

SPECIAL REVIEW

ALBEMARLE COMMISSION

APRIL 1993

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April 30, 1993

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April 30, 1993

The Honorable James B. Hunt, Jr., Governor
Mr. Joseph G. Deneke, Chairman of the Albemarle Commission
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 operations at the Albemarle Commission. The results of our review, along with recommendations for corrective action are contained in this report. The Board of Directors has reviewed this report and their written comments are included in Exhibit B. A copy of this report is being forwarded to the North Carolina Attorney General and the Director of the State Bureau of Investigation for their review.

We wish to extend our appreciation to those individuals who cooperated with us during our review.

Ralph Campbell, Jr.
State Auditor

OVERVIEW

In 1970, the Albemarle Commission Planning and Development Commission was created as one of the 18 multi-county planning regions in North Carolina. On February 17, 1983, the bylaws were amended to change the organizational name to Albemarle Commission (Commission). The Commission is a voluntary association of ten counties and fourteen municipalities within the northeastern part of North Carolina. As the lead planning organization for Region R, the Commission is governed by federal and state legislation and is authorized by its local governments to administer the following programs: Aging Program, Economic Development, Job Training Partnership Act, Tourism, Community Development, Emergency Medical Services, Environmental, Water Quality and Solid Waste Management and Vista Volunteers. The Commission is located in Hertford, North Carolina.

The governing body of the Commission is a Board of Directors representing the ten counties and fourteen municipalities served. The Board consist of 68 members serving terms of two years each. Board members include local elected officials, minority representatives, business people, county and municipal managers, and other citizens with an interest in planned growth for the region.

The Commission is funded by federal, state, and local programs and by project income and interest income. The Commission received \$2,283,654.73 in total revenues in fiscal year 1991-92. Of this amount, 98 percent was received from federal, state, and local sources.

The Commission employs approximately 32 part-time and full-time employees. The Executive Director is responsible for the operations of the Commission and reports directly to the Board of Directors.

INTRODUCTION

Allegations concerning operations at the Albemarle Commission were received through the State Auditor's Hotline. The allegations included the following:

- The Executive Director uses the Albemarle Commission's credit card for personal use.
- The Executive Director has claimed reimbursement of travel expenses he did not incur.
- The Executive Director allowed an employee to charge a personal trip to the Albemarle Commission.
- The Executive Director has outstanding travel advances.
- The Executive Director extends business trips to include personal travel.

The following procedures were used to conduct our review:

1. Interviews with Albemarle Commission employees and persons external to the Albemarle Commission.
2. Examination of financial records.
3. Examination of employee's time sheets, and correspondence.

This report presents the findings and recommendations resulting from our review. We did not conduct a financial audit in accordance with generally

accepted auditing standards. Such coverage is accomplished through the annual audit performed by a private CPA firm.

FINDINGS AND RECOMMENDATIONS

1. **The Executive Director requested and received duplicate reimbursements for travel expenses.**

We examined the Executive Director's (Director) travel expense reimbursements from July, 1990 through July 1992. During this period, he received \$772.93 in expense reimbursements that he should not have retained. The majority of these funds were duplicate reimbursements for the same expenses or reimbursements for expenses he did not incur.

Of the above total, \$493.28 was for motel expenses that were charged to the Albemarle Commission's credit card and subsequently paid by the Commission. However, the Director requested and received direct reimbursement for these expenses on five occasions from the Department of Environment, Health, and Natural Resources (EH&NR) for his services as a member of the Coastal Resources Advisory Council (CRAC). On one occasion he charged expenses to the Albemarle Commission's credit card and received reimbursement for these expenses from the Albemarle Commission.

On seven occasions the Director received reimbursement from EH&NR for meals that he had charged on the Albemarle Commission's credit card. These meals totaled \$192.15.

The Director was reimbursed \$87.50 by EH&NR for mileage to attend a meeting on July 22, 1992. He was also reimbursed \$95.76 for mileage by the Albemarle Commission for the same trip. He charged the gasoline for the trip on the Albemarle Commission's credit card.

According to the Director, he was aware that he was receiving reimbursements for motel expenses and mileage that he had charged to the Commission but was not aware that money he received from EH&NR was also to reimburse him for meals.

In addition to receiving reimbursements for travel expenses, the Executive Director receives a monthly travel allowance of \$250 from the Commission. This was approved by the Commission's Board of Directors on March 17, 1988.

Recommendation

We recommend that the Director repay the Albemarle Commission \$772.93 for reimbursements of expenses that were paid to him that he had charged on the Commission's credit card. We also recommend that the Board establish controls to prevent duplicate payment of travel expenses in the future.

2. **The Executive Director has been receiving per diem for attending meetings of the Coastal Resources Advisory Council.**

The Director of the Albemarle Commission also serves as a member of the CRAC. He is appointed to this Council as a part of his duties as Executive Director. He has been paid a fifteen dollar a day per diem for attending CRAC meetings. The total per diem paid to the Director is \$360. While attending these meetings, he is still paid his full salary by the Commission. In our opinion, the Director is not entitled to receive the per diem from CRAC since his attendance at these meetings is a function of his regular duties as Executive Director and a portion of his

salary is paid for by state funds. According to the Executive Director, he was not aware that he was being paid per diem.

Recommendation

We recommend that the Director reimburse the Coastal Resources Advisory Council a total of \$360 in per diem payments made to him that he was not entitled to receive.

3. **The Albemarle Commission's Executive Director has incurred personal expenses paid for with Albemarle Commission funds.**

The Executive Director admitted that he is using the Albemarle Commission's credit card for business and personal use. In most instances, he is crediting an amount on his travel reimbursement requests in order to "pay back" the Commission for these personal purchases. However, a review of his purchases from July, 1990 through August, 1992 revealed the following.

- A total of \$4,171 in personal charges on the Commission's credit card for items such as tires, gasoline, clothes, medical bills, lounge charges, meals, motel rooms, film processing and purchases at Lowe's and the U.S. Coast Guard. Although these charges were eventually repaid by the Director by crediting his request for travel reimbursements, total finance charges of \$159.07 resulting from these purchases were not repaid. These charges were paid by the Commission.
- The Director incurred \$384.82 in personal expenses when he combined a personal vacation with a business trip to Gulfport, Mississippi in April, 1992. The \$384.82 in personal expenses is comprised of the following and was never repaid by the Director.

	Mileage	\$267.12
April 29, 1992	Lodging	25.00
April 29, 1992	Dinner	18.50
April 30, 1992	Breakfast	5.00
April 30, 1992	Lunch	5.00
April 30, 1992	Lodging	<u>64.20</u>
Total		<u>\$384.82</u>

- The Director had total gasoline purchases of \$1,120.46 of which \$100.64 has never been repaid to the Commission. These gasoline purchases were for business and personal use and were charged to the Commission's credit card.
- The Director charged personal expenses of \$53.50 in lounge charges and \$16.39 in personal telephone charges while attending the annual Lead Regional Organization Conference at the North Raleigh Hilton on December 4-6, 1991. These charges have never been repaid to the Commission.

Recommendation

We recommend that the Executive Director repay the Albemarle Commission \$714.42 for the above personal expenses paid with Commission funds.

In addition, we recommend that the Albemarle Commission's Board of Directors implement adequate controls to prevent or detect use of the Commission's credit card for personal expenses.

4. **Travel expenses by the Executive Director appear to be excessive in amounts.**

The Albemarle Commission's travel policy is to pay all reasonable expenses incurred by an employee traveling in the interest of the Commission, including transportation, meals, and lodging. Although its policy does not give specific limits on the amount that can be reimbursed for each type of expense, it does state that the charges must be

reasonable. We used the travel expense limitations in the North Carolina State Budget Manual as a guide for reasonable and prudent travel expenditures. Even though the Commission employees are not subject to these limitations, the majority of funds used to pay for travel expenses are state and federal funds.

During the twenty-six month period of July 1, 1990 through August 31, 1992 the Executive Director received meal reimbursements alone that exceeded the state guidelines by \$7,785.55. He also received motel reimbursements for sixty-nine nights that ranged from \$62.13 per night to \$116.94 per night.

In addition, the Executive Director received \$8,816.33 during this period in mileage reimbursements for driving 32,366 miles. (Rate of \$.27 per mile or \$339.08 per month.) This reimbursement for mileage was in addition to the \$250 per month travel allowance he automatically received totalling \$6,500 (26 months x \$250 per month) for this same period.

Considering the \$250 per month travel allowance, the magnitude of the travel expenses claimed by and reimbursed to the Executive Director appear excessive.

Recommendation

We recommend that the Albemarle Commission's Board of Directors address the Commission's current travel policy. Justification should be required and approved when excessive reimbursements for travel expenses are made.

We also recommend that the Board consider whether the \$250 per month travel allowance is intended to be paid to the Executive Director in addition to all his travel expenses.

5. **Travel advances are not repaid in a timely manner.**

The Albemarle Commission's policy on travel advances states "Any money advanced in excess of the actual expenses approved on the travel voucher shall be returned to the Fiscal Manager within 5 days following the employee's return to the office". The

Executive Director had outstanding travel advances on June 30, 1992 of \$408.86. On October 13, 1992 the total of outstanding travel advances had increased to \$650. Our review of this account revealed that the Executive Director's travel advances do not comply with the Commission's policy pertaining to the repayment of travel advances.

Recommendation

We recommend that the Albemarle Commission's Board of Directors ensure that all Commission employees comply with its policy on travel advances.

6. **Personal long distance telephone calls are charged to the Commission.**

Each employee has a personal telephone code number for making long distance calls. The telephone company prints a list of all long distance calls made by employee code. A copy of this list is given to each employee to verify his or her personal calls. If an employee identifies any personal long distance calls, he or she is responsible for paying for them by writing a check payable to the telephone company. The employees are on an honor system that they will reimburse all personal calls. The finance office does no additional verification that all personal calls are reported.

The Executive Director made several personal calls from July 19, 1991 through August 15, 1992. For example, he made personal calls to Dayton, Ohio totaling over fourteen hours in duration. The reimbursements for the personal calls were not made in a timely manner.

Also, we noted several calls marked as personal and at a later date the same number would not be marked. Our review also showed that other employees are not remitting their checks in a timely manner.

Recommendation

We recommend that the Board implement a policy prohibiting employees from charging personal long distance telephone calls to the Commission. Also, we recommend that the finance office review the telephone bills each month for personal calls made by employees.

7. **The Albemarle Commission paid for personal expenses and excessive travel expense of the former Economic Development Director.**

The Executive Director approved the travel reimbursement requests submitted by a former employee who held the position of the Economic Development Director (EDA Director). Included in the EDA Director's reimbursements were personal expenses and travel expenses that appeared to be in excess of reasonable expenses. These expenses were as follows:

- On February 7, 1992 the Commission purchased an airline ticket for the EDA Director to fly to Atlanta, Georgia for a business meeting. However, the ticket included charges for destinations other than Atlanta that were for personal reasons. The charges for the personal portion of the airline ticket were \$262.99. The EDA Director reimbursed the Commission \$167.51 which left a balance owed of \$95.48. She stated that she repaid the amount requested from her by the finance officer. In addition to the personal cost of the ticket she was allowed to take three days sick leave to cover a portion of this trip that was for personal vacation.

- The EDA Director attended a week long seminar in Chicago, Illinois. An airline ticket to Chicago and back would have cost the Commission less than \$300 according to an airline company. However, the Executive Director gave approval for the EDA Director to drive to the seminar. Mileage reimbursement received by the EDA Director for the trip totaled \$617.96 for 2,207 miles. In addition to the mileage, the Commission paid additional lodging, meals, and parking fees due to the additional time required to drive to Chicago.
- The former EDA Director used the Albemarle Commission's credit card to pay for personal car repairs in December, 1991 in Norfolk, Virginia totalling \$137.81. The expense was not associated with a business trip for the Commission. It was six months later before she reimbursed the Commission for this personal expense.
- The Executive Director approved the payment of travel expenses for the EDA Director and the EMS Project Director to attend a Coastal Resources Advisory Council meeting in Atlantic Beach, North Carolina on July 24-26, 1991. They were not members of this Council, were not listed on attendance sheets taken at the meeting, and were not on the agenda or listed in the minutes as being present during the meetings. The expense to the Commission for the EDA Director and the EMS Project Director to attend this meeting was \$747.40. This does not include meals which were charged, along with meals by the Executive Director on the same trip, of \$232.65. We could not determine, however,

which of these meal charges were attributable to the EDA Director and the EMS Project Director.

- Charges by the EDA Director to the Commission's credit card also included expenses for personal telephone calls at motels, lounge charges, laundry charges, and film processing.

Recommendation

We recommend that the Albemarle Commission address the travel policy pertaining to Commission employees and set reasonable guidelines for allowable travel expenses. Also, the policy should provide for controls to assure that reimbursement requests submitted by employees are properly documented, reported on a timely basis, and properly approved before being paid.

8. **The Albemarle Commission has used funds on numerous occasions to purchase alcoholic beverages.**

The North Carolina State Budget Manual states in section 5.50 that "Payment or reimbursement of alcoholic beverages or 'set-ups' may not be made from state funds. Such costs must be borne entirely by individuals."

The United States Office of Management and Budget issued OMB Circular A-87 pertaining to the expenditure of federal funds which states that expenditures must "Be necessary and reasonable for proper and efficient administration of the grant process." This Circular goes on to say that expenditures of federal funds for entertainment are unallowable.

The local policy approved by the Albemarle Commission states that "Items of a personal nature, such as ...alcoholic beverages are not reimbursable."

During our review of the Albemarle Commission's expenditures from July 1990 through August 1992 we noted the following purchases.

- On April 11, 1991 the Executive Director charged \$87.85 on the Commission's credit card at the Velvet Cloak Inn in Raleigh. The charge was for cocktails and wine.
- On June 11, 1991 the Executive Director charged \$169.01 for liquor, wine, beer, and a tip on the Commission's credit card at the Velvet Cloak Inn in Raleigh.
- On January 31, 1992 the Executive Director received a \$300 travel advance from Commission funds. The advance was supported by receipts for purchases of liquor, beer, and wine in the amount of \$234.72.
- On June 23, 1992 the Albemarle Commission hosted the annual Town Hall Day banquet at the Velvet Cloak Inn in Raleigh. The Commission was charged \$239.18 for mixed drinks and wine.
- There were several other charges to the Commission that appear to be purchases of alcoholic beverages. The Executive Director stated these charges were either personal expenses that should have been repaid to the Commission, or he did not remember what the charges were for.

Recommendation

We recommend that the Commission's Board of Directors address the issue of purchasing alcoholic beverages with Commission funds. The

policy should be made clear to all of the Commission's employees based on federal, state, and local regulations regarding this type of purchase.

9. **The Executive Director entered into a contract for services without Board approval that may have been unnecessary.**

On October 20, 1992 the Executive Director entered into a written contract with a CPA firm to conduct a review of the Commission's policies pertaining to reimbursement of travel expenses and a detailed review of selected accounts. Two days later he received verbal approval from the Chairman of the Board for this expenditure. The contract for the CPA firm to conduct this review was \$7,286. The same CPA firm had completed its annual financial review of the Commission a few weeks prior to this contract at a cost of approximately \$7,700.

The contract appears to have been entered into without proper approval by the Board and appeared to focus on the same accounts that were reviewed during our investigation. In addition, the contract was not properly approved, as required, by the Local Government Commission.

In our opinion, this contract was a questionable expenditure of funds since it was a duplication of the review being conducted by the Office of the State Auditor.

Recommendation

We recommend that the Commission's Board of Directors address the issue of whether this contract was properly approved and whether it was a necessary expenditure of the Commission's funds. The bylaws of the

Commission address the penalty for expenditures made from Commission funds without proper Board approval.

Note: On March 29, 1993 the Local Government Commission officially informed the Albemarle Commission's Board of Directors that it would not approve the contract with the CPA firm because the contract did not meet the requirements of G.S. 159-34.

STATEMENT OF FINANCIAL IMPACT

The following schedule presents the quantifiable items examined during our special review. We have classified the items into three categories, Inappropriate Receipt of Funds by the Executive Director, Questionable Charges to the Commission by the Executive Director, and Improperly Controlled Funds.

Inappropriate Receipt of Funds by the Executive Director

Motel reimbursements (Page 5)	\$ 493.28
Per diem (Page 6)	360.00
Meal reimbursements (Page 5)	192.15
Mileage reimbursements (Page 5)	<u>87.50</u>
	<u>\$ 1,132.93</u>

Questionable Charges to the Commission by the Executive Director

Additional expenses incurred by driving from Gulfport, M.S. (Page 7)	\$ 384.82
Personal gasoline purchases (Page 8)	100.64
Lounge charges (Page 8)	53.50
Personal telephone charges (Page 8)	<u>16.39</u>
	<u>\$ 555.35</u>

Improperly Controlled Funds

Excessive meal reimbursements to the Executive Director (Page 9)	\$ 7,785.55
Executive Director entered into a contract that may have not been properly approved. (Page 15)	7,000.00
Personal purchases on the Commission's credit card by the Executive Director (Page 7)	4,171.00
Expenses for the former EDA Director and EMS Project Director to attend a CRAC meeting (Page 12)	747.40
Alcohol purchases (Page 14)	730.76
Mileage reimbursement for the former EDA Director to drive to Chicago (Page 12)	376.96
Finance charges incurred due to the Executive Director submitting his travel in an untimely manner (Page 7)	95.48
Personal purchases on the Commission's credit card by the former EDA Director (Page 12)	<u>137.81</u>
Total	<u>\$21,044.96</u>
TOTAL STATEMENT OF FINANCIAL IMPACT	<u>\$22,733.24</u>

The cost of conducting the audit of the Albemarle Commission if we were to charge the

normal hourly rate our office uses for billing would have been:

1033 Hours X \$36 per hour = \$34,089.00

EXHIBIT D

EXHIBIT B