



# STATE OF NORTH CAROLINA

**DEPARTMENT OF JUVENILE JUSTICE  
AND DELINQUENCY PREVENTION**

**FISCAL CONTROL AUDIT**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**DEPARTMENT OF JUVENILE JUSTICE  
AND DELINQUENCY PREVENTION**

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STATE OF NORTH CAROLINA  
Office of the State Auditor



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## AUDITOR'S TRANSMITTAL

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July 29, 2009

The Honorable Beverly E. Perdue, Governor  
The General Assembly of North Carolina  
Department of Juvenile Justice and Delinquency Prevention  
Linda W. Hayes, Secretary

This report presents the results of our fiscal control audit at the Department of Juvenile Justice and Delinquency Prevention. Our 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. The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources.

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 are described in the Audit Findings and Responses section of this report.

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

Beth A. Wood, CPA  
State Auditor

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# **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS**

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## **OBJECTIVES, SCOPE, AND METHODOLOGY**

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a fiscal control audit at the Department of Juvenile Justice and Delinquency Prevention. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

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. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

To accomplish our audit objectives, we gained an understanding of internal control over matters described below and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that may reveal significant deficiencies in internal control. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As discussed in the framework, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

## **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)**

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based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit scope covered the period July 1, 2008 through December 31, 2008 and included selected internal controls related to the following accounts and control objectives:

*Personal Services* – During the period audited, the Department reported a total of \$35.6 million in personal services expenditures. These expenditures are incurred and paid by the Department for services rendered by permanent and temporary employees and their related fringe benefits. We examined internal controls designed to ensure that expenditures were paid correctly and accounted for properly. We also examined internal controls designed to ensure compliance with applicable federal, state, and departmental requirements.

*Accrued Vacation* – This account represents the liability due to employees for earned, but not taken, vacation leave. At July 1, 2008, the liability account balance was \$8.5 million. We examined internal controls designed to ensure the proper presentation and classification of the liability and that the accrued vacation leave balances were calculated in compliance with state requirements.

*Contracted Personal Services* – During the period audited, the Department reported a total of \$13.8 million in contracted personal services expenditures. These expenditures were paid by the Department for services purchased from independent contractors and/or external organizations for contracted professional and consultative personal services. Such services are considered necessary for maintenance and/or ongoing operations that cannot be provided by the current staff. We examined internal controls designed to ensure that the Department properly accounted for the expenditures and that purchases were made in compliance with state purchase and contract regulations.

### **RESULTS**

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards. These items are described in the Audit Findings and Responses section of this report.

## AUDIT FINDINGS AND RESPONSES

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### 1. DEFICIENCIES IN THE PERSONNEL AND PAYROLL PROCESSES

The Department has not established adequate internal control to ensure its personnel and payroll processes are administered effectively. Consequently, the Department has not complied with state personnel policies and there is an increased risk that there will be errors in the compensation paid to employees and in the related accounts on the financial statements.

Several tests were performed for the period July 1, 2008 through December 31, 2008 that resulted in the following deficiencies:

#### Position Settings/Classification

The position settings/classification level within the State's new human resources/payroll system (BEACON) determines how an individual employee will be compensated. We randomly selected a sample of 39 employees from a population of 195 to test the accuracy of the established position settings/classification level. Our original sample was expanded by 12 court counselor positions to further review for consistency in the establishment of positions within an individual district. Of the 51 sample items tested, seven employees were not set-up in BEACON in accordance with the Department's guide for employee settings.

#### Time Records and Pay

Our test population was the same as described under the position settings/classification item above. Time records were not consistently approved on a timely basis for 35 of 51 employees tested, and time records for 13 of the 51 employees tested did not support the compensation they were paid. Examples of the type of issues noted included:

- Employees did not enter enough hours to indicate they had earned their regular salary for the pay period;
- Records were never approved by a supervisor;
- An employee was paid for more shift hours than actually worked.

Additionally, an individual inappropriately entered time for injury leave that should not have been approved or paid.

#### Personnel Actions

For a sample of 60 out of 2,354 personnel actions, 56 were not supported by adequate documentation indicating the approval, validity, effective date, or other pertinent details of the action. Tested actions included salary adjustments, employee separations, transfers, and staff promotions.



## **AUDIT FINDINGS AND RESPONSES (CONTINUED)**

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### Temporary Employees

We performed a review of employees working in temporary positions to determine compliance with state guidelines. Of 26 identified temporary employees, we noted that 22 employees had worked in temporary appointments for more than 12 consecutive months. Seven of these employees were retired and potentially could be exempt from the State policy that restricts the duration of these appointments; however, the Department had not obtained signed statements from the individuals indicating that they were not seeking or available for permanent employment. Additionally, the Department was unable to provide any evidence that temporary employees were being monitored to ensure compliance with state policy.

### Payroll Review

In our examination of the payroll processing procedures, there was no evidence to support the Department's review of preliminary payroll reports prior to final processing of payroll cycles.

### Overpayments

Salary overpayments of \$27,730, which remain outstanding, were paid to 10 individuals due to the Department's delayed processing of separation actions. Our test population consisted of 14 employees whose separation took in excess of 30 days to process. We noted that collection notices were not sent out in the 15-day intervals prescribed by the Department's cash management plan for those 10 employees that were noted to have been overpaid between July and December 2008. As a result, the Department's collection efforts are not in compliance with cash management guidelines.

### Leave Balances

Our test population was the same as described in position settings/classification item above. Only "positive pay" employees are required to enter all their time into the Beacon payroll system (46 of the 51 sample items were positive pay). Time records for 12 of 46 employees tested did not support all time worked or leave taken by the individuals.

The Department was unable to provide any evidence that employee leave balances had been reconciled for the 2008 calendar year. Additionally, no evidence was available to indicate that leave records had been reconciled when the Department converted to the Beacon system in April 2008. The Department's long-term accrued vacation leave liability increased by \$4 million from fiscal years 2007 to 2008, a 91% increase that the Department was unable to explain.

The Department has not established or enforced policies and procedures necessary for the effective administration of its personnel processes. The State Personnel Manual sets forth policies related to salary administration. Additionally, departmental policies

## **AUDIT FINDINGS AND RESPONSES (CONTINUED)**

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address time entry guidelines requiring weekly approval of time records and provisions for the collection of salary overpayments.

### Employee Work Plans and Performance Appraisals

Management did not formally communicate job responsibilities, expectations, and actual results to all employees. Such formal communication is required by state policies to ensure that employees effectively and efficiently carry out responsibilities to meet departmental goals. We identified 79 employees that had significant responsibilities related to our audit objectives, specifically employees with responsibilities for the Department's fiscal operations, personnel administration, contract management, and information technology. For a sample of 29 employees, our tests noted that 26 employees did not have work plans and performance appraisals on file. A rating had been established in the State's personnel management system for the employees; however, there was no evidence in the individual employees' files to substantiate those ratings.

*Recommendation:* The Department should improve its internal control over the personnel and payroll processes to address the deficiencies noted above.

***Agency Response:* Due to the length, the Agency's response is presented in its entirety for all findings after Finding No. 4.**

## 2. DEFICIENCIES IN INTERNAL CONTROL OVER JOURNAL ENTRIES

Adequate internal control was not in place over the preparation and processing of journal entries. As a result, there was an increased risk of error or fraud occurring without detections.

For the period July 1, 2008 through December 31, 2008, we identified a population of 360 journal vouchers totaling a net of \$1.2 million. We judgmentally selected the 12 highest dollar transaction journal vouchers, which comprised 97% of this amount, for review. Our test of the 12 journal entries disclosed that:

- Three had been prepared by and entered by the same individual with no evidence of review or approval;
- One entry noted who had prepared the entry but had no evidence of review or approval;
- There was insufficient documentation to support two of the entries.

*Recommendation:* The Department should ensure that journal entries are reviewed and approved by someone other than the person who prepares and enters the entries. The basis for all journal entries should also be clearly documented.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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### 3. CONTRACT MANAGEMENT AND MONITORING DEFICIENCIES

The Department did not have adequate controls to ensure personal services contracts were managed and monitored in compliance with state and departmental policies. As a result there is an increased risk that the Department may be paying for services not rendered or for unallowable activities.

The Department's contracting policies require that a justification memorandum accompany each type of contract that bears the proper signatures signifying internal approval of the contract terms and the availability of funds. Our population of personal services contracts for the period July 1, 2008 through December 31, 2008 totaled \$12.2 million. We tested a sample of 13 contract files, representing 92% of the dollar population, to determine if the required justification memorandums were on file.

Our tests disclosed six errors, including one memorandum that was missing authorizer signatures, three memoranda that were not for the contract period under review, and two files where the justification memorandum could not be located. In addition, one vendor was paid \$928 prior to the contract being finalized.

State and departmental guidelines also provide specific requirements for agencies for the monitoring of contractor performance and compliance with contractual terms. For the same personal services contract population, we selected a sample of 12 invoices to test for compliance with monitoring procedures. Of the 12 invoices tested, four were found to be in error:

- One was approved for payment without a valid contract in place, as noted above;
- One did not have the contract administrator's signature approving payment;
- One was out of compliance as a required monthly report was not obtained;
- One was approved using a rubber stamp that was not consistent with standard methods of approval.

The Department was inconsistent in the application of state and departmental policies. There appears to be no review of the final contract file to ensure all documentation is included and all necessary documents are executed properly. Additionally, the Department does not have specific policies in place to communicate the requirements for monitoring contracts.

*Recommendation:* The Department should establish a documented review process to ensure all contract files are complete and in accordance with state and departmental policies. The Department should continue to implement and strengthen controls to ensure that adequate internal controls are in place for processing and maintaining contracts. The Department should also develop monitoring policies to be applied

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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consistently throughout the Department to ensure that contractors are in compliance with contract provisions.

#### 4. INTERNAL AUDIT FUNCTION NOT EFFECTIVE

The Department did not effectively manage its internal audit resources. Although internal audit plans have been developed in past years, the plans were never fully implemented as the internal audit staff were given alternative assignments.

*Recommendation:* The Department should work to allow the internal audit function to operate as planned.

*Agency Response:* Finding No. 1.

Position Settings/Classification: Concur. Effective immediately, we have implemented a process of review for position settings/classification to identify exceptions with personnel actions. The Compensation and Benefits HR Section will conduct a full review by June 30, 2009 to validate entries. This review will include printed reports and summaries of key findings, communicated to management and filed in HR. Additionally, the Compensation and Benefits Section will conduct quarterly reviews for all reallocations and new position entries. These reports will be printed and filed for verification of review in the HR offices.

The Compensation and Benefits Section will run a BO083 report in BEACON (Position Eligibility Settings) by June 23, 2009 and ensure that the correct settings are verified for each position in accordance with the DJJDP position-setting guide. All overtime, holiday, shift, on call/call/back settings will be compared to the position-setting guide to ensure the settings are correct for each position. Any discrepancies will be corrected using the PO13 transaction in BEACON no later than June 30, 2009. Events that require future review of the settings include reallocation of positions, work-against situations, and establishing new positions. The Compensation and Benefits Team will review position settings immediately upon the occurrence of any of these events. Settings will also be reviewed on a quarterly basis to make sure all settings are still intact. Oversight of these activities will be handled by the Human Resources Director and Assistant Human Resources Director.

Time Records and Pay: Concur. Effective immediately, the Department has implemented a monitoring process to verify that time is entered and approved as required. Department supervisors will be responsible for running monthly reports to identify missing time entries for their positive time employees. Supervisors will immediately notify employees who fail to record their time weekly and take appropriate steps to ensure compliance.

The Human Resources Division will be responsible for generating monthly reports to monitor supervisory approval on a weekly basis as required by BEACON and

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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Departmental policies. Supervisors who fail to approve time weekly will be notified of deficiencies and the requirement to approve their employee's time immediately. Notification will also be provided to the next level manager.

The Human Resources Division will partner with BEACON to develop and implement a training schedule so that training to managers and supervisors will ensure compliance with time entry and approval procedures. All new employees will receive time entry training at orientation by Human Resources and ongoing training as needed by supervisors. All new supervisors will receive BEACON time supervision and approval training within 30 days of promotion or hiring. Please see the attached **Human Resources Management/Supervisory Training Plan (Addendum)** for an outline of training to be provided to managers and supervisors to address these issues.

Personnel Actions: Concur. Effective immediately the Department requires written documentation of all personnel actions prior to entering any action into BEACON. These actions include, but are not limited to appointments, transfers, reinstatements, changes in work schedules, supervisor assignment, organizational reassignment, leave of absence and separations. No personnel action will be entered into BEACON without a completed Personnel Action Request (PAR) form signed by the supervisor and manager and properly received by the HR staff. The Human Resources Division will initiate supervisory training to ensure compliance with this requirement. Please see the attached **Human Resources Management/Supervisory Training Plan (Addendum)** for an outline of training to be provided to managers and supervisors to address these issues.

In addition, when legislative increases are provided, the Human Resources Division will validate these increases and a copy of the report will be printed and filed in Human Resources for verification of review.

Temporary Employees: Concur. Effective June 30, 2009, all temporary positions exceeding 12 months will be terminated. Retirees will be required to sign a statement indicating they are not seeking or available for permanent employment. Effective immediately the Human Resources Division will monitor temporary appointments on a monthly basis to ensure compliance with State policy. The procedures below speak to the methodology to be followed by HR staff and hiring managers/supervisors.

The following outlines the Department's Procedures for Hiring/Retaining Temporary Employees:

### Temporary Appointments

A "temporary" State Personnel Act (SPA) full time appointment is employment of limited duration not exceeding 12 consecutive months. Part-time appointments are three to six months and can be extended upon the approval of the Office of State Personnel; but in no case shall the appointment exceed twelve months. When a temporary employee has worked for 12 consecutive months, the employee's appointment must be

## **AUDIT FINDINGS AND RESPONSES (CONTINUED)**

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terminated. The employee cannot be hired into another temporary appointment with the Department for at least 31 calendar days.

Exception: Students and Retirees

State policy allows retirees and students in temporary appointments to work beyond 12 consecutive months if the employee certifies that he/she is not available for or seeking permanent employment. "Retired" is defined as drawing a retirement income and/or social security benefits. An employee who retires from the State of North Carolina and receives a pension through the State is limited in the salary amount he/she can earn as a temporary employee for the State. State retirees should contact the Retirement System for additional information on individual income limits.

Steps:

1. The Hiring Manager will provide written justification for the temporary appointment noting that the appointment will be less than 12 months.
2. Hiring Managers must obtain management approval at the Deputy Secretary level to fill the temporary appointment.
3. The Human Resources (HR) Division will post the temporary position with a minimum closing date of seven calendar days based on manager's request.
4. Applications will be received and processed by HR. If the appointment is for a direct care position, then applicants must also complete a Criminal History Check form.
5. HR will forward the hiring packet with the most qualified applicants who have a clear pin (for direct care positions) to the manager for interviewing.
6. Managers will select the applicant(s) and provide a written justification.
7. The hiring packet will be forwarded through the regional HR Associate for processing and drug screens will be completed for direct care positions.
8. The offer letter will clearly state that the length of the appointment will not exceed 12 months from the hire date in accordance with state policy and that the position is a contract position.
9. The Hiring Manager will be responsible for submitting a Personnel Action Request (PAR) to HR for processing.
10. If the manager wishes to extend the appointment, he must request approval in writing from his manager prior to the expiration of the appointment. This documentation must be submitted to HR with a Personnel Action Request form to extend the

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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appointment. Under no circumstances can the temporary appointment be extended beyond 12 months.

### Monitoring:

The Human Resources Division and Department managers are responsible for monitoring temporary appointments. The Human Resources Division will run a monthly report to ensure compliance with State policy. Managers will be advised of appointments reaching ten months of service to put them on notice that the temporary appointment must end no later than two months (or before the final work date of the 12th month). Managers and HR staff will ensure that no employee exceeds state policy time frames (SPA) for temporary employment. HR will provide Deputy Secretaries, the Chief Operating Officer, and the Secretary with monthly reports on all temporary employees, highlighting those nearing the 10-month benchmark. Relevant Deputy Secretaries will work with supervisors to ensure adherence to Departmental and state personnel policy and procedure.

Payroll Review: Concur with explanation: While the Department currently does review preliminary payroll reports during each cycle, supporting evidence has not traditionally been filed for verification of review. Effective immediately, the preliminary payroll reports will be printed during the review process and filed in the Controller's Offices for verification that they have been reviewed at the end of each pay cycle.

Overpayments: Disagree with explanation. The result of the fiscal control audit identifies notification to former employees, which are not covered in the Department's current cash management plan. The Department's current cash management plan only addresses collection notices to current employees. On Friday, June 19, 2009, the cash management plan was revised and submitted to the Office of State Controller for approval. This revision addresses former employees and changes the intervals for collection notification from 15 to 30 days for all past due amounts due to the Department. The Department continues to seek repayment of outstanding overpayment balances.

*Auditor Comment:* The changes to its cash management plan should assist the Department in its collection of the outstanding overpayment amounts.

Leave Balances: Concur with explanation. The 2007 and 2008 Leave Reports were not validated at year-end. The leave balances in the 2007 Compliance Leave Report were understated when compared to the 2008 Compliance Leave Report which resulted in significant variances.

The Department did validate the leave balances of its employees prior to the rollover into BEACON which occurred on April 14, 2008 but did not provide documentation of the review process as required. Additionally, the understated leave in the 2007 Compliance Leave Report corrected itself in the leave adjustments of 2008.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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Effective immediately, the Department will implement procedures to verify and monitor time entries and supervisory approval to continually validate employee leave quotas and validate year-end balances. Supervisors will be responsible for running monthly reports to identify missing time entries for their positive time employees. These reports should be printed and filed by Supervisors for documentation of their supervisory efforts where failure to review/release time is noted. Supervisors will also directly notify employees who fail to record their time weekly and take appropriate steps to ensure compliance. Such steps can include management review, counseling, and further disciplinary activities. Notifications shall be recorded via notations by Supervisors in employee supervision notes.

The Human Resources Division will be responsible for generating monthly reports to monitor supervisory approval on a weekly basis as required by BEACON and Departmental policies. Supervisors who fail to approve time weekly will be notified in writing immediately of deficiencies and reminded of the requirement to approve their employee's time. Notification will also be provided to the next level manager and appropriate action taken to resolve any deficiencies. Ongoing deficiencies shall be reported to Deputy Secretaries, the Chief Operating Officer, and the Secretary when required.

In addition, the Human Resources Division will partner with BEACON to provide training to managers and supervisors to ensure compliance with time entry and approval procedures. New employees will receive time entry training at orientation by Human Resources and ongoing training as needed by supervisors. New Supervisors will receive appropriate time review, approval, release, and other required training within 30 days of promotion or new hire to a Supervisory role. Please see the attached **Human Resources Management/Supervisory Training Plan (Addendum)** for an outline of training to be provided to managers and supervisors to address these issues.

Employee Work Plans and Performance Appraisals: Concur. Beginning with the current performance management period, the Human Resources Division will only enter ratings for all employees after the submission of a completed work plan signed by the employee, supervisor and manager. A report of supervisors who have failed to complete work plans within required timeframes will be generated and given to supervisors, Deputy Secretaries and the Chief Operating Officer to take appropriate action to resolve deficiencies.

Effective immediately, the Department has implemented procedures for performance management and will initiate supervisory training to ensure compliance with communicating performance expectations and resolving performance deficiencies. Please see the attached **Human Resources Management/Supervisory Training Plan (Addendum)** for an outline of training to be provided to managers and supervisors to address these issues.



## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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**Illustrative of the Department's procedures that are in place and will be adhered to henceforth is the following narrative concerning the Department's Performance Management System Procedures that is excerpted from Department Policy and Procedure:**

The Department of Juvenile Justice and Delinquency Prevention (DJJDP) accepts and endorses the commitment of North Carolina State Government to the Performance Management Program. The following procedures were developed in compliance with the policies adopted by the Office of State Personnel (OSP). The Department's work cycle is from May 1 through April 30 each year. Appraisals are conducted using the five (5) levels of the North Carolina Rating Scale.

### Purpose

The purpose of the performance management system is to provide a formal, structured communication between supervisors and employees. The process provides an opportunity to come to a mutual understanding of job duties, expectations for performance, strengths and weaknesses and to establish priorities. The work plan should coincide with the job description and clearly document the performance expectations of the position. This process also provides the plan for professional development to ensure that the employee will reach his/her full potential.

### Rating Scale

The North Carolina Rating Scale shall be used by DJJDP to determine an employee's performance. Definitions of the five (5) level scales (outstanding, very good, good, below good, and unsatisfactory) are listed below:

#### Outstanding Performance = O

Performance is far above the defined job expectations. The employee consistently does outstanding work, regularly going far beyond what is expected of employees in this job. Performance that exceeds expectations is due to the effort and skills of the employee. Any performance not consistently exceeding expectations is minor or due to events not under the control of the employee.

#### Very Good Performance = VG

Performance meets the defined job expectations and in many instances, exceeds job expectations. The employee generally is doing a very good job. Performance that exceeds expectations is due to the effort and skills of the employee.

#### Good Performance = G

Performance meets the defined job expectations. The employee generally performs according to the expectations doing a good job. The employee is doing the job at the

## **AUDIT FINDINGS AND RESPONSES (CONTINUED)**

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level expected for employees in this position. The good performance is due to the employee's own effort and skills.

Below Good Performance = BG

Performance may meet some of the job expectations but does not fully meet the remainder. The employee generally is doing the job at minimal level, and improvement is needed to fully meet the expectations. Performance is less than a good job. Lapses in performance are due to the employee's lack of effort or skills.

Unsatisfactory Performance = U

Performance generally fails to meet the defined expectations or requires frequent, close supervision and/or the redoing of work. The employee is not doing the job at the level expected for employees in this position. Unsuccessful job performance is due to the employee's own lack of effort or skills.

Performance Management Process

There are three (3) parts of the performance management process as outlined below.

### 1. Planning Phase

Each employee shall have an annual work plan. Where possible, the division's outcomes should be linked to individual work plans to help the employee understand the employee's part in achieving the agency's goals and objectives for the year. A work plan must include the results to be accomplished and the behavior/skills needed to produce these results. It should also include a measure of the expectations of the job as well as any special one-time projects and/or goals. The work plan shall be based on each employee's position description or an equivalent document based on job analysis.

Each employee's work plan shall include performance expectations, tracking sources/frequency and documentation of actual performance. Key responsibilities/results (KRRs) and dimensions are recorded in priority order on the work plan.

Performance expectations shall be written at the good level and must have one or more measurement methods (quality, quantity, timeliness, or cost). Supervisors should be able to discuss performance at the outstanding and unsatisfactory levels.

When the work plan is completed, it shall be dated and signed by the employee, the supervisor, and the supervisor's manager. If changes are made on the work plan during the cycle, the employee, the supervisor and the manager shall initial and date the changes before they are effective.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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### 2. Managing:

Supervisors throughout the year manage the work of their employees toward accomplishing the goals of the unit. They do this by coaching, reinforcing, and documenting employees' performance throughout the cycle. The tracking sources frequency recorded on the work plan provide the format for monitoring and documenting an employee's performance. The interim, any special reviews or day-to-day informal reviews provide specific feedback between the employee and supervisor. Each supervisor shall meet with each employee at least one time at the approximate midpoint of the work cycle, usually between December 1 and January 31, for an interim review of performance. The purpose of this meeting is to discuss the employee's progress toward each of the established expectations, and initiate action toward improvement, if needed. The supervisor shall document the actual results and behaviors that fall below the good level on the interim review page and establish an improvement plan to overcome deficiencies. The overall rating must be discussed but does not have to be recorded.

**Special Reviews and Performance Improvement Plans:** A special review for performance deficiency is initiated any time an employee's work performance for any KRR or dimension falls below the good level. Supervisors are encouraged to consult with DJJDP Human Resources Division to determine if any additional disciplinary action is warranted before meeting with the employee. When a special review for performance deficiency is initiated, a performance improvement plan shall be written to specify the steps an employee will take to gain the knowledge or skills needed to perform at an acceptable level. The improvement plan also clearly indicates the steps the supervisor will take to assist the employee in achieving the needed improvements. Both the special review and the improvement plan are documented on the same page of the work plan.

If performance is below the good level at the mid-cycle review, the supervisor must meet with the employee at least once more before the final appraisal to discuss and document progress as outlined in the improvement plan. Work plan KRRs, dimensions, and respective performance expectations are adjusted when they have changed or are beyond the employee's control to perform.

### 3. Appraising:

At the end of the work cycle, the supervisor shall meet with each employee to discuss the employee's performance and record the actual results and behavior for each expectation. The employee should be given reasonable advance notice to prepare for this meeting. An appraisal is also required in the following situations:

- a. **Transfers:** When an employee transfers (lateral, demotion, or promotion) within state government, an overall performance review shall be completed and documented prior to the transfer. A copy of the signed work plan is sent to the new supervisor;

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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- b. **Change in Supervisor:** When there is a change in supervisors within the work cycle, management is accountable for ensuring consistency. The supervisor may elect to communicate performance information for each employee to management or complete an overall performance review for all employees affected by the change;
- c. **Separation:** When an employee separates from state government, a division/facility/school shall require completion and documentation of an overall performance review prior to separation.

At the final appraisal session, the supervisor and employee shall discuss their documentation of the work performed. Each KRR and dimension shall be rated on one of the five (5) levels of the North Carolina Rating Scale. The supervisor shall record actual results and explain the rating for each KRR and dimension to the employee. Documentation is required to justify the rating for each performance expectation.

Supervisors shall determine the combined KRR rating based upon the ratings received on each of the KRRs and the documentation to support each rating. Consideration shall be given to the priority of each KRR and the rating received. A combined rating is also determined for dimensions based upon the rating each dimension was given and the priority of the dimensions.

The rating for the combined KRRs and for the combined dimensions is based on documentation and the relative priority of each KRR or dimension. No mathematical formula will be used to determine the level of overall performance. The following OSP guideline will be used: "If 50% or more of the ratings are at the same level, the combined rating is most likely to be that level." Other factors that may affect the overall rating are:

The quantity and/or importance of any KRR and dimension rated below or above the good level and any disciplinary action that occurred during the work cycle. Supervisors are encouraged to discuss employee work plan ratings with Employee Relations prior to meeting with the employee to determine if a disciplinary action will affect the overall rating level. An employee cannot receive an overall summary rating above the good level if the employee is in final disciplinary procedure during the work cycle.

The employee's overall summary rating and a summary statement by the supervisor supporting the rating shall be recorded on the overall performance summary page of the work plan. The KRRs and dimensions have equal weight in determining the overall summary rating. Employees shall also be provided space and the opportunity to comment on their rating. The overall performance summary shall be signed and dated by the employee, supervisor and the supervisor's manager. An employee's signature does not imply agreement with the overall performance summary and ratings but indicates that the ratings have been discussed with the employee. If an employee chooses not to sign the work plan, the supervisor documents this and asks the manager to witness the

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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employee's refusal to sign the work plan. The employee shall be provided a copy of the final document after all comments are made and signatures affixed.

No changes shall be made or comments added to the work plan without the employee's knowledge. Any alteration in the final document shall be initialed and dated by the employee, supervisor and supervisor's manager.

Prior to the final appraisal session, the supervisor and the supervisor's manager shall reach general agreement on the performance ratings for each employee, but not a finalized rating until the supervisor and employee meet to review their documentation. Determination of ratings for KRRs and dimensions should not be finalized or documented until the appraisal discussion with each individual employee. The original work plan including the overall performance summary shall be maintained in the employee's personnel file for a minimum of three years.

### Education/Training Program

New employees will become familiar with the performance management program through participation in the performance management system and through employee orientation. New supervisors and managers shall participate in the performance management system supervisor training within the first year of assuming supervisory duties to become knowledgeable in the process and enhance the skills necessary to carry out the performance management program fairly and consistently (however, new or newly promoted supervisors shall have basic Time Review and Performance Work Plan/Appraisal training within 30 days of hire to ensure effective review of time/attendance/leave functions as well as to comprehend the performance management system fundamentals and supervision requirements. The supervisor's manager is responsible for conducting the performance management program activities until such time as the new supervisor has completed performance management program training.

### Relationship of Performance Management to Other Human Resources Systems

Information obtained during the performance management process about individual employees shall be a consideration in making other personnel management decisions. Performance appraisal information is one consideration in making personnel decisions such as promotions, disciplinary actions, salary increases and reductions-in-force. Personnel policies dealing with these actions also require consideration of other information; therefore, performance appraisal alone cannot determine such decisions. Since the work plan may not represent each and every aspect of the job, disciplinary action shall be documented and considered in the overall summary rating.

**Probationary Employees:** Probationary employees shall have a position description and work plan established within 30 calendar days from the date of employment and an appraisal before the end of the probationary period. A formal performance review should be completed before an employee is moved into permanent status or prior to

## **AUDIT FINDINGS AND RESPONSES (CONTINUED)**

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separating a probationary employee. By the end of the work unit's work cycle, the employee must be on permanent status for a minimum of at least two-thirds of the cycle or eight months in order to provide a fair and accurate assessment of performance.

**Trainee Progression:** Every employee in a trainee progression must have a work plan established within 30 calendar days of employment or transfer. A performance review shall be completed before each salary increase is granted within the trainee progression. Permanent employees in a trainee progression adhere to the same eligibility requirements as all other permanent employees. A newly hired trainee who is not a permanent employee would follow the guidelines for probationary employees until the employee fully qualifies for the job classification and is not eligible for a performance increase.

**Changes in Duties:** Employees whose responsibilities and duties are changed (i.e.; lateral transfer, promotion, or demotion) shall have a new position description or equivalent and work plan established within 30 days of the new assignment.

**Employee Transfer:** An overall performance review shall be completed with employees who transfer within state government prior to their last day of work. This review is documented on the overall summary page. The employee, supervisor, and the supervisor's manager shall date and sign the form. The work plan must be placed in the employee's personnel file and sent to the receiving agency. When the transferred employee arrives in the new agency, the receiving supervisor considers the level of documented performance in the overall performance review from the previous agency along with the current overall summary rating in determining the overall summary rating for the entire cycle.

**Change in Supervisor:** To provide continuity and consistency of treatment when a different supervisor assumes responsibility for the unit, the next level manager and supervisor shall agree on each employee's progress towards the work plan and document this on the work plan. The new supervisor will review, initial and update the new work plan as needed for the remainder of the cycle.

**Leave of Absence:** An employee must be present on the job for at least two-thirds (eight (8) months) of the work cycle to provide for the fair and accurate assessment of performance.

Performance Rating Dispute Process:

An employee may dispute the fairness of an annual overall summary rating of less than "Good" by filing a complaint on Grievance Form HR 9.2.002 within 15 calendar days from the date the employee receives his/her copy of the work plan and overall summary rating. Performance reviews other than the annual review are not appealable under the DJJDP performance rating dispute process.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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### Sanctions

It is the intent of the DJJDP to support managers and supervisors in the implementation of this policy, to provide training opportunities, and to provide support for and feedback on their performance in the performance management program. All supervisors and managers shall have a KRR for supervision that includes carrying out the performance management process, ensuring the safety of their employees, and ensuring the department's EEO goals is upheld.

No employee shall be penalized or excluded from consideration for a performance salary increase because a supervisor or manager has not followed the performance management process. The failure of a supervisor or manager to carry out the performance management process in accordance with this policy usually will be addressed as a performance deficiency. It can result in one or more of the following actions:

1. Coaching from the immediate supervisor and manager to determine the cause(s) of the deficiency and implementation of an improvement plan.
2. Participating in skills enhancement training as part of the improvement plan.
3. Monitoring of progress by the manager towards improvement goals to ensure deficiencies are corrected; and/or
4. If necessary, issuing appropriate disciplinary warnings, up to and including dismissal, in accordance with the department's disciplinary action policy.

### Responsibilities of Senior Management

The Secretary shall be responsible for bringing all units into full compliance with this policy. Upon request of OSP, the Secretary or designee will provide any requested reports. The Secretary shall take sanctions against the managers of those units in which inequities or systematic deficiencies exist.

### Responsibilities of Division of Human Resources

Human Resources is delegated the responsibility for monitoring and evaluating the Performance management program. The DJJDP Human Resources Division shall assist in providing:

- Consultation services to employees;
- Guidance on supervisory training to assure managers and supervisors are adequately prepared to carry out the performance management;
- Send out notices and reminders to alert managers of time requirements;

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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- Enter ratings into BEACON upon submission of annual work plan, and
- Provide management reports regarding the completion of work plans to ensure compliance with this policy.

### Responsibilities of Supervisor's Manager

- Managers must ensure that all supervisors comply with the provisions of this policy. Managers are responsible for providing guidance and support to their supervisors throughout the process, reinforcing positive behaviors and outcomes exhibited by the supervisor or the supervisor's work unit, and coaching to correct any deficiencies.
- Management shall assure that each employee is provided performance management information in the orientation process, that new supervisors/managers participate in full performance management training within one year of assuming supervisory responsibilities (basic training within 30 days), and that the manager fulfills performance management responsibilities until the new supervisor has completed training.
- Managers are responsible for reviewing work plans of subordinate supervisors' work units to ensure they reflect appropriate goals and priorities, are completed within established time frames, and that expectations for employees performing similar work are consistent and equitable. Managers are responsible for discussing the overall summary rating for each employee with their subordinate supervisors prior to the final appraisal.

### Responsibilities of Supervisor

- Within the first 45 days of the work cycle, supervisors shall hold meetings with each employee to develop work plans including a development plan for each employee. These meetings must include:
- A discussion of the work to be accomplished by the unit and the performance expectations the employee will have for the work cycle. The supervisor also defines the outstanding and unsatisfactory levels of the performance expectations.
- The supervisor maintains the original work plan during the cycle also providing a copy to the employee.
- In addition, supervisors shall monitor and document specific performance results and trends in behavior throughout the work cycle for each employee.



## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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- Conduct at least one interim review with each employee at the midpoint of the cycle, document performance of both the employees' results/behaviors and establish an improvement a plan if needed.
- Conduct a performance appraisal evaluation with each employee at the end of the cycle.
- Ensure consistency of performance management so that expectations for all similar jobs within their unit are consistent and equitable; ratings are free of bias, accurately reflect the work accomplished; and show consistency between the performance management program and other human resources actions.

### Responsibilities of Employee

- Meet with the supervisor to provide input in the determination of performance expectations;
- Collect performance documentation such as samples of work or work products and data that supports trends in behavior/skills;
- Keep the supervisor informed as changes occur so that expectations can be met as planned or the expectation adjusted based upon justifiable circumstances;
- Sign the work plan and overall performance summary. Comment on supervisor's evaluation of the employee's performance, if appropriate.

### *Agency Response:* Finding No. 2.

Concur. The Department agrees that adequate controls were not in place over the preparation and processing of some journal entries. Effective immediately, the Department has implemented procedures to ensure that all journal entries are reviewed and approved by someone other than the person who prepares and enters the entries and that they are supported by clear and sufficient documentation to support the entry. Such documentation will be maintained in the Controller's Offices and checked periodically by the Deputy Secretary for Administrative Services.

### *Agency Response:* Finding No. 3.

Concur. The Department acknowledges there were some inconsistencies in the application of state and departmental policies in managing and monitoring personal service contracts. As a direct result, the Department has now implemented a checklist that ensures that all documentation, including the justification memorandum, is included in the contract file and that all necessary documents are properly executed. No services

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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will be allowed to begin without a fully executed contract or an amendment and a purchase order.

Effective July 1, 2009, the Department will implement monitoring policies that requires periodic reviews that ensure that contractors are in compliance with current contract provisions and that Contract Administrators are aware of and are performing their responsibilities as administrators. Administrators of contracts will be notified when / where potential deviations from Departmental policies and procedures could occur. Contract Administrators will document the periodic reviews in their contract supervision or maintenance files, maintain files for notifications of any concerns to the supervisor, and ensure that policies and procedures are followed.

### *Agency Response:* Finding No. 4

Concur. While the Department has developed audit plans since 2006, the audit resources were not effectively managed. The 2009 audit plan was reviewed and approved by the new administration in February 2009. Under the new DJJDP organizational structure, the Internal Auditor is reporting directly to the Secretary who will ensure that effective Internal Auditing management is ongoing. The Department will be effectively utilizing the internal audit function in accordance with the audit plans that have been developed for 2009. With the new fiscal year approaching, the development of the audit plan for 2010 will be the first priority for the Department and the internal resource used in accordance with Department and State policies.

## **AUDIT FINDINGS AND RESPONSES (CONTINUED)**

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### **Addendum to Response**

#### **Human Resources Management/Supervisory Training Plan**

This plan addresses the need to provide practical tools for managers and supervisors in the human resources competency areas. The training sessions outlined below are modular in nature and can be provided in any order, but they comprise a systemic overview of human resource functions. These sessions provide a bridge between the day-to-day work of managers and supervisors in the department and the human resource specialists as they provide the necessary support to those managers and supervisors and the overall mission of the department.

#### **Module 1**

##### Overview of the Comprehensive Human Resources System

This brief module outlines how the Human Resource functional areas fit together and how a savvy manager can make that system effective for work. As a prerequisite, participants should view the brief flash movie at the OSP E-Learning site at <http://www.nctraining.ncgov.com/pm/> that describes in detail how the systemic HR functions fit together in a coherent relationship. Participants will practice using the Personnel Action Request Form as an effective and meaningful communication tool with human resources.

#### **Module 2**

##### Recruitment, Selection and Hiring

Hiring managers and supervisors need to become competent in the use of job descriptions and job postings as fundamental tools in finding and selecting job candidates who are qualified and have the best fit for the job the Department has hired them to do. Up-to-date job descriptions make the posting process much easier and more coherent. We will review sample job descriptions and construct postings for those jobs as well as adding notes to the posting for special circumstances or preferences.

We will devise effective structured interview questions and practice documenting responses as well as justifying selection decisions through the use of case studies and interview simulations. Use of the Selection/Rejection form will be discussed and practiced as needed. We will also discuss the need for particular attention to the Criminal Justice hiring standards and important considerations in hiring for certified positions.

Prerequisite for this module is completion of the on-line training on the OSP website “Effective Hiring”, part of the “Effective HR” Series. <http://www.nctraining.ncgov.com/main/courselist.htm>.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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### Module 3

#### Managing Effectively through Accountability

This module covers two major components of the human resources system, performance management and the disciplinary process. These components are both integral parts of Employee Relations. The module begins with an overview of the role of the Employee Relations staff and how they work together with managers/supervisors to provide effective leadership and accountability for staff throughout the department. We will work through the performance management process using sample work plans as well as revising or developing Key Responsibilities expectations and Dimensions expectations for their supervisees' work plans. Participants will review and practice appraisal interviews as well as devising improvement plans and development plans as needed to address performance.

Samples of performance documentation will be provided. Standard work plans will be addressed and the process for developing standards will be outlined. Issues of time management for facility based supervisors who work along side of their supervisees will also be addressed.

Prerequisite for this module is completion of the on-line training on the OSP website "Effective Performance Management", part of the "Effective HR" Series. <http://www.nctraining.ncgov.com/main/courselist.htm>

(Due to the extensive nature of this module, it could be divided into two parts at this point for separate delivery.)

Next, the module focuses on motivating staff and boosting morale through the provision of effective leadership. As a component of that leadership process, we will discuss and describe how the discipline process should work as a learning experience. The discipline process should be a collaborative one between manager/supervisor and Employee Relations staff to ensure fairness for staff as well as managers and the ultimate safety and effective treatment for the juveniles in our care. Through scenarios and case studies, we will discuss the importance of effective discipline as part of the HR system and how it is integrated into performance management.

Prerequisite for this module is completion of the on-line training on the OSP website "Effective Discipline, Policy and Practice", part of the "Effective HR" Series. <http://www.nctraining.ncgov.com/main/courselist.htm> This is a blended course so the classroom component will be done as part of the DJJDP HR Management/Supervisory Training.

## **AUDIT FINDINGS AND RESPONSES (CONTINUED)**

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### **Module 4**

#### Effective Use of BEACON for Supervisors/Managers

Many supervisors and managers in the department have questions and issues with entering time, approving time worked and leave time and the need for information about their supervisees in the form of reports. The department also has several categories of time worked (overtime, call back, on call, etc) that are not in common use in all departments. The BEACON training for Manager Self Service (MSS) offered on-line is generic to all of state government and may not be specific enough for managers/supervisors in this department.

This module requires the use of a computer classroom with network capability and internet access for all participants. The training will be conducted in partnership between a BEACON trainer and a DJJDP time administrator and will involve working through scenarios involving approving leave, denying leave with reasons, interpreting BEACON error messages and running reports through MSS. Ample time will be allowed for questions, “what ifs” and individual problem reporting.

The highest priority for attendance and completion of this module will be managers and supervisors who have not had BEACON MSS training and/or those who have difficulty with approving leave in a timely manner. This module will also be open to any supervisor or manager by request.

#### **Logistical Considerations**

To provide the training without overnight travel and related expenses, it will be necessary to have several short sessions, repeated at intervals to make sure all managers and supervisors have the opportunity to attend.

Sessions are planned for four hours in length but could be expanded to six hours if fewer sessions are desired. Each session will be facilitated by teams comprised of at least one staff development trainer and one HR specialist for each session. More specialists may be added to the teams as needed. Sessions can be done in any order by combining any subsequent module with Module 1, which contains the overview. Each module (except Module 4) will be preceded by an on-line component to provide basic information prior to discussion and skills practice in the classroom. Prerequisite on-line modules should be documented with a completion form printed out and brought to the classroom portion of the training. Completion of each module will be documented by lead managers and/or staff development at the time of completion. On-line courses (Basic Training for New Supervisors, Effective Hiring, Effective Performance Management and Effective Discipline) can be previewed on the OSP/Training & Development web site: (<http://www.nctraining.ncgov.com/main/courselist.htm>)

## **AUDIT FINDINGS AND RESPONSES (CONCLUDED)**

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To provide an adequate number of training sessions each module would be offered regionally and repeated as needed. Training sessions will begin in mid-July and continue on a weekly basis through November 2009.

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## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports 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