



STATE OF NORTH CAROLINA  
**Office of the State Auditor**

Ralph Campbell, Jr.  
State Auditor

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May 31, 2001

Mr. James T. Fain III, Secretary  
North Carolina Department of Commerce  
301 North Wilmington Street  
Raleigh, North Carolina 27601

Dear Secretary Fain:

In March 2001, our office received an allegation through the State Auditor's Hotline concerning a purchase by the North Carolina Division of Tourism, Film and Sports Development (Division of Tourism). Allegedly, in April 2000, the Division of Tourism acquired computer equipment through its advertising agency, Loeffler, Ketchum and Mountjoy (LKM) to circumvent various procurement rules and regulations. In April 2001, a special review of this allegation was conducted. The following findings and recommendations are based on our examination of relevant documents and records and interviews with Department of Commerce employees.

According to several Division of Tourism employees, the computer server supporting the Division of Tourism's Call Center and Internet website was experiencing performance problems in the months preceding March 2000. In a letter dated March 24, 2000 to the current Director of the Division of Tourism (the Director), Destination Marketing Group (DMG) proposed a computer server upgrade to improve system performance at the Call Center. DMG was under contract to provide technical support to the Call Center. The proposed computer server upgrade required the approval of the Department's Fiscal Management Division. The Director said that she instructed a member of her staff to evaluate the proposal from DMG with the assistance of the Department's Information Systems Division.

On April 26, 2000, a representative of Destination Marketing Group (DMG) installed a new computer server at the Division of Tourism's Call Center in advance of the preparation and approval of a purchase requisition and purchase order. The Director approved a requisition for the new computer server on May 8, 2000. An invoice from DMG in the amount of \$ 4,587.52 is dated May 9, 2000. The invoice included itemized charges for the installation of the server, the first month's lease of the server and related travel expenses for DMG's technician. The Department's Fiscal Management Division approved the purchase order on May 17, 2000, twenty-one days after the server was installed.

The Department of Commerce Purchasing Manual includes the following provision related to purchase authorizations. *The authority to make purchases from the approved departmental budgets for services or materials is furnished to the Purchasing Section by the signature of the agency head or his designee, as "authorized signature" on an agency requisition.* Moreover, department policy requires written justification for purchases of furniture and equipment, including computer hardware and software that exceed \$500.00. In other words, each agency within the Department of Commerce is required to submit a purchase requisition to the Purchasing Section of the Department's Fiscal Management Division to facilitate the preparation of a purchase order. Thus, the installation and lease of the computer server for the Call Center was not authorized until after it had been installed.

We also found that DMG initially submitted an invoice to LKM for the installation and lease of the computer server. However, an identical invoice from DMG to the Division of Tourism was dated the same day with the same invoice number as the one to LKM. The Director said she corrected the billing error immediately upon its discovery. We verified payment to DMG in the amount of \$4,587.52. Our review of invoices from LKM did not reveal any type of pass-through billing related to the installation and lease of the computer server.

LKM is involved in the ongoing management of the Division of Tourism's VISITNC Internet website. DMG provides the Division of Tourism with technical support of the VISITNC software and hardware platforms and also provides technical support directly to LKM as outlined in a separate contract between those companies. Given the potential overlapping responsibilities, we recommend that the contract with DMG and the contract between DMG and LKM related to the support of the Division of Tourism's Internet website be evaluated for potential duplication of service. In addition, management should reemphasize to employees the consequences associated with noncompliance with its purchasing policies and procedures, i.e. personal responsibility for unauthorized transactions.

During the process of examining documents in support of disbursements to LKM, we noted the absence of written approvals on invoices. Additional inquiry revealed that the Division of Tourism's business manager reviews the invoices from LKM. However, other personnel in the Division of Tourism generally do not participate in the review of these invoices. The Division of Tourism business manager explained that many projects are supported by cost estimates and she often compares the invoices from LKM to the cost estimates before preparing a cash disbursements code sheet. However, many services provided by LKM do not have structured estimates of cost. Numerous invoices are received for professional services provided by representatives of LKM with minimal explanation of the provided service. Disbursements to LKM for advertising and other services exceed \$5,000,000 per year.

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One of the most important control procedures within an organization's internal control structure is the proper authorization of transactions and activities. In general, the authority to approve invoices for payment should reside with personnel who can attest to the satisfactory delivery of a product or service. For example, a marketing manager familiar with a television advertising campaign targeted toward a specific region of the country should approve the invoices from LKM associated with that campaign. Therefore, to strengthen internal control over disbursements, we recommend that management delegate the authority to approve invoices to personnel who can verify the satisfactory delivery of products and services.

We are presenting these findings and recommendations for your review and written response. The purpose of the response is to allow you the opportunity to outline any corrective actions taken or planned. We request the delivery of your written response by June 15, 2001.

If you have any questions or wish to discuss this matter further, please contact us. We appreciate the cooperation received from your staff during our review.

Sincerely,

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

Ralph Campbell, Jr., CFE

RCjr/smt

**Management letters and responses receive the same distribution as audit reports.**



**North Carolina**  
**Department of Commerce**  
*Fiscal Management Division*

**Michael F. Easley, Governor**  
**James T. Fain III, Secretary**

**Robin D. Pasquarello, Chief Fiscal Officer**

June 12, 2001

The Honorable Ralph Campbell, Jr., CFE  
Office of the State Auditor  
20601 Mail Service Center  
Raleigh, N.C. 27699-0601

Dear Honorable Campbell:

We have reviewed your May 31, 2001 letter outlining finding of the state auditor's office. The details outlined in the letter are consistent with the information we provided the auditor, David King, during the audit process. This memo provides additional information and outlines subsequent actions that have been taken within the division since this incident occurred over a year ago.

An employee of the division, did place an order to lease and have installed a computer server for our Inquiry operations. He was not authorized to do so. This incident occurred without the knowledge or prior approval of the Division director during the time the director was out of the country participating in a trade mission. He had been instructed to explore and investigate solutions to the performance problems we had been experiencing with the division integrated technology program. He was not authorized to make such a purchase, nor did he seek approval from the Division Executive Director, Gordon Clapp or from the Director, Lynn Minges. Clearly, this employee violated a written policy of the department which states that *'the authority to make purchases from the approved departmental budgets for services or materials is furnished to the Purchasing Section by the signature of the agency head or his designee as "authorized signature" on an agency requisition.'*

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The Honorable Ralph Campbell, Jr., CFE  
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When Director Lynn Minges returned to the country and learned of this situation, she worked in concert with the Commerce MIS and Fiscal Office to correct the error. We were advised that this lease was appropriate under the existing contract with DMG, but that the employee had failed to complete the appropriate paperwork and gain authorization as required by departmental policy to complete the lease of the server. Ms. Minges then (as advised by the Commerce Purchasing office) completed the appropriate paperwork necessary to authorize the lease on May 8, 2000 and it was approved.

The appropriate policy and controls are in place. Clearly the employee violated a written work rule. While the employee is currently out on disability, the employee will face possible disciplinary action upon returning to work.

On another matter referenced in the letter, the audit noted the absence of written approvals on invoices for LKM. Routinely, in the past, work orders or estimates for work to be performed were submitted and approved by the Division Executive Director or Director of Tourism Programs. Those estimates were signed and used by the Business Manager to support incoming invoices from LKM. However, in recent months, this division, with the assistance of the Commerce Fiscal Management Division, has developed and implemented a new business process design, which has changed this process. Under the new procedures, all invoices are now received, reviewed and approved by the program manager who has been designated as contract administrator for the vendor or project. This individual will approve and authorize payment prior to submission to the business manager. This new process is expected to improve the fiscal process within the division and to delegate authority to approve invoices for payment to the person who can best attest to the satisfactory delivery of a product or service.

Finally, the letter addresses the fact that both LKM and DMG are involved in the visitnc.com website. The Destination Marketing Group (DMG) developed and provided the software that supports the division's integral program that was in place prior to the development of the web site. LKM is responsible for the design and maintenance of the site. However, occasionally, the maintenance of the site requires that LKM contract directly with DMG to modify the technical components relating to the software that supports the site. LKM is currently considering utilization of different technical components for the site that would eliminate dependence on DMG for maintenance activities to the database (trip-planning) portions of the site.

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Overall, the audit report is accurate and all issues have been addressed as indicated above. If your office desires additional information or if there are questions concerning this response, please contact me.

Sincerely,

  
James T. Fain, III, Secretary  
North Carolina Department of Commerce

  
Robin D. Pasquarello, Chief Fiscal Officer  
North Carolina Department of Commerce

Cc: Ms. Lynn Minges, Executive Director, TTFSD

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