

# STATE OF NORTH CAROLINA

## INVESTIGATIVE REPORT

**REAL G.I.R.L.S., INC.**

**RALEIGH, NORTH CAROLINA**

**DECEMBER 2012**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

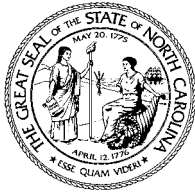
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# Office of the State Auditor



**Beth A. Wood, CPA**  
State Auditor

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## AUDITOR'S TRANSMITTAL

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The Honorable Beverly Perdue, Governor  
Members of the North Carolina General Assembly  
June Atkinson, State Superintendent, North Carolina Department of Public Instruction

Ladies and Gentlemen:

Pursuant to North Carolina General Statute §147-64.6(c)(16), we have completed an investigation of allegations pertaining to the 21<sup>st</sup> Century Community Learning Center grant awarded to Real G.I.R.L.S, Inc. by the North Carolina Department of Public Instruction. The results of our investigation, along with recommendations for corrective action, are contained in this report.

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

December 3, 2012

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## INTRODUCTION

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The Office of the State Auditor received a complaint regarding a grant from the North Carolina Department of Public Instruction (Department) to Real G.I.R.L.S., Inc. Allegedly, the Executive Director misused grant funds received from the Department.

To conduct our investigation of this complaint, we performed the following procedures:

- Review of applicable grant compliance requirements
- Review of the Department's applicable grant policies and procedures
- Examination of relevant documents and records
- Interviews with employees of the Department
- Interviews with the Executive Director of Real G.I.R.L.S., Inc.

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

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## **ORGANIZATION AND PROGRAM OVERVIEW**

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Real G.I.R.L.S., Inc. (RGI) was incorporated in North Carolina in 2008 as a non-profit corporation. RGI is exempt from income tax under section 501(c)(3) of the Internal Revenue Code. RGI is located in Raleigh, North Carolina, which is also the service area for its summer programs. According to RGI's website, its mission is "to create a firm foundation of character excellence through self awareness and education; and to build strong family, peer and community relationships that will lead to present and future success."

The North Carolina Department of Public Instruction (Department) administers a grant program known as the 21<sup>st</sup> Century Community Learning Center (Learning Center). Under this grant program, the Department disbursed \$49,099 to RGI in 2010 and another \$49,615 in 2011, for a total of \$98,714. The Department is required to monitor the quality and effectiveness of the programs operating with funds provided through Learning Center grants.<sup>1</sup>

The purpose of the Learning Center program is to provide students with academic enrichment opportunities along with activities designed to complement regular academic programs. Grantees provide a range of services to support student learning and development. The grant funds assist schools, local education agencies, and faith or community-based organizations to provide before school, after school, and summer services. These services include, but are not limited to, tutoring and mentoring, homework assistance, academic enrichment (such as hands-on science or technology programs), community service opportunities, music, art, sports, and cultural activities. Centers also strive to provide safe environments for students during non-school hours.

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<sup>1</sup> The monitoring requirement is set forth in Section 5 of the Department's Standards and Procedures Handbook.

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## **FINDINGS AND RECOMMENDATIONS**

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### **1. THE EXECUTIVE DIRECTOR FAILED TO PROVIDE ADEQUATE SUPPORTING DOCUMENTATION FOR REIMBURSEMENTS.**

The Executive Director of Real G.I.R.L.S., Inc. (RGI) could not provide adequate supporting documentation to demonstrate that grant funds were properly used. Instead, she provided an assortment of invoices, register receipts, and other documents that could not be matched to any of RGI's reimbursement requests. Additionally, the North Carolina Department of Public Instruction (Department) did not require supporting documentation for the reimbursement requests prior to the processing of payments.

We provided the Executive Director multiple opportunities to furnish adequate supporting documentation for the reimbursement requests submitted by RGI. The Executive Director was unresponsive which eventually led to her being served with a subpoena prepared by the Office of the State Auditor. During a subsequent meeting, the Executive Director was still unable to reconcile RGI's reimbursement requests with paid invoices, register receipts, and other documentation.

We compared the \$49,615 paid to RGI in 2011 with the documentation provided by the Executive Director. Only \$35,145 was supported by invoices, register receipts, service contracts, and other documentation. The remaining \$14,470 of grant funding could not be explained. In addition, RGI's books and records were highly unorganized and incomplete.

Although the grant budget allotted \$15,000 for the Executive Director's salary, she received only one check for \$3,750 for her salary. The Executive Director said that the remaining \$11,250 allotted for her salary was "taken in the form of purchases for personal items, ATM withdrawals, and cash back on purchases using the non-profit's corporate debit card." When we asked the Executive Director why she did not pay herself the \$11,250 in the form of one or more checks, she said "there wasn't enough money left over to write myself a check after paying the camp counselors and other expenses."

According to the Department's Fiscal Guidance Manual, "...program funds may be used only to cover costs that comply with the approved grant application and budget and are reasonable and necessary for the proper and efficient performance and administration of the grant." Purchasing personal items and withdrawing cash did not adhere to the budget agreed to by RGI and the Department. This improper use of grant funds could be construed as a use of grant funds by the Executive Director for personal gain.

The Executive Director admitted that she did not report the \$15,000 compensation on her 2011 income tax return. She said she failed to report this income because she "was starting a new job, traveling, and did not even think about it."

The State Coordinator and Education Consultants at the Department told us that the Department did not require grant recipients to submit invoices, receipts, or proof of payment with their reimbursement requests. For a payment to be processed, the grant

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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recipients merely needed to log into an online system<sup>2</sup> and request a reimbursement for an amount for the budget line-items available. The Department did not require supporting documentation for the reimbursement request prior to the payment being processed. The failure to require proof that grant funds were properly spent prior to the receipt of reimbursements contributed to the potential misuse of grant funds.

### **RECOMMENDATION**

The Department should require all grantees to submit supporting invoices, receipts, and proof of payment with all reimbursement requests to ensure that they are valid and support the program objectives. Real G.I.R.L.S., Inc. should be required to refund the Department for any reimbursements that are unsupported or that do not directly relate to the program's objectives.

**This finding will be referred to the Internal Revenue Service and the North Carolina Department of Revenue.**

## **2. THE EXECUTIVE DIRECTOR REQUESTED AND RECEIVED REIMBURSEMENTS BEFORE THE EXPENDITURE OF FUNDS IN VIOLATION OF PROGRAM REGULATIONS.**

Our review of the supporting documentation provided by the Executive Director revealed that reimbursements were requested prior to the expenditure of funds. Additionally, two of the invoices submitted for reimbursement by the Executive Director have never been paid in full by Real G.I.R.L.S., Inc. (RGI).

A t-shirt vendor billed RGI \$4,250 for custom t-shirts, polo shirts, and canvas bags, but our review of RGI's bank statements showed that the vendor was paid only \$1,500. The vendor confirmed that the invoice had not been paid in full. Nevertheless, the Executive Director submitted a reimbursement request to the Department and received the entire \$4,250. The Executive Director said she only paid \$1,500 because that was the budgeted amount for this activity. Based on documentation from the Department, the approved budget for t-shirts was only \$1,000. She claimed that she paid an additional \$1,000 or \$1,200 out of her own pocket and that the remaining balance was not paid due to a dispute with the vendor. The fact remains, however, that RGI was reimbursed for the entire \$4,250 while actually paying considerably less.

The \$4,250 custom shirt and bag order provided each of the campers and camp counselors with a different t-shirt for each day of a five-day camp. We question the need for 450 custom shirts and 75 bags as there were only 30 campers and seven camp counselors for the five-day camp.

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<sup>2</sup> The online system used by the North Carolina Department of Public Instruction is referred to as ERaCA (Expenditure Reporting and Cash Application for Education Centers).

## **FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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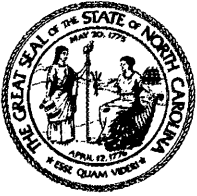
RGI also received reimbursement for golf instruction and golf facility rental for \$1,000. However, our review of RGI's bank statements showed that the golf vendor was never paid, which that vendor confirmed. The Executive Director did not provide a reason for not paying the \$1,000 owed to the golf vendor.

The Department's Fiscal Guidance Manual for the grant program stipulates that the 21st Century Community Learning Center program operates on a reimbursement basis. As such, grantees should spend funds before reporting expenditures and requesting reimbursement from the Department. The failure to require proof of payment of invoices limits the Department's ability to adequately monitor, approve, and control grant spending.

### **RECOMMENDATION**

The Department should require proof of payment from all grantees in the form of canceled checks and/or bank statements prior to reimbursement of expenses. Additionally, the Department should recover the portion of funds expended on t-shirts that are in excess of the budgeted amount and appear to be wasteful. Real G.I.R.L.S., Inc. should be placed on the State's suspension of funding list and prevented from receiving future grant funds.

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**PUBLIC SCHOOLS OF NORTH CAROLINA**

DEPARTMENT OF PUBLIC INSTRUCTION | June St. Clair Atkinson, Ed.D., *State Superintendent*

WWW.NCPUBLICSCHOOLS.ORG

**TO** Beth A. Wood, State Auditor

**FROM** June St. Clair Atkinson 

**DATE** October 5, 2012

**RESPONSE TO RECOMMENDATIONS IN SEPTEMBER 2012 AUDIT REPORT**

In order to improve monitoring of 21st Century Community Learning Center (CCLC) sub-grant reimbursements, North Carolina Department of Public Instruction (NCDPI) will implement a random sampling process by which randomly selected non-LEA (local education agency) units, upon submitting an expenditure request, will be required to submit source documentation supporting that expenditure request. Cash requests for these randomly selected units will be suspended until submitted documents are reviewed. Significant discrepancies between cash requests and documentation supporting expenditures will be cause for cessation of reimbursement until corrections are provided.

In addition, NCDPI is requesting repayment of any funds that the 21st CCLC sub-grantee, Real G.I.R.L.S., Inc. cannot provide source documents sufficiently to support reimbursements. The first notification of repayment was sent to the Executive Director on September 20, 2012, by certified mail and email. NCDPI has initiated the process to permanently suspend future grant funds for Real G.I.R.L.S., Inc.

JSA/DRB/sm

**FEDERAL PROGRAM MONITORING AND SUPPORT DIVISION**

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AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

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## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

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

Telephone: 919/807-7500

Facsimile: 919/807-7647

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This investigation required 282 hours at an approximate cost of \$20,304. The cost represents 0.34% of the \$5,921,123 expended for the North Carolina 21<sup>st</sup> Century Community Learning Centers summer program for grant year 2011.