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PRESS RELEASE

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Hyman Foundation riddled with conflicts of interest, Ralph Campbell says in investigative audit

RALEIGH _ The John A. Hyman Memorial Youth Foundation, financed with state grants over 10 years, was riddled with apparent conflicts of interest and had no formal structure for awarding “mini-grants” to churches and programs that were supposed to fight alcohol and drug abuse, an investigative audit released Wednesday by State Auditor Ralph Campbell indicates.

The special review of the nonprofit foundation was sparked by calls to the State Auditor’s Hotline and a request from the General Assembly. The review indicated that the Hyman Foundation received an average of \$211,500 annually from 1994 to 2003. Funding for the foundation was held up, and ultimately cancelled, earlier this year after the Department of Correction failed to receive financial information as required by the statutes from foundation officials. Due to the lack of records and time constraints, this review examined only the last 34 months of foundation activities.

The audit indicated that grant funds for the foundation were included in the state budget during the period when former state Sen. Frank Ballance, D-Warren, who now represents the 1st District in Congress, was vice chairman of the Senate Appropriations subcommittee that oversaw the budget for the Department of Corrections. Ballance was also chairman of the Hyman Foundation Board of Directors, and chairman of the Board of Deacons for Greenwood Baptist Church, which leased space to the foundation.

Auditors found numerous apparent conflicts of interest, including payments from the foundation to Ballance’s relatives and foundation employees who also served on Ballance’s election campaigns. At least some of those who received funds from “mini-grants” from the foundation also donated to Ballance’s campaigns.

Auditors found no formal process for seeking the grants, and few financial records of how those grants were used. Interviews with grant recipients indicated that some used the funds they received for drug and alcohol treatment and prevention projects, while others used the funds for projects that had no apparent connection to substance abuse. In most cases, no financial documentation was provided to indicate how the funds were used.



Auditors also found that the foundation:

- Paid the chairman's daughter \$5,000 for work that was not performed.
- Did not comply with state or federal regulations that require financial reporting by nonprofit corporations;
- Wrote a \$35,000 check to Greenwood Baptist Church for rent without any supporting documentation.
- Retained state appropriations by transferring funds and classifying the money as "administrative cost;"
- Awarded a mini-grant to an organization that employed the chairman's mother.
- Paid board members to attend its annual meeting in violation of its bylaws; and
- Reimbursed the foundation director for an expense that was also reimbursed by the state.

The spending questioned by auditors amounted to \$325,459.47. That total included both questionable activities and areas where auditors recommended increased oversight. It should be noted that the State Auditor is highly recommending that the state seek reimbursement of \$238,925.93 that the foundation has not spent on substance abuse programs.

"Nonprofit organizations across our state perform tremendous service for their communities," Campbell said. "And they should receive state help whenever possible to carry out needed human service, educational and economic development programs.

"But in these times of tight resources, those who receive taxpayer funds must be held accountable for every dollar that they receive," he said. "Certainly, the General Assembly should hold its members responsible for disclosing their involvement in nonprofit agencies that receive state funding. And the agencies themselves must be accountable for how they use the funds they are given.

"We feel so strongly about this that we have reorganized our office to create a new position of Nonprofit Specialist. This person will oversee the reporting required of nonprofit agencies, will help educate those agencies about their reporting responsibilities and will prepare the annual report on state funding to nonprofit agencies," Campbell said. "We believe this will focus needed attention on this area of state spending and improve accountability of state funds."

The report is available on-line at <http://www.ncauditor.net/EPSWEB/EDSreportdetail.asp?RepNum=INV-2003-0264>.

Copies of the report may be obtained at the office's web site at www.ncauditor.net. Printed copies of the report can be obtained by filing a request under the Audits section of the web site or by calling the Office of the State Auditor at 919-807-7500.

