

2/25/79
YC-P

ALTERNATIVES, INC.

I believe we can now define what the Alternatives, Inc. umbrella amounted to. Around 11/72, Mitch Rigel formed Alternatives, Inc. (the umbrella organization) as a consulting firm to serve as the governing body directing the Governor's Justice Commission Yoke Crest, Bureau of Corrections, and Alternatives, Inc.'s federal grants as satellite entities. The umbrella organization Board of Directors consisted of Mitch Rigel, Executive Vice President; Robert Rigel (Mitch's brother), President; Newman Gaugler, President of Prison Ministry; and Valérie Rigel (Mitch's wife) Secretary-Treasurer. She formerly served as President. And, finally, Irene Gaugler, served as Assistant Secretary-Treasurer.

Mr. Rigel states that he formed this independent corporate organization in order to expand his community-based treatment centers and pre-release centers throughout the Commonwealth, making each existing program, such as Yoke Crest, self-supporting as he applied for more federal funds for new treatment centers. However, none of this was ever brought to the attention of the Governor's Justice Commission nor was it allowed in any of the grants, as funded. However, Alternates, Inc. derives its income (which, to date, amounts to \$40,897) by charging off each of the Governor's Justice Commission's federally funded grants at 8% for administrative expenses. There is also a Department of Health grant called PACIDA on which this 8% fee was paid. This same manner was used for the consulting fees for Mitch Rigel and Larry Bienemann. In addition, there is the matter of the two leased automobiles which were obtained from Robert Rigel (Mitch's brother) and a Ford dealer in Canton, Ohio. These cars are now being used by Mitch and Valerie Rigel.

With further reference to the umbrella organization Alternatives, Inc., there remains at the present time only \$934.36 of the original amount paid of \$40,897. There were a series of expenditures but 7 days of continuing audit research have failed to untangle since many of these expenditures were not documented and apparently no invoices were ever received. Four credit cards were used by the umbrella corporation -- two of which were in the name of Mitch Rigel and it is difficult to determine if the expenses incurred were for the corporation or for Mitch Rigel. It is reasonable to assume that within this conglomerate there would be a series of personal benefits and charges to these individuals conducive to their own living expenses and not related to the project as funded.

-su
YCN-P

One other problem area concerns the leasing of cars as mentioned previously. This item totalled \$5,159 -- and approximately \$1,000 of this remains as unexplained payments. Attachment D shows Cash Disbursements of Alternatives, Inc.

2/25/79

YC-R

YOKE CREST / ALTERNATIVES, INC. AUDIT

DS-340-73-E Funded to Dauphin County as subgrantee
Project Period runs from 4/73 to 3/31/74

Federal Funds	\$ 76,000
Match	<u>143,390</u>
	\$ 219,390

This project, as funded, was to cover salary benefits plus \$5,000 for evaluation. The amount expended for salaries to date amounts to \$157,000. However, employee withholding taxes and social security have not been paid to the IRS and, at this time, they owe \$12,000 and are in an interest penalty stage with the IRS.

Mitch Rigel, of Yoke Crest, established a special checking account in April of 1972 for the purpose of having ready cash available to pay bills such as petty cash purchases, discretionary expenses (whatever that might have entailed) for holding money of residents and the Christmas deposits of the residents. This account was conceived by Mitch Rigel but was unauthorized by the Board of Directors but it was known about by the Board of Directors only to the extent that they authorized the payment of \$100/month from the Yoke Crest general account to this special account for the express purpose of meeting discretionary expenditures. Within this special account over a period of one year and 10 months, 566 checks were written totalling \$21,000. Among these were 4 loan checks in the following amounts: \$200; \$500; \$200 and \$100. The first three, totalling \$900 were written to Mitch Rigel and the 4th check, in the amount of \$100, was written to Alan Bray. There were also additional loans made to other employees of Yoke Crest. One was made to Paul Lushensky in the amount of \$391, as follows:

On 9/5/73	\$166
10/2/73	<u>225</u>
Total	\$391.

From 9/14/73 through 12/7/73, \$25 was deducted from his pay in repayment until there was a balance owing of \$292.16, when this employee quit and skipped town. In addition, this same employee (by a bank agreement between Yoke Crest and the Commonwealth National Bank, wherein Yoke Crest agreed to make good any defaulted loans) borrowed another \$504.98 and on this amount, he defaulted in total. On 1/10/74 Yoke Crest paid, out of the Yoke Crest account, check #975 to the Bank in the full amount.

On approximately 9/1/73, Paul Caltabiano received an advance of \$200 and repaid the entire amount of this loan in four subsequent payroll deductions, the last of which occurred on 10/26/73.

On or about 10/1/73, Edward W. Mumma received an advance of \$500, which was repaid by payroll deductions of \$38.46. As of 2/1/74, the outstanding balance on this loan was \$153.86 and, at the current rate of repayment, the loan should be paid off just prior to the expiration date of the project on March 31, 1974.

Attached is Exhibit A which is a letter from the Vice President of the Commonwealth National Bank dated 9/7/73, which represents that the Yoke Crest project fund consummated a deal with the Bank to underwrite these loans which is not permitted on federal funding. In addition to it not being allowed, there seems to be an error in the agreement itself between Yoke Crest and the Bank regarding the amount of money the bank, in fact, loaned since they said it should not exceed \$100 per individual and not go beyond an aggregate amount of \$600. ||

ATT. EXHIBIT "A" IRS REPORT
EXHIBIT B BANK AGREEMENT

YC-6

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF JUSTICE
COMPTROLLER'S OFFICE
AUDIT DIVISION
P.O. BOX 206
CAMP HILL, PA 17011

REVIEW REPORT

PERIOD COVERED BY REVIEW

NOVEMBER, 1972 TO JANUARY 31, 1974

DATE OF REVIEW

FEBRUARY 27, 1974

REVIEWER

KENNETH F. SMALL

*He is now
a GTC employee.*



ALTERNATIVES, INC.
P.O. BOX 3201
HARRISBURG, PA. 17105

*I say definite federal violation of regulations
Page 4*

I. INTRODUCTION

The scope of this review is to ascertain that all expenditures and receipts are in line with the organizational goals. All necessary documentation was reviewed to the extent noted below.

A series of brief meetings were held with Mr. Mitchel Rigel, Executive Director of Alternatives, Inc., Lawrence E. Bienemann, Project Director, and various staff members during the second and third weeks of February, 1974.

No subgrant was awarded to Alternatives, Inc. (the umbrella corporation) and therefore no guidelines exist for this review to follow. However, the following findings are presented and are considered violations of good accounting practice as well as violations of good business practice.

II. REVIEW FINDINGS

A. Federal Funds Deposited In Checking Account

Federal funds in the amount of \$28,682.00 were deposited in Alternatives, Inc. (the umbrella corporation) on December 21, 1973. These funds were awarded to Alternatives, Inc. Statewide Planning Project for subgrant DS-423-73. On December 27, 1973, an expenditure of \$23,682.00 was made from Alternatives, Inc. (the umbrella corporation). This same amount was deposited to the account of Alternatives, Inc. Statewide Planning Project on December 27, 1973.

B. Loan of \$5,000.00 to employee

As noted from Review Finding A, the balance of the federal funds, in the amount of \$5,000.00 was not deposited in the DS-423-73 account. Instead a \$5,000.00 check was written to the Executive Director. The only justification for this action was a verbal statement from the Executive Director indicating that the \$5,000.00 check was a loan. It has been the policy of Alternatives, Inc. to lend monies to staff members, however, the lending policy is not a written policy and in the past federal funds have not been loaned to staff members. //

C. Contribution From Subgrant Projects

Alternatives, Inc. was founded as a legal entity whose income would be derived from approximately 8% of each subgrant awarded to satellite divisions of Alternatives, Inc. No provisions were made in the subgrants for the formation of Alternatives, Inc., nor was any request made to the Governor's Justice Commission prior to the formation of Alternatives, Inc. *

To utilize federal funds to incorporate a separate entity is a violation of subgrant conditions and federal regulations.

* no info that 8% taken from any sub-grants. Consultant charges were charged.

D. Withholding Taxes Not Collected By Employer

According to the ledgers of Alternatives, Inc., no withholding taxes were deducted from the employees pay. This resulted in the employees being considered self-employed consultants. However, no notification was made to the Internal Revenue Service such as the filing of IRS form 1099. The two employees have received \$1,500.00 and \$4,452.00 for consultant services.

Larry Bieneman

Mitch Regel

E. No Supportative Staff Hired By Alternatives, Inc.

As of this review, Alternatives, Inc., has not hired any clerical help or administrative help. All administrative support has been provided by Yoke Crest personnel.

In essence, Alternatives, Inc., is a consulting firm whose clients are federally funded projects.

F. Poor Documentation For Expenditures

With few exceptions, all invoices for expenditures are non-existent. Poor bookkeeping procedures and poor accounting practices are the main cause of the non-existent supporting documentation.

An example of the poor documentation is the leasing of automobiles by Alternatives, Inc. A total of \$3,716.00 was expended on car rental, however, only \$1,959.00 was identified. The car leases were obtained from the Executive Director's brother in Kenton, Ohio.

In addition to the poor documentation, the initial deposits of funds and the initial checks are apparently lost. Due to this, it was not possible to reconcile the ledger with the checkbook. ← 11

G. Personal Credit Cards Used By Corporation

Personal Credit cards belonging to the Executive Director were used by the corporation. The expenditures were mainly for gasoline and meals. No travel vouchers or other justification for expenses were submitted, but the monthly invoices for the oil companies and American Express were paid in total.

H. Invalid Signature On Checks

Three times since November, 1972, the authorized signature card at the bank has been changed. Due to the bank mis-filing a signature card and a misunderstanding among employees; five checks were signed by employees whose names were not authorized to sign checks. All five checks totaling \$6,230.00 were paid by the bank without questions.

I. Cancelled checks Missing

Six cancelled checks (in addition to the initial checks written and noted in Review Finding F) were lost and not subject to review. The dollar value of the lost checks was \$2,120.00.

J. Poor Accounting Control

As noted in the above Review Findings, poor management and poor accounting control are the main reasons for the present condition of the corporation. Tighter controls and well defined procedures are necessary in order to record incoming funds and expenditures properly.

K. Automobiles Leased By The Corporation

Two automobiles are currently leased by the corporation. As noted in Review Finding F, poor records are maintained concerning the leasing of vehicles. The Executive Director used one of the automobiles and his wife, a member of the corporate board of directors, uses the second automobile.

A review was made on the corporate by-laws and the minutes of the board of directors meetings. From this review and additional questioning of staff personnel, the following are personal comments concerning the corporation.

1. The expressed purpose of Alternatives, Inc., was to develop alternate methods to incarceration of youthful offenders. After reviewing the financial records of the corporation, it is the reviewers' opinion that the corporation was established for the personal benefit of the Executive Director ←

X X
Using approximately 8% of each federal project funds as revenue for the umbrella corporation, a guaranteed income was established for the corporation's operation. This is a definite violation of federal regulations ←

2. The majority of the expenditures of the corporation were for the personal expenses and consultant fees of the Executive Director. The Executive Director's personal credit cards were used for gasoline and food purchases of the corporation. No travel vouchers were filed and the reviewer concluded that non-corporate expenses could easily have been paid by the corporation. However, it is only fair to state that no evidence was found to state that personal expenses were paid by the corporation.
3. Two automobiles were leased from Bob Rigel Ford in Kenton, Ohio (the Executive Director's brother). At the date of the review, one auto was used exclusively by the Executive Director and the other was used exclusively by the Executive Director's wife.
4. The \$5,000.00 loan noted in the review was used by the Executive Director as part of a down payment on his home. This fact has been established by the Justice Department's Bureau of Investigation. As these monies were federal funds a definite violation of federal regulations exists. ←

X
The check, made payable to the Executive Director, was signed by the Executive Director's wife. Two months prior to the issuing of the check, the Executive Director's wife's name was removed from the authorized signatures card at the bank. Due to a bank error, the check was negotiated without question.

5. The corporate by-laws of Alternatives, Inc., were written approximately two months ago because the Internal Revenue Service was making inquiries about the corporation. The by-laws are very general, but do reveal that one individual could control and/or operate the corporation within the provisions of the by-laws. Such by-laws clearly support the reviewers' opinion that the corporation was established for the personal benefit of the Executive Director.

During the course of operation of the corporation, several by-laws were not adhered to and no corrective action was taken by any of the corporate officials.

Example A. The by-laws state all checks are to be signed by either the President (Executive Director) or the Treasurer. The majority of the checks were signed by two employees of York Crest (one of the employees was a short time member of the Board of Directors).

Example B. The by-laws state an annual audit would be made of the corporate books. The only audit that was made on the corporate books occurred just prior to the audit by the Governor's Justice Commission at the insistence of the corporate lawyer.