STATE OF NORTH CAROLINA

FINANCIAL RELATED AUDIT

AND

INVESTIGATIVE REPORT

FOUR-COUNTY COMMUNITY SERVICES, INC.

LAURINBURG, NORTH CAROLINA

FEBRUARY 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

EXECUTIVE SUMMARY

PURPOSE

The Department of Health and Human Services (Department) requested an audit of Four-County Community Services, Inc. (Four-County) after identifying several instances of mismanagement or misuse of state and federal funds. The Department asked the Office of the State Auditor to determine the amount of questioned costs[1] for each program. Additionally, the Office of the State Auditor received 60 allegations that were turned over to its investigators for review and resulted in additional findings.

BACKGROUND

Four-County Community Services, Inc. is a nonprofit organization operating in Scotland, Hoke, Robeson, Bladen, Columbus, Pender, and Brunswick counties. It runs 16 Head Start facilities and provides assistance and services through funding from the Community Services Block Grant, Weatherization Assistance, Heating Appliance Repair and Replacement and Section 8 Housing programs, and the U.S. Department of Agriculture Commodities project. Four-County spent $15 million to $21 million in state and federal money in fiscal years 2009 through 2012.

KEY FINDINGS

- Four-County had $4,862,192 in total questioned costs.
- The former Executive Director of Four-County received more than $215,000 in questionable payments, while employees received nearly $641,000 in improperly paid bonuses.
- Four-County improperly spent $670,000 intended for its Head Start and More at Four programs for expenses unrelated to the programs.
- Four-County improperly contracted for vehicles, copiers, cleaning services, and other items and services by violating conflict of interest, nepotism, and bidding policies and procedures.
- Four-County improperly used grant money to pay for employees' gym memberships, to help purchase a car, and to provide unallowed tuition reimbursements. Board members improperly received travel reimbursements and electronic equipment.
- Four-County paid the primary contractor for its Weatherization Assistance Program for work that was not performed, allowed the contractor inappropriate access to the program's computer system, and did not complete final inspections for all work.

KEY RECOMMENDATIONS

- The Department of Health and Human Services, as well as other state and federal agencies that provide funding to Four-County, should determine whether Four-County is the appropriate agency to deliver services on their behalf.
- Four-County should work with each of the state and federal agencies that grant it money to determine whether any questioned costs should be refunded.
- Four-County should ensure that all expenses comply with the terms and requirements of its state and federal funding agencies.
- Four-County should evaluate its policies and procedures for all types of administrative costs to ensure prudent use of public money.

Key findings and recommendations are not inclusive of all findings and recommendations in the report.

[1] Questioned costs are costs that violate laws, rules or policies, are not reasonable, or that lack proper documentation.

STATE OF NORTH CAROLINA

Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Jason J. King, Chair, Board of Directors, Four-County Community Services, Inc.
Ericka J. Whitaker, Executive Director, Four-County Community Services, Inc.

Ladies and Gentlemen:

This report presents the results of our financial related audit and an investigation of allegations at Four-County Community Services, Inc. Our financial related audit work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our investigation was conducted pursuant to *North Carolina General Statute § 147-64.6(c)(16)*.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items, along with recommendations for corrective action, are described in the Financial Related Findings and Responses section of this report.

The results of our investigation, along with recommendations for corrective action, are contained in the Investigative Findings and Recommendations section of this report.

North Carolina General Statutes require the State Auditor to make audit and investigative reports available to the public. Copies of reports issued by the Office of the State Auditor may be obtained through one of the ways listed in the back of this report.

Copies of this audit and investigative 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

Beth A. Wood, CPA
February 6, 2014

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INTRODUCTION

In January 2013, the North Carolina Department of Health and Human Services (Department) – Office of the Internal Auditor issued a 22-page report on its investigation of Four-County Community Services, Inc. (Four-County). The Department's investigation of Four-County was conducted in response to 18 allegations of misappropriation and misuse of state resources as well as alleged operational mismanagement. The Department's investigation substantiated 15 of the 18 allegations. The Department's internal audit report indicated that 10 of the substantiated allegations warranted referral to the North Carolina Office of the State Auditor and/or funding agency for further review.

Following the issuance of its internal audit report, the Department specifically requested that the Office of the State Auditor follow up on its audit findings and determine the amount of questioned costs for each program administered through Four-County. In response to this request, the Office of the State Auditor conducted a financial related audit at Four-County as authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*. The results of the financial related audit are included in the *Financial Related Findings and Responses* section of this report, comprised of Findings 1 through 11.

During the course of the financial related audit, the Office of the State Auditor received 60 *additional* allegations of financial mismanagement and misappropriation of program funds as well as other allegations of misconduct. Those allegations resulted in an investigation by the Office of the State Auditor. The results of that investigation are presented in the *Investigative Findings and Recommendations* section of this report and include Findings 12 through 23. The investigation was conducted pursuant to *North Carolina General Statute § 147-64.6 (c)(16).*

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ORGANIZATION OVERVIEW

Four-County Community Services, Inc. (Four-County) is a nonprofit organization designated as a Community Action Agency for Scotland, Hoke, Robeson, Bladen, Columbus, Pender, and Brunswick counties. The mission of a Community Action Agency is to combat poverty by assisting low-income individuals and families to become self-sufficient. To achieve its mission, Four-County uses money provided directly from state and federal agencies, as well as federal funds passed through state agencies.

Four-County operates 16 Head Start facilities and provides assistance and services to thousands of residents through funding from the Community Services Block Grant program, Weatherization Assistance program, Heating Appliance Repair and Replacement program, Section 8 Housing program, and US Department of Agriculture Commodities project**.**

For fiscal years 2009 through 2012, annual expenditures for Four-County ranged from $15 million to $21 million in state and federal awards. These annual expenditures included more than $1 million of administrative costs charged to federal and state grants through an indirect cost allocation each year.

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The primary objective of the financial related audit portion of this report was to follow up on an internal audit performed by the Department of Health and Human Services (Department) at Four-County Community Services, Inc. (Four-County). The specific purpose of the audit was to determine the amount of questioned costs for each program.

The Department indicated that its access to financial records was limited, and thus, its auditors were unable to determine the specific program impact for several of the audit findings. Because the findings were generally related to administrative costs applicable to multiple programs, the amount of questioned costs for each individual program had to be calculated based on Four-County's cost allocation plan.

The scope of the financial related audit scope was derived from the Department's audit findings listed below:

MATTERS RELATED TO THE FORMER EXECUTIVE DIRECTOR

1. The former Executive Director used his agency-assigned vehicle for personal activities without maintaining records to support his business versus personal mileage. This practice was inconsistent with both Four-County policy and IRS requirements.

2. Four-County paid for the former Executive Director to have two cell phones. The former Executive Director indicated he needed both phones to conduct Four-County business; however, he did not request board permission or approval for two phones. In addition, Four-County did not obtain detailed information (i.e. dates, numbers called or received from, duration of calls, time of the call, etc.) from the service provider regarding how the phones are used.

   Four-County paid for Internet service at the home of the former Executive Director. The former Executive Director indicated he needed the service to conduct Four-County business; however, he did not request board permission or approval for this expense.

3. The former Executive Director asked five Four-County vendors/benefit providers to sponsor him in fishing tournaments. The former Executive Director also approved the Four-County contracts with these vendors/benefit providers without a competitive bidding process, and there was no evidence that the contracts were approved by the board of directors. This violated Four-County's conflict of interest and bidding policies.

4. The former Executive Director violated the Four-County employment policy regarding nepotism because his wife works within his line of authority. Contrary to policy, the former Executive Director participated in salary decisions for his wife.

5. Since 2009, Four-County made payments totaling $30,000 per year to a 457(b) deferred compensation plan on behalf of the former Executive Director, even though it appears the board of directors only approved a $20,000 annual contribution.

MATTERS RELATED TO THE BOARD OF DIRECTORS

6. Payments to board members for attending meetings appear to be out-of-compliance with the Four-County bylaws and the Four-County Administrative Policies and Procedures Manual.

7. Four-County paid for the former chairman of the board of directors to have a cell phone. The former Chairman indicated he needed the phone to conduct Four-County business. In addition, Four-County did not obtain detailed information (i.e. dates, numbers called or received from, duration of calls, time of the call, etc.) from the service provider regarding how the phone is utilized.

OTHER MATTERS

8. Four-County Community Services, Inc. (Four-County) paid unallowable educational expenses on behalf of one employee.

9. Four-County paid a reduced lease and maintenance fee for a Head Start facility under the condition it also paid for “special projects” that benefit the building owner. These projects are not included in the terms of the signed contract and provided no benefit to the Head Start program.

10. In the Department’s judgment, the Four-County guidelines allowed a great deal of discretion when determining participant eligibility and the amount of service/assistance awarded with Community Services Block Grant American Recovery and Reinvestment Act (CSBG-ARRA) funds. As such, the Department was concerned with whether Four-County was complying with grant requirements.

The Office of the State Auditor added an additional financial related audit objective to the scope after reviewing the audited financial statements of Four-County for the year ended June 30, 2011. The financial statements included a note disclosure stating that on occasion Four-County employees qualify for and receive benefits from the programs managed by Four-County. Given the number of problems in financial management noted in the Department’s audit and allegations of preferential treatment when making eligibility determinations, the Office of the State Auditor determined that there was a risk of Four-County employees being awarded improper program benefits. Consequently, the Office decided to evaluate whether program benefits given to Four-County employees were awarded in accordance with applicable grant eligibility requirements and program regulations.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. A financial related audit does not provide a basis for rendering an opinion on internal control, and consequently, no such opinion has been issued.

For each of the matters described in the *Financial Related Audit Scope and Objectives* section, auditors performing the financial related audit used procedures to determine whether the associated transactions were allowable per grant requirements. Specifically, they interviewed Four-County Community Services, Inc. (Four-County) personnel and Department of Health and Human Services (Department) internal audit staff; reviewed policies, grant agreements, and other relevant grant requirements; analyzed accounting records; and examined documentation supporting recorded transactions and balances, as considered necessary in the circumstances. Whenever sampling was used, they applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, they were able to project results to the population but not quantify the sampling risk.

Based on these procedures, auditors evaluated whether program costs were:

- Reasonable and necessary for the operation and performance of the program, considering sound business practice, arm's length bargaining, and the organization's responsibilities

- Conformed to the type and cost limitations/exclusions set forth by the grant agreement, relevant laws, rules and/or relevant cost principles

- Complied with the organization's policies and procedures that apply to costs

Auditors then estimated the amount of unallowable costs associated with the audit findings for each program. See Exhibit A for the estimated financial impact on each state and federal program.

Due to the limited scope of the audit and the deficiencies at Four-County noted in the Department's audit, auditors did not gain a comprehensive understanding of the internal control or perform specific tests of internal control. However, the results of the financial related audit and the Department's audit indicate that the internal control is not designed and operating effectively.

Auditors conducted this financial related audit in accordance with generally accepted government auditing standards applicable to performance audits. Those standards require that they plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. They believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

For the investigative portion of this report, investigators conducted the following procedures:

a. Review of applicable sections of the North Carolina General Statutes
b. Review of rules and regulations pertaining to various federal and state programs
c. Review of Four-County policies and procedures
d. Analysis of Four-County documents and records
e. Interviews with current and former Four-County board members, employees, vendors, and others

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Follow-up on Department of Health and Human Services' Audit Findings

The financial related audit generally confirmed the North Carolina Department of Health and Human Services' (Department) audit results. For most of the items in the scope, auditors concluded that the costs were not in accordance with relevant cost principles and were unreasonable and/or not necessary for the operation and performance of the program and/or organization. In some cases, the transactions found to be questionable exceeded those identified by the Department.

See Exhibit A for the estimated financial questioned costs identified for each state and federal program. Four-County Community Services, Inc. (Four-County) should consult with awarding agencies about our audit results to determine the amounts required to be refunded.

Additional State Auditor Audit Objective

As stated in the *Audit Scope and Objectives* section of this report, auditors added an additional financial related audit objective to evaluate whether program benefits given to Four-County employees were awarded in accordance with applicable grant eligibility requirements and program regulations.

They tested a sample of Four-County employees who received program benefits to assess if grant eligibility requirements were met, that services provided were allowable, and whether preferential treatment was given because they were Four-County employees.

Auditors determined, with one exception, that program benefits given to Four-County employees were awarded in accordance with applicable grant eligibility requirements and program regulations. The Four-County employees tested in the sample were determined to be eligible for the program benefits they received and, in general, the services provided were allowable. However, auditors noted one instance of an employee receiving $3,000 in unallowable program benefits from the Community Service Block Grant American Recovery and Reinvestment Act grant.

Investigative Report

Of the 60 allegations received by the Office of the State Auditor in addition to those referred by the Department, 23 were substantiated, 21 were unsubstantiated, and four were referred to other agencies. Twelve allegations involved alleged activity which, after an initial investigation, would not have been considered fraud, waste, or abuse even if substantiated.

Finding Details and Management's Responses

Details about the deficiencies noted in the financial related audit are presented in the *Financial Related Audit Findings and Responses* section of this report. Management's responses are presented following each of the findings. Auditors did not audit the responses, and accordingly, express no opinion on them.

Details about the deficiencies noted in the investigation are presented in the *Investigative Findings and Recommendations* section of this report. Management's response to the investigation is presented following the findings.

Matters for Further Consideration

The Office of the State Auditor found $4,862,192 in questioned costs during its audit and investigation of Four-County stemming from 23 findings, not including additional findings by internal auditors at the Department. The magnitude and quantity of the deficiencies within this agency merit serious consideration. The state Department of Health and Human Services and Department of Environment and Natural Resources as well as the federal Department of Health and Human Services, Department of Housing and Urban Development, and Department of Energy should determine whether Four-County is the appropriate agency to deliver services on their behalf.

FOUR-COUNTY COMMUNITY SERVICES, INC.

FINANCIAL RELATED AUDIT

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MATTERS RELATED TO THE FORMER EXECUTIVE DIRECTOR

1. UNALLOWABLE COSTS FOR AGENCY VEHICLES FOR THE EXECUTIVE DIRECTOR'S USE

Costs paid by Four-County Community Services, Inc. (Four-County) for vehicles assigned to and used primarily by the former Executive Director do not comply with applicable cost requirements of the state and federal grants that were used. As a result, $52,534 in transportation costs are deemed unallowable and are considered questioned costs. See Exhibit A for the estimated financial impact on each state and federal program.

Our tests revealed the costs for the lease and subsequent purchase of a 2008 Expedition and the lease of a 2012 Suburban were not reasonable and necessary due to the following:

a. There was no evidence that Four-County evaluated the need for the vehicles, what type of vehicle was needed, or whether leasing or buying would be more cost-efficient. The 2012 Suburban was leased in July 2012 even though Four-County expended $10,512 in February (in addition to all the monthly lease payments) to exercise the purchase option on the 2008 Expedition.

b. Both vehicles contained luxury features that were not reasonable and necessary for Four-County business:

   - The 2008 Ford Expedition EL Limited 2WD standard features included an extended length that is 14.8 inches longer than a regular Expedition, chrome wheels, leather and wood trim, heated and cooled front row seats, 6-disc in-dash changer with MP3 capabilities, a trailer tow, and a convenience package that includes power adjustable pedals, reverse sensing system, and universal garage door opener.

   - The 2012 Chevrolet Suburban LTZ 1500 4WD standard features included the LTZ top trim, rear parking assist, Bluetooth®, automatic climate controls, power adjustable pedals, remote start, heated steering wheel, leather seats, heated and cooled seats, touch-screen navigation and entertainment system, and Bose Centerpoint® surround sound. In addition, the following upgrades were included: retractable assist steps (valued at $1,095); a "sun & entertainment" package that includes rear seat entertainment system, third row DVD screen, additional nine months of XM radio, power sunroof (total net value of $2,085); and chrome wheels (valued at $700). The manufacturer's suggested retail price of the vehicle was $63,985 and the lease agreement value was $60,500.

c. While the former Executive Director's job duties may necessitate the use of an organization-furnished vehicle, there is no clear business need for the vehicle to be solely assigned or be a luxury vehicle or SUV. The executive director's job description does state that extensive travel is required and Four-County serves multiple counties in the state. However, the job description does not state that the executive director is responsible for transporting people or materials or any items for which such a large vehicle would be needed.

d. There was no documentation to support the former Executive Director's personal versus business use of the vehicles. The Office of the State Auditor confirmed that the former Executive Director did not maintain a travel log or any other record of where the vehicles were driven. He stated the vehicles where used to commute to/from home and to pull his boat to various lakes in North Carolina and surrounding states. In minutes of the Four-County board of directors, the Board Chair stated that the agency vehicle was authorized for personal use as long as the allocated mileage per the lease was not exceeded.

e. The Office of the State Auditor inquired with three other community action agencies and found that only one had a vehicle assigned to its executive director. The assigned vehicle is a Toyota Avalon. That same agency stated that employees who drive to/from work in the organization's vehicles are charged a fee for personal use. The remaining two agencies do not have vehicles specifically assigned to their executive director, but they use vehicles in the agency's motor fleet for business travel.

These costs were charged to Four-County state and federal grant funds through an indirect costs allocation process. As of March 31, 2013, the expenditures related to the 2012 Suburban lease (since inception) were $6,739 and the expenditures associated with the 2008 Expedition lease (since inception) and purchase were $45,795. Minutes from the April 2013 board meeting indicated that the board decided to no longer lease luxury vehicles and that research would be conducted to determine what actions should be taken related to the Suburban lease. As of July 17, 2013, Four-County still had both vehicles, and the total costs for the Suburban will have increased. For the $52,534 spent through March 2013, an estimate of the financial impact on each state and federal program appears in Exhibit A.

The U.S. Office of Management and Budget (OMB) Circular[2] A-122 applies to nonprofits that receive federal funds and the North Carolina Administrative Code requires grantees to follow OMB Circular A-87 for state funds. These principles include the following general criteria that costs must meet to be allowable costs of a grant:

a. Costs must be reasonable and necessary. Under both A-122 and A-87 reasonable includes determining whether the costs are ordinary and necessary for the

[2] A circular is a document with instructions or information about how agencies and nonprofits should spend federal money.

operation of the organization or the performance of the grant. A cost is reasonable if, in its nature or amount, it does not exceed what would be incurred by a prudent person under the same circumstances.

b. Costs must conform to limitations or exclusions in the cost principles or award documents. This includes restraints or requirements imposed by factors like generally accepted sound business practice, arms-length bargaining, federal and state laws and regulations, and terms of the award/contract document.

c. Costs must be adequately documented.

A-122 Attachment B specifically addresses organization-furnished automobiles. It states that the portion of costs related to personal use of organization-furnished automobiles (including transportation to and from work) is unallowable as a fringe benefit or indirect cost regardless of whether the cost is reported as taxable income to the employee. It further states that the costs could be allowable as direct costs to a sponsored award when necessary for the performance of the sponsored award and approved by the awarding agencies.

Recommendation: Four-County should work with the awarding agencies to determine if the $52,534 in questioned costs should be refunded.

Measures should be taken to ensure the purchase or lease of vehicles is evaluated for necessity and prudent use of grant funds by staff knowledgeable of grant requirements and cost principles.

Policies and procedures should be implemented, and not circumvented by the board or senior management, to ensure personal use of organization vehicles is minimized (or prevented). All staff should be required to track the purpose/use of organization vehicles and the miles traveled. Costs related to personal use should not be charged to state or federal grants, and perhaps consideration should be given to charging a fee for personal use.

Minutes from the March and April 2013 board meetings indicate new policies related to the types of vehicles leased and travel cost documentation were adopted, but other revisions may need to be considered.

Agency Response: The agency agrees with this finding and will work with the awarding agencies to determine if the questioned costs should be refunded. The Administrative Policies and Procedures have been amended to insure compliance with the U.S. Office of Management and Budget (OMB) Circular A-122, OMB Circular A-87, and the North Carolina Administrative Code. The unauthorized use of Four-County vehicles for strictly personal reasons or for the purpose of personal gain is prohibited. Any costs related to personal use will not be charged to state and federal grants but will be charged to the employee at the approved IRS mileage rate. Mileage logs are maintained for all vehicles to document the purpose of travel, itinerary, beginning and ending odometer readings, and the signature of the employee driving the vehicle. Logs are reviewed to verify accuracy by the interim Executive Director, Purchasing Manager, and other department heads. Prior to leasing or purchasing a vehicle, the Purchasing Manager will document the purpose or need for the vehicle and document that the costs are ordinary and necessary for the operation of the organization or the performance of the grant. The cost will be reasonable and will be documented through a bidding process with the lease or purchase being approved by the board of directors, pursuant to the amended Administrative Policies and Procedures, and documented through the minutes of the board.

2. Unallowable Payments For Former Executive Director's Cell Phones and Internet Service

Payments by Four-County Community Services, Inc. (Four-County) for a portion of the costs of the former Executive Director's two cells phones and home Internet service do not comply with applicable cost requirements of the state and federal grants that were used. The Office of the State Auditor identified $2,575 in questioned costs related to these charges. When combined with the unallowable charges for the former Board Chair's cell phone (see finding number 7), questioned costs for communication services total $4,342.

Our estimate of the financial impact on each state and federal program appears in Exhibit A. However, similar payments could have been paid in other years, thus the true questioned costs could be greater.

The Office of the State Auditor determined that Four-County paid for the former Executive Director to have two cells phones. Supplying an employee with two agency cell phones is not a reasonable and necessary cost. For fiscal 2012, auditors estimate $2,125 in unallowable costs for all costs associated with the first phone (regular phone) and overage fees incurred on the second phone (smartphone). Our tests revealed the following:

a. Four-County paid $3,144 for the former Executive Director's two cell phones in fiscal year 2012. The entire amount was charged to the indirect cost pool then allocated to all the federal and state grants administered by Four-County.

b. Phone one was a regular phone used to mainly make and receive calls. For phone one, the monthly limit on the plan minutes were often exceeded and additional charges were incurred. Phone two was a smartphone used mainly for data services such as email and Internet. Little to none of the plan's "calling" minutes was used.

c. For both phones, the fiscal year 2012 costs included $1,099 in overages/additional charges for exceeding the available plan minutes, text and picture/video messages, and downloads. Such fees are not reasonable and necessary expenditures for the operation of the organization or performance of the grants charged. The overage fees were in the billing summary received by Four-County and the costs were paid without question. Auditors noted that there were several instances when the former Executive Director or the Four-County Fiscal Manager (his wife) approved the cell phone bills for payment.

d. Four-County did not obtain detailed billing data from the service provider during fiscal year 2012. As a result, Four-County did not monitor or assess business versus personal use. The Office of the State Auditor obtained and scanned one month of detailed phone records for each phone. For phone one, auditors found that 58% of the minutes used were made during non-work hours (i.e. after working hours, weekends, or holiday) and only 2% were calls to and/or from certain Four-County phone numbers (our search was limited to certain known Four-County phone numbers). For phone two, there were no cell phone minutes used in the month tested.

e. The Office of the State Auditor inquired of three other community action agencies that provide the same or similar community programs as Four-County. All indicated they provide a cell phone to their executive director. Considering this and the Executive Director's duties, it is reasonable for the Executive Director to have one cell phone. Thus, the second phone (smartphone) would have been sufficient, thus phone one (regular phone) was not necessary.

f. Auditors estimate Four-County could have saved $1,813 in fiscal year 2012 if the former Executive Director used only the one smartphone with a suitable service plan. Auditors compared the plans for the two phones with plans currently available from the service provider. For the same smartphone model, auditors identified a plan that provided unlimited talk and text (including picture mail) and 1 GB of data for an estimated monthly cost of $111 (excluding the 8% discount that appears in current plan details). If this plan had been selected, the charges for fiscal 2012 would have been less than the average $242 rate actually paid for the two phones.

The Office of the State Auditor confirmed that Four-County paid for Internet service at the former Executive Director's home. The $450 that Four-County paid in fiscal year 2012 was not necessary for the operation of the organization or performance of the grants charged. Our tests revealed the following:

- Auditors inquired of three other community action agencies that provide the same or similar community programs as Four-County. All indicated they do not cover the costs for their executive director to have home Internet service.
- The former Executive Director had Internet and email access through his agency issued smartphone.
- The entire amount was charged to the indirect cost pool then allocated to all the federal and state grants administered by Four-County.

The cost principles in OMB Circular A-122 and A-87 apply. These Circulars state costs must be reasonable, necessary, and adequately documented to be allowable costs.

Whether a cost is reasonable includes determining whether the costs are ordinary and necessary for the operation of the organization or the performance of the grant. A cost is reasonable if, in its nature or amount, it does not exceed what would be incurred by a prudent person under the same circumstances. Attachment B of A-122 addresses housing and personal living expenses of officers. It states that costs of housing (including utilities), housing allowances, and personal living expenses for officers are unallowable as fringe benefit or indirect costs.

Recommendation: Four-County should work with the awarding agencies to determine if the questioned costs should be refunded. Similar payments made in other fiscal years should be evaluated for possible unallowable costs.

All agency-issued cell phones should be evaluated by staff knowledgeable of grant cost principles to assess the necessity and prudent use of state and federal funds.

Procedures should be implemented to periodically review cell phone use and re-evaluate the plans to ensure unnecessary expenses are not incurred.

Agency Response: The agency agrees with this finding and will work with the awarding agencies to determine if the questioned costs should be refunded. The Administrative Policies and Procedures have been amended to make it clear that the unauthorized use of Four-County phones for strictly personal reasons or for the purpose of personal gain is prohibited. All agency-issued cell phones have been evaluated by the IT Director, the Department Head, and the interim Executive Director to determine the necessity for the assigned phone and to ensure that the associated costs are reasonable. All phones are currently part of the Verizon State Pricing Contract. Detailed billing is reviewed monthly by the Accounts Payable Clerk and the Department Head. When an overage occurs, the bill is evaluated to determine if the overage was a result of personal use. If personal use can be documented, the employee is required to reimburse the agency for those costs as well as for the costs of any unauthorized downloads such as messaging services, pictures, or videos. If an overage occurs consistently and the usage can be documented as being business related, the plan will be re-evaluated to determine if a more economical plan is available. No employee will be assigned more than one phone and home Internet service will not be provided for any employee.

3. VIOLATION OF CONFLICT OF INTEREST AND BIDDING POLICIES

The Four-County conflict of interest and bidding policies were not followed for five vendors/benefit providers that provided benefits to the former Executive Director. Nonetheless, auditors do not consider the costs for the services provided by the identified vendors to be unallowable or unreasonable.

The former Executive Director asked five Four-County vendors/benefit providers to sponsor him in fishing tournaments, which the vendors/benefit providers did. The former Executive Director also approved the contracts and/or contract rate changes with these vendors/benefit providers without a competitive bidding process, and there was no evidence that the contracts or contract rate changes were approved by the board of directors. This violated Four-County’s conflict of interest and bidding policies.

Recommendation: Four-County should comply with its conflict of interest and bidding policies and procedures. The board should consider reviewing contract awards to ensure their propriety. Minutes from the March 2013 board meeting indicate the board adopted new policies related to contracts, but other revisions may need to be considered.

Agency Response: The agency agrees with this finding. The Administrative Policies and Procedures and the Financial Management Manual have been amended to require board approval of any contract with an interested party and / or any contract that may present the appearance of a conflict. To ensure compliance with the Administrative Policies and Procedures, Financial Management Manual, OMB Circular A-122 and the North Carolina Administrative Code, bids were solicited for the employee fringe benefits package, agency-wide insurance coverage, legal services, weatherization subcontractors, and all other contractual services and major purchases with a value of $500 or more. For contracts and purchases with a value of $5,000 or greater, the proposals were presented to the board of directors for consideration and final approval.

4. VIOLATION OF NEPOTISM POLICY / PAYMENT OF EXCESS COMPENSATION

The former Executive Director violated the Four-County employment policy regarding nepotism and participated in salary decisions for his wife contrary to policy. Four-County policy states that staff "shall not participate in salary administration decisions involving a close relative." Further, Four-County paid the former Executive Director's wife more than that which is considered reasonable and necessary for her position.

The Department's audit noted that the Four-County 2009 and 2010 Form 990s indicated the former Executive Director's pay/benefits increased $17,037 (or 16.1%) and his wife's pay/benefits increased $10,123 (or 14.7%) during the same period. This pay/benefits increase for both was far higher than any other key employee. The Department was not able to determine whether the board of directors approved either of these pay/compensation increases.

The former Executive Director signed and approved all payroll changes, including pay changes for his wife. In reviewing payroll changes for his wife, the Office of the State Auditor noted instances where he signed with other Four-County staff and an instance where he was the only approver. Auditors found that the pay adjustments for the former Executive Director and his wife were within the range approved by the board for pay raises and incentive pay. However, a separate Department audit determined that incentive pay is not allowable.

The Office of the State Auditor inquired of three other community action agencies that provide the same or similar community programs as Four-County about compensation levels. The base salary (excluding incentive pay, 457(b) contributions and other benefits) that Four-County paid to their executive director between fiscal 2009 and 2012 was comparable to what the other agencies pay their executive director. However, it was less clear that the amount paid to the former Executive Director's wife for her duties as fiscal manager is reasonable.

The other community action agencies surveyed do not appear to have a position with a salary equivalent to the fiscal manager at Four-County. The Four-County fiscal manager reports to the chief financial officer (CFO), as do financial staff at the other community action agencies; however, the Four-County fiscal manager responsibilities may be more involved than those of the financial staff at the other agencies.

From fiscal 2008 to 2013 Four-County paid the Fiscal Manager $64,950 to $78,900 (per the Four-County payroll registers) while the financial staff members at the other agencies were paid between $40,800 and $51,900. In fact, the Four-County Fiscal Manager’s pay was more comparable to what the other agencies pay their CFO, which averaged $76,000. From fiscal 2009 to 2013, the average salary paid to the Four-County CFO was $82,500, and the Fiscal Manager’s average was $73,200.

From this information, one may conclude that the Fiscal Manager is paid more than what is reasonable in the circumstances; however, a more comprehensive compensation study would be needed to draw a definitive conclusion.

Recommendation: Four-County should ensure compliance with its employment policies. Minutes from the March 2013 board meeting indicate the board adopted new policies related to salary decisions and pay increases, but other revisions may need to be considered.

Four-County should also consider performing and documenting a compensation study to confirm whether salary rates paid to employees are reasonable.

Agency Response: The agency agrees with this finding. Neither the Executive Director nor his spouse is currently employed by the agency. The Administrative Policies and Procedures have been a mended to prohibit employment of related persons, except in extraordinary circumstances, which must be approved by the Executive Committee then recommended to the full board. To ensure compliance with the agency's revised employment policy, nepotism disclosure statements are completed by all staff annually. The forms are reviewed by the Interim Executive Director and Department Heads to verify compliance annually and then filed in each individual's personnel file. The North Carolina Community Action Association recently completed a wage and fringe benefits comparability study. Staff salaries are currently being reevaluated utilizing this compensation study. If salary rates paid to employees are not reasonable, the Interim Executive Director will make a recommendation to the board of directors to amend position salaries accordingly. This review will be completed by December 31, 2013. In addition, the Administrative Policies and Procedures have been amended to require Executive Committee and board approval of any salary increase over 10%.

5. EXCESSIVE BENEFITS PAID FOR THE FORMER EXECUTIVE DIRECTOR

Annual payments by Four-County Community Services, Inc. (Four-County) to a 457(b) deferred compensation plan on behalf of the former Executive Director do not comply with applicable cost requirements of the state and federal grants that were used. As a result, $160,000 in employee benefit costs are deemed unallowable and are considered questioned costs.

Our tests revealed that contributions to a tax-deferred retirement account were not reasonable due to the following:

a. The Office of the State Auditor inquired with three other community action agencies and all stated that no special retirement contributions were made for their executive directors. All said their executive directors received the same retirement contributions as the agency's other employees.

b. During fiscal 2009 through 2012, the annual contributions to the 457(b) plan totaled 24% to 39% of the former Executive Director's annual salary. The 457(b) contributions were in addition to the regular retirement benefits as well as other benefits provided during his employment, such as incentive pay of over $15,000 in fiscal 2011, cell phones, agency-assigned luxury vehicle, home Internet, and agency-assigned laptop computers.

c. During fiscal 2010 through fiscal 2012, the contributions made to the plan were $40,000 more than the amount approved by the board. In October 2009, the Four-County board approved a $20,000 annual contribution contingent upon available resources. The March 2013 Finance and Executive Committee meeting minutes confirmed an annual contribution of $20,000. Auditors found that in fiscal 2010 and 2011, Four-County made a $30,000 annual payment and in fiscal 2012 it paid $40,000.

d. Although the October 2009 board approval stated the annual contribution was contingent upon available funds, the Office of the State Auditor found no indication in the board minutes that the board determined or approved that funds were available. All documents requesting payment to the plan were approved by the former Executive Director himself.

e. Auditors noted two years (fiscal 2007 and 2009) where the contribution was paid to the former Executive Director as a one-year salary bonus instead of being deposited into the tax-deferred retirement account. Auditors found no evidence that the board approved an option to take the contribution as a one-year salary bonus in lieu of a retirement contribution. The payroll change notice forms for those years were approved by the former Executive Director or by the former Executive Director and the Four-County Fiscal Manager (the former Executive Director's wife).

These costs were charged to Four-County state and federal grant funds through an indirect costs allocation process. An estimate of the financial impact on each state and federal program appears in Exhibit A.

The cost principles in OMB Circular A-122 apply to federal funds and principles in OMB Circular A-87 apply to state funds. These Circulars state costs must be reasonable and necessary to be allowable costs and factors to consider include whether the costs are a significant deviation from the established practices of the organization; if, in its nature or amount, the cost does not exceed the amount that a prudent person under the circumstances would incur; and whether the individuals acted with prudence given the circumstances and their responsibilities to the public.

Recommendation: Four-County should work with the awarding agencies to determine if the $160,000 in questioned costs should be refunded.

Measures should be taken to ensure any recommendations submitted to the board are in accordance with grant cost principles prior to board approval. In addition, measures should be taken to ensure board approvals are executed in accordance with the instruction and intent of the board.

Minutes from the March 2013 board meeting indicate a new policy was adopted related to retirement benefits that include discontinuing payments to a deferred compensation plan for the executive director.

Agency Response: The agency agrees with this finding and will work with the awarding agencies to determine if the questioned costs should be refunded. Of the $ 160,000 in questioned costs, $20,000 was noted in the agency's June 30, 2012 audited financial statements as a significant deficiency. Funds have been repaid to the awarding agencies requesting repayment. The board of directors unanimously approved the recommendation of the Interim Executive Director to discontinue the top hat retirement plan. The Chief Financial Officer and Interim Executive Director will carefully review recommendations that are being submitted to the board of directors to ensure that all recommendations are in accordance with grant costs principle. The board chairperson will sign and approve payroll change notices and all other documents that are related to a benefit that is for the sole benefit of the Executive Director.

MATTERS RELATED TO THE BOARD OF DIRECTORS

6. UNALLOWABLE TRAVEL PAYMENTS TO BOARD MEMBERS

Payments by Four-County Community Services, Inc. (Four-County) to board members to attend meetings for Four-County related business do not comply with applicable cost requirements of the state and federal grants that were used. As a result, auditors estimate $14,438 of transportation costs are unallowable and consider them questioned costs.

See Exhibit A for the estimated financial impact on each state and federal program. Note, however, that these are the questioned costs for only one year. If the same per diem payment practices were followed in other years, the true questioned costs are greater.

The Office of the State Auditor analyzed the fiscal year 2012 transactions in the board expense account and confirmed that regardless of the actual miles traveled Four-County paid board members $75 to attend meetings. Auditors found that for fiscal year 2012, Four-County paid $21,975 in $75 payments to board members. All of these expenses were recorded to the indirect cost pool and allocated to the various state and federal programs administered by Four-County.

To compare Four-County practice with other similar entities, auditors inquired of three community action agencies that provide the same or similar community programs as Four-County. Two of these agencies reimbursed board members for actual mileage at a rate of $0.45 and $0.48 per mile and the remaining did not reimburse their board members for travel.

For the fiscal year 2012 payments to board members, auditors calculated the amount that would have been reimbursed had Four-County followed their travel polices and reimbursed members for actual mileage at the agency's $0.35 mileage rate. Auditors estimate that the board members should have been reimbursed $7,537 for actual travel costs (based on an estimate of actual miles), resulting in an estimated overpayment of $14,438. Our estimate of the financial impact on each state and federal program appears in Exhibit A.

The cost principles in OMB Circular A-122 apply to federal funds and the principles in OMB Circular A-87 apply to state funds. These Circulars state costs must be reasonable, necessary, and adequately documented to be allowable costs. In addition, Attachment B of A-122 and A-87 discuss travel costs. A-122 Attachment B states costs incurred by employees, officers, and directors for travel shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the organization in its regular operations as the result of the organization's written travel policy. A-87 Attachment B contains similar language.

Per the OMB cost principles, the board should be reimbursed via the same method and rate as allowed by Four-County's normal operations. Thus, they should follow the Four-County in-area travel policies which state that employees who use their own vehicles for agency business will be reimbursed for actual mileage traveled. Per Four-County staff, the approved employee reimbursement rate for fiscal year 2012 was $0.35 per mile.

Four-County policy requires employees to log and provide certain travel documentation, including the actual mileage. Four-County policy also allows the board of directors to be reimbursed for travel expenses when attending meetings, but the policy specifically states "members will be reimbursed for these expenses at the approved rates." A flat $75 payment to attend any meeting does not equate to a "reimbursement" of costs.

Recommendation: Four-County should work with the awarding agencies to determine if the $14,438 in questioned costs should be refunded.

Measures should be taken to ensure travel policies and procedures and actual travel costs are in compliance with applicable grant cost principles. Reimbursing board members for actual miles incurred for necessary Four-County business is a more reasonable practice. Procedures should be implemented to ensure adequate documentation is obtained for such costs.

Minutes from the March 2013 board meeting indicate the board approved changes that will require board members to submit actual mileage and be reimbursed at the mileage rate established by the IRS beginning March 20, 2013.

Agency Response: The agency agrees with this finding and will work with the awarding agencies to determine if the questioned costs should be refunded. The board of directors has amended the bylaws and the Financial Management Manual to clarify that board members are reimbursed for actual mileage at the mileage reimbursement rate established by the IRS. Mileage is verified through the completion of a Board Travel Reimbursement form which is verified by the Purchasing Manager using Google Maps and approved by the interim Executive Director for payment.

7. UNALLOWABLE PAYMENTS FOR FORMER BOARD CHAIR'S CELL PHONE

Payments by Four-County Community Services, Inc. (Four-County) for the former Board Chair's cell phone do not comply with applicable cost requirements of the state and federal grants that were used. The Office of the State Auditor identified $1,767 in questioned costs related to these cell phone charges. When combined with the unallowable charges for the former Executive Director's cell phones and Internet service (see finding number 2), questioned costs for communication services total $4,342.

Our estimate of the financial impact on each state and federal program appears in Exhibit A. However, similar payments could have been paid in other years, thus the true questioned costs could be greater.

The $1,767 that Four-County paid in fiscal year 2012 for the Board Chair's cell phone was not a reasonable and necessary expense for the operation of the organization or performance of the grants charged. Our tests revealed the following:

- The Board Chair's cell phone was used to make and receive calls, data service for emails and web browsing, and texting. The entire amount was charged to the indirect cost pool and then allocated to all the federal and state grants administered by Four-County.
- Four-County did not obtain detailed billing data from the service provider during fiscal year 2012. As a result, Four-County did not monitor or assess business versus personal use. The Office of the State Auditor obtained and scanned two months of detailed phone records. Auditors found that for those months an average of only 16% of the calls were to and/or from certain Four-County phone numbers (our search was limited to certain known Four-County phone numbers).

- Four-County paid $289 in overages/additional charges for exceeding the available plan minutes, texting and premium messaging, and downloads. The fees included $200 for premium messaging associated with apps that were clearly personal and unrelated to Four-County business. This information was in the billing summary received by Four-County and the costs were paid without question.
- Auditors inquired of three other community action agencies that provide the same or similar community programs as Four-County. All indicated they do not provide a cell phone to their Board Chair.

Considering all of the above and typical board responsibilities, auditors do not consider it reasonable for Four-County to provide the Board Chair with an agency cell phone. As a general rule, boards are not expected to engage in the day-to-day operations of the organization.

The cost principles in OMB Circular A-122 and A-87 apply. These Circulars state costs must be reasonable, necessary, and adequately documented to be allowable costs.

Whether a cost is reasonable includes determining whether the costs are ordinary and necessary for the operation of the organization or the performance of the grant. A cost is reasonable if, in its nature or amount, it does not exceed what would be incurred by a prudent person under the same circumstances. Attachment B of A-122 addresses housing and personal living expenses of officers. It states that costs of housing (including utilities), housing allowances, and personal living expenses for officers are unallowable as fringe benefit or indirect costs.

Recommendation: Four-County should work with the awarding agencies to determine if the questioned costs should be refunded. Similar payments made in other fiscal years should be evaluated for possible unallowable costs.

All agency-issued cell phones should be evaluated by staff knowledgeable of grant cost principles to assess the necessity and prudent use of state and federal funds.

Procedures should be implemented to periodically review cell phone use and re-evaluate the plans to ensure unnecessary expenses are not incurred.

Agency Response: The agency agrees with this finding and will work with the awarding agency to determine if the questioned costs should be refunded. All agency-issued cell phones have been evaluated by the IT Director, the Department Head, and the Interim Executive Director to determine the necessity for the assigned phone and to ensure that the associated costs are reasonable. Messaging services and the ability for other types of downloads are blocked from agency cell phones. All phones are currently part of the Verizon State Pricing Contract. Detailed billing is revised monthly by the Accounts Payable Clerk and the Department Head. The agency no longer provides a cell phone to the Board Chair.

OTHER MATTERS

8. UNALLOWABLE EDUCATIONAL COSTS

Four-County Community Services, Inc. (Four-County) used grant funds to reimburse employee educational costs that are not allowable under applicable cost principles and grant requirements. As a result, $21,360 in educational costs are deemed unallowable and are considered questioned costs. See Exhibit A for the estimated financial impact on each state and federal program.

The Office of the State Auditor questioned these costs based on the following:

- While certain courses within the degree program may relate to the employee's work, the degree obtained by the employee was not necessary for the employee's position. Without the additional degree, the employee's prior education and work experience exceeded the minimum requirements defined by Four-County for the purchasing officer position, which the employee held for approximately 10 years prior to obtaining the degree and continues to hold.
- The appropriate prior approval from Four-County management was not obtained for some of the classes. Four-County policy requiring the employee to submit a "scholarship application" form and that it be approved by management before taking classes was not followed.
- Four-County paid twice for a portion of the education costs because it made direct payments to the insitution for courses during January through June 2009 and also reimbursed the employee for a student loan she obtained for the same time frame. In our judgment, there was no need for the loan disbursement since the cost of the classes was covered by payments from Four-County. In addition, the appropriate forms and approvals required by Four-County policy were not obtained prior to reimbursing the employee for the student loan, and the courses for the time period covered by the loan totaled $6,240 but the loan amount was $9,500.

All expenses for the degree were recorded to the career development expense account and charged to Four-County state and federal grant funds through an indirect costs allocation process. The total amount expended by Four-County related to the degree was $24,590. The employee has repaid Four-County $3,230. An estimate of the financial impact on each state and federal program for the remaining $21,360 in questioned costs appears in Exhibit A.

The U.S. Office of Management and Budget (OMB) Circular A-122 applies to nonprofits that receive federal funds and the North Carolina Administrative Code requires grantees to follow OMB Circular A-87 for state funds. To be allowable costs, these Circulars state costs must be reasonable, necessary, adequately documented, and include the following general criteria:

a. Whether a cost is reasonable includes determining whether the costs are ordinary and necessary for the operation of the organization or the performance of the grant. A cost is reasonable if, in its nature or amount, it does not exceed what would be incurred by a prudent person under the same circumstances.

b. Costs must conform to limitations or exclusions in A-122/A-87 or in the award documents. This includes restraints or requirements imposed by factors like generally accepted sound business practices, arms-length bargaining, federal and state laws and regulations, and terms of the award/contract document.

c. Costs must be consistent with policies and procedures of the organization.

d. Under A-122, college-level education costs are allowable only when the course or degree pursued is relative to the field in which the employee is working or may reasonably be expected to work.

Recommendation: Four-County should work with the awarding agencies to determine if the $21,360 in questioned costs should be refunded. Questioned costs could be less if the awarding agency chooses to consider whether certain courses within the degree program are related to the employee's duties.

Measures should be taken to ensure expenses charged to state and federal grants are reviewed and approved by levels of management that are knowledgeable of the grant requirements and what costs are deemed allowable.

Policies and procedures should be implemented, and not circumvented, to ensure costs are evaluated for reasonableness, necessity, and compliance with applicable grant cost principles prior to approving the payment. Minutes from the March 2013 board meeting indicate the board adopted new policies related to employee scholarships, but other revisions may need to be considered.

Agency Response: The agency generally agrees with this finding, based on the Purchasing Agent job description as originally written, and will work with the awarding agencies to determine if the questioned costs should be refunded. College-level education costs are allowable when the course of degree pursued is relative to the field in which the employee is working or may be reasonably expected to work according to OMB Circular A-122. All job descriptions will be reviewed and updated by the Interim Executive Director and Department Heads to insure that the job requirements, expectation and educational requirements are current and clear. In addition, the Finance Committee of the board will review educational cost reimbursements going forward to insure compliance with agency policy (i.e., completion of all relevant forms, approval by all necessary parties including the Department Head and Interim Executive Director, and proper authorization of funds by the Comptroller) and with applicable grant cost principles.

9. UNALLOWABLE COSTS RELATED TO A HEAD START LEASE

In addition to regular lease rental and fees, Four-County Community Services, Inc. (Four-County) paid $14,400 for special projects that were not reasonable and necessary for the operation and performance of its Head Start program. As a result, federal Head Start grant funds were used for unallowable costs and are considered questioned costs.

See Exhibit A for the estimated financial impact on the federal program. However, other similar payments could have been paid prior to 2009, thus the true questioned costs could be greater.

The terms of a lease agreement for one Head Start facility required Four-County to commit funds for special projects designated by the lessor. Four-County stated that they received a below-market rental rate and maintenance fee because they agreed to these additional payments. Although in 2007 the lessor said the facility's lease value was $6,000, Four-County obtained no independent market assessment to support this claim. In our review of the lease agreements for this facility, the Office of the State Auditor noted the following:

a. From November 1990 to June 2013, Four-County agreed to pay $1 annual rental fee, and beginning with the November 2003 lease, a $250 per month maintenance fee ($3,000 annually).

b. In an addendum to the lease agreement starting November 2003, Four-County agreed to pay an additional $3,500 (half the total estimated cost) to reseal and restripe the lessor's parking lot in fiscal 2005.

c. In an addendum to the agreement covering July 2005 to June 2007, Four-County agreed to a two-year maximum commitment of $3,064 to pay the full estimated cost for installing a security system for the lessor.

d. A revised lease agreement was not signed for the July 2007 to June 2011 period. There was an automatic renewal clause in the July 2005 to June 2007 lease; however, the renewal clause did not indicate that renewal of the special projects in the addendum was included.

e. In an addendum to the agreements covering July 2011 to June 2013, the parties agreed there would be no special projects for fiscal year 2012. However, Four-County agreed to a $3,600 one-time allotment fee in fiscal year 2013 (a one-time fee for the first time in over 20 years of the lease) and committed $3,600 to the lessor for a fiscal 2013 special project (no specific project was identified).

It does not appear that the lease agreement for this one facility followed generally accepted sound business practice, arms-length bargaining, or resulted in costs that a prudent person would incur under similar circumstances. Between fiscal 2009 and 2013, Four-County used federal Head Start funds to pay $3,000, $6,600, or $8,700 annually for the use of this facility. The following were included in these payments:

- $7,200 (two $3,600 payments, one in fiscal year 2012 and one in fiscal year 2013) for the installation of multimedia equipment in a non-Head Start facility owned by the lessor. Auditors deem these costs to be unallowable since they were not for the purpose or benefit of the Head Start program. We also noted that the lease agreement only committed Four-County to one $3,600 special project payment during this period.
- $7,200 (two $3,600 payments, one in fiscal year 2009 and one in fiscal year 2013) for costs with no documentation indicating how the funds were used; thus they are deemed unallowable. Auditors noted nothing in the lease agreements committing Four-County to a $3,600 payment in fiscal year 2009, as there was no lease addendum in place for a special project during the 2009 fiscal year. The only additional commitment for fiscal year 2013 was the one-time allotment fee that was assessed for the first time in over 20 years of the lease relationship.

The Office of the State Auditor also noted the total maintenance fees, special projects and one-time allotment fees that Four-County paid in fiscal year 2013 resulted in a total payment of $8,700 for the use of this facility. This exceeds the lessor’s proclaimed rental value of $6,000 by $2,700.

The Office of the State Auditor inspected leases Four-County had for six other Head Start facilities. Auditors found no other leases where Four-County was required to fund special projects to benefit the lessor in addition to the normal lease fees. During fiscal years 2009 to 2012, the annual lease payments Four-County had for these facilities ranged from $2,880 to $5,520 annually, except one facility that leased for $6,000 in fiscal year 2012.

Because Four-County receives Head Start funds directly from a federal agency, the cost principles in U.S. Office of Management and Budget (OMB) Circular A-122 apply. The Circular states costs must be reasonable, necessary, and adequately documented to be allowable costs.

Whether a cost is reasonable includes determining whether the costs are ordinary and necessary for the operation of the organization or the performance of the grant. A cost is reasonable if, in its nature or amount, it does not exceed what would be incurred by a prudent person under the same circumstances. Costs must also conform to limitations or exclusions in A-122 or in the award documents. This includes restraints or requirements imposed by factors like generally accepted sound business practice, arms-length bargaining, federal and state laws and regulations, and terms of the award/contract document.

Recommendation: Four-County should work with the awarding agency to determine if the $14,400 in questioned costs should be refunded.

In the future, measures should be taken to ensure contracts are executed using arms-length bargaining and terms that follow sound business practice. The contract terms and the expenses charged to state and federal grants should be reviewed and approved by levels of management knowledgeable of the grant requirements and what costs are deemed allowable. Policies and procedures should be implemented, and not circumvented, to ensure contract terms and costs are evaluated for reasonableness, necessity, and compliance with applicable grant cost principles prior to approval.

Minutes from the March 2013 board meeting indicate the board adopted some new policies related to contracts, but other revisions may need to be considered. For the 2014 fiscal year, Four-County decided to end the lease agreement with the facility in this finding and those served were moved to another Four-County Head Start facility.

Agency Response: The agency agrees with this finding and will work with the awarding agencies to determine if the questioned costs should be refunded. This facility was used to house 40 Head Start enrollees and 6 staff, but is no longer used by the agency to house this program. The use of this facility was reasonable and necessary to provide services to the children and families housed at this site. The board of directors has approved policies requiring that all contracts valued at $5,000 or more must be approved in advance. All facility leases are currently being evaluated to ensure that the cost for the use of the facility is reasonable, necessary, and adequately documented to be allowable costs. This review will be completed by May 31, 2014 with new lease rates becoming effective July 1, 2014.

10. PARTICIPANT ELIGIBILITY – INACCURATE DATA REPORTED TO THE STATE AWARDING AGENCY

Four-County Community Services, Inc. (Four-County) reported inaccurate data to the state awarding agency regarding the number of participants served by the Community Services Block Grant American Recovery and Reinvestment Act (CSBG-ARRA) award. As a result, Four-County has overstated the number of participants served, which the North Carolina Department of Health and Human Services Office of Economic Opportunity uses as a performance measure for the grant.

The Office of the State Auditor noted the reporting problem when testing eligibility for a sample of participants who received CSBG-ARRA funds from Four-County between July 2009 and September 2010. Auditors from the Department of Health and Human Services were concerned about controls over eligibility determinations; however, auditors noted no eligibility errors in our test.

Four-County is required to enter certain data about program participants in a state-maintained computer system for CSBG programs. Data in this system is used by the state agency to generate reports regarding eligible participants who are enrolled in the program and receiving benefits. This data is used to analyze the performance and outcomes achieved by the grant.

Auditors analyzed 96 participants that Four-County reported as eligible, enrolled and receiving services during the period of July 2009 to September 2010 (the duration of this specific grant). Auditors found 36 of these had actually received no services during this period (a 37% error rate). These errors included applicants that were denied service and applicants that were judged eligible but never received a payment. Federal rules (OMB Circular A-110 and the OMB A-133 Compliance Supplement) state that performance reports shall generally contain a comparison of actual accomplishments with the goals and outcomes. Controls should be in place to ensure performance reports include all activity of the reporting period, be supported by applicable accounting or performance records, and be fairly presented in accordance with governing requirements. For this particular grant, the specific performance outcomes did not change the amount or level of funding Four-County would receive.

The Office of the State Auditor also tested a sample of participants that received CSBG-ARRA funds from Four-County between July 2009 and September 2010 to determine whether the participants met eligibility criteria. Auditors noted no eligibility errors.

Recommendation: Measures should be taken to ensure data reported to an awarding agency is accurate.

Policies and procedures should be implemented to ensure individuals entering the data and reviewing the data for accuracy are knowledgeable of the grant and related reporting requirements.

Agency Response: The agency agrees with this finding. Prior to reporting data to an awarding agency, the data will be verified by the Department Head and Interim Executive Director. Additional training has been provided to staff to ensure that all reported services are adequately documented in the customer's case file. Case files will be reviewed by the Case Management Field Supervisors to verify accuracy and confirmed by the Project Director before entering the accomplishment into the AR4CA (Accountable Results for Community Action) database.

11. EMPLOYEE RECEIVED UNALLOWABLE PROGRAM BENEFITS

Four-County Community Services, Inc. (Four-County) provided unnecessary transportation assistance to an employee as a program benefit from the Community Services Block Grant American Recovery and Reinvestment Act (CSBG-ARRA) program. As a result, $3,000 in program benefits are deemed unallowable and are considered questioned costs.

In our judgment, the employee received preferential treatment. The Office of the State Auditor tested a sample of nine Four-County employees who received CSBG-ARRA program benefits to assess if they met grant eligibility requirements, if the services provided were allowable, and whether there appeared to be preferential treatment given an Four-County employee. Auditors noted one employee received $1,463 in transportation assistance in March 2010 to reverse the repossession of two vehicles. In September 2010, the employee received an additional $3,000 in transportation assistance to purchase a car. Four-County program staff had initially denied the $3,000 purchase request, but after the employee met with the former Executive Director, the former Executive Director overrode the denial and instructed the program staff to provide the assistance. The assistance to purchase the employee another car was not reasonable. The employee already had two vehicles in her name, indicating she had available transportation. There was no evidence of a critical need, emergency, or that a third vehicle promoted economic self-sufficiency.

Per the OMB A-133 Compliance Supplement, CSBG funds (including CSBG-ARRA) may be used for any programs, services or activities related reducing poverty, revitalizing low-income communities, and assisting low-income individuals and families. Funds may be used to promote economic self-sufficiency and to provide emergency assistance, among other activities. As part of the award/contract terms for this grant, applicants must have a documented critical need that is created or worsened by the economic downturn.

A critical need may include loss of transportation when the applicant's livelihood depends on reliable transportation. The Four-County executive director can approve an exception to the maximum amount spent on a family, but the guidelines do not indicate that the executive director can approve or override an allowable service/benefit determination.

U.S. Office of Management and Budget (OMB) Circular A-122 Cost Principles for Nongovernmental Organizations state costs should be reasonable and necessary to be allowable. Factors to consider include whether the individuals acted with prudence given the circumstances, the restraints and requirements imposed by federal and state laws, and the terms of the of the award/contract document.

Recommendation: Four-County should work with the awarding agency to determine if the $3,000 in questioned costs should be refunded.

Measures should be taken to ensure program applicants and grant expenses are reviewed and approved by levels of management that are knowledgeable of all grant requirements and what costs are deemed allowable.

Policies and procedures that ensure costs are evaluated for compliance with applicable grant requirements and no preferential treatment is given to any program participant should be implemented, and not circumvented or overridden.

Agency Response: The agency agrees with this finding and will work with the awarding agency to determine if the questioned costs should be refunded. To prevent reoccurrence, Department Heads will review all employee requests for assistance. The Department Head for that program will present the employee file and the corresponding documentation and review the grant requirements. The Department Heads will approve or disapprove the request for service. If the Department Heads determine that the employee does not qualify for the assistance, the employee may appeal the decision utilizing the same rules and regulations as established for all potential Four-County customers.

EXHIBIT A

Four-County Community Services, Inc.
Estimated Questioned Costs Allocation to Federal and State Awards

Grantor / Pass Through Entity / Program Title	Audit Findings 1	2 and 7	5	6	8	9	11	Total
	Note1	Note2		Note2	Note3	Note4		
Federal Funds								
Direct								
U.S. Department of Health & Human Services								
CFDA 93.600 Head Start	$ 28,511	$ 2,368	$ 86,879	$ 7,874	$ 10,194	$ 14,400	$ -	$ 150,225
CFDA 93.708 Head Start - ARRA	272	-	870	-	175	-	-	1,316
U.S. Department of Housing and Urban Development								
CFDA 14.871 Housing Choice Vouchers Program (Section 8)	767	61	2,346	204	292	-	-	3,671
Pass Through								
U.S. Department of Health & Human Services								
Pass Through: NC Department of Health and Human Services								
CFDA 93.569 Community Services Block Grant (CSBG)	4,143	316	12,694	1,051	1,597	-	-	19,801
CFDA 93.710 Community Services Block Grant - ARRA	1,029	-	3,291	-	1,098	-	3,000	8,418
Pass Through: NC Department of Commerce State Energy Office; from the NC Department of Health and Human Services								
CFDA 93.568 Low Income Heating and Energy Assistance Program (LIHEAP) - part of FCCS WAP for Heating Air Repair and Replacement Program (HARRP)	1,680	214	4,952	712	614	-	-	8,173
Pass Through: NC Department of Commerce State Energy Office; from the NC Department of Health and Human Services								
CFDA 93.568 Low Income Heating and Energy Assistance Program (LIHEAP) - part of FCCS WAP	347	6	1,022	20	(156)	-	-	1,240
U.S. Department of Agriculture								
Pass Through: NC Department of Health and Human Services								
CFDA 10.558 Child and Adult Care Food Program (CACFP)	756	71	2,288	237	260	-	-	3,613
U.S. Department of Energy								
Pass Through: NC Department of Commerce State Energy Office								
CFDA 81.042 Weatherization Assistance Program (WAP)	1,461	73	4,660	244	715	-	-	7,154
CFDA 81.402 Weatherization Assistance Program - ARRA	7,221	863	21,208	2,871	3,463	-	-	35,626

EXHIBIT A

Four-County Community Services, Inc.
Estimated Questioned Costs Allocation to Federal and State Awards

Exhibit A
Page 2 of 2

Grantor / Pass Through Entity / Program Title	Audit Findings 1	2 and 7	5	6	8	9	11	Total
State Grants and Other								
NC Department of Health and Human Services								
Pre-Kindergarten Program (Pre-K formerly More at Four)	6,120	365	19,039	1,215	2,971	-	-	29,710
North Carolina Housing Finance Agency	226	-	751	-	146	-	-	1,123
FCCS account								
Agency Discretionary / Reimbursement Account	2	3	0	10	(11)	-	-	5
Total	$ 52,534	$ 4,342	$ 160,000	$ 14,438	$ 21,360	$ 14,400	$ 3,000	$ 270,074

Notes to the Exhibit:

The actual allocation of the original individual transactions is unknown. Thus, this Schedule presents an estimated allocation of the questioned costs to each federal and state award. The estimate is based on the FCCS' allocation methodology.

Note1 The total questioned costs allocated above represents the actual costs through March 31, 2013. Since March 2013, additional lease related costs have likely been incurred thus there could be additional questioned costs.

Note2 The total questioned costs allocated above only includes the actual cotst incurred during fiscal year June 30, 2012. Similar payments could have been made in other years, thus the true questioned costs could be greater.

Note3 For finding related to unallowed education costs, the questioned costs allocated above are net of funds repaid by the employee. In addition, the financial impact on some programs is negative because we estimate it's unlikely that FCCS allocated the employee's refund back to the programs in the same way the initial costs were charged.

Note4 The total questioned costs allocated includes only the actual costs incurred during fiscal years 2009 through 2013. Similar payments could have been made in other years, thus the true questioned costs could be greater.

FOUR-COUNTY COMMUNITY SERVICES, INC.

INVESTIGATIVE REPORT

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12. Accumulation of Excess More at Four/NC Pre-K Program Funds

Four-County Community Services, Inc. (Four-County) accumulated $761,813 of excess funding from the More at Four/NC Pre-K program as of June 30, 2013. Four-County used some of the excess funding for operating expenses unrelated to the program objectives. The Local Education Agencies[3] and/or Smart Start Partnerships[4] did not properly monitor Four-County's use of the funding.

As of June 30, 2013, Four-County held excess More at Four/NC Pre-K funding in a certificate of deposit (CD) with a balance of $656,297 and a money market account with a balance of $105,516 at Lumbee Guaranty Bank. According to bank documents provided by the Four-County Controller, the combined balance in these accounts had grown to $1,118,041 at June 30, 2012. Some of the funds from the money market account were used for incentive pay repayments[5] to the North Carolina Department of Health and Human Services (Department). In August 2013, Four-County transferred the remaining funds in the CD to its operating account. Thereafter, Four-County used these funds for any purpose Four-County deemed necessary.

The Administration Section Chief (Section Chief) at the Department's Division of Child Development and Early Education (Child Development) expressed concern about how Four-County accumulated so much excess funding. In August 2013, the Section Chief initiated an investigation to determine the underlying reason for the unusually high balance of More at Four/NC Pre-K funding accumulated by Four-County. As of December 2013, the Section Chief had not received a response from Four-County regarding the accumulation of excess funding.

The accumulation of excess funding could have resulted from various causes. For example, Four-County may have supplanted More at Four/NC Pre-K funding with Head Start[6] funding by using both sources to pay expenses for the same children in the same child care facilities. Likewise, Four-County may have over-charged for program services or may have overstated attendance at the child care facilities. However, neither of those potential causes has been determined because neither state nor federal funding agencies monitored how the funds were used.

Local Educational Agencies and Smart-Start Partnerships that contracted with Four-County were responsible for monitoring Four-County to ensure compliance with applicable rules and regulations. Specifically, the *More at Four/NC Pre-K Fiscal and Contract Manual* states, "The Contractor is responsible for monitoring the subcontractor to ensure compliance

[3] A Local Educational Agency is a public board of education or other public authority legally constituted within a state for either administrative control or direction of public elementary schools or secondary schools in a city, county, township, school district, or other political subdivision.

[4] Smart Start partnerships are community planning organizations that provide child care, health care, and family support services to children under age six and their families.

[5] In 2013, the Department disallowed Four-County's expenses for incentive pay. Four-County was required to refund the Department for the portion of incentive pay provided to employees by the Community Service Block Grant program for fiscal years 2010 and 2011.

[6] Head Start is a federal program that promotes the school readiness of children ages birth to five from low-income families by enhancing their cognitive, social, and emotional development.

with applicable rules and regulations and is liable for repayment to [Child Development] of misspent startup funds or **unearned direct services funds** [emphasis added].” The contractors did not evaluate the combined funding from Head Start and More at Four/NC Pre-K to determine whether funding overlap occurred.

The Section Chief said that nothing in the monitoring tool used by contractors required testing for supplanting of More at Four/NC Pre-K funding with Head Start funding. The Section Chief also said that the monitoring tool includes a line item instructing the contractors to establish a procedure for the verification of classroom attendance. However, she did not know which validation method each contractor actually used, if any.

The Chief Fiscal Officer for Head Start’s regional office in Atlanta confirmed that no fiscal or programmatic monitoring had been performed at Four-County. The Chief Fiscal Officer said they were awaiting this report before deciding what action to take.

Four-County used the excess More at Four/NC Pre-K funds for operating expenses unrelated to the purposes of the program. Four-County asserted that there were no restrictions on the excess funds. However, if Four-County’s accumulation of excess More at Four/NC Pre-K funds resulted from attendance inflation, paying expenses for the same children in the same child care facilities, or through over-charges for program services, then it may have violated several state laws pertaining to fraud, misrepresentation, or obtaining property by false pretenses.[7]

Recommendation: Child Development and Head Start should determine the cause of the accumulation of excess funds. These agencies should seek reimbursement if they determine that the accumulated funds resulted from using multiple funding sources to pay expenses for the same children, overcharging for program services, or overstating attendance. Any unearned More at Four/NC Pre-K funds should be repaid to the Department’s Division of Childhood Development and Early Education.

Local Educational Agencies and Smart-Start Partnerships that contract with Four-County should enhance their monitoring tool to test for supplanting to ensure compliance with applicable rules and regulations.

13. GRANT FUNDS USED TO PAY BONUSES

Four-County used grant funds to pay $640,800 in bonuses to employees during fiscal years 2010 and 2011. These bonuses were not reasonable or necessary under applicable cost principles and grant requirements and are considered to be questioned costs. See Exhibit B for the estimated financial impact on each state and federal program.

In 2013, the Department disallowed the expenses for incentive pay and required Four-County to refund the Department for the portion of incentive pay provided to employees by the CSBG program for fiscal years 2010 and 2011. The Department determined that the payments were not based on any measurable performance, goals, or objectives achieved by the employees.

[7] North Carolina General Statute § 14-100 – Obtaining property by false pretenses

U.S. Office of Management and Budget (OMB) Circular A-122, Attachment B *Selected Items of Cost,* Section 8(J) provides that, "Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., are allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the organization and the employees before the services were rendered, or pursuant to an established plan followed by the organization so consistently as to imply, in effect, an agreement to make such payment." According to the interim Executive Director, incentive payments were made without a pre-existing agreement between Four-County and its employees. She said these incentive payments did not include performance-based criteria.

Recommendation: The awarding agencies, with the exclusion of the Department's Community Service Block Grant program, should determine if the $640,800 in questioned costs should be refunded. The Department's Community Service Block Grant program already disallowed $225,609 in incentive pay and collected it from Four-County in 2013.

14. WEATHERIZATION ASSISTANCE PROGRAM MISMANAGEMENT

Four-County did not properly oversee the Weatherization Assistance Program.[8] Specifically, the primary contractor was paid for work that was not performed, provided gifts and gratuities to Four-County employees, and had inappropriate access to the program's computer system. In addition, final inspections were not performed for all work completed.

Contractor Paid for Work Not Performed

During fiscal years 2010 through 2012, Four-County received $10,006,177 of American Recovery and Reinvestment Act (ARRA) funding to support its Weatherization Assistance Program efforts. The North Carolina State Energy Office was responsible for oversight of the program.

As part of its program monitoring from 2010 through 2012, the State Energy Office determined Four-County paid T and L Complete Construction (T and L) for work it did not complete. Four-County paid $2,721,222 for work T and L claimed it performed on 698 homes during fiscal years 2010, 2011, and 2012. During these three fiscal years, the State Energy Office inspected 23 of the 698 homes and determined that T and L did not complete some or all of the work billed to Four-County on three of the 23 inspected homes. The State Energy Office subsequently recovered the funding from Four-County for non-performance. Nevertheless, based on the State Energy Office inspection results, Four-County paid T and L for work it did not complete at a rate that exceeded one out of every 10 homes. A final inspection by Four-County should have revealed these deficiencies before the contractor was paid.

Investigators also found an instance where another contractor mistakenly billed Four-County $1,305 for a job that was never done. The contractor later realized the invoice was sent in

[8] The Weatherization Assistance Program enables low-income families to reduce their energy bills by making their homes more energy efficient. North Carolina receives funding for this program from the U.S. Department of Energy.

error and voluntarily refunded the money to Four-County. However, this further illustrates the failure of Four-County to validate that work was performed, via final inspection, before making payment to the contractor.

Gifts and Gratuities Provided to Four-County Employees

T and L provided gifts and gratuities to Four-County employees and later submitted a quote to Four-County for the Weatherization Assistance Program that included a false statement. T and L's relationship with Four-County employees was so close that the owner shared a room with a Four-County Assistant Weatherization Coordinator during a May 2010 conference at the Grove Park Inn in Asheville. T and L was the only Four-County contractor in attendance at the conference. According to the interim Executive Director, T and L's owner opened a bar tab at an Asheville bar for Four-County employees who were attending the same conference. The owner also purchased a $300 massage for the interim Executive Director of Four-County and robes for $57 for the two Assistant Weatherization Coordinators, according to receipts from the hotel.

As part of the bidding process, T and L submitted a quote to Four-County in November 2010 to become a contractor for the Weatherization Assistance Program. The quote included a certification requirement that no gifts or gratuities were provided to any member of Four-County who could influence the selection of a contractor for the program.

The quote, signed by T and L, includes the following language; "By signing a quotation(s), an Offeror affirms that s/he has not given any economic opportunity, future employment, gift, loan, gratuity, special discount, trip, favor or service to a Four-County Community Services, Inc. member in connection with the submitted quotations. Failure to sign the quotations, or signing it with a false statement, shall void the submitted quotations or any resulting agreements, and the Offeror shall be removed from all supplier/ contractor lists."

Improper Computer System Access Granted to Contractor

Four-County uses a web-based application[9] to prioritize and manage jobs related to the Weatherization Assistance Program. Four-County provided T and L with access to the application while no other contractor was given similar access. The access granted to T and L gave it an unfair advantage in accessing jobs for the program. Access to the application gave T and L the ability to create work orders for jobs and select jobs that would yield a larger profit. The improper access also gave the company the ability to minimize work and profit available to other contractors, which allowed it to maximize the number of jobs it received. The number of T and L construction crews increased from one to four over the three-year period of working for Four-County.

Investigators subpoenaed T and L for all supporting purchase orders, work orders, and invoices for fiscal year 2010 associated with its Weatherization Assistance Program work for Four-County. T and L provided 490 files for jobs performed. Investigators reviewed 40 of these job files and determined that, for 30 of those jobs, the Assistant Weatherization Coordinators had faxed purchase orders to T and L *after* work had been completed. The

[9] The Accountable Results for Community Action (AR4CA) application is used as a data collection and reporting system designed to be an organizational tool for Weatherization Assistance Program service providers to streamline reporting requirements.

interim Executive Director as well as the Assistant Weatherization Coordinators explained that no work was to be performed on a house until a purchase order was sent to the contractor. However, T and L could not have done the work and requested purchase orders after the fact unless Four-County employees were complicit in this scheme. The use of the web-based application by anyone other than Four-County may have violated the contract between Four-County and the owner of the application, Community Action Opportunities (CAO), as well as the end-user license agreement. The contract between Four-County and CAO states, "Subscriber shall not license, sublicense, sell, resell, transfer, assign, distribute or otherwise exploit or make available to any third-party [the web-based application] in any way." In addition, Section 1.1 (a) of the end-user license states that Four-County "may not permit others to use the Software."

Final Inspection Issues

Four-County paid contractors for Weatherization Assistance Program improvements without adequately documenting whether final inspections were performed. One of the projects undertaken by Four-County was Market North Apartments in Wilmington, which has 202 apartment units. The former Weatherization Coordinator provided investigators with a spreadsheet claiming he was the final inspector for 140 of the apartment units. However, according to a former inspector for Four-County, the former Weatherization Coordinator did not complete any final inspections at Market North Apartments. A review of the former Weatherization Coordinator's spreadsheet revealed the following:

- 47 units for which there was no certification or signature on the Final Inspection Form.
- Seven units that received a final inspection, but the inspector stated that he never performed a final inspection of any of the units.
- Some of the Final Inspection Forms contained two signatures: the former Weatherization Coordinator's signature and a former inspector's signature. The former inspector, upon reviewing these forms, stated that his signature had been falsified.

The former Weatherization Coordinator said, "The apartments are "cookie cutter," and, "I did not inspect every aspect of the job." The former Weatherization Coordinator provided documents to investigators that he said were created from his memory of the inspections he had done. He stated that, "…multiple auditors/inspectors were involved in the Market North Apartment project" and that, "Based on my *personal inspections* [emphasis added], as well as complete assurance from the auditor that both the work and any additional inspections had been done properly, I was confident in signing off that the Weatherization services had concluded and that there were no material deficiencies."

On the Final Inspection Form, the final inspector for the Weatherization Assistance Program must certify that he/she has *personally* inspected all areas of the dwelling and all measures and/or services provided, has conducted all required diagnostic testing, and accurately recorded inspection results. This certification should provide evidence that contractors are paid only for work actually performed.

The contractors were paid for work on all 202 units at Market North Apartments despite the fact that there was not a signed Final Inspection Form for 47 of the units. State Energy Office and Four-County officials stated there is no *written* requirement that a final inspection be performed prior to contractor payment. However, these officials said that it is understood that a final inspection needs to be performed before contractors are paid.

Recommendation: Four-County and the State Energy Office should adopt and enforce a written requirement that a Final Inspection Form, personally signed/certified by the person who performed the inspection, be on file before the contractor is paid.

Four-County management should take disciplinary action against the former Weatherization Coordinator for his certification of final inspection forms on which he did not personally inspect the dwellings and falsified the signature of a Four-County inspector.

The State Energy Office should expand its review of jobs invoiced by T and L

The North Carolina Department of Administration should place T and L and its owners on the Debarred Vendors list.

Note: Finding referred to the North Carolina Department of Administration, Division of Purchase & Contract.

15. Contracts Awarded Without Obtaining Bids

Four-County did not obtain bids for a copier contract and for the purchase of vehicles. These contracts totaled $645,724. Failure to obtain bids violated Four-County policies that required bids for all purchases greater than $500. Four-County may not have obtained the best prices; therefore, these expenditures may not be considered reasonable under applicable cost principles and grant requirements and are considered questioned costs. See Exhibit B for the estimated financial impact on each state and federal program.

Four-County cannot provide any evidence that bids were solicited for the copier lease and maintenance agreements. The former Executive Director of Four-County signed copier leases for $350,674 and $60,010 in August 2012, even though the prior lease did not expire until October 2013. He also signed a $19,800 annual maintenance agreement in September 2012. The former Executive Director said that he signed the leases because the current interim Executive Director advised him that the new leases would save money. He also said that she handled the entire process of working with the copier vendor.

The interim Executive Director said that the copier vendor “just happened to stop by” to say he could save Four-County money on the current contract. She said the vendor handed her the proposal and that she presented it to the former Executive Director, who signed it immediately. The interim Executive Director admitted that she did not advise the former Executive Director that the copier contract had to be put out for bid as required by the Four-County Financial Management Manual.

In 2009 and 2010, Four-County purchased seven Toyota Rav4s for its Weatherization Assistance Program, a Toyota Sienna Van for the Head Start program, and a Toyota Highlander to be used for "administrative purposes," according to the interim Executive Director. The vehicles were purchased at a total cost of $215,240. While the interim Executive Director claimed that bids were solicited for the vehicle purchases, she could not provide documentation supporting this assertion. The only document she produced was a Request for Quote (RFQ) written on a sheet of paper with Four-County letterhead for four Ford Escapes. Moreover, there was no proof that the RFQ had ever been published in the local newspapers. Instead of soliciting bids from several dealerships, it appeared that Four-County went directly to Peterson Toyota to procure the vehicles. The former Executive Director purchased his personal Toyota Tundra from the same dealership.

Failure to solicit bids violated Four-County policy. The Four-County Financial Management Manual, Section XXIV states, "The Purchasing Department is responsible for the solicitation of bids for goods and services with an acquisition cost of $500 or more. This procedure is designed to insure [sic] fair competition in the bid process and to insure [sic] that the goods and services are adequate to meet agency needs and are purchased at the best price possible." The policy also states, "Written bid requests will be submitted for goods and services with an acquisition cost of $1,501 or more."

OMB Circular A-122 applies to nonprofits that receive federal funds and the North Carolina Administrative Code requires grantees to follow OMB Circular A-87 for state funds. To be allowable costs, these regulations require costs to be reasonable, necessary, and adequately documented.

Recommendation: The awarding agency should determine if the $645,724 in questioned costs should be refunded.

Four-County should take necessary measures to ensure that policies and procedures are followed during the procurement of contract services.

Four-County should consider taking disciplinary action against the interim Executive Director for failing to follow bidding policies and procedures.

16. MISUSE OF COMPUTERS BY FOUR-COUNTY OFFICIALS

Two board members and an employee used Four-County computers for activities unrelated to Four-County operations. Because the equipment purchased may not have been necessary to carry out program activities, expenditures totaling $6,037 may be considered unnecessary under applicable cost principles and grant requirements and are considered questioned costs. See Exhibit B for the estimated financial impact on each state and federal program.

During the three fiscal years ended June 30, 2012, Four-County spent almost $100,000 on computers, peripherals, and tablets without establishing controls over the assignment and use of the equipment. No system existed at Four-County for safeguarding and tracking laptop and desktop computers, iPads, tablets, and other electronic devices.

Computers and Tablet Provided to Board Members

Four-County provided computers to the interim Board Chair and the former Board Chair for their home use. The interim Board Chair received a laptop computer. The former Board Chair received a laptop computer, a desktop computer, and a Kindle Fire tablet. A Four-County IT consultant went to the homes of the interim Board Chair and the former Board Chair on several occasions to service these computers.

The interim Board Chair said she only used the laptop computer to review several emails per month and she returned it to Four-County in July 2013. Four-County also paid for home Internet service for the interim Board Chair. The interim Board Chair said Four-County paid for the Internet service to allow her access to email from home.

The former Board Chair said he used the laptop 99% for Four-County business. He returned the laptop and the Kindle Fire to Four-County in July 2013 and the desktop computer in August 2013. The desktop did not have a Four-County inventory tag when it was returned.

Review of the laptop contradicted the assertion by the former Board Chair that he used the laptop "99 percent for business." The laptop contained no evidence of any usage pertaining to Four-County. Investigators found significant evidence indicating that the laptop had been used by the former Board Chair's granddaughter, including a user profile, photos, and music.

The Kindle Fire returned by the former Board Chair also showed no evidence of Four-County business. Forensic examination revealed that the Kindle Fire was registered to the former Board Chair's granddaughter and that her email address also linked to the device. Again, no information related to the business affairs of Four-County was found on the device.

Four-County Employee Misused Laptop

In November 2010, the Head Start Case Management Field Supervisor (Field Supervisor) at Four-County took a laptop home and gave it to a friend. Four-County discovered that the laptop was missing in June 2013 after we suggested that Four-County inventory all digital equipment. The Field Supervisor returned the laptop about four weeks later. The Four-County inventory tag had been partially defaced in an apparent attempt to remove it, but the Field Supervisor denied attempting to remove the inventory tag. The Field Supervisor's friend also denied attempting to remove the inventory tag. A review of the laptop revealed only personal information, most of which was created by the Field Supervisor's friend. No evidence indicated that the laptop had ever been used for Four-County business.

Investigators brought this incident to the attention of the interim Executive Director in July 2013. In August 2013, the interim Executive Director gave the Field Supervisor a "Letter of Reprimand" for the incident. The letter cited Section W of the Four-County's Administrative Policies and Procedures, "Use of Agency Owned Equipment." Section W provides that, "Theft or unauthorized possession of agency property is strictly prohibited. Removal of any agency property, including documents, from the premises without prior permission from management will result in disciplinary action. The unauthorized use of Four-County equipment, including vehicles, cellular phones, copiers, and computer equipment for strictly personal reasons or for the purpose of personal gain is prohibited."

The "Letter of Reprimand" concluded with, "Beginning immediately, you must follow the guidelines as set forth in the Agency's Administrative Policies and Procedures." No further action was taken.

The Code of Federal Regulations (45 CFR 92.32) for grantees and subgrantees that purchase equipment with federal funds requires that property records be maintained, a physical inventory of the property be performed, and a control system be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Section 6 (A) of the *More at Four/NC Pre-K Fiscal and Contract Manual* requires an inventory tag and items must be accounted for through an annual physical inventory. Investigators found no evidence that Four-County complied with these requirements.

OMB Circular A-122 applies to nonprofits that receive federal funds and the North Carolina Administrative Code requires grantees to follow OMB Circular A-87 for state funds. To be allowable costs, these regulations require costs to be reasonable, necessary, and adequately documented.

Recommendation: The awarding agency should determine if the $6,037 in questioned costs should be refunded.

Four-County should follow state and federal grant compliance requirements. Four-County should establish policies and procedures to ensure that state and federal compliance requirements over equipment tracking and inventory are followed.

The board members and employee should reimburse Four-County for their personal use of computer equipment.

Four-County management should consider additional disciplinary action for the Field Supervisor for the misappropriation of the laptop.

17. BUSINESS RELATIONSHIPS INVOLVING FAMILY MEMBERS

Four-County entered into business relationships with companies that were owned by or that hired family members of Four-County employees. These relationships may have created a conflict of interest that hampered Four-County's ability to obtain services at the best price. Because Four-County may not have obtained the best prices, these expenditures may not be considered reasonable under applicable cost principles and grant requirements and are considered questioned costs. See Exhibit B for the estimated financial impact on each state and federal program.

Office Cleaning Contract

The interim Executive Director's mother provided cleaning services under a contract with Four-County for 20 years. She cleaned Four-County's Laurinburg headquarters building for $13,800 per year. She said she won the contract in a bid process in 1993 and again in 1997, but the contract was not bid again until 2010 when the contract was expanded to include the third floor of the building. According to the Purchasing Officer, the cleaning contracts were not evaluated by a committee. Instead, the Purchasing Officer recalled that the bids were given to the former Executive Director and that he alone selected the winning bidder.

When investigators met with the interim Executive Director's mother in July 2013, she was 86 years old and had some apparent mobility issues. The contract required the cleaning of a three-story, 11,300 square foot office building. The former Executive Director said that the son, daughter-in-law, and sister of the interim Executive Director did most of the cleaning. The mother said that her daughter (interim Executive Director) prepared the cleaning invoices for her and submitted them to the former Executive Director for approval.

Weatherization Assistance Program Contract

Four-County also contracted for Weatherization Assistance Program jobs with construction companies that hired or were owned by individuals related to the interim Executive Director. The interim Executive Director was previously the Weatherization Program Manager. One company, T and L Complete Construction (T and L), employed the interim Executive Director's two sons, one of whom was in a decision-making role in the company. The program used another company owned by the interim Executive Director's cousin's spouse and employed the interim Executive Director's son.

T and L received $2,721,222, which is 55% of the total amount paid to Weatherization Assistance Program shell contractors[10] for fiscal years 2010 through 2012. (See Table 1) Five other construction companies shared the remaining $2,236,909 (45%) of the total Weatherization Assistance Program work during that period. The owner of T and L said that the interim Executive Director came to the construction company in 2007 to ask if she would hire her sons because they needed work. This was approximately the same time that the construction company started performing work for the Weatherization Assistance Program. From 2007 until April 2013, the interim Executive Director was the Weatherization Program Manager for Four-County. In that role, she directly oversaw work performed by her sons.

Table 1

Four County Community Services
Weatherization Contractor Payments

Contractor Name	Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010	Total	Percentage
T&L Complete Construction	$ 192,171.09	$ 1,002,605.94	$ 1,526,445.34	$ 2,721,222.37	54.9%
R&L Contractors, Inc.	$ 530,641.65	$ 283,827.54	$ 58,116.89	$ 872,586.08	17.6%
Countywide CDC	$ 214,158.26	$ 231,876.24	$ 167,399.99	$ 613,434.49	12.4%
Green Horizon	$ 381,393.15			$ 381,393.15	7.7%
Gattis Construction, Inc.		$ 191,409.37	$ 53,734.60	$ 245,143.97	4.9%
Wilmington Southside CDC		$ 102,218.06	$ 22,132.83	$ 124,350.89	2.5%
Total	**$ 1,318,364.15**	**$ 1,811,937.15**	**$ 1,827,829.65**	**$ 4,958,130.95**	

10 The Weatherization Assistance Program uses the term "shell contractor" to describe contractors whose primary responsibilities are air sealing, insulation, and vapor barriers.

Insurance Contract

Four-County also contracted with an insurance company that paid commissions to the former Executive Director's son. The insurance company provided Four-County with Life, Accidental Death and Dismemberment, and Long-Term Disability insurance for its employees. Four-County paid $606,597 in premiums between January 2008 and June 2013. During the same time frame, the former Executive Director's son collected commissions on policy premiums totaling $16,306. The policy was canceled in June 2013 after investigators started to question the contract.

OMB Circular A-110 states, "No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award." The office cleaning contract, Weatherization Assistance Program construction contracts, and insurance contract involved family members, which may have violated this regulation.

OMB Circular A-122 applies to nonprofits that receive federal funds and the North Carolina Administrative Code requires grantees to follow OMB Circular A-87 for state funds. To be allowable costs, these regulations require costs to be reasonable, necessary, and adequately documented.

Recommendation: The awarding agency should determine if the $3,493,069[11] in questioned costs should be refunded.

Four-County should ensure purchases and contracts comply with applicable federal grant cost principles and compliance requirements prior to purchase or contract with any vendor or contractor.

Four-County should consider taking disciplinary action against the interim Executive Director for her actions involving the office cleaning and Weatherization Assistance Program contracts.

18. EMPLOYMENT OF FAMILY MEMBERS

Four-County hired two employees who were related to board members. However, Four-County policies prohibit the employment of immediate family of board members. As a result, Four-County violated its own policies and may not have hired the most qualified employees.

[11] This amount represents the total cost of the cleaning contract with the interim Executive Director's mother from September 1, 2000 through September 30, 2013 ($165,250), the total amount paid to T and L ($2,721,222) for fiscal years 2010 through 2012, and insurance premiums for Life, AD&D, and LTD paid by Four-County between January 1, 2008 and June 30, 2013 ($606,597).

Four-County hired the grandson of the former Vice-Chair of the Four-County board of directors as an Energy Auditor in the ARRA Weatherization Assistance Program.[12] The grandson was employed by Four-County from September 28, 2009, to October 15, 2010. The interim Executor Director told investigators that the former Executive Director forced the former Human Resources Director to hire the grandson. According to other Four-County employees, the grandson did not have the requisite knowledge and skills to be an energy auditor.

In addition, Four-County hired the son of a former Four-County board member as an Outreach Specialist in the ARRA Community Service Block Grant (CSBG)[13] program. He was employed by Four-County from October 29, 2009, to July 15, 2010. Four-County Administrative Policies and Procedures state, "No person shall hold a job while he or a member of his immediate family serves on the board…" Four-County violated its own policies and procedures by hiring these two employees.

Recommendation: Four-County should follow its policies and procedures regarding the hiring process. All hiring decisions should be reviewed and approved by levels of management that are knowledgeable of the policies and procedures.

19. Payment for Educational Expenses in Violation of Program Regulations

Four-County used grant funds to reimburse a Receptionist for educational costs that are not allowable under applicable cost principles and grant requirements because the courses did not directly relate to her job duties. As a result, $6,834 in educational costs incurred from July 2010 to April 2013 are considered questioned costs. See Exhibit B for the estimated financial impact on each state and federal program.

We questioned these costs based on the following:

- The courses taken by the Receptionist will result in a second, four-year college degree. The reimbursements to the Receptionist were for courses leading to a degree in Hospitality and Tourism and were not necessary for her current or future job duties. Without the additional degree, the Receptionist's prior education and work experience exceeded the minimum requirements defined by Four-County for her position.
- Four-County management did not provide documentation that the Receptionist obtained the appropriate approval. She did not complete a Career Development Contract as required by Four-County policy.
- Four-County management provided no justification for the payment of these expenses.

[12] The U.S. Department of Energy (DOE) Weatherization Assistance Program, under the American Recovery and Reinvestment Act (ARRA) of 2009, distributed $5 billion to the states to expedite the weatherization of low-income homes. North Carolina received $131,954,536 of that total.

[13] The United States Department of Health and Human Services provides funding through the Community Services Block Grant to alleviate the causes and conditions of poverty in communities.

The approval process required the completion of a Scholarship Application Form and a Career Development Contract. The Receptionist completed Scholarship Application Forms for the courses she took. However, she did not complete the Career Development Contract. Four-County policy specifies that, "Upon receiving an approved Scholarship Application, the employee will enter into a Career Development Contract. The contract will specify the course(s) to be taken and the funds set aside for that purpose. The contract will address the requirements of the agency and the employee." The Career Development Contract must be reviewed and approved by the department head and the executive director, and funds shall be confirmed by the chief financial officer.

All expenses for the degree were recorded to the career development expense account and charged to Four-County state and federal grant funds through an indirect cost allocation process. OMB Circular A-122 applies to nonprofits that receive federal funds and the North Carolina Administrative Code requires grantees to follow OMB Circular A-87 for state funds. To be allowable costs, these regulations require costs to be reasonable, necessary, and adequately documented. Under OMB Circular A-122, college-level education costs are allowable only when the course or degree pursued is relative to the field in which the employee is working or may reasonably be expected to work. Hospitality and Tourism courses did not relate to the Receptionist's duties.

Recommendation: The awarding agencies should determine if the $6,834 in questioned costs should be refunded. Four-County should review all educational expenses and document the relationship between each course and the individuals' job duties.

20. Employee Gym Memberships Paid with Grant Funds

Four-County used grant funds to pay for employee gym memberships that are not reasonable or necessary under applicable cost principles and grant requirements. As a result, $23,713 in gym membership costs incurred from July 2010 to April 2013 are considered questioned costs. See Exhibit B for the estimated financial impact on each state and federal program.

OMB Circular A-122 applies to nonprofits that receive federal funds and the North Carolina Administrative Code requires grantees to follow OMB Circular A-87 for state funds. To be allowable costs, these regulations require costs to be reasonable, necessary, and adequately documented. Paying for gym memberships did not appear to be reasonable, necessary, or a prudent use of grant funds.

Recommendation: The awarding agencies should determine if the $23,713 in questioned costs should be refunded. Four-County should not use grant funds for employee fringe benefits that do not directly relate to program objectives.

21. Unnecessary Travel by Former Four-County Board Chair

Four-County paid $1,550 for the former Board Chair to travel to Las Vegas for a conference unrelated to his duties and responsibilities. These expenditures were not reasonable or necessary under applicable cost principles and grant requirements and are considered questioned costs. See Exhibit B for the estimated financial impact on each state and federal program.

In 2007, the former Board Chair traveled to Las Vegas to attend a conference sponsored by Four-County's accounting software vendor. Four-County paid $1,550 in travel expenses for the former Board Chair's attendance at this training conference. The interim Executive Director at Four-County had no recollection of any special training for board members at the conference. Instead, she said it was designed specifically for users of the accounting software. As Board Chair, his duties did not require the use of accounting software.

The former Board Chair said there were courses offered at this conference specifically intended for board members. He said that the sponsors of the conference also encouraged board members to attend and had separate "administrative workshops" for them. Investigators reviewed the conference description and found no workshops designed for board members. In a 2007 newsletter published by the accounting software vendor, an article appeared which explained who should attend its conference. The article stated, "Attendees include fiscal staff, auditors, revolving loan management staff, Executive Directors, human resource staff and program managers. Many…clients view this as annual in-service training for their fiscal personnel…" That article included no references to board members.

Four-County could not provide proof of the former Board Chair's attendance at this conference. Investigators spoke with a former Four-County employee who said the only time the former Board Chair was seen was when he got off the plane and again when the plane departed. As a result, the Las Vegas trip by the former Board Chair was unnecessary.

OMB Circular A-122 applies to nonprofits that receive federal funds and the North Carolina Administrative Code requires grantees to follow OMB Circular A-87 for state funds. These regulations require costs to be reasonable, necessary, and adequately documented.

Recommendation: Four-County should work with the awarding agencies to determine if the $1,550 in questioned costs should be refunded. Four-County should only pay travel costs that directly relate to program objectives.

22. Personal Use of Four-County Vehicle

A former Four-County employee used an employer-provided vehicle for purposes that included his daily commute between his home in Lumberton and Four-County's main office in Laurinburg. The value of this fringe benefit was estimated to be $33,080 for the 38-month period of employment ended September 2013. Four-County did not include the value of this fringe benefit in the employee's wages.

Four-County purchased a 2009 Toyota Rav4 using ARRA Weatherization Assistance Program funds and assigned the vehicle to the former Weatherization Coordinator in June 2010. The former Weatherization Coordinator regularly used the vehicle for commuting and said he usually stopped to get inventory on the way to or from his home although he admitted that, "I don't go and get inventory every day." He said that he sometimes used the vehicle for home inspections related to the Weatherization Assistance Program. However, the former Weatherization Coordinator acknowledged that there were days he would drive directly from his home in Lumberton to the Four-County office in Laurinburg.

The former Weatherization Coordinator said he did not maintain a mileage log for the vehicle until April 2013. The former Weatherization Coordinator indicated he started keeping a mileage log when State Energy Office program auditors told Four-County that the former Weatherization Coordinator needed to start keeping mileage logs.

Internal Revenue Service (IRS) regulations[14] explain that, “You provide an employee with a fringe benefit when you allow the employee to use a business vehicle to commute to and from work.” Also, IRS regulations specify that, “Any fringe benefit you provide is taxable and must be included in the recipient’s pay unless the law specifically excludes it.” At a minimum, the commuting to and from the former Weatherization Coordinator’s home is considered personal use and, therefore, a taxable fringe benefit.

Recommendation: Four-County should either require the repayment of the personal benefit derived from the use of a vehicle for commuting or amend the Internal Revenue Service Wage and Tax Statements (W-2) to reflect the taxable fringe benefit derived from the personal use of Four-County vehicles.

23. Improper Use of Four-County Resources for Board Members

Multiple employees used Four-County equipment to perform tasks for board members during working hours. The misuse of Four-County computer equipment violated Four-County policies.

The Community Service Block Grant Case Management Field Supervisor performed personal tasks such as preparing church bulletins for the former Board Chair during work hours at Four-County. She stated that she was sometimes paid for these tasks by the former Board Chair. She characterized the tasks as infrequent, “…maybe four or five times a year, 30 to 45 minutes each time.”

The Purchasing Officer also performed similar personal tasks for the former Board Chair and two board members during work hours at Four-County. She also characterized the work as infrequent and minimal.

There is no way to unequivocally quantify the total amount of time devoted to personal tasks for board members over several years. Nonetheless, any time devoted to personal tasks for board members during work hours was improper.

Both employees identified above used Four-County time, computers, and supplies in the course of performing work for board members. The employees’ actions may have violated Four-County Administrative Policies and Procedures, Section W, “Use of Agency Owned Equipment,” which states in part that, “The unauthorized use of Four-County equipment, including vehicles, cellular phones, copiers, and computer equipment for strictly personal reasons or for the purpose of personal gain is prohibited.”

[14] Department of the Treasury, Internal Revenue Service, *Publication 15-B Employer’s Tax Guide to Fringe Benefits, 2013*

Recommendation: Four-County board members should not ask Four-County employees to perform personal tasks for them.

Four-County should emphasize its policy prohibiting the use of resources for personal gain.

Four-County should adopt a policy prohibiting board members from requesting personal assistance from employees.

EXHIBIT B

Four-County Community Services, Inc.
Estimated Questioned Costs Allocation to Federal and State Awards

Exhibit B
Page 1 of 2

Grantor / Pass Through Entity / Program Title	Investigative Findings 13 Note1	15 Note2	16 Note3	17 Note4	19 Note5	20 Note5	21 Note6	Total
Federal Funds								
Direct								
U.S. Department of Health & Human Services								
CFDA 93.600 Head Start	$ 266,002	$ 276,433	$ 2,832	$ 386,159	$ 3,636	$ 12,371	$ 721	$ 948,155
CFDA 93.708 Head Start - ARRA	2,116	691	95	8,444	-	123	32	11,501
U.S. Department of Housing and Urban Development								
CFDA 14.871 Housing Choice Vouchers Program (Section 8)	48,408	6,506	78	10,337	95	325	20	65,769
Pass Through								
U.S. Department of Health & Human Services								
Pass Through: NC Department of Health and Human Services								
CFDA 93.569 Community Services Block Grant (CSBG)	214,549	33,746	433	56,973	512	1,773	111	308,097
CFDA 93.710 Community Services Block Grant - ARRA	11,060	2,092	343	31,447	108	621	86	45,766
Pass Through: NC Department of Commerce State Energy Office; from the NC Department of Health and Human Services								
CFDA 93.568 Low Income Heating and Energy Assistance Program (LIHEAP) - part of Four-County WAP for Heating Air Repair and Replacement Program (HARRP)	5,830	22,054	162	22,810	273	820	37	51,986
Pass Through: NC Department of Commerce State Energy Office; from the NC Department of Health and Human Services								
CFDA 93.568 Low Income Heating and Energy Assistance Program (LIHEAP) - part of Four-County WAP	-	610	-	5,758	62	240		6,670
U.S. Department of Agriculture								
Pass Through: NC Department of Health and Human Services								
CFDA 10.558 Child and Adult Care Food Program (CACFP)	2,301	7,411	65	9,354	103	325	15	19,575
U.S. Department of Energy								
Pass Through: NC Department of Commerce State Energy Office								
CFDA 81.042 Weatherization Assistance Program (WAP)	27,026	8,556	190	18,877	92	415	58	55,204
CFDA 81.402 Weatherization Assistance Program - ARRA	36,457	246,162	998	2,847,136	1,292	4,107	235	3,136,386

Four-County Community Services, Inc.
Estimated Questioned Costs Allocation to Federal and State Awards

Exhibit B
Page 2 of 2

Grantor / Pass Through Entity / Program Title	Investigative Findings 13	15	16	17	19	20	21	Total
State Grants and Other								
NC Department of Health and Human Services								
Pre-Kindergarten Program (Pre-K formerly More at Four)	26,338	41,138	829	94,580	652	2,547	225	166,309
North Carolina Housing Finance Agency	832	59	16	1,546	15	45	3	2,516
Four-County account								
Agency Discretionary / Reimbursement Account	(119)	266	(4)	(354)	4	1	(2)	(208)
Total	$ 640,800	$ 645,724	$ 6,037	$ 3,493,069	$ 6,834	$ 23,713	$ 1,650	$ 4,817,727

Notes to the Exhibit:

The actual allocation of the original individual transactions is unknown. Thus, this Schedule presents an estimated allocation of the questioned costs to each federal and state award. The estimate is based on the Four-County allocation methodology.

Note1 The total questioned costs allocated above represents the actual costs for fiscal years 2010 and 2011. Of the $640,800, the attributable to the Community Service Block Grant ($225,609) has been repaid to DHHS.

Note2 The total questioned costs allocated above includes the actual costs incurred for the vehicle purchases, copier maintenance contract for the 12 months ended September 2013, and the total value of the copier contract lease payments through September 2017.

Note3 The total questioned costs allocated above includes an estimated cost for the laptop computer used by the former Four-County Board Chair. This laptop was purchased in 2006, but the allocation rates for 2010 were used. Rates for years prior to 2010 were unavailable.

Note4 The total questioned costs allocated above includes the actual costs incurred for the cleaning contract, payments to T and L for fiscal years 2010 through 2012, and insurance premium payments from January 2008 to June 2013. The total questioned costs allocated includes cleaning contract costs from 2000 through 2013. The allocation rates for 2010 were used because rates for years prior to 2010 were unavailable.

Note5 The total questioned costs allocated above represents the actual costs from July 2010 to April 2013.

Note6 The total questioned costs allocated above represent actual costs for travel by the former Four-County Board Chair in 2007. Allocation rates for 2010 were used because rates for years prior to 2010 were unavailable.

Four-County Community Services, Inc. (Four-County) provided a separate response to the Investigative findings (12 through 23) in this report. We believe it is necessary to provide additional explanation when an agency's response could potentially cloud an issue, mislead the reader, or inappropriately minimize the importance of our findings. To ensure the availability of complete and accurate information, we offer the following clarifications.

<u>Four-County Response to Finding 12</u>
Four-County officials cannot identify the cause of the excess accumulation of funds, yet ruled out the possibility of fraud or misrepresentation. Four-County accumulated more than $1.1 million in excess More at Four/NC Pre-K funds. If the funding had been used to provide supplemental services such as the additional days and extended hours of service cited in its response, a surplus of this magnitude could not reasonably be expected. Until the precise cause is known, *nothing* can be ruled out.

<u>Four-County Response to Finding 13</u>
Four-County officials stated in their response that the incentive pay was given based on the effective and efficient operation of its programs. However, it did not measure the performance of its employees to determine whether this was actually true. Therefore, the bonuses were paid in the absence of data that would support efficient and effective performance. Four-County officials also stated that the bonuses were paid in such a way that the established plan implied an agreement between Four-County and its employees. However, Four-County officials were unable to provide any established plan or pre-existing agreement with its employees regarding bonuses.

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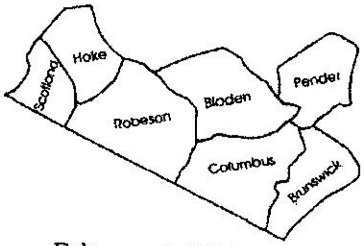

TELEPHONE (910) 277-3500

FOUR-COUNTY COMMUNITY SERVICES, INC.

POST OFFICE BOX 988

LAURINBURG, N.C. 28353

February 3, 2014

State of North Carolina
Office of the State Auditor
Ms. Beth A. Wood, CPA, State Auditor
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Ms. Wood:

We have completed our review of the financial related audit and investigate report of Four-County Community Services, Inc. dated January 2104. Enclosed please find our response to each of the twenty-three (23) findings.

Should you have any questions or require additional information, please do not hesitate to contact our office at 910-277-3521.

Sincerely,

Jason J. King
Board Chairman

Ericka J. Whitaker
Executive Director

JJK/EJW:kc

Attachment

SERVING BLADEN, BRUNSWICK, COLUMBUS, HOKE, PENDER, ROBESON AND SCOTLAND COUNTIES

INTRODUCTION

Effective January 20, 2014, Ericka J. Whitaker, MSA became the Executive Director of Four County Community Services, Inc. ("FCCS" or the "Agency"). Ms. Whitaker has reviewed the Investigative Report and will insure that the policies and procedures that have already been put in place to address these issues, as noted herein, will be faithfully implemented and enforced. In addition, the Executive Director will implement additional safeguards as noted specifically herein.

12. ACCUMULATION OF EXCESS MORE AT FOUR/NC PRE-K PROGRAM FUNDS

Response to Finding and Recommendation: The Agency disagrees with this finding to the extent that it suggests fraud, misrepresentation of obtaining property by false pretenses on the part of the Agency. Otherwise, the Agency agrees to work with the awarding agencies to determine whether any funds should be repaid, and to comply with any additional monitoring the awarding agencies may put in place as a result of the Auditor's findings regarding those agencies.

Children served through the More at Four/NC Pre-K Program were dual enrolled students. These students received the benefit of Head Start and More at Four/NC Pre-K Program services. The program design was amended to meet the requirements of the More at Four/NC Pre-K Program which included additional days of service, extended hours of service, and meeting credentialing requirements for the teaching staff. These funds were earned through a fee for service contract with Local Education Agencies and Smart-Start Partnerships. The contracts state that they are contracts for services and therefore exempt from North Carolina General Statute 143C-6-22 and 23. Specifically, the contracts stated, "the OSR More at Four Program has determined this Contract to be a purchase of goods or services not subject to N.C.G.S. §143C-6-22&23." The funds were earned based on attendance records as were verified by these local entities. Based on the express language of the contracts and the practice of other providing agencies, once the funds were earned based on the attendance verified by the local entities the Agency understood these to be unrestricted funds.

The Agency does not currently have a contract to provide services through the North Carolina Pre-K Program. The decision to end this partnership was based on a shift in the program's priority as they elected to provide more slots to private day care operators.

13. GRANT FUNDS USED TO PAY BONUSES

Response to Finding and Recommendation: The Agency generally agrees with this finding and eliminated the incentive pay policy in a resolution of the Board of Directors dated March 19. 2013.

Incentive pay is an allowable cost as specified 2 C.F.R. Part 230 when certain requirements are met. The requirements include (1) the overall compensation is reasonable and (2) the cost are paid pursuant to an agreement by and between the CAA and the employees or pursuant to an established plan that has been followed consistently so that an agreement may be implied. Incentive compensation to employees based on cost reduction, efficient performance, suggestion awards, safety awards, etc., are allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the organization and the employees before the services were rendered or pursuant to an established plan followed by the organization so consistently as to imply, in effect, an agreement to make such payment. Incentive pay, during the years in question, was approved in advance by the Board of Directors based on the Board's understanding that incentive pay would be given based on the effective and efficient operation of Agency programs, was reasonable based on the salaries paid to employees during the years in question, and was paid in such a way that the established plan implied, in effect, an agreement between the Agency and its employees.

As noted, incentive pay will no longer be provided to staff and has not been provided to staff since the 2010-2011 fiscal year. Additionally, Four County Community Services repaid the DHHS Community Service Block Grant $225,609 pursuant to a Settlement Agreement that states, in part, "The terms of this Settlement Agreement shall not be deemed an admission by either of the parties to this Agreement."

14. WEATHERIZATION ASSISTANCE PROGRAM MISMANAGEMENT

Contractor Paid for Work Not Performed:

Response to Finding and Recommendation: The Agency agrees with this finding. With the implementation of the American Recovery and Reinvestment Act (ARRA) Weatherization Program, the Agency created many new jobs, expanding of Weatherization staff from 3.5 to 20.5. Because there was a delay in releasing the funds to North Carolina operators, focus was placed on production during the implementation of this program. An onsite assessment of the program conducted by the North Carolina Department of Commerce – Energy Division revealed that problems existed regarding production quality and the appropriate verification of all work being performed. The Agency reimbursed all disallowed costs to the funding source and implemented an intensive program improvement plan. Additional training was provided to the entire Energy Audit team and additional safeguards were put in place. They are as follows: 1) The State Energy Office conducted additional reviews to ensure that the improvement plan was implemented effectively; 2) The onsite reviews that followed reflected a significant improvement in both management and work quality; 3) Invoices are no longer submitted to accounting for processing until the final auditor has submitted a completed book reflecting that all work has been performed; 4) In addition to the submission of the booklet, photographs are also submitted to the Assistant Weatherization Coordinator to verify the work was performed; 5) After invoices are submitted to the accounting office, the invoices are signed and verified by the Assistant Weatherization Coordinator and by the Deputy Director/Weatherization Manager; 6) Two different auditors are now assigned to each home. One auditor performs the initial inspection and a second auditor conducts the final inspection.

In addition to the safeguards already implemented by the Agency, the new Executive Director will work closely with the Weatherization Manager to implement an Operations Manual for the Weatherization Program. Each employee of the program will be trained on the procedures outlined in the manual, sign an agreement stating they fully understand the policies, and be provided with a copy of the manual immediately. Any new hires will be required to undergo the same procedures as stated above. Additionally, the new Executive Director will work closely with the Weatherization Manager to research and secure an additional electronic auditing system that will efficiently monitor data statements, records, operations and performances

Gifts and Gratuities Provided to Four-County Employees

Response to Finding and Recommendation: The Agency reasonably agrees with this finding. The Interim Executive Director received the gift from a current subcontractor of the ARRA Weatherization Program. Other shared expenses, however, were reimbursed and did not result in a gift or gratuity in favor of the Agency or its employees. At the time the gift was received, the subcontractor had already been awarded a 3-year contract; however, they did submit a bid for continued work with the Standard Weatherization program. One of the Assistant Weatherization Coordinators is no longer employed by the organization.

The Administrative Policies and Procedures and the Financial Management Manual have already been amended to require Board approval of any contract with an interested party and/or any contract that may present the appearance of a conflict. In addition, the Executive Director will recommend to the Board of Directors an additional amendment to the Administrative Policies and Procedures Manual that states all employees who are involved in the purchasing of supplies or services and who are actively involved in the procurement process will be required to sign a disclosure statement to verify that these type of activities do not occur. The Weatherization Coordinator has since resigned from this position.

Improper Computer System Access Granted to Contractor

Response to Finding and Recommendation: The Agency agrees with this finding. Access to the AR4CA system has been revoked and no longer made available to the implied subcontractor or any other subcontractor of the organization.

Based on guidance provided to the Agency by the State Energy Office, work orders were released to the subcontractor with the estimated cost for the project (See Attachment A). Purchase orders were released after the work had been completed. The work order was the document that was used to authorize the work to be performed. Jobs were assigned to the various subcontractors based on the job location and the subcontractor's ability to perform the work. Every effort was made to assign jobs equitably utilizing location and productivity as a guide.

Final Inspection Issues

Response to Finding and Recommendation: The Agency agrees with this finding. Numerous inspections were conducted of the Market North Apartments project in Wilmington. Inspections were conducted by the former Weatherization Coordinator, by State Energy Office personnel, and other Agency staff. Since the review of this document the new Executive Director will ensure that a Weatherization Operations Manual (as mentioned above) will be implemented and will include a "Final Inspection Form" to be personally signed and certified by the individual performing the inspection. This form must be signed and approved by the Weatherization Manager before the contractor is paid.

15. CONTRACTS AWARDED WITHOUT OBTAINING BIDS

Response to Finding and Recommendation: The Agency generally agrees with this finding and will work with the awarding agencies to determine if any of the questioned costs should be refunded. Bids were not solicited for the leasing of the copiers that are utilized in the Agency's various locations; although the purpose for the change was to secure a cost savings (See Attachment B) for the Agency with the existing copier vendor who had been selected through a proper bid process. Additionally, although the bid for vehicles was not published in the local newspaper in 2009 and 2010, bids were solicited for the vehicles purchased for the ARRA Weatherization Assistance Program and written approval (See Attachment C) was received from the State Energy Office before the purchases were made.

The Board of Directors implemented a policy which requires that all contracts valued at $5,000 or more be approved in advance by the Board of Directors in a Resolution dated March 19, 2013. Moreover, to ensure compliance with the revised Administrative Policies and Procedures and Financial Management Manual, as well as OMB Circular A-122 and the North Carolina Administrative Code, the Interim Executive Director has completed the solicitation of bids for the employee fringe benefit package, Agency-wide insurance coverage, legal services, weatherization subcontractors and all other contractual services and major purchases with a value of $500 or more. The Board has reviewed and approved those contracts consistent with revised Agency Policy.

16. MISUSE OF COMPUTERS BY FOUR-COUNTY OFFICIALS

Response to Finding and Recommendation: The Agency agrees with this finding and will work with the awarding agencies to determine if the questioned costs should be refunded. The computers have been returned to the Agency and the board members in question no longer serve on the Agency's board of directors. The Agency has established a detailed listing of all computer equipment and peripherals and is maintaining an inventory reflecting the individual the equipment is assigned to. Computer equipment will no longer be assigned to members of the Board of Directors. In a Resolution dated March 19, 2013 the Board of Directors adopted new policies to deter the use of Agency equipment for strictly personal use.

17. BUSINESS RELATIONSHIPS INVOLVING FAMILY MEMBERS

Response to Finding and Recommendation: The Agency agrees with this finding and will work with the awarding agencies to determine if any of the questioned costs should be refunded. This bid for the office cleaning contract was conducted by the Purchasing Officer and approved by the former Executive Director. The subcontractor reported directly to the former Executive Director. Upon his termination, the Board of Directors was informed that Ms. Clark's mother cleaned the office building. The Board of Directors unanimously approved for her to continue her services but that the invoices be approved by the Chief Financial Officer. Ms. Ellis has since voluntarily elected to terminate her contract with the Agency.

The Weatherization subcontractor agreements were approved by the former Executive Director and the funding source. The interim Executive Director's sons worked for the contractors but had no ownership in the companies, and did not participate in the bidding process with the organization. The interim Executive Director did not assign jobs to the subcontractors and did not perform the final inspections. Her sons no longer work for either of the subcontractors in question. The Agency's former Executive Director's son was the assigned agent for the Agency's Life, Accidental Death and Dismemberment, and Long-Term Disability plan. The Agency solicited bids for all fringe benefits after receiving the results of the limited scope investigation conducted by the Office of the Internal Auditor of the North Carolina Department of Health and Human Services. Based on the results of that bidding process, the Board of Directors approved the cancellation of that policy and signed a contract with Group Benefit Consultants of Raleigh.

The Administrative Policies and Procedures and the Financial Management Manual have been amended to require Board approval of any contract with an interested party and/or any contract that may present the appearance of a conflict. In addition, the Agency has implemented the use of a disclosure statement located in the Administrative Policies and Procedures Manual. Each employee has been notified that they were required to immediately report all personal relationships with employees of the Agency and with any subcontractors. Current signed Disclosure Forms have been reviewed to ensure that a conflict of interest does not exist. The Executive Director will ensure future disclosure forms are reviewed at the time of submission to verify that a conflict of interest does not exist. Additionally it is recommended that all subcontractors sign a disclosure and conflict of interest agreement

18. EMPLOYMENT OF FAMILY MEMBERS

Response to Finding and Recommendation: The Agency agrees with this finding. The related employees in question were terminated from the organization on October 15, 2010 and July 15, 2010 for unrelated matters. Through the approval of a Resolution approved by the Board of Directors on March 19, 2013 the Agency has strengthened its policies as it relates to hiring practices. The Administrative Policies and Procedures have been amended to prohibit employment of related persons, except in extraordinary circumstances, which must be approved by the Executive Committee then recommended to the full Board. Nepotism disclosure statements will be completed by all staff annually and reviewed by the Executive Director and Department Heads to verify compliance and then filed in each individual's personnel file.

19. PAYMENT FOR EDUCATIONAL EXPENSES IN VIOLATION OF PROGRAM REGULATIONS

Response to Finding and Recommendation: The Agency agrees with this finding and will work with the awarding agencies to determine if the questioned costs should be refunded. College-level education costs are allowable when the course of degree pursued is relative to the field in which the employee is working or may be reasonably expected to work according to OMB Circular A-122. Since the review of this document the new Executive Director will ensure that job descriptions are reviewed prior to approving a Scholarship Application. In addition, the Finance Committee of the Board will review educational cost reimbursements going forward to insure compliance with Agency policy (i.e., completion of all relevant forms, approval by all necessary parties including the Department Head and Executive Director, and proper authorization of funds by the Comptroller) and with applicable grant cost principles. A Career Development Contract will be made a part of the employee's personnel file before any funds are released for education expenses. Both documents (Scholarship Application & Career Development Contract) will be reviewed and updated accordingly.

20. EMPLOYEE GYM MEMBERSHIPS PAID WITH GRANT FUNDS

Response to Finding and Recommendation: The Agency generally agrees with this finding and will work with the awarding agencies to determine if the questioned costs should be refunded. The fringe benefits package for all employees has been reviewed and changes made accordingly. Gym memberships were provided to encourage healthy lifestyles for employees with a view towards cost savings due to less absenteeism, healthier employees, and reduced health insurance costs. Gym memberships are no longer part of the employee's fringe benefits package.

21. UNNECESSARY TRAVEL BY FORMER FOUR-COUNTY BOARD CHAIR

Response to Finding and Recommendation: The Agency agrees with this finding and will work with awarding agencies to determine if the questioned costs should be refunded. Since the review of this document the new Executive Director will recommend to the Board that the current *Out of Area Travel* policy Administrative Policies and Procedures Manual be amended to require advance Board of Directors approval when lodging is required by a board member.

22. PERSONAL USE OF FOUR-COUNTY VEHICLE

Response to Finding and Recommendation: The Agency generally agrees with this finding and will amend the Internal Revenue Service Wage and Tax Statements (W-2) to reflect the taxable fringe benefit derived from the personal use of the Four-County vehicle. Mileage logs are now maintained for all vehicles to document the purpose of travel, itinerary, beginning and ending odometer readings, and the signature of the employee driving the vehicle. Logs are reviewed to verify accuracy by the Executive Director, Purchasing Manager, and other department heads.

23. IMPROPER USE OF FOUR-COUNTY RESOURCES FOR BOARD MEMBERS

Response to Finding and Recommendation: The Agency agrees with this finding. The Board of Directors amended the *Use of Agency Owned Equipment* policy in the Administrative Policies and Procedures to clarify that the use of resources for personal gain is strictly prohibited. The Executive Director will emphasize this policy with all employees and Board Members. In addition, the new Executive Director will ensure that a policy will be developed and presented to the Board of Directors for approval that will prohibit Four-County Board members from asking Four-County employees to perform personal tasks for them and that will prohibit members of the board from requesting personal assistance from employees.

MATTERS FOR FURTHER CONSIDERATION:

The Agency feels strongly that it is the appropriate agency to continue to deliver services on behalf of its awarding agencies. FCCS has successfully partnered with its awarding agencies to lift North Carolina families out of poverty for almost 50 years.

Since these issues were first raised by the Office of Internal Auditor of the North Carolina Department of Health and Human Services, the Agency has worked diligently to address them and to put in place checks and balances, such as those described herein, to prevent any reoccurrence. The Agency has hired a new Executive Director, Ericka Whitaker, who has her Masters of Science in Administration ("MSA"), with a concentration in non-profit management, is working on her Doctorate in Educational Leadership and Administration, and has years of experience In executive administration with several non-profit organizations, including national organizations. Ms. Whitaker is committed to working with the awarding agencies to ensure strict compliance with all legal requirements and cost principles. In addition, the Board removed the Executive Director, the Agency replaced its Board Chairman and Vice Chairman of the Board's Executive Committee, reduced the size of the Board, underwent an intensive two-day Board training conducted by Sharon Goodson and Tiffney Marley of the North Carolina Community Action Association, Lil Dupree of the Community Action Partnerships of Washington, DC, Attorney Ashley Perkinson, and financial management specialist Kay Sohl. Further, Attorneys

Melanie Dubis of Parker Poe, Tim Moore and Gene Davis thoroughly reviewed and made significant amendments to the Agency's By-laws, Administrative Policies and Procedures, and Financial Management Manual in order to assist in establishing best practices and increased checks and balances. Additionally the Agency re-bid all of its significant (over $500) contracts, retained new counsel and accountants to advise the Board, and implemented internal policies to strengthen its financial controls.

The Agency serves 1,000 children and families annually through its Head Start Program in a six-county area. The Agency operates a total of 15 Head Start Centers, 8 of which are accredited through the National Association for the Education of Young Children. All sites maintain a North Carolina Day License with four or more STARS. Operating a total of 51 classrooms, all associate teachers hold a four-year degree in Early Childhood Education or a related field and all assistant teachers hold a two-year degree in Early Childhood Education or a related field.

Through the ARRA Weatherization Assistance Program the agency weatherized 1,651 homes in an eight-county service area (Bladen, Brunswick, Columbus, Hoke, New Hanover, Pender, Robeson, and Scotland Counties) – weatherizing more homes than any other agency in North Carolina through ARRA. Currently the agency provides weatherization services in seven southeastern North Carolina counties and will weatherize 126 homes in 2013-2014. The auditing team are lead renovator certified, OSHA 30-hour certified, and hold the Asbestos Operation and Maintenance Certification. All auditors have been certified in Building Performance Institute Shell and Building Science Analyst programs. One member of the auditing team is also a licensed electrician. This team has a combined total of 44 years of experience.

The agency operates a Family Empowerment and Self-Sufficiency through the funding received from the Community Services Block Grant Program. During the 2013-2014 program year comprehensive services will be provided to 345 low-income families in seven southeastern North Carolina Counties. Case managers work to enroll families who are willing and able to reach their goal of self-sufficiency. The Agency assesses the individual strengths and help the families realize their goals for the future. All enrolled families are provided with assistance in financial management. The Agency provides families with assistance in improving their housing situation as needed. During the 2012-2013 program year 61 of the families served were able to obtain employment with 10 of those families receiving medication benefits. Nine families were assisted in obtaining better employment. There were 12 participants who completed educational or job training programs and 27 families secured standard housing while the Agency assisted others in maintaining their housing. There was an overall gain of $7,554.00 in income for the families served as a result of our assistance. The average hourly wage for those we served was $9.07 per hour.

The Agency administers the Housing Choice Program in Scotland County, assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Participants are able to find their own housing, including single-family homes, townhouses, and apartments. The participant is free to choose any housing that meets the requirements of the program and is not limited to units located in subsidized housing. Through this program quality housing is provided to a minimum of 429 families annually.

Attachment A

Vickei Carter

From: "Banks, Lynn G" <lbanks@nccommerce.com>
Date: Tuesday, November 16, 2010 9:42 AM
To: "Greene, Richard" <greener@4ccs.org>; <carteva@4ccs.org>
Cc: "Joyner, Rita L" <rjoyner@nccommerce.com>; "Davis, Harold" <hdavis@nccommerce.com>; "McKeown, Daniel A" <dmckeown@nccommerce.com>; "Eason, Dawn" <deason@nccommerce.com>; "Hawley, Donald S" <dhawley@nccommerce.com>
Subject: Work orders for Subcontractors

Mr. Green and Vickie,

Below is the information that I received regarding the preparation of a work order for subcontractors. The receipt for materials is not required but is considered a best practice.

The agency will prepare a work order from what the initial auditor has determined will be needed to weatherize a house.
That work order will include an estimate of the number of man hours needed to weatherize the house. It will also include a list of materials and the fair market value of those materials to weatherize the house.
The agency will give the work order to the subcontractor.

The subcontractor will weatherize the house and invoice the agency for the actual cost of materials. The invoice will include a copy of the subcontractor's receipt for those materials (if no receipt is included for a material then no payment is made by the agency for that material). If the subcontractor has purchased materials in bulk, then he will provide a copy of the original purchase receipt along with how many of those items were used.
The subcontractor will invoice the agency for the actual man hours used.

I hope this helps. If you have any questions please let me know

Thanks!

Lynn Banks, CPA
Fiscal Analyst for the Weatherization Assistance Program
NC Department of Commerce
lbanks@nccommerce.com
Telephone: (919) 715-3587
Fax: (919) 733-2953

11/16/2010

Attachment B

Current Annual Cost - $94,118.93 - $5,932.50 monthly lease payments ($5004.28 + $928.22) plus $1378.44 monthly service on 27-2050's & 1-TA221 plus $303.90 avg. monthly service on 500ci & 820, plus overage over past year $2740.85 (203,026 copies x .0135)

Proposed Annual Cost - $85,500.00 - $5,475.00 monthly lease plus $1,650.00 monthly service.

SUMMARY

TOTAL ANNUAL SAVINGS - $8,618.93
TOTAL SAVINGS DURING LEASE - $43,094.65
Eliminates color outsourcing @ .75 to $1.00 per page.
(Example 500 x .75 = $375.00 vs. 500 x .0690 = $34.40)
One lease payment instead of two as well as one service agreement covering all equipment.

CUSTOMER APPRECIATION BONUS

FREE 1601 MARTIN YALE FOLDING MACHINE
(5 different type folds)
($1300.00 value)

Thank you,

Roger C. Sikes Jr.

Roger C. Sikes, Jr.
Senior Solutions Consultant
Sandhills Office Systems, Inc
08-28-2012

Attachment C

AUG 25 2009

North Carolina Department of Health and Human Services
OFFICE OF ECONOMIC OPPORTUNITY

Beverly Eaves Perdue, Governor
Lanier M. Cansler, Secretary

Verna P. Best, Acting Director

August 21, 2009

Mr. Richard Greene
Executive Director
Four-County Community Services, Inc.
Post Office Box 988
Laurinburg, NC 28353

Dear Mr. Greene:

We have reviewed the Vehicle Request Forms and support information submitted for the purchase of four 2009 Ford Escape Hybrid vehicles. We are providing approval for Four-County Community Services, Inc. to proceed with these purchases after funding is received. Submit an updated inventory listing all equipment costing more than $500 after the vehicles are purchased. Please contact Tom Amoreno if you need further assistance regarding this matter.

Sincerely,

Verna P. Best

Verna P. Best

VPB/TLA/ask

Enclosures

Mailing Address:
2013 Mail Service Center
Raleigh, NC 27699-2013

Telephone (919) 715-5850
Fax (919) 715-5855
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Location:
222 North Person Street
Raleigh, North Carolina

Page 1 of 1

Kim Clark

From: "Davis, Harold" <Harold.Davis@ncdenr.gov>
Date: Wednesday, November 13, 2013 12:35 PM
To: "Kevin Thomas" <Kevin_Thomas@ncauditor.net>
Cc: <berry_long@nccauditor.net>; "Joyner, Rita L" <Rita.Joyner@ncdenr.gov>; "Kim Clark" <clarkkc@4ccs.org>
Attach: FCCS Vehicle Approval.pdf
Subject: FCCS Rav-4's

Kevin,

When FCCS updated their vehicle request from Escapes to Rav-4's, they were giving verbal approval to move forward with the purchase. An additional approval letter was not issued to them.

Harold Davis, III (Please note the updated contact information)
Deputy Section Chief, NC Weatherization Assistance Program
Department of Environment and Natural Resources
Division of Energy, Mineral, and Land Resources
Harold.Davis@ncdenr.gov
Telephone: (919) 707-9254
Mailing Address:
4345 Mail Service Center
Raleigh, NC 27699-4345
Physical Address:
217 West Jones Street
Raleigh, NC 27603

North Carolina
Weatherization
Assistance Program

11/13/2013

North Carolina Department of Commerce
Energy Division

Beverly Eaves Perdue, Governor
Dale Carroll, Deputy Secretary

J. Keith Crisco, Secretary
Ward Lenz, Energy Division Director

April 22, 2010

Mr. Richard Greene
Executive Director
Four-County Community Services, Inc.
Post Office Box 988
Laurinburg, NC 28353

Dear Mr. Greene:

We have reviewed the Vehicle Request Forms and support information submitted for the purchase of three 2010 Toyota RAV4 vehicles. We are providing approval for Four-County Community Services, Inc. to proceed with these purchases after funding is received. Submit an updated inventory listing all equipment costing more than $500 after the vehicles are purchased. Please contact Tom Amoreno if you need further assistance regarding this matter.

Sincerely,

Harold Davis, III

HDIII/TLA/cdl

Enclosures

Mailing Address:
2013 Mail Service Center
Raleigh, NC 27699-2013

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North Carolina Department of Health and Human Services

Pat McCrory
Governor

Aldona Z. Wos, M.D.
Ambassador (Ret.)
Secretary DHHS

February 3, 2014

Via email and U.S. Mail

The Honorable Beth Wood
Office of the State Auditor
20601 Mail Service Center
Raleigh, NC 27699-0601

RE: Your January 14, 2014 correspondence regarding Four-County Community Services, Inc.

Dear Auditor Wood:

Thank you for the opportunity for the Department of Health and Human Services (DHHS) to respond to the recommendation in Finding 12 of the draft investigative report you submitted to me on January 14, 2014. Thank you, too, for your response to DHHS' request last year for the Office of the State Auditor to audit Four-County Community Services, Inc. (Four County) following DHHS' Office of Internal Audit's audit of Four County. As requested by your staff, please find a revision to the prior Department of Health and Human Services' (DHHS) Response dated January 28, 2014.

As noted in your draft investigative report, based upon information the Division of Child Development and Early Education (DCDEE) was receiving from several sources regarding Four County, DCDEE began scrutinizing Four County's use of Pre-K funds. One clarification to the background information in Finding 12 is that in response to its request to Four County for documentation, DCDEE did receive some information from Four County on November 22, 2013 regarding accumulated funds.

As requested in your January 14, 2014 letter, the following is DHHS' response to Finding 12:

"Recommendation: Child Development and Head Start should determine the cause of the accumulation of excess funds. These agencies should seek reimbursement if they determine that the accumulated funds resulted from using multiple funding sources to pay expenses for the same children, overcharging for program services, or overstating attendance. Any unearned More at Four/NC Pre-K funds should be repaid to the DHHS, Division of Child Development and Early Education.

Local Education Agencies and Smart Start Partnerships that contract with Four-County should enhance their monitoring tool to test for supplanting to ensure compliance with applicable rules and regulations."

www.ncdhhs.gov
Telephone 919-855-4800 • Fax 919-715-4645
Location: 101 Blair Drive • Adams Building • Raleigh, NC 27603
Mailing Address: 2001 Mail Service Center • Raleigh, NC 27699-2001

Response:

The More at Four program was transferred from the Department of Public Instruction (DPI) to the DCDEE in SFY 11-12. DCDEE kept the DPI's contract structure in place, which was to contract with 91 local Smart Start partnerships and school districts to administer NC Pre-K in their communities and these contractors then subcontracted with local NC Pre-K sites, such as Four County, to serve children. Initially, as they had been at DPI, NC Pre-K contracts and subcontracts were purchase of service contracts.

In SFY 12-13, DCDEE implemented a standardized NC Pre-K rate structure and changed the NC Pre-K contracts with its contractors (local partnerships and schools) from purchase of service contracts to financial assistance contracts. Instead of DCDEE paying NC Pre-K contractors a set amount "per slot" filled each month, contractors were responsible for establishing a budget for their administrative and direct services funds. Any unspent Pre-K funds from those contracts now revert back to DCDEE at the end of the contract period.

However, any subcontracts executed by the contractors with Pre-K sites remain purchase of service contracts pursuant to which they are contracted to provide Pre-K services to a certain number of children, at a certain monthly rate, following the NC Pre-K program requirements. As purchase of service subcontractors, the Pre-K sites are not required to submit a budget or to report on how the funds are expended.

Four County operated NC Pre-K sites in SFY 12-13 and in previous years. As a NC Pre-K subcontractor, Four County operated Head Start centers and served NC Pre-K children in their classrooms. NC Pre-K allows for Head Start children to be dually enrolled in NC Pre-K, because the children benefit from the combined program requirements and enhanced family and health services. Rather than supplanting Head Start funds, NC Pre-K funds cover the added costs of lower staff/child ratios, and a longer school day and year for the dually-enrolled children.

DCDEE will direct each of its NC Pre-K contractors who subcontracted with Four-County to confirm that since July 1, 2011, Four-County earned the funds that they were paid, that the funds they earned were allowable, and that the funds earned did not inappropriately supplant existing funds for pre-k educational services; and, direct the NC Pre-K contractor to repay any funds paid to Four-County that were not earned, that were unallowable, or that inappropriately supplanted existing funds.

Thank you again for this audit and for the opportunity to respond to Finding 12. Please contact me if you have any questions.

Sincerely,

Aldona Wos, M.D.
Secretary

Cc: Sherry Bradsher
Emery E. Milliken
Rob Kindsvatter
Chet Spruill

NCDENR

North Carolina Department of Environment and Natural Resources

Pat McCrory Governor	John E. Skvarla, III Secretary

January 29, 2014

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

Dear Ms. Wood,

Thank you for your letter dated January 14, 2014 regarding the recent investigation of Four-County Community Services, Inc. Attached you will find our response to the documented concerns highlighted in the Financial Related Audit and Investigative Report. Although the responses are specific to the findings in the most recent audit, we believe there are additional areas in which we can make further improvements to the administration and implementation of these programs. We are currently taking necessary steps to outline and implement a tactical and strategic plan to address the inefficiencies and risks of administering this program.

Based on the review of this report as well as prior audits, I have assigned my Special Assistant, Cecilia Holden, to begin an extensive study of the program. This will entail a review of program policies and procedures, the administrative staff overseeing these funds, the sub-grantees and subcontractors who are to be held accountable for fiscal management, and the effectiveness of these federal grants. This process will involve an in depth study and will require months to complete; however, initial exploration has surfaced other sub-grantee agencies who may also be similar in nature to what your office found with Four-County. If further research on our end confirms our concerns, we may request additional assistance from your office for audit and investigative purposes.

1601 Mail Service Center, Raleigh, North Carolina 27699-1601

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We appreciate the work conducted by you and your staff and the opportunity to review and respond to the report. Should you have any questions or need additional information, please contact Cecilia Holden, Special Assistant at (919)707-8609.

Sincerely,

John E. Skvarla, III, Secretary
Department of Environment and Natural Resources

Cc: Mitch Gillespie, Assistant Secretary for Environment
Tracy Davis, Director, Division of Energy, Mineral, and Land Resources
Cecilia Holden, Special Assistant to the Secretary
Heather Horton, Director, DENR Internal Audit
Rex A. Whaley, DENR Chief Financial Officer

Attachment 1A

Attachment 1A

Department of Environment and Natural Resources
Financial Related Audit and Investigative Report Responses

Finding 14: Weatherization Assistance Program Mismanagement

Recommendation: Adopt/enforce written requirement that a Final Inspection Form be signed/certified by the person who performed the inspection

Response: *We agree with the Auditor's recommendations to adopt a policy for the Weatherization Assistance Program to require that a signed/certified Final Inspection Form be on file prior to making contractor payments. WAP State Office will include a written requirement in the FY14-15 Program and Budget Guidance that a final inspection be performed prior to sub-contractor payment effective July 1, 2014. Enforcement will be monitored during annual technical/programmatic reviews and policies will be put in place to address any violations of contractual agreements between the State and the sub-grantees as well as the sub-grantees and their sub-contractors.*

Recommendation: The State Energy Office should expand its review of jobs invoiced by T and L.

Response: *The WAP State Office will perform additional reviews of work performed by T and L and if other invoices were paid for work not performed, the State Office will pursue recovery of these funds.*

Recommendation: The North Carolina Department of Administration should place T and L and its owners on the Debarred Vendors list.

Response: *If deemed appropriate, The Department of Environment and Natural Resources (DENR) will work with The North Carolina Department of Administration to have T and L, its owners and other involved participants, placed on the Debarred Vendors list.*

Finding 15: Contracts Awarded Without Obtaining Bids

Recommendation: Awarding agency should determine if $645,724 (copier contract; vehicle purchases) in questioned costs should be refunded

Response: *The WAP State Office will review the copier contract and associated costs, as well as the documentation pertaining to the bid process involved in the purchase of the vehicle. If the costs are questionable and/or proper bidding policies and procedures were not followed, the Department will pursue recovery of questioned costs associated with this finding. If the State Office does not require bidding policies and procedures at the sub-grantee level for larger* *purchases and leases such as this, the State Office will include this as a requirement in the FY14-15 Program and Budget Guidance, effective July 1, 2014.*

Recommendation: Four-County should consider taking disciplinary action against the interim Executive Director for failing to follow bidding policies and procedures.

Response: *In a letter dated, January 17, 2014, Four-County notified DENR that they have named a new Executive Director. We are unaware of any disciplinary action taken against the former interim Executive Director.*

Finding 17. Business Relationships Involving Family Members

Recommendation: Awarding agency should determine if $3,493,069 (cleaning contract; T and L; insurance premium) in questioned costs should be refunded.

Response: *The WAP State Office will implement a policy requiring agencies to include a conflict of interest form in the subcontractor bid package. Effective immediately, the WAP fiscal monitoring review now includes a complete review of an agency's general ledger for questionable indirect costs and cost allocation. We will review the costs in question specific to this finding and if it is found that Four-County costs are questionable and/or policies and procedures were not followed in obtaining these services, the Department will pursue recovery of questioned costs associated with this finding.*

MATTERS FOR FURTHER CONSIDERATION

The Office of the State Auditor found $4,862,192 in questioned costs during its audit and investigation of Four-County stemming from 23 findings, not including additional findings by internal auditors at the Department. The magnitude and quantity of the deficiencies within this agency merit serious consideration. The state Department of Health and Human Services and Department of Environment and Natural Resources as well as the federal Department of Health and Human Services, Department of Housing and Urban Development, and Department of Energy should determine whether Four-County is the appropriate agency to deliver services on their behalf.

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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

Telephone: 919-807-7500

Facsimile: 919-807-7647

Internet: http://www.ncauditor.net

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477

or download our free app

https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor

https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745

For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513

This engagement required 3,744.5 hours at a cost of $269,670 and resulted in $4,862,192 in questioned costs. The cost of the engagement includes the completion of the financial related audit and the investigative report. Investigators had to review and evaluate 60 total allegations, 23 of which were substantiated. Four were referred to other agencies for review.