

SPECIAL REVIEW

**BLACK ARTISTS' GUILD, INC.
A NON-PROFIT CORPORATION
KINSTON, NORTH CAROLINA**

NOVEMBER, 1993

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Mr. Thomas L. Covington	Director, Fiscal Research Division

Other Parties

Ms. LaVerta Gooding	President of the Black Artist Guild, Inc.
Mr. Gary Dove	Board of Directors Executive Director of the Black Artist Guild, Inc.

November 10, 1993

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November 10, 1993

The Honorable James B. Hunt, Jr., Governor
Secretary Betty Ray McCain
North Carolina Department of Cultural Resources
Ms. LaVerta Gooding, President of the Black Artists'
Guild, Inc. Board of Directors
Mr. Gary Dove, Executive Director of the
Black Artists' Guild, Inc.
Members of the General Assembly of North Carolina

Ladies and Gentlemen:

Pursuant to General Statute 147-64.6(c)(16), we have completed our special review into allegations concerning the Black Artists' Guild, Inc. The results of our review, along with recommendations for corrective actions are contained in this report.

General Statute 147-64.6(c)(12) requires the State Auditor to provide the Governor, the Attorney General, and other appropriate officials with written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee. In accordance with that mandate, and our standard operating practice, we are providing copies of this special review to the Governor, the Attorney General, the Director of SBI and other appropriate officials.

Ralph Campbell, Jr.
State Auditor

EXECUTIVE SUMMARY

Black Artists' Guild, Inc.

The Guild, a nonprofit corporation, was established in 1980 to encourage and cultivate high artistic standards.

The majority of the Guild's financial support during the 1992-93 fiscal year was a \$22,500 grant from the North Carolina Department of Cultural Resources.

This special review originated with a call received over the State Auditor's Hotline alleging that the Guild was misusing grant funds.

The former Financial Secretary withdrew \$9,252 from the Guild. The former Financial Secretary stated that the withdrawals were authorized by the Guild's Executive Director and were made to provide:

- ◆ \$4,365 in loans to the former Financial Secretary to pay his personal expenses;
- ◆ \$1,385 that was given to the Executive Director;
- ◆ \$300 to purchase something for the Guild, but he can not remember what was purchased;
- ◆ \$100 for a Guild program, but there are no supporting receipts;
- ◆ \$250 to reimburse him for Guild expenses that he had incurred.

The former Financial Secretary does not remember why he withdrew the remaining \$2,852. The Executive Director stated that he did not receive any funds or know about or approve any of the withdrawals.

The Treasurer was allowed to borrow \$1,300 from the Guild without obtaining the approval of the Board of Directors as required by General Statute 55A-18.

The Executive Director withdrew \$700 from the Guild by signing the Treasurer's name to a check without her knowledge.

The Treasurer withdrew \$925 from the Guild. She has no explanation for the withdrawal and there is no documentation that explains why she withdrew the money.

The Executive Director signed his own expense reimbursement checks, but there are no records to support the claimed expenses.

\$280 was withdrawn from Guild bank accounts through withdrawal slips that purported to be signed by the Executive Director, but he stated he did not sign them.

Guild records are incomplete and in disarray.

The Guild has not paid Social Security taxes since 1990.

We have recommended that the State not make any more grants to the Guild until corrective action has been taken.

OVERVIEW

The Black Artists' Guild, Inc. (Guild) is a non-profit corporation that was established in 1980 in Kinston, North Carolina. According to the articles of incorporation, the Guild was established as a "tax exempt educational service organization with the constant purpose to encourage and cultivate high artistic standards; to study and help alleviate problems concerning the black artist in particular in order to improve the stature of all artists; to provide physical and emotional support for aspiring and established black artists and to promote, preserve, and protect Afro-American cultural heritage through educational programming."

The Guild is governed by a Board of Directors who are elected by the members and serve three (3) year terms. There are currently nineteen members on the Board. According to the by-laws, the Board shall have a President, Vice-President, Treasurer, Recording Secretary, and Corresponding Secretary. The Guild has two part-time employees, an Executive Director and an Associate Director. From July, 1989 through June, 1992, the Treasurer, President, and Executive Director were authorized to sign the Guild checks. Beginning in June, 1992, the Financial Secretary was also given the authority to sign checks. On June 30, 1993, his name was deleted from the signature card.

The Guild is supported by membership fees, dues, donations, and grants. In fiscal year 1992-93, the Guild received \$22,500 in grant funds from the North Carolina Department of Cultural Resources. This amount constituted the majority of receipts deposited into the Guild's bank accounts during the year.

INTRODUCTION

The Office of the State Auditor received an allegation through its Hotline that the Executive Director of the Black Artists' Guild, Inc. (Guild) had misused grant money.

Based on the information received through the Hotline, we contacted the Executive Director and scheduled a meeting for July 22, 1993 to begin our review. In that first meeting, the Executive Director, Treasurer, and President informed us that some of the financial records were missing. They said that the former Financial Secretary for the Board had been keeping these records, and that he had moved to Fayetteville. We reviewed the available records, and found that a considerable number were missing. We subsequently contacted the prior Financial Secretary, who informed us that he did not have any of the Guild's records, and that he had left them in good order at the Guild. We returned to the Guild and approached the Executive Director again about the missing records. This time he stated that he suspected that the former Financial Secretary had "embezzled" some of the Guild's funds based on some of the recent transactions he had observed. We then asked him why he had not informed us of this in our first meeting. Both the President and the Executive Director stated that they had decided not to tell us about the suspicious transactions because they knew that we would find them later. In addition, they stated that the President had contacted the former Financial Secretary concerning the transactions, and they were setting up a repayment plan. According to the former Financial Secretary, the money he had taken was loaned to him by the Executive Director, who has denied this. At that time, they had not informed the Board about the situation.

We inventoried the records at the Guild. We also requested copies of missing documents from the banks. At the time of this report, there were sufficient records to

account for almost all withdrawals and disbursements from the savings and checking accounts. It can not be determined if the Guild received all the funds collected on its behalf at fundraisers and similar events. The Guild's lack of internal controls means there is little assurance that receipts were always written when funds were received.

On August 3, 1993, the Executive Director, at the insistence of the Vice-President, signed an Affidavit of Forgery with the bank for three unauthorized counter checks that were written in July, 1993 and presented to a bank in Fayetteville, North Carolina. On August 5, 1993, the President of the Board called a special meeting and informed the Board of the suspicious transactions. On September 2, 1993, the Fayetteville Police Department served papers on the former Financial Secretary charging him with three (3) counts of obtaining property by false pretenses from the Guild.

This report presents the findings and recommendations resulting from our review. We examined the financial records that we were able to obtain, but we did not conduct a financial audit. According to the Guild's by-laws, the Guild is required to have an audit each year by a Certified Public Accountant. We found no evidence that such an audit has ever occurred. In our opinion, the condition of the financial records would have prevented the rendering of an opinion.

FINDINGS AND RECOMMENDATIONS

1. The Former Financial Secretary Withdrew \$9,252 From The Guild.

The former Financial Secretary for the Guild was a member of its Board of Directors. He assumed the role and gave himself the title of Financial Secretary. He was authorized to sign checks from June 1992 until June 30, 1993.

The former Financial Secretary withdrew \$9,252 from the Guild's checking and savings accounts from November 17, 1992 through July 29, 1993 (See Schedule 1). He made twenty-one withdrawals using a variety of methods: counter checks, withdrawal slips, a debit memo, and withholding cash from a deposit.

According to the former Financial Secretary all of these transactions were approved by the Executive Director. He stated that on three occasions he gave the Executive Director a total of \$1,385 out of the \$9,252. The former Financial Secretary had the following explanations for the remaining \$7,867 of withdrawals:

- ◆ he withdrew \$4,365 in loans to cover personal expenses with the approval of the Executive Director;
- ◆ he does not remember why he withdrew \$2,852;
- ◆ he withdrew \$300 to purchase something for the Guild, but he does not remember what was purchased;
- ◆ he withdrew \$100 for a Guild program (there are no supporting receipts);
- ◆ he withdrew \$250 as reimbursement for Guild expenses that he had incurred in June of 1992.

The Executive Director denied receiving any funds from the former Financial Secretary. He also states that he did not know about or approve any of the

withdrawals or loans. He stated that the former Financial Secretary had already been reimbursed for the \$250 of Guild expenses noted above.

The former Financial Secretary withdrew \$4,442 of the \$9,252 after he left the Guild and moved from Kinston. The last three withdrawals totaling \$825 were made after the Guild had his name deleted from the signature card. The former Financial Secretary was charged with obtaining money by false pretenses based on the last three withdrawals.

The Executive Director stated that he had personally loaned the former Financial Secretary \$400 on May 25, 1993, and as of September 21, 1993 he had not been repaid.

2. The Executive Director and the President of the Board Allowed the Treasurer to Borrow \$1,300 in Guild Funds in Violation of General Statute 55A-18.

On December 14, 1992, the Treasurer withdrew \$700 from the Guild's savings account. The withdrawal slip was signed by the Treasurer and the Executive Director. According to the President and the Executive Director, they decided to loan the Treasurer \$700 in Guild funds without full Board approval or knowledge. On May 25, 1993, the Treasurer deposited \$500 from a U.S. Government check made out to her into the Guild's checking account. According to the Treasurer, the \$500 was a partial repayment of the \$700 she had borrowed five months earlier from the Guild.

On July 12, 1993, the Treasurer and the Board President wrote the Treasurer a check for \$600 out of the Guild's checking account. They recorded the check as "Reimbursement" in the check register. The check was endorsed by the Treasurer

and the Board President. After an attempt to explain this transaction to the auditors as a reimbursement of expenses, the President and the Executive Director admitted that the Treasurer was having financial difficulties, so they decided to loan the Treasurer an additional \$600 from the Guild's funds. The Treasurer acknowledged this as being a loan. According to the Executive Director and the Board President, no other Board members had been informed of the loans, nor had they prepared any documentation identifying the payments as loans. As a matter of fact, as indicated above, this transaction was documented as a reimbursement. As of September 17, 1993, the Treasurer owed the Guild \$800.

The above described transactions are in violation of General Statute 55A-18, which states:

No loan, guaranty or other form of security shall be made or provided by a corporation to or for the benefit of its directors or officers, except that loans, guaranties or other forms of security may be made to full-time employees of the corporation who are also directors or officers by action of its board of directors in accordance with G.S. 55A-24.2(b)(1).

3. The Executive Director Withdrew \$700 From the Guild By Signing the Treasurer's Name to a Check Without Her Knowledge.

On our first visit to the Guild, we found a \$700 check (#1190) written to the Executive Director that had not been cashed. The check bore the signatures of the Executive Director and the Treasurer. The description on the check stated that it was "For: Office Computer Printer." When we questioned the Executive Director about the check, he stated that he had not cashed the check because another check had been written to the vendor to pay for an office computer printer. At this time, the second check (#1191) had not been returned to the Guild by the bank and the check register had not been completed to record this check.

When we received the canceled check (#1191) from the bank, we found that it had been written to the Executive Director and not the vendor in the amount of \$700, with the same description as the first check (#1190). On September 14, 1993, we questioned the Executive Director again about the two checks. He stated that he did not know why he had written himself two checks. He stated that he had used the money to purchase an office computer printer, a computer scanner, and computer software. He stated that he would try to find receipts supporting the purchases.

On September 21, 1993, we questioned the Executive Director again about the two checks. During this interview, the Executive Director stated that he had written himself the two checks because he had signed the Treasurer's name on the first check, and at the time, he did not think it was a good "forgery" (the Executive Director's term). So, he wrote a second check for the same amount and description, and again signed the Treasurer's name. The Executive Director stated that he had not informed the Treasurer that he had signed her name. During this interview the Executive Director supplied us with a receipt for a computer printer. The receipt was dated May 9, 1993, four days after the check was cashed. In addition, the receipt was for \$236.59 and as of the date of this report, we have not been supplied with receipts supporting the remaining \$463.51 the Executive Director received. According to the Executive Director, this money was used to reimburse himself for additional expenses.

4. The Treasurer Made a \$925 Withdrawal From the Guild's Account That Can Not Be Accounted For.

Based on the deposit and withdrawal slips, a deposit of \$925 was made into the Guild's checking account on June 14, 1991, at 1:40 p.m. At 1:41 p.m., the Treasurer withdrew \$925 from the checking account. We could not find where the \$925 was redeposited into a Guild bank account. When we first questioned the Treasurer about the transactions, she stated that she did not remember. After she left the interview, she later returned with a deposit slip and a withdrawal slip supporting the transactions. The deposit slip reflects that the deposit was made by checks and the withdrawal was in cash. The Treasurer said the deposited checks were Harambee Festival receipts. The Harambee Festival is an activity sponsored by the Guild. We have not received any additional documentation to explain why the \$925 was withdrawn from the checking account.

In addition to the withdrawal and deposit slip, the Treasurer also produced a computer printout of the Guild's checking account transactions for six months. She said that she had found the records in her Harambee file at home, but that she did not have any additional records.

5. The Executive Director and the Treasurer Advanced the Assistant Director \$700 From Guild Funds.

On April 27, 1993, the Executive Director and the Treasurer advanced the Assistant Director \$700 from the Guild's funds. We found no written evidence to support the salary advance nor that it was approved by the Board. According to the Assistant Director this was a loan to her approved by the Executive Director. As of July 31, 1993, only \$20 had been withheld from her paychecks in repayment of the loan. As noted previously, this loan is a violation of G.S. 55A-18.

6. The Executive Director Was Reimbursed An Excess of \$152.22 That Was Not Supported By Receipts.

During our review, we questioned the Executive Director about a \$300 reimbursement check that was written to him on December 18, 1992. According to the Executive Director, he was being reimbursed for glass that he had purchased for the Guild. We found one invoice for glass dated December 9, 1992. Based on the invoice, the Executive Director paid the glass shop \$147.78. We found no other receipts to support the reimbursement. We contacted the owner of the glass shop, and he stated that he did not recall the Executive Director making any other purchases. As of the date of the report, the Executive Director has not provided us with any additional receipts that support the \$152.22 balance paid to him.

7. Two Withdrawals Totaling \$280 Were Made Using the Executive Director's Signature.

On January 4, 1993, \$210 was withdrawn from the Guild's savings account, and on February 24, 1993, \$70 was withdrawn from the Guild's checking account. The Executive Director's name was on both withdrawal slips, but according to the Executive Director, he did not sign either one. We could not determine the purpose for the withdrawals.

8. The Guild's Records Are Incomplete With No Records Supporting Most Disbursements.

When we first began our review, we requested that the Executive Director provide us with the Guild's bank statements, canceled checks, deposit and withdrawal slips, and supporting documentation for the time period of June 1, 1991 through June 30, 1993. Of the 25 bank statements we requested, the Executive Director provided us with only 15, approximately 60%. We had to request the missing bank statements from

the bank. In addition, we had to request 86 canceled checks and numerous deposit and withdrawal slips from the bank.

The Executive Director provided us with folders of documentation to support disbursements. After organizing the documentation by date, we could only match 45 of the invoices to the canceled checks. The Executive Director did not provide us with supporting documentation for approximately 77% of the disbursements made during the time period under review. We found more than \$13,500 in disbursements that were not supported by documentation.

In addition, we found no evidence that the checking account had ever been reconciled during the period under review, nor was the check register balance correct. While looking for supporting documentation, we found four checks totaling \$52 that were payable to the Guild that had not been deposited. The checks ranged in date from November 7, 1992 to July 15, 1993. We also found a \$7.16 money order payable to the Guild and a \$5 bill that had not been deposited. In addition, we found some of the Executive Director's personal bank records mixed in with the Guild's records.

During our review, we asked the Executive Director and the President to provide us with the Guild's Board minutes for the period under review. At the time of this report, we have only received Board minutes for five meetings. If the Board met once a month, we should have received 25 sets of minutes.

9. The Guild Does Not Have a Proper Timekeeping System Nor Has the Guild Paid the Proper Payroll Taxes.

We found no evidence of a formal timekeeping system. An analysis of the payroll checks revealed that the Assistant Director was paid the same amount each month no matter how many hours she worked. According to the Executive Director, the Assistant Director's work schedule was from 1:00 p.m. to 5:00 p.m., Tuesday through Saturday. In addition, the Executive Director stated that his working hours were not set but he was expected to work 20 hours per week. We were unable to verify the accuracy of their payroll checks because there were no records of when they worked.

The analysis of the payroll checks revealed that in some months, social security was being withheld from the Assistant Director's payroll checks but according to the Executive Director, the Guild has not paid its share or the employee's share of social security since 1990. We noted payments to the North Carolina Department of Revenue, but we saw no evidence that state taxes were being withheld. We could not determine the reason for these payments.

RECOMMENDATION

We recommend that the North Carolina Department of Cultural Resources attempt to recover all grant funds expended without proper supporting documentation. We also recommend the Department of Cultural Resources consider discontinuing payments to the Black Artists' Guild, Inc. until the Board addresses the following:

- ◆ Reorganization of the Board by placing people in positions of authority that are knowledgeable in the management of business affairs.
- ◆ Implementation of an accounting system that accurately accounts for all transactions.
- ◆ Implementation of internal controls that prevent and detect errors and irregularities.
- ◆ Implementation of a process that is to be used in monitoring program performance.
- ◆ Establishment of set working hours for all employees.
- ◆ Implementation of a payroll system that accurately compensates employees for time worked and requires the appropriate payroll taxes to be withheld and forwarded to the appropriate agencies.
- ◆ Completion of an annual financial audit performed by a Certified Public Accountant with a copy of the audit report forwarded to the Department of Cultural Resources.
- ◆ Implementation of a policy requiring Board minutes to be officially approved and filed after each meeting.

SCHEDULE

WITHDRAWALS MADE BY THE FORMER FINANCIAL SECRETARY

<u>Date Per Bank Statement</u>	<u>Transaction Type</u>	<u>Account Type</u>	<u>Amount</u>	<u>Signed By</u>	<u>Check Payee</u>
11/17/92	Withdrawal	Savings	\$ 100.00	Former Financial Secretary	
12/01/92	Withdrawal	Savings	250.00	Former Financial Secretary	
12/07/92	Withdrawal	Savings	600.00	Former Financial Secretary	
12/15/92	Withdrawal from deposit	Checking	300.00	Former Financial Secretary	
01/12/93	Withdrawal	Savings	85.00	Former Financial Secretary	
01/19/93	Withdrawal	Savings	75.00	Former Financial Secretary	
04/28/93	Teller cashed withdrawal	Savings	2,400.00	Former Financial Secretary	
04/29/93	Debit memo	Checking	1,000.00	Former Financial Secretary	
05/14/93	Teller cashed withdrawal	Savings	832.00	Former Financial Secretary	
05/17/93	Teller cashed withdrawal	Savings	240.00	Former Financial Secretary	
05/19/93	Check	Checking	160.00	Former Financial Secretary	Cash
05/19/93	Check	Checking	240.00	Former Financial Secretary	Cash
05/21/93	Teller cashed withdrawal	Savings	100.00	Former Financial Secretary	
05/25/93	Teller cashed withdrawal	Savings	185.00	Former Financial Secretary	
05/26/93	Teller cashed withdrawal	Savings	300.00	Former Financial Secretary	
06/01/93	Teller cashed withdrawal	Savings	800.00	Former Financial Secretary	
06/01/93	Check	Checking	600.00	Former Financial Secretary	Cash
06/01/93	Teller cashed withdrawal	Savings	160.00	Former Financial Secretary	
07/21/93	Check	Checking	210.00	Former Financial Secretary	Cash
07/22/93	Check	Checking	365.00	Former Financial Secretary	Cash
07/29/93	Check	Checking	250.00	Former Financial Secretary	Cash
			<u>\$ 9,252.00</u>		

STATEMENT OF FINANCIAL IMPACT

The following schedule represents a quantification of the items examined during our special review. We cannot completely quantify the tangible benefits to the taxpayer resulting from the findings of our review. We are simply noting those areas where the system of internal controls were either nonexistent or had been circumvented.

Improperly Controlled Funds

Checks that were not supported by documentation.	\$13,500.00
Withdrawals made by the Former Financial Secretary.	9,252.00
Loans made to the Treasurer.	1,300.00
Unaccounted for withdrawal made by the Treasurer.	925.00
Check written by the Executive Director to himself, where he "forged" the Treasurer's signature.	700.00
Loan to the Assistant Director.	700.00
Two unaccounted for withdrawals that bear the Executive Director's name.	280.00
Balance of \$300 reimbursement check written to the Executive Director that was not supported by receipts.	<u>152.22</u>
Total	<u>\$26,809.22</u>