held the contract and contacted the Office of the State Auditor. No subsequent payments were made under the contract. The contract is no longer valid and will not be paid. Christ Team was made aware of this suspension of funding until the State Auditor had completed the audit work. Upon release of the audit to Christ Team, Rural Health will seek to recover all grant funds that were used for purposes unrelated to the clinic (either \$61,886 as stated in finding one or \$75,000 in finding four). In addition, Rural Health contacted Curtis Terry in the DHHS Controller's

Office on June 17, 2010 and requested that Christ Team be placed on the "Suspension of Funds to Grant Recipient for Noncompliance" list. This request was approved the same day. Christ Team is manually suspended effective June 17, 2010 and the organization's name will appear on next month's Suspension of Funds Listing.

OSA Finding 4: The President / Board Chair and the Outreach Officer made false statements regarding overdue taxes.

OSA Recommendation: Rural Health should consult with the Internal Revenue Service as well as assist the District Attorney and/or the State Bureau of Investigation concerning the grantee's false statements regarding overdue taxes. If it is determined that the grantee violated State law, Rural Health should seek to recover the entire \$75,000 in grant funds.

Note: Finding referred to the District Attorney for North Carolina Judicial District 29A and the North Carolina State Bureau of Investigation.

DHHS Response: Rural Health will work with the District Attorney and/or the State Bureau of Investigation concerning Christ Team's false statements regarding overdue taxes. If it is determined by those agencies that misrepresentation of the tax debts occurred, then Rural Health will seek reimbursement in full of the grant amount of \$75,000.

OSA Finding 5: Christ Team retained possession of laptop computers purchased with grant funds.

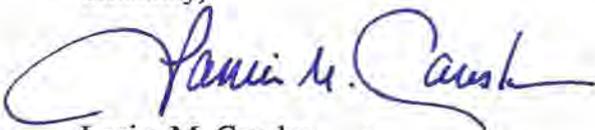
OSA Recommendation: Rural Health should instruct the Executive Director to immediately return the computers to their possession.

Note: Finding referred to the District Attorney for North Carolina Judicial District 29A and the North Carolina State Bureau of Investigation.

DHHS Response: On June 11, 2010, Rural Health received an email from the Executive Director of Christ Team regarding the return of the laptop computers. Rural Health responded to the email on June 16, 2010 stating that Rural Health is awaiting final instructions from the State Auditor and that most likely Rural Health will reclaim the computers, based on the audit report findings. It is Rural Health's full intention to retrieve the computers based on the audit findings.

Again, thank you for the opportunity to review and comment on the draft audit findings.

Sincerely,



Lanier M. Cansler

[This Page Left Blank Intentionally]

ORDERING INFORMATION

Copies of this report 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

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647