



STATE OF NORTH CAROLINA

SPECIAL REVIEW

**DEPARTMENT OF CORRECTION
CORRECTION ENTERPRISES**

RALEIGH, NORTH CAROLINA

MAY 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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LETTER OF TRANSMITTAL

May 16, 2002

The Honorable Michael F. Easley, Governor
Mr. Theodis Beck, Secretary
North Carolina Department of Correction
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 Correction Enterprises Division of the Department of Correction. 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 report to the Governor, the Attorney General 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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INTRODUCTION

We received an allegation through the State Auditor's Hotline that the warehouse manager for Correction Enterprises had taken state property home, and used inmate labor and state property for personal benefit. In February 2002, we began a special review of this allegation.

We used the following procedures to conduct our special review:

- ◆ Interviews with current and prior employees of Correction Enterprises.
- ◆ Interviews with individuals external to Correction Enterprises.
- ◆ Examination of Correction Enterprises documents and records.
- ◆ Examination of applicable laws, regulations, and policies.

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 of Correction's annual financial audit is accomplished through the audit of the State's Comprehensive Annual Financial Report.

Correction Enterprises is operated as a division of the North Carolina Department of Correction (Department). The purpose of Correction Enterprises, as stated in its mission statement, is *to provide meaningful work experience and rehabilitative opportunities for inmates and provide quality goods and services to tax-supported entities at a savings to the taxpayer*. Correction Enterprises operates 34 facilities throughout the state including its

INTRODUCTION (CONCLUDED)

warehouse operation in Apex, North Carolina. Other operations include farming and canning, manufacturing of apparel, furniture, cleaning products, paint, and eyeglasses, fabrication of metal products, laundry services, woodworking services, and meat processing and packaging. Approximately 2,500 inmates provide labor for Correction Enterprises. For the fiscal year ended June 30, 2001, Correction Enterprises had total operating revenues of \$69.9 million and total operating expenses of \$65.1 million.

FINDINGS AND RECOMMENDATIONS

1. THE WAREHOUSE MANAGER DIRECTED AN INMATE UNDER HIS SUPERVISION TO REPAIR HIS FATHER-IN-LAW'S VEHICLE.

During the first week of August 2000, an inmate assigned to the warehouse installed an alternator on a pickup truck owned by the warehouse manager's father-in-law. According to several warehouse employees, the inmate installed the alternator on a Chevrolet S-10 pickup in the warehouse parking lot. The inmate worked on the truck for a couple of hours according to the employees. The warehouse manager said the installation of the alternator took less than an hour and viewed this work as giving the inmate more responsibility.

Section 8 of the Department of Correction Personnel Manual includes a list of "prohibited activities" with respect to personal dealings with offenders (i.e., inmates, probationers, or parolees). Specifically, the personnel manual states:

*Employees of the Department of Correction shall not: Accept any gift or **personal service** from an offender, except as specifically authorized by law, regulation, or directive.*

Violations of this policy may result in disciplinary action up to and including dismissal in accordance with the Department of Correction Disciplinary Policy.

The inmate's performance of a personal service for the warehouse manager represents a violation of the above policy.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

The Department should take action to prevent future violations and such disciplinary action, as it deems necessary, in response to this policy violation.

2. THE WAREHOUSE MANAGER DIRECTED AN INMATE UNDER HIS SUPERVISION TO DELIVER STATE ASSETS TO A PRIVATE BUSINESS.

In September 2000, the warehouse manager directed two employees to drive a truck from a Department of Transportation (DOT) facility near the state fairgrounds to a commercial truck facility in Raleigh for a wheel alignment. He also directed the inmate referred to in the previous finding to ride with the employees to deliver state-owned chains and binders, used for securing equipment on trucks, to a private business near the commercial truck facility.

The two warehouse employees said that the inmate put the chains and binders in the back of their state truck and proceeded to the DOT facility to pickup the truck that needed the wheel alignment. After the employees and the inmate left the truck for the wheel alignment, they proceeded to the private business to deliver the chains and binders. The employees said when they arrived at the private business, the inmate carried the chains and binders unaccompanied into the business. The inmate returned to the truck a few minutes later and the three men returned to the warehouse in Apex.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The warehouse manager said that the chains and binders were loaned to the private business in return for allowing Correction Enterprises' employees to view some of its equipment. He said that Correction Enterprises was considering purchasing the same type of equipment for its operations.

The warehouse manager is responsible for the custody and control of inmates assigned to the warehouse facility. The warehouse manager is also responsible for maintaining custody and control of all assets belonging to the facility. At a minimum, lending state-owned equipment to a commercial enterprise unrelated to state government and the involvement of an inmate in the delivery of the equipment to the commercial facility represents a breach of the warehouse manager's responsibilities for maintaining custody and control of inmates and state-owned equipment.

RECOMMENDATION

The Department should take action to prevent future misuse of state property and such disciplinary action, as it deems necessary, in response to this finding.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

3. THE WAREHOUSE MANAGER PURCHASED EQUIPMENT THAT CANNOT BE LOCATED.

On August 8, 2001 the warehouse manager purchased a car battery that cannot be located. The Direct Processing Form (DC-702) authorizing the purchase indicates that only emergency lighting batteries and an associated charger for those batteries were purchased. However, the purchase invoice indicates that a car battery was purchased for \$62.50 along with four emergency lighting batteries and a charger for \$142.46. Each item on the invoice has an identification number. An employee of the vendor confirmed the description of each item listed on the invoice.

Several warehouse employees said they remember seeing a car battery in the back of the warehouse manager's truck on the day of the purchase. The warehouse manager said he does not remember what he did with the battery. He said it was purchased for a vehicle or piece of equipment but could not remember which one.

Section .2810 B.6.b. of the Department of Correction Fiscal Policies and Procedures states:

Invoices should depict the equipment and license tag numbers of the vehicles repaired.

The absence of a vehicle description, license tag number, or other note relative to the purchase and installation of the battery represents a violation of the above fiscal policy.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

The Department should ensure that all maintenance and repair invoices clearly reflect the vehicles or equipment involved to ensure compliance with the above fiscal policy. In addition, the Department should take disciplinary action, as it deems necessary, in response to this policy violation.

4. THE WAREHOUSE MANAGER DISPOSED OF STATE PROPERTY WITHOUT AUTHORIZATION.

In August 2001, a television and videocassette recorder used in the Correction Enterprises warehouse training room were damaged. The warehouse manager said that instead of sending the items to State Surplus Property, he placed the damaged equipment in his vehicle and later disposed of it.

Section .2713 B.1.d. of the Department of Correction Fiscal Policy states:

Disposal of any property considered junk, including used clothing, must be approved by the State Surplus Property office. Request for disposal of junk property should be sent to the Director of Accounting of General Fund operations or to the Director of Enterprise Accounting for Enterprise operations, who will obtain approval and disposal instructions from State Surplus Property. In many instances, State Surplus Property may require the items to be sent to State Surplus and handled the same as other surplus property. Approval to deviate from normal surplus procedures must be obtained in writing. Facilities will be notified as to how to proceed when instructions and approval are obtained from State Surplus Property. Do not dispose of junk property until written approval has been received from the Director of Accounting of General Fund or Director of Enterprise Accounting in the DOC Controller's Office.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The disposition of the television and the videocassette recorder in the manner described above represents a violation of this policy.

RECOMMENDATION

The Department should ensure that dispositions of state property are always conducted in a manner that will ensure compliance with the above fiscal policy. In addition, the Department should take disciplinary action, as it deems necessary, in response to this policy violation.

5. THE WAREHOUSE MANAGER USED A STATE VEHICLE AND A STATE EMPLOYEE FOR A PRIVATE PURPOSE.

In July 2000, the warehouse manager instructed one of his long-distance truck drivers to pickup several cases of soft drinks from a company in Burlington, North Carolina. The driver explained that his route that particular day took him through Durham, Roxboro and Hillsborough before he drove to Burlington for the soft drinks. The warehouse manager also instructed the driver to deliver an envelope to the shipping and receiving clerk upon receipt of the soft drinks at the company in Burlington. When the driver arrived in Apex with the soft drinks, the warehouse manager discovered that the driver had picked up the wrong items. Another warehouse employee volunteered to return the soft drinks to the company in Burlington on his own time and bring the correct items to Apex the next day.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The warehouse manager said that the soft drinks were for a non-profit sports camp for children in Wake Forest, North Carolina. He said the sports camp receives financial support from the Wake County ABC Board, the Wake County Housing Authority and his church. The warehouse manager said he believed using a state vehicle and manpower to pickup and transport the soft drinks were acceptable because it was for a non-profit organization.

General Statute § 143-341 (8)i.7a. provides:

The Department of Administration shall revoke the assignment or require the Department owning the vehicle to revoke the assignment of any state-owned passenger motor vehicle, pickup truck or van to any individual who:

Uses the vehicle for other than official businesses except in accordance with the commuting rules;

In addition, General Statute § 14-247 prohibits the private use of state vehicles:

It shall be unlawful for any officer, agent or employee of the State of North Carolina, or of any county or of any institution or agency of the State, to use for any private purpose whatsoever any motor vehicle of any type or description whatsoever belonging to the State, or to any county, or to any institution or agency of the State.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

RECOMMENDATION

The Department should ensure that vehicles operated by Correction Enterprises are used exclusively for official business of the State of North Carolina. In addition, the Department should take disciplinary action, as it deems necessary, in response to this finding.

STATEMENT OF QUESTIONED COSTS

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 Correction Enterprises resulting from the findings of our review. We are simply noting areas where managerial oversight should be enhanced, or where, in our judgment, questionable activities or practices occurred.

1. Estimated benefit derived from using inmate labor to repair a personal vehicle.	\$ 50.00*
2. Estimated benefit derived from using inmate and state labor to deliver chains and binders to a private business.	100.00*
3. Cost of missing vehicle battery.	62.50
4. Estimated value of television and videocassette recorder that were disposed without authorization.	200.00*
5. Estimated benefit from using a state employee and state vehicle for private purposes.	200.00*
	<hr/>
	<u>\$ 612.50</u>

*Estimates are based on the limited information available.

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Response from Correction



North Carolina Department of Correction

214 West Jones Street • 4201 MSC • Raleigh, North Carolina 27699-4201

Michael F. Easley
Governor

Theodis Beck
Secretary

May 14, 2002

Ralph Campbell, Jr., State Auditor
Office of the State Auditor
2 S. Salisbury Street
Raleigh, NC, 27699-0601

Dear Mr. Campbell:

The North Carolina Department of Correction is in receipt of your report of allegations of inappropriate employee conduct dated April 29, 2002. These allegations state the Warehouse Manager for the Division of Correction Enterprises inappropriately used inmate labor for personal gain and used a state vehicle for private purposes; in addition he allegedly purchased equipment that cannot be located and disposed of the property without authorization.

We have investigated these allegations and concur with the findings of the State Auditor's Office. I have instructed the appropriate staff to take disciplinary action as warranted.

I would like to thank the State Auditor's Office for bringing this matter to our attention.

Sincerely,

A handwritten signature in cursive script that reads "Theodis Beck".

Theodis Beck

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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.

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The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. Theodis Beck	Secretary, Department of Correction

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Representative N. Leo Daughtry
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Majority Leader of the N.C. Senate
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N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

May 16, 2002

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