



# STATE OF NORTH CAROLINA

**SPECIAL REVIEW**

**NORTH CAROLINA DEPARTMENT  
OF  
ENVIRONMENT AND NATURAL RESOURCES  
DIVISION OF FOREST RESOURCES**

**RALEIGH, NORTH CAROLINA**

**OCTOBER 2000**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**SPECIAL REVIEW**

**NORTH CAROLINA DEPARTMENT  
OF  
ENVIRONMENT AND NATURAL RESOURCES  
DIVISION OF FOREST RESOURCES**

**RALEIGH, NORTH CAROLINA**

**OCTOBER 2000**





Ralph Campbell,  
Jr.  
State Auditor

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LETTER OF TRANSMITTAL

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October 17, 2000

The Honorable James B. Hunt, Jr., Governor  
Mr. Bill Holman, Secretary  
N.C. Department of Environment and Natural Resources  
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 Department of Environment and Natural Resources' Division of Forest Resources. The results of our review, along with recommendations for corrective actions, are contained in this report.

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr., CFE  
State Auditor





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## OVERVIEW

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The North Carolina Department of Environment and Natural Resources (DENR) is responsible for protecting and preserving North Carolina's natural resources. DENR administers regulatory programs, and offers technical assistance to the public. In addition, DENR provides educational programs encouraging people to act responsibly with respect to the environment.

The Department has nine divisions in the Environmental Protection Section: Division of Water Quality, Division of Air Quality, Division of Waste Management, Division of Pollution Prevention and Environmental Assistance, Division of Coastal Management, Division of Land Resources, Division of Water Resources, Division of Environmental Health, and Division of Radiation Protection. Also, the Department has eight divisions in the Natural Resources Section: Division of Marine Fisheries, Division of Soil and Water Conservation, Division of Forest Resources, Division of Parks and Recreation, N.C. Zoological Park, Office of Environmental Education, N.C. State Museum of Natural Sciences, and three North Carolina Aquariums.

The Division of Forest Resources is one of the eight divisions that support the goals of encouraging preservation and displaying natural resources. The Division of Forest Resources (Forest Resources) is organized in three sections; Administrative Services, Forest Protection, and Forest Management Development. Forest Resources is managed by a Director, Deputy Director and Assistant Director. The Division has regional offices in Kinston, Jordan Lake and Asheville, and is divided into 13 districts across the state. Each county has a County Forest Ranger in which the county shares the cost of the program.



## **OVERVIEW (CONCLUDED)**

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The County Forest Rangers are considered state employees, but they are selected in part, by the local county commissioners.

Forest Resources employs approximately 663 full-time employees and approximately 200 seasonal employees. The Division's annual operating budget exceeds \$40 million.

## INTRODUCTION

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In August 2000, we received an allegation through the State Auditor's Hotline concerning questionable activities of an Accounting Clerk in the Division of Forestry. According to the caller, the Accounting Clerk was entering fictitious data into the Accounts Payable System to generate agency checks.

We used the following procedures to conduct our Special Review:

- ◆ Interviews with employees of the Division of Forest Resources.
- ◆ Interviews with individuals external to the Division of Forest Resources.
- ◆ Examination of accounts payable records, cancelled checks, invoices and other supporting documentation.
- ◆ Examination of Department and Division procedures.

This report presents the results of our Special Review. The review was conducted pursuant to G. S. § 147-64.6(c)(16) rather than a financial audit. The Department's annual audit coverage is accomplished through the audit of the State Comprehensive Annual Financial Report.

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## **FINDINGS AND RECOMMENDATIONS**

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### **1. AN ACCOUNTING CLERK INITIATED PAYMENTS TOTALING \$27,931.60 TO A FICTITIOUS VENDOR.**

From January 1, 2000 through July 30, 2000, an Accounting Clerk in the Forestry Division generated 14 checks payable to “BR Smith,” totaling \$27,931.60. Thirteen of the checks were cashed for \$25,356.46. A stop payment was issued on the final check before it was cashed. We found six invoices supporting the first six checks. An examination of the invoices revealed that the invoice numbers were out of sequence with the dates. The invoices did not detail the services or materials provided. The address for the payee was Table Grove, Illinois, but the checks were cashed at the State Employees’ Credit Union in Raleigh and Wilson, North Carolina. The invoices were stamped “Approved for Payment,” but the person whose signature was on the authorization said she did not sign the approval. The Accounting Clerk had requested that the Department Controller’s Office deliver the checks to her rather than mailing them to the vendors. When questioned about the checks, the Accounting Clerk gave us the following statement:

In January 2000, [deleted] told me if I did not get her money, she would tell my husband about an incident which occurred. I told her I had none to give her since she had caused me financial difficulties in Aug/Sept 99. She demanded I process some invoices, in a different name, and mail the checks to her. I told her I could not do that, since I knew about all things. She said if I did not, my husband would know about things that had occurred.

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

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So I processed at least 12 invoices, requested those checks back and sent to a P.O. Box in Pinetops. I know this was wrong, and now I face the consequences. I did not receive any of these monies from [deleted]. [Deleted] is my [deleted]. [Deleted] gave me the P.O. Box. [Deleted] is a very manipulative person, causing problems for anyone who knows her or is in contact with her.

For the people who believed in me, I am sorry I let you down and disappointed you. I knew better than to do what I did, but I was scared my marriage would end.

The very first check I gave to [deleted] in the basement parking lot of the Archdale Bldg. As of May/June I last knew her to be in Rockport, TX with her husband [deleted]. [Deleted] conjured up the name BR Smith which is also our sister, and used her address and phone # on the invoices. To my knowledge she prepared all the invoices, she gave me the social security number to have it added to the system. I put the invoices in front of Rosie to sign, during a busy time for her, and she had been out sick for a period of time.

The reason it has stopped, I have not heard from [deleted] and I knew this was wrong. This vendor was entered in January 2000.

This statement is true and accurate to be best of my knowledge.

### **RECOMMENDATION**

In lieu of a recommendation, we have referred this information to the Attorney General's Office based on the nature of the finding.

#### **2. A BUSINESS OWNED BY THE ACCOUNTING CLERK AND HER HUSBAND WAS AWARDED A REMODELING CONTRACT AND WAS OVERPAID BY \$1,113.**

On April 9, 2000, an interior renovation contract in Martin County was awarded to ELCON for \$10,500. The proposal and contract was signed in the name of the Accounting Clerk's brother-in-law and witnessed in the name of her sister. According to Accounting Clerk, ELCON is owned by her husband and herself.

**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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The interior renovation project was completed on July 10, 2000. Three checks were made payable to ELCON totaling \$11,613, which is \$1,113 more than the contract price.

<u>Check Date</u>	<u>Check Number</u>	<u>Payee</u>	<u>Amount</u>
06/09/2000	1080719	ELCON	\$ 3,500
07/05/2000	1653427	ELCON	1,113
07/13/2000	1656495	ELCON	<u>7,000</u>
			<u>\$ 11,613</u>

The Accounting Clerk said that her husband did not sign the contract because it would look like a conflict of interest. The contract proposal said that ELCON qualified as a woman owned business, and the Accounting Clerk said that was because of her ownership.

According to the Forestry District 7 Supervisor, who requested the renovations, ELCON should have only been paid \$10,500 (the contract price), because there were no change orders made, no additional invoices submitted or discussions of additional work to be done that would account for an extra payment of \$1,113. Therefore, it appears the renovation work was completed, but ELCON was overpaid by \$1,113 for the renovation work.

**RECOMMENDATION**

In lieu of a recommendation, we have referred this information to the Attorney General's Office based on the nature of the finding.

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

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### **3. THE ACCOUNTING CLERK USED WEAKNESSES IN CONTROLS TO PROCESS THE FICTITIOUS PAYMENTS.**

The Finance section of the Division of Forestry (Raleigh Office) is responsible for entering accounts payable data into the North Carolina Accounting System (NCAS) for three Regional Offices and the Central Offices. The Raleigh Office enters accounts payable data into NCAS for all travel expenses and all expenditures that require purchase orders. The Raleigh Office also enters accounts payable data for some direct invoices but the majority of those invoices are entered into NCAS in the Regional Offices.

The Accounting Clerk caused a vendor to be added to the vendor file. In addition, the Accounting Clerk instructed the Department Controller's Office to have the checks returned to her after printing. By doing these two things, and falsifying the approving signatures, the Accounting Clerk was able to circumvent the internal controls.

### **RECOMMENDATION**

We recommend someone outside of the Division verify the existence of vendors before entering vendor information in the system. In addition, we recommend the Department Controller's Office disburse all checks. If an Accounting Clerk has a legitimate reason to have a check sent to him/her, it should be first sent to the supervisor.

***Statement of Financial Impact***

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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 areas where the system of internal controls was either circumvented or should be enhanced, or where, in our judgment, questionable activities or practices occurred.

1. Payments to BR Smith.	\$ 27,931.66
2. Overpayment to ELCON.	<u>1,113.00</u>
	<u>\$ 29,044.66</u>



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*Response from the Secretary of the Department  
of Environment and Natural Resources*



**NORTH CAROLINA DEPARTMENT OF  
ENVIRONMENT AND NATURAL RESOURCES**

October 3, 2000

The Honorable Ralph Campbell, Jr.  
State Auditor  
Legislative Office Building  
300 North Salisbury Street  
Raleigh, North Carolina 27603-8443

Dear Mr. Campbell:

We have reviewed the findings and recommendations from your review of alleged misuse of state funds in our Division of Forest Resources. We appreciate your quick response to this serious offense and we agree with your findings as follows:

1. AN ACCOUNTING CLERK INITIATED PAYMENTS TOTALING \$27,931.60 TO A FICTITIOUS VENDOR.

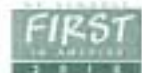
The Department agrees with the finding and referral of the information to the Attorney General's Office for appropriate legal action and recovery of funds.

2. A BUSINESS OWNED BY THE ACCOUNTING CLERK AND HER HUSBAND WAS AWARDED A REMODELING CONTRACT AND WAS OVERPAID BY \$1,113.

The Department agrees with the finding and referral of the information to the Attorney General's Office for appropriate legal action and recovery of funds.

The contract bid was processed in accordance with the policies and procedures of the Department and the State. However, it was not disclosed to Department management that the employee had ownership in the business. The Department is developing a policy that will require contractors/bidders to disclose relationships with Department employees.

The Department is also working with the State Construction Office to disbar this firm from doing business with the state in the future.



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The Honorable Ralph Campbell, Jr.  
October 3, 2000  
Page Two

3. THE ACCOUNTING CLERK USED WEAKNESSES IN CONTROLS TO PROCESS THE FICTITIOUS PAYMENTS.

The Department agrees with the finding and the recommendation regarding disbursement of checks. However, the vendor was added to the state accounting system in accordance with all current state policies and procedures. We will be working with the Office of the State Controller to strengthen verification of vendors.

We have instituted new policies and procedures for check distribution. All checks will be distributed directly by the Controller's Office. Exceptions will be granted only on a case-by-case basis with sufficient justification. Any checks returned to a division for distribution will be returned to the Division Fiscal Officer, the accounts payable clerks will not handle returned checks.

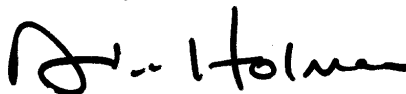
We have also reviewed internal controls in the Division of Forest Resources and made recommendations to division management regarding separation of duties, periodic rotation of duties, management review of budget and expenditures, and required supporting documentation. The Department's Internal Auditor will be working with the Division to ensure successful implementation of improved internal controls.

The Department is also studying the feasibility of conducting background checks (criminal records and/or credit checks) for new hires and promotions in financial positions.

We notified the State Bureau of Investigation upon learning of this possible misuse of state funds by a state employee and assume that action and your report to the Attorney General will prompt restitution.

Thank you again for a quick and thorough review

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Holman". The signature is stylized and cursive.

Bill Holman

## **DISTRIBUTION OF AUDIT REPORT**

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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. Bryan Beatty	Director, State Bureau of Investigation
Mr. Marvin K. Dorman, Jr.	State Budget Officer
Mr. Edward Renfrow	State Controller
Mr. Bill Holman	Secretary of the North Carolina Department of Environment and Natural Resources

### **LEGISLATIVE BRANCH**

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Frank W. Ballance, Jr.	Representative Martha B. Alexander
Senator Patrick J. Ballantine	Representative E. Nelson Cole
Senator Roy A. Cooper, III	Representative James W. Crawford, Jr.
Senator James Forrester	Representative W. Pete Cunningham
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Senator Robert G. Shaw	Representative E. David Redwine
Senator Ed N. Warren	Representative Stephen W. Wood
Senator Allen H. Wellons	Representative Thomas E. Wright

### **Other Legislative Officials**

Representative Phillip A. Baddour, Jr.	Majority Leader of the N.C. House of Representatives
Representative N. Leo Daughtry	Minority Leader of the N.C. House of Representatives
Mr. James D. Johnson	Director, Fiscal Research Division

### **Other Parties**

C. Colon Willoughby, Jr.	District Attorney for the 10 <sup>th</sup> District
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## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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