



# STATE OF NORTH CAROLINA

**SPECIAL REVIEW**

**N. C. DEPARTMENT OF ADMINISTRATION**

**THE NORTH CAROLINA  
HUMAN RELATIONS COMMISSION'S CONTRACT  
WITH THE FAITH AND POLITICS INSTITUTE**

**RALEIGH, NORTH CAROLINA**

**APRIL 1996**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

# STATE AUDITOR

**SPECIAL REVIEW**

**N. C. DEPARTMENT OF ADMINISTRATION**

**THE NORTH CAROLINA**

**HUMAN RELATIONS COMMISSION'S CONTRACT**

**WITH THE FAITH AND POLITICS INSTITUTE**

**RALEIGH, NORTH CAROLINA**

**APRIL 1996**

## LETTER OF TRANSMITTAL

---

April 30, 1996

The Honorable James B. Hunt, Jr., Governor  
Mrs. Katie Dorsett, Secretary  
North Carolina Department of Administration  
Members of the North Carolina General Assembly

Ladies and Gentlemen:

Pursuant to General Statute §147-64.6(c)(16), we have completed our special review into allegations concerning the North Carolina Human Relations Commission within the North Carolina Department of Administration. The results of our review, along with recommendations for corrective actions, are contained in this report.

We appreciate the cooperation and courtesy extended by the Secretary of the Department of Administration and her employees.

Respectfully submitted,

Ralph Campbell, Jr.  
State Auditor

# TABLE OF CONTENTS

---

	PAGE
OVERVIEW .....	1
INTRODUCTION.....	3
FINDINGS AND RECOMMENDATIONS.....	5
EXHIBITS	
A    Statement of Financial Impact .....	9
B    Response from the Secretary of the Department of Administration .....	11
DISTRIBUTION OF AUDIT REPORT.....	13

## OVERVIEW

---

The North Carolina Human Relations Commission (Commission) within the North Carolina Department of Administration serves the role of advocating, enforcing, and promoting equality of opportunity in the areas of housing, fair employment practices, public accommodations, education, justice and government services for all people in North Carolina. In addition, the Commission serves as a focal point for developing, maintaining and improving human relations by fostering communication and encouraging the establishment of local human relations councils and providing crisis intervention in potentially disruptive situations. Currently, the Commission employs thirteen permanent employees.

For the fiscal year ending June 30, 1995, the Commission had total revenues of \$745,070 and total expenditures of \$745,076.

On November 17, 1994, the Commission, with the approval of the Secretary of the Department of Administration (Department), entered into an \$80,000 contract with an organization called The Faith and Politics Institute (Institute). The Institute was to provide research into racial attitudes in Eastern North Carolina. The results of this research were to be used by the Institute to produce advertisements designed to increase commitment to racial equality and cross-racial understanding. The services of the contract were to commence on October 31, 1994 and terminate on May 31, 1995. On April 6, 1995, the contract agreement was amended to extend the termination date to December 31, 1995. The Department received approval from the Office of State Budget to transfer \$80,000 from the Electricity line item

## **OVERVIEW (CONCLUDED)**

---

within the Division of Facilities Management to the Contractual Services line item within the Commission. On December 22, 1995, the Secretary of the Department terminated the contract with the Institute at the direction of the Governor, effective December 31, 1995. As of that date the Department had paid the Institute \$19,295.31 for services billed in relation to the contract.

## **INTRODUCTION**

---

The Office of the State Auditor received a request from a legislator to examine a contract agreement between the North Carolina Human Relations Commission within the North Carolina Department of Administration and an organization named Faith and Politics Institute. The purpose of the examination was to determine if the contract was handled in accordance with the State's rules and regulations regarding such contracts.

We used the following procedures to conduct our special review:

1. Interviews with employees of the Department of Administration.
2. Interviews with individuals external to the Department of Administration.
3. Examination of records pertaining to the above mentioned contract.

This report presents the results of our special review conducted pursuant to G.S. §147-64.b(c)(16).

[ This Page Left Blank Intentionally ]

## **FINDINGS AND RECOMMENDATIONS**

---

**1. THE DEPARTMENT OF ADMINISTRATION INCORRECTLY CLASSIFIED A CONTRACT WITH THE FAITH AND POLITICS INSTITUTE AS A PERSONAL SERVICE CONTRACT.**

The Department of Administration (Department) made the decision to classify their contract agreement with The Faith and Politics Institute (Institute) as a personal service contract instead of a service contract. Personal service contracts are not required to be reviewed and approved by the Division of Purchase and Contract within the Department. According to the State's procedures, it is up to the individual department or agency to determine if a contract satisfies the requirements of a personal service contract.

This contract should have been classified as a service contract and submitted to the Division of Purchase and Contract for approval.

### **RECOMMENDATION**

Care should be exercised to ensure that contracts are classified correctly.

**2. THE DEPARTMENT PAID INVOICES SUBMITTED BY THE INSTITUTE WITHOUT ADEQUATE SUPPORTING DOCUMENTATION.**

During our special review of the contract agreement between the Department and the Institute, we reviewed supporting documentation for the invoices billed by the Institute and on file at the North Carolina Human Relations Commission (Commission). We determined that the Institute had sent two invoices to the Commission totaling \$19,295.31. Both of the invoices were approved by the Commission and paid by the Department.

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

---

We determined that the documentation did not support the expenditures listed on the invoices for \$14,477.81 of the total.

We officially requested that the Commission provide us with additional documentation to support all of the expenditures shown on the invoices. This documentation was eventually provided to us. It appears that the Institute did incur all expenses claimed on both invoices plus some additional expenses.

### **RECOMMENDATION**

The Department should require documentation supporting all invoices before payment is made.

### **3. THE DEPARTMENT MADE PAYMENTS TO THE INSTITUTE INCONSISTENT WITH THE CONTRACT AGREEMENT.**

The Institute's Director of Development wrote the following in his March 1, 1996 letter which accompanied the documentation he provided to the Executive Director of the Commission.

“According to my records, several entries on both invoices were advances based on estimated expenses. For these expenditures, the Institute billed the Commission in advance for projected costs associated with a particular phase of the project because cash reserves didn't allow otherwise.”

## FINDINGS AND RECOMMENDATIONS (CONTINUED)

Based on this statement, advance payments were made by the Department to the Institute.

Advance payments were prohibited by the contract.

At the termination of the contract, the Department had paid two invoices billed by the Institute totaling \$19,295.31. Total advance payments for both invoices were \$12,810.97.

The following items were paid in advance on the two invoices:

### December 19, 1994 Invoice

Description of Expense	Invoice Amount Billed by Institute	Cost Incurred by Institute as of Date of Invoice	Difference Paid in Advance
Research Consultant Travel	\$2,232.00	\$1,885.03	\$ 346.97
Institute Executive Director Travel	364.00	-0-	364.00
Compensation for Institute Staff for November 1994-April 1995	2,400.00	400.00	2,000.00
<b>Total</b>	<u>\$4,996.00</u>	<u>\$2,285.03</u>	<u>\$2,710.97</u>

### May 31, 1995 Invoice

Description of Expense	Invoice Amount Billed by Institute	Cost Incurred by Institute as of Date of Invoice	Difference Paid in Advance
Research	\$ 1,756.81	\$1,756.81	\$ -0-
Metro-mail for Survey	542.50	542.50	-0-
Printing and Postage	2,500.00	1,500.00	1,000.00
Site Rentals/Refreshments	1,200.00	-0-	1,200.00
Incentive to Participants	6,600.00	-0-	6,600.00
Institute Staff Travel	500.00	-0-	500.00
Compensation for Institute Staff May 1995 - July 1995	1,200.00	400.00	800.00
<b>Total</b>	<u>\$14,299.31</u>	<u>\$4,199.31</u>	<u>\$10,100.00</u>

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

---

In addition, the Department failed to withhold 5% of each invoice in accordance with the terms of the contract. This 5%, which totaled \$965 on these two invoices should not have been paid until final completion of the project by the Institute.

### **RECOMMENDATION**

The Department of Administration should take appropriate action to ensure adherence to the terms of contractual agreements.

## *Statement of Financial Impact*

*Exhibit A*

---

The following schedule represents a quantification of the items examined during our special review. We cannot completely quantify the tangible benefits or detriment, if any, to the taxpayer resulting from the findings of our review. We are simply noting these areas where the system of internal controls need strengthening.

State funds paid to the Institute by the Department.

\$ 19,295.31

[ This Page Left Blank Intentionally ]

***Exhibit B***



## DISTRIBUTION OF AUDIT REPORT

---

In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

### EXECUTIVE BRANCH

The Honorable James B. Hunt, Jr.	Governor of North Carolina
The Honorable Dennis A. Wicker	Lieutenant Governor of North Carolina
The Honorable Harlan E. Boyles	State Treasurer
The Honorable Michael F. Easley	Attorney General
Mr. James J. Coman	Director, State Bureau of Investigation
Mr. Marvin K. Dorman, Jr.	State Budget Officer
Mr. Edward Renfrow	State Controller
Mrs. Katie Dorsett	Secretary, Department of Administration

### LEGISLATIVE BRANCH

Appointees of the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative Harold J. Brubaker, Co-Chairman
Senator Austin Allran	Representative James W. Crawford, Jr.
Senator Betsy L. Cochrane	Representative N. Leo Daughtry
Senator J. Richard Conder	Representative Theresa H. Esposito
Senator C. R. Edwards	Representative Robert Grady
Senator Fountain Odom	Representative Lyons Gray
Senator Beverly M. Perdue	Representative George M. Holmes
Senator Aaron W. Plyler	Representative Richard T. Morgan
Senator Anthony E. Rand	Representative Liston B. Ramsey
Senator J. K. Sherron, Jr.	Representative George S. Robinson
Senator Ed N. Warren	Representative Carolyn B. Russell

### Other Legislative Officials

Representative James B. Black	Minority Leader of the N.C. House of Representatives
Mr. Thomas L. Covington	Director, Fiscal Research Division

April 30, 1996

## ORDERING INFORMATION

---

Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
300 North Salisbury Street  
Raleigh, North Carolina 27602-5903

Telephone: 919/733-3217

Facsimile: 919/733-8443

E-Mail: [reports@aud.osa.state.nc.us](mailto:reports@aud.osa.state.nc.us)

A complete listing of other reports issued by the Office of the North Carolina State Auditor is available for viewing and ordering on our Internet Home Page. To access our information simply enter our URL into the appropriate field in your browser:  
<http://www.osa.state.nc.us/OSA/>.

As required for disclosure by G. S. §143-170.1, 275 copies of this public document were printed at a cost of \$104.50, or 38¢ per copy.