

# **STATE OF NORTH CAROLINA**

**SPECIAL REVIEW**

**EMPLOYMENT SECURITY COMMISSION  
OF NORTH CAROLINA**

**RALEIGH, NORTH CAROLINA**

**MARCH 2003**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**SPECIAL REVIEW**

**EMPLOYMENT SECURITY COMMISSION  
OF NORTH CAROLINA**

**RALEIGH, NORTH CAROLINA**

**MARCH 2003**





Ralph Campbell, Jr.  
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LETTER OF TRANSMITTAL

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March 27, 2003

The Honorable Michael F. Easley, Governor  
Members of the North Carolina General Assembly  
Mr. Harry E. Payne, Jr., Chairman, Employment Security Commission of North Carolina

Ladies and Gentlemen:

Pursuant to General Statute §147-64.6(c)(16), we have completed our special review into allegations concerning the Employment Security Commission. 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**

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We received an allegation through the State Auditor's hotline that the Employment Security Commission's Director of Public Information was continuously absent from work or late arriving to work without deducting leave. The complainant also alleged the Director of Public Information (PI Director) made questionable purchases without the required approval. We used the following procedures to conduct a special review of the allegations:

- Examination of the PI Director's leave records for the time period of January 1, 2002, through October 31, 2002.
- Interviews with Employment Security Commission (ESC) employees.
- Examination of a sample of purchases initiated by the ESC Public Information Section for the time period of July 2000 through October 2002.
- Examination of ESC policies and procedures.
- Examination of all payment reimbursements to the PI Director.
- Review of an ESC internal investigation.

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



## **INTRODUCTION (CONCLUDED)**

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The mission of the Employment Security Commission is to “promote and sustain the economic well being of North Carolinians in the world marketplace by providing high quality and accessible workforce-related services.”<sup>1</sup> The Employment Security Commission provides numerous job-related services and information to the State’s workers, employers and the public. These services are provided through four divisions: The Employment Services Division, the Unemployment Insurance Division, the Labor Market Information Division, and the Administrative Division.

The Public Information Office is a section within the Administrative Division that provides a variety of information to the public and the media. Some of the information produced by the Public Information Office includes a quarterly publication entitled Job Servant, the monthly ESC Newsletter, Public Service Announcements, press releases and brochures. The office consists of a Director and five employees.

According to the Manager of Accounting Services, for the 2001-2002 fiscal year, the Employment Security Commission received \$145,696,913 in state and federal funds. This amount was comprised of 91% federal funds and 9% state funds.

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<sup>1</sup> Employment Security Commission

## **FINDINGS AND RECOMMENDATIONS**

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### **1. THE DIRECTOR OF PUBLIC INFORMATION IS NOT ACCURATELY ACCOUNTING FOR HIS TIME WHILE HIS STAFF IS HELD TO A STRICTER STANDARD.**

According to employees interviewed within the Public Information Section (PI Section), the PI Director is regularly absent or late for work. Employees outside of the PI Section also stated it is “common knowledge” the PI Director is often absent from the office. Due to the frequency of his absence, several employees kept diaries of the dates, times and excuses given by the PI Director when absent. A comparison of the diaries to the PI Director’s timesheets for the time period of January 1, 2002, to October 31, 2002, revealed the PI Director was absent and/or worked less than 8 hours 107 days (51%) of the 212 working days reported without reflecting that on the timesheets. Many of the employees interviewed stated the PI Director claims he is working from home; however, when employees have requested the same privilege, they are told by the PI Director there is no telecommuting policy. Further, employees within the section told us they have been disciplined by the PI Director for being minutes late.

According to a Public Information Officer (PI Officer), due to the PI Director’s absence, she is responsible for attending meetings and completing projects assigned to the PI Director. She stated the Deputy Chairman of Communications (Deputy Chairman) phones her directly or “cc’s” her when assigning projects to the PI Director since she is the one who normally completes the projects. The PI Officer said she routinely attended the Monday morning Director’s meeting for the PI Director. A director required to attend

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

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the Monday morning meetings confirmed the PI Director was frequently absent. The PI Officer stated she reported the PI Director's absence to his supervisor, the Deputy Chairman. All employees interviewed within the PI Section stated the PI Officer, not the PI Director, manages the office. All employees interviewed within the PI Section expressed they are inconvenienced by the uncertainty of the Director's presence in the office.

The Deputy Chairman said the PI Director is required to work hours other than his normal working hours of 8:30 am to 5:30 pm. Therefore, he allows the PI Director flexibility in his schedule as long as he receives "product". When asked if he was receiving "product", the Deputy Chairman stated he has requested more productivity from the PI Director. The Deputy Chairman said he was not aware the PI Director was absent as often as alleged in the diaries. He stated when he phones or emails the PI Director, his calls and emails are immediately returned. The Deputy Chairman said when he does call, the PI Director is often not available and must return his calls. The Deputy Chairman said due to the location of the Public Information offices, he would not be aware if the PI Director was present without personally visiting the office. The Deputy Chairman said an employee complained about the PI Director's absence as well as the complaint received by the ESC; however, he never questioned or monitored the PI Director's absence. The Deputy Chairman said he allows the PI Director to work from home if warranted.

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

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According to the PI Director, he works weekends, evenings, holidays and is always accessible. Consequently, if he has to run a quick errand he stated he does not deduct leave. The PI Director said he works more than the required 40 hours per week, but he does not document the hours he works nor does he notify anyone of his schedule. As a result, we were unable to verify the additional hours the PI Director claimed he worked. The PI Director said he is scheduled to work Monday through Friday from 9:00 am to 6:00 pm; however, no one has complained to him about his flexible schedule. The PI Director said he notifies his Administrative Assistant when he is late or absent and occasionally calls his supervisor. He further stated he often works from home, although he stated there is no telecommuting policy and he does not permit his subordinates to do so. The PI Director stated he has instructed his Administrative Assistant to phone him immediately at home when someone calls for him at the office. The PI Director stated he does not document the dates and times he works from home.

The Employment Security Commission also received allegations regarding the PI Director abusing time. On June 5, 2002, the PI Director replied in writing to the Chairman regarding the allegation of abuse of time. A portion of the letter states, “...My point is that my timesheet is indeed inaccurate, but greatly in the State’s favor. It doesn’t show all the hours I work for the State and the ESC. But, I believe that is proper for a professional in my position. If I need to pick up my dry cleaning or my children, I am expected to make sure that no time is lost to the state. If it is, then my timesheet reflects sick or vacation leave.”

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

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According to the Deputy Chairman, sick leave, annual leave, and compensatory leave should be recorded as earned. Similarly, sick leave, annual leave, and compensatory leave should be deducted when used. Additionally, the ESC Director of Finance and Budget stated the ESC does not have a telecommuting policy; however, some employees may have agreements with their supervisors. No such written agreement existed between the PI Director and Deputy Chairman.

It appears from the employees interviewed, as well as the time sheets examined, that the PI Director did not deduct leave when he was absent from the office. The PI Director appears to work a flexible schedule without adhering to the policies required of other employees. Further, it appears, the Deputy Chairman is not aware of the PI Director's work schedule and is not notified when the PI Director is absent. Basically, the PI Director comes and goes as he pleases with little accountability while he holds the staff to a stricter standard.

### **RECOMMENDATION**

We recommend the PI Director accurately record leave as earned and used. We further recommend the PI Director maintain scheduled working hours and notify his supervisor when he is absent or late so that the ESC staff is informed of the PI Director's working hours. In addition, if ESC decides to formally allow flexible work schedules and/or telecommuting, we recommend policies be developed in order to assure that the needs of the agency and public are met and employees are treated equitably.

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

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### **2. THE DIRECTOR OF PUBLIC INFORMATION MADE QUESTIONABLE PURCHASES AND CIRCUMVENTED THE PURCHASING PROCESS.**

During our review, employees within the PI Section informed us the PI Director purchased equipment that was not used, and in some cases never seen, by the staff. We considered the following purchases questionable for the reasons stated below:

- DVD-RAM Drive - purchased 11/30/00 for \$799.00 - According to employees, the DVD-RAM drive had never been seen in the office until ESC received a complaint about the purchase sometime in 2002. Further, employees stated the DVD-RAM drive is not used or needed. The PI Director stated the DVD-RAM drive was purchased to back up large files that could not fit on the standard zip drives; however the PI Director also purchased upgrades to the larger zip drives; thereby eliminating any need for a DVD-RAM drive. The PI Director said he took the DVD-RAM drive home to back up work files.
- Sony Digital 8mm Video Camera - purchased 5/9/01 for \$649.99 - According to employees, this camera is not located in the PI Section. Further, many employees were not aware a camera existed. According to the PI Director, the camera was purchased for another section and has been used by the PI Section twice. The PI Director said he took the camera home to learn how to use it.
- Final Cut Pro Software - purchased 1/17/02 for \$949.00 - According to employees within the PI Section, this software package is not used and a comparable software package had been previously purchased and is preferred by the staff. The PI Director stated the upgrades to the current software were too expensive; therefore he purchased a new software package and in the long run would save the state money. The PI Director currently is the only PI employee that has the software installed on his computer. When questioned if the software is used, the PI Director stated he is using it on a test basis.

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

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According to the *ESC Financial Management Handbook Chapter 3 Section 3.2.1* titled *Purchase Request (BM-36)/Purchase Order Process*, the purchasing process is as follows:

A purchase requisition (BM-36) is completed by the originator stating the items or services needed that are unavailable from the stockroom or within the agency. Signature approval must be obtained from “the Chairman, the Assistant Administrator, or the appropriate assistant commissioner or director...” All purchase requisitions (BM-36) are then forwarded to the Purchasing Section. A purchase agent reviews the requisition to ensure adherence to state and federal purchasing guidelines and determine cost. The purchase requisition (BM-36) is forwarded to the Budget and Finance Section for funding approval. Once funding authorization is obtained, the Purchasing Section then begins the acquisition process.

We reviewed a sample of purchases made by the Public Information Section for the time period of July 2000 to October 2002. We noted that the PI Director was never indicated as the originator on the purchase requisitions (BM-36), although the items were purchased for the PI Director. According to the Administrative Assistant, the PI Director asked her to complete the purchase requisitions as the originator; thereby requiring only the PI Director’s approval. A search by an ESC Purchasing Agent could not produce any purchase requisitions that named the PI Director as the originator. The PI Director is circumventing the purchasing controls by having a subordinate complete the purchase requisition form, which he then approves.

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

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The PI Director stated he did not deliberately circumvent the purchasing policy and was instructed by his Administrative Assistant how to complete the purchase requisition. He said he assumed his supervisor reviewed the purchases.

The Deputy Chairman (the PI Director's Supervisor) could not recall approving any purchases initiated by the PI Director. He stated he should be aware of all purchases needed for the Public Information Section.

All purchases initiated by the PI Director should have been reviewed and approved by his supervisor.

### **RECOMMENDATION**

We recommend the PI Director adhere to the purchasing policies. We further recommend ESC reiterate the purchasing policies to ensure compliance by all employees.

### **3. THE DIRECTOR OF PUBLIC INFORMATION SPENT \$40,123.05 ON COMPUTER EQUIPMENT AND REPAIRS WITHOUT PROPER APPROVAL.**

In the sample of purchases examined, we noted a total of \$40,123.05 in purchases for software, computer repairs, upgrades and equipment that were not approved by the Information Section (IS) of ESC.

According to the *ESC Financial Management Handbook Chapter 3 Section 3.2.1* titled *Purchase Request (BM-36)/Purchase Order Process* states:

all requests for the purchase of automation equipment and the



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

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supporting software must be routed through the Information Systems (IS) Section for their review. Requests received in Purchasing without the IS review will be forwarded to IS before processing can begin.

Further, the IS Director stated all computer repairs should be performed by the IS Section if possible, otherwise the IS Section will direct the employee to the appropriate vendor.

According to the IS Director, when problems occur with an employee's computer, the employee should complete a trouble ticket and forward the information to the IS Section for their response. The IS Director also stated the IS Section should be notified when computer equipment and software is purchased and in some cases should be purchased by the IS Section since they maintain contractual agreements with many of the software providers. We found no documentation that the IS Section was notified of the computer equipment purchased or repaired.

The PI Director stated he was told by a Purchasing Agent (he could not recall whom) that his computer, a Macintosh (MAC), could not be serviced by the IS Section and he could have it repaired by a vendor. According to the Director of Purchasing, only in one instance was the PI Director authorized to have equipment repaired by a vendor. In that case, the equipment was purchased from the vendor and still under warranty.

The IS Director stated the IS Section does provide support for the MACs and if they are unable to do so they will refer the employee to a vendor. The IS Director further stated

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

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anytime a computer is repaired by a vendor there should be documentation why IS was unable to make the repair. We found no such documentation. Additionally, the IS Director was not familiar with the vendor used by the PI Director.

It appears some of the computer repairs could have been performed by the IS Section rather than a vendor if the IS Section had been notified and the procedures had been followed. We also question why these purchases were approved by Purchasing and not forwarded to the IS Section as required by the policy stated above.

The Director of Purchasing stated that in the past all purchases for computer equipment/software etc. were approved by the IS Section. However, currently if a purchase is approved by the Division Director it is processed by the Purchasing Section regardless.

### **RECOMMENDATION**

We recommend all purchases for automation equipment be reviewed by the IS Section as stated in the policy referred to above. Further, employees should contact the IS Section when problems occur with their computers. If necessary, addendums to the policy should be implemented and clearly state any exceptions. ESC should reiterate these policies to ensure compliance.

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

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**4. THE DIRECTOR OF PUBLIC INFORMATION MADE UNAPPROVED PURCHASES WITH HIS PERSONAL CREDIT CARD AND RECEIVED REIMBURSEMENT FROM ESC. IN SOME CASES, THE PURCHASES WERE SHIPPED TO HIS HOME AND IN THE NAME OF HIS PERSONAL BUSINESS.**

We reviewed all payment reimbursements made to the PI Director since his employment began with ESC in June 2000. A total of \$866.58 was paid to the PI Director for reimbursement of purchases he made by a personal credit card and/or cash (refer to Schedule 1). Although the ESC Purchasing Section permits Division Directors authority to make small purchases on-line through state contract vendors, employees are not permitted to make purchases and receive reimbursement without the proper approval and justification.

According to the *ESC Financial Management Handbook Chapter 3 Section 2.2* titled *Payment Request (BM-37)/Exceptions to Purchase Order Process* states:

Specific exceptions to the BM-36/Purchase order process stated above are needed. These exceptions may exist for one or more of the following reasons: efficiency of operations; continuous operations of equipment; path of technical expertise; fixed price and vendor considerations; and/or emergencies.

We found only one instance where the PI Director purchased an item that was needed immediately and could not go through the normal purchase order request process for that reason. However, all other reimbursements to the PI Director were for items such as a computer mouse, cd-rom envelopes, camera bags, and software, none of which were documented as emergency items. In fact, in some cases, the PI Director made the

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

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purchase on-line using his personal credit card and had the item shipped to his home address in the name of his personal business and received reimbursement.

Payment Requests (BM-37) are processed by the Budget and Finance Section and are not scrutinized by the Purchasing Section. The PI Director purchased items from vendors not on state contract although these items were available from state contract vendors. He also purchased items available on state contract from the state contract vendors, but used his personal credit card and did not receive any discounts. ESC reimbursed the PI Director for the amount paid by the PI Director regardless.

A Budget and Finance Processing Assistant stated she noticed the purchases were shipped to the PI Director's home and in the name of a business. She said she notified her supervisor, the Director of Budget and Finance. The Director of Budget and Finance stated he did not recall the Processing Assistant notifying him the purchases were shipped to the PI Director's home. He further stated no purchases should ever be shipped to an employee's home and the payment request (BM- 37) should have been questioned.

Similar to Finding 2, on all requests for payment reviewed, the Administrative Assistant was named the originator; thereby requiring only the PI Director's approval. However, it should have been apparent the PI Director made these purchases since the items were shipped to his home and the request stated, "make check payable to the PI Director".

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

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The PI Director stated he purchased the software originally for his personal use; however, he thought the software could be used at work. He said he installed the software on his ESC computer and deleted it from his personal computer. Additionally, he stated that in some cases he could purchase items cheaper on-line than from state contracts. He said many of the on-line companies required a credit card payment and would not accept a state purchase order number. He said a Purchasing Agent (again he could not recall whom) told him he could make the purchases using his personal credit card and submit reimbursement. He said occasionally the on-line company would not accept an address other than the payees. As a result, he said he had the items shipped to his home. He said the other items purchased were needed immediately or specialty items available exclusively on-line.

The Director of Purchasing stated in some cases, purchases are made from vendors that do not accept purchase order numbers for items that are needed immediately. In those cases, employees may use a personal credit card/cash and receive reimbursement. However, justification from Purchasing must be documented and should accompany the payment request (BM-37). We found no such documentation accompanying the payment requests.

We question the \$610.15 reimbursed to the PI Director (\$866.58-\$256.43) since none of the items purchased appear to be in accordance with the policy stated above.

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

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The Deputy Chairman stated he was unaware of the purchases and no employee should ever have purchases shipped to their home. He said he was troubled by this discovery.

### **RECOMMENDATION**

All Request for Payment (BM-37) should be reviewed to ensure adherence to the budget/finance and purchasing policies. Further, employees should not have items shipped to their homes. We also recommend ESC seek reimbursement for the \$610.15 paid to the PI Director for the questionable purchases.

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## **STATEMENT OF QUESTIONED COSTS**

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

1. Percentage (51%) of yearly salary paid for hours not deducted. (Finding 1)	\$25,091.16
2. Sample of purchases questioned. (Finding 2)	2,397.99
3. Computer equipment/repairs purchased without IS approval (Finding 3) (\$40,123.05-\$3,008.14 purchases included in other findings)	37,114.91
4. Questionable reimbursements to the PI Director. (Finding 4)	<u>610.15</u>
Total	<u>\$65,214.21</u>



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# SCHEDULE 1

## Employment Security Commission of North Carolina Purchase Reimbursements Made to The Public Information Director July 1, 2000 – June 30, 2002

<u>Date Submitted</u>	<u>Amount</u>	<u>Explanation for Reimbursement</u>
9/1/2000	\$ 63.88	Computer Mouse
9/5/2000	127.76	Computer Mouse (USB)
2/5/2001	26.48	Purchase of CD-ROM envelopes & labels for BRI project
3/21/2001	93.17	Two camera bags
5/15/2001	68.85	Blank tapes for digital video camera
<b>3/21/2001</b>	<b>256.43*</b>	<b>Charger, adapter and smartmedia memory cards for ESC Awards</b>
4/25/2001	33.96	PCMCIA Card
5/14/2001	53.85	CDR-TOAST 5 Titanium Upgrade
8/14/2001	22.21	Wein Peanut Slave for digital camera
1/15/2002	50.00	Art Age Software to be used with PIO publishing software.
12/19/2001	29.99	QuickTime Software for MAC.
2/20/2002	<u>40.00</u>	VueScan Software to use with PIO scanner.
	<b><u>\$866.58</u></b>	Total for Direct Reimbursements to the Director of Public Information.

**NOTE: \*Identified as an emergency purchase.**

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## STATE AUDITOR'S NOTE TO ESC'S RESPONSE

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The Employment Security Commission issued the following response to our Special Review on March 25, 2003. The assertions in the response require a reply. After carefully reviewing the response, the Office of the State Auditor stands by the findings and recommendations made in this report. The response has statements or implications that we find misleading, confusing, and evasive.

For example, the response from the Chairman states, "Neither I nor Parker Chesson, former ESC Chairman; Raymond Goodman, former ESC Chairman and former Deputy Chairman for Administration; Muriel Offerman, former Deputy Chairman for Administration and current Deputy Chairman for Programs; or Thomas Whitaker, former Deputy and Acting Chairman and current Chief of Staff, were questioned." The findings and recommendations in this report are based on the written policies and procedures in place at ESC. There is no need to interview former administrators on those issues. Furthermore, as is normal practice, the findings and recommendations in this draft have been presented to the Commission for its review. These findings and recommendations have been discussed with the current Chair and Chief of Staff and other ESC employees with management responsibility. They have not presented any information that supported changing the findings or recommendations.

As noted in the response "ESC may fairly be faulted for not having written documentation for every change and exception that experience has demanded of our management procedures." We agree that ESC needs to document their policies and procedures and strongly recommend that they commence doing so.

The response questions the credibility of the ESC employees who we interviewed, particularly as it relates to the work attendance of the PIO. Information on the PIO's work attendance was available from various sources and was consistent. It is clear that a problem exists. Therefore, we recommend that ESC address the issues that we identified.

Again, the Office of the State Auditor stands behind all the findings and recommendations in this report. The response of the Employment Security Commission is presented on the following pages.

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**Employment Security Commission of North Carolina**

**Michael F. Easley**  
*Governor*

**Post Office Box 25903  
Raleigh, North Carolina 27611  
919.733.7546**

**Harry E. Payne, Jr.**  
*Chairman*

March 25, 2003

The Honorable Ralph Campbell  
State Auditor of North Carolina  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Dear Mr. Campbell:

Thank you for the opportunity to respond to the Special Review of the Employment Security Commission (ESC.) While your draft makes it clear that is not a financial audit and is more in the nature of managerial oversight recommendations, please know that we take these issues and your recommendations very seriously.

On May 1, 2002, you received an unsigned letter about alleged activities of twelve (12) ESC employees. Since that time we have provided you a copy of the results of our internal investigation into those allegations. Our findings regarding the activities of the Management Services Supervisor; the ONET Supervisor; the Employment Service Deputy Director; the Finance and Budget Director, the Employment Services Supervisor; the Information Systems Deputy Director; the Information Systems Supervisor; the Administrative Services Director; the Purchasing Director, the Organizational Effectiveness Director; and, the Agricultural Employment Services Supervisor are included in that document. We also dealt with substantially the same questions focused upon your team with regard to the Public Information Office Director (PIO).

The Hotline complaint that gave rise to your visit, as evidenced by the focus of your attention, appeared to restate the previous questions that we had explored. We were grateful for your review team to have the chance to develop any additional evidence or guidance for us. In our review, we began with the advantage of knowing the current policies, practices, and procedures that formed the basis of the management expectations of the PIO. Neither I nor Parker Chesson, former ESC Chairman; Raymond Goodman,



Unemployment Insurance



Employment Service



Labor Market Information

former ESC Chairman and former Deputy Chairman for Administration; Muriel Offerman, former Deputy Chairman for Administration and current Deputy Chairman for Programs; or Thomas Whitaker, former Deputy and Acting Chairman and current Chief of Staff, were questioned. The information that would have been provided as to current policy and practice and directions given to the PIO would likely have resulted in a different draft report.

The heart of your survey was the concern that the PIO had failed to follow procedure. Interviews with the former ESC Chairmen and Deputy Chairpersons would have revealed that the last edition of the ESC Financial Management Handbook was updated in 1996. Since that time substantial flexibility and delegation to Division Directors and other employees had been implemented. ESC may fairly be faulted for not having written documentation for every change and exception that experience has demanded of our management procedures. It does seem clear that the PIO Director has followed the overall direction of his supervisors. Since 1997, ESC has been in a focused and continual process of administrative improvement aimed at seamless customer service and a shifting of decision making to the most immediate level. Currently ESC is committed to this process to the extent that we are at the mid-point of achieving ISO 9001 certification by the end of 2003.

### **III. Time Records**

The Review states that employees kept a "diary" of the PIO's attendance. The credibility of this diary a serious issue since the PIO counseled several of his employees in matters about their individual job performances. A comparison of the PIO's official time records to these diaries does not support any fact-based intervention other than the close scrutiny that began immediately.

The PIO has performed his duties within the framework of his status as a Managerial Exempt employee. The PIO was informed immediately upon his hire by then-Deputy Chairman Goodman that, as a management employee, he was expected to be on-call at all times. He understood that he was to report no overtime or compensatory time. It was understood that his work status would involve work during nontraditional office hours as well as work from home and other remote locations. The PIO's time records reflect this direction as do all time records of other Managerial Exempt ESC employees. The PIO does not telecommute, but rather works from his location as the need arises. It is correct that other PIO office employees do not work from home or remote locations because of their job duties and employment classifications. All PIO employees are treated correctly within the provisions of the State Personnel Manual in keeping with their classifications as Non-Exempt employees. ESC does have an approved telecommuting policy and several employees do telecommute. You have been provided with a copy of that policy. ESC has documented the savings from such assignments.

Sharon Morris, ESC Human Resources Director, and Thomas Whitaker, former Deputy Chairman, former Acting Chairman and current Chief of Staff, who are also



Exempt Managerial employees, have specific recollection of being informed by Chairman Parker Chesson and Chairman Raymond Goodman not to record overtime or compensatory time and that work was to be completed as needed regardless of time or place. In fact, several Exempt Managerial employees had accumulated compensatory time but such time was reduced to zero and these employees were instructed to record no compensatory time. This remains ESC practice. The Special Review team did not interview Ms. Morris and Mr. Whitaker.

It is correct that the PIO's current supervisor did have two PIO employees discuss the PIO's attendance with him. Those employees were the subjects of disciplinary action, and they were counseled to formally appeal their individual grievances and complaints for a full and fair hearing. None chose to so do, however, one individual said that he would follow through with his complaints to the Attorney General and members of the General Assembly.

There is no evidence in this Review to conclude that the PIO "comes and goes as he pleases with little accountability while he holds the staff to a stricter standard." The PIO performs the duties of his job and manages his staff within the guidelines of their job classification and status.

## **IIA. Purchases**

The report mentions three items that the PIO's anonymous accuser's state were never used nor seen by the PIO staff. It is clear from this allegation that the anonymous accusers are the members of the PIO's staff.

### DVD Player

It is assumed that this allegation refers to a DVD-RAM drive that was an approved purchase to back up large Zip Drives. The PIO has explained why this device was purchased and there is no evidence to refute the explanation.

### Sony Digital Camera

This camera was purchased with the approval of Chairman Raymond Goodman and is used by the Unemployment Insurance Division of ESC for videotaping training sessions for the benefit of out-stationed UI staff. One reason for this purchase was to minimize use of staff time to oversee recording with outdated equipment, and for still photos, to reduce developing costs. This information has been available from the UI Director and his staff.

### Final Cut Pro Software

This software was purchased as evaluation software to possibly replace "Media 100" video editing software. The PIO uses it exclusively and continues to test it against current applications.



## **IIB. Purchases**

It is alleged that the PIO circumvented the purchasing process by having his Assistant originate purchase orders. It is clear that his Assistant told the PIO that this process was standard operating procedure in the PIO Department. He had no reason to question this instruction. The PIO was never instructed by Executive Staff, the Purchasing Officer, Purchasing staff, or the Finance and Budget Director or staff that this practice was not followed by all Directors. A review of purchase orders originated by the PIO's predecessor confirms this practice. The practice of not having Deputy Chairpersons approve all purchase orders, at the Director level, is also confirmed by the ESC Director of Finance and Budget. This standard operating procedure has been in place since 1997. This practice was begun at the direction of then Chairman Chesson to promote administrative efficiency.

## **III. Purchase of Computer Equipment**

When the PIO was hired, former Chairman Raymond Goodman has recollection of the PIO office using MacIntosh computers that had a history of support issues unable to be addressed by the IS Department. It is now alleged that the PIO purchased computer equipment that was not approved by the Information Systems (IS) Section of ESC as set forth in the ESC Financial Management Handbook. The PIO did purchase such equipment and/or repairs for equipment. It is the policy of ESC since at least 1997 that equipment purchase/repair conforming to adopted ESC platforms does not require IS approval. The standard order process for computer equipment is for a purchase order to be completed and forwarded from a Director or Deputy Director to the Purchasing Department. The ESC Purchasing Director, the Director of Finance and Budget and the Information Systems Director confirm this policy. The Director of Finance and Budget is in the process of clarifying the Financial Management Handbook to reflect this process. No equipment purchased or repaired by the PIO is outside of adopted ESC platforms. All of the equipment has been and continues to be on site and in use at ESC.

Former Chairman Goodman has specific recollection of authorizing the PIO to directly secure repair on MacIntosh computers and purchase at least one MacIntosh computer because of the long standing inability of IS to support repairs for the equipment.

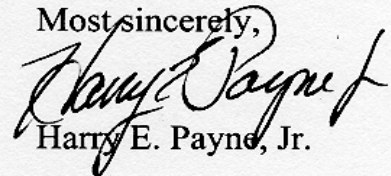
## **IV. Credit Card Purchases**

Costs were questioned regarding credit card purchases for items unquestionably in use at ESC. Therefore, this response is limited to the method by which the purchases were made and shipped. It is accepted procedure at ESC that some purchases are allowed to be made by personal credit card and that reimbursement is made by ESC Finance and Budget. The explanation of the PIO for these purchases is sufficient because of price, immediate need or speciality, all of which are approved in the ESC Financial Management Handbook. However, delivery to a home address is to be avoided and ESC

has taken steps to avoid that practice. The PIO has paid \$119.99 to ESC for software. ESC and the PIO will determine whether the PIO will continue to use this equipment or remove it from the premises and make the necessary financial adjustment. Executive Staff, the Purchasing Officer or staff, the Finance and Budget Director or staff, or any PIO staff never instructed Mr. James that this purchasing process was not followed by other Directors.

We share the conclusion evidenced of your not charging any detriment measured by your findings. Had the ISO-9001 required control policy and procedure documentation been in place mandating currency, the expectations that the PIO followed would have available to you. We are updating and clarifying actual policy implemented by recent ESC Chairmen until the ISO defined system is in place at the end of this year. They will reflect the tremendous steps ESC has implemented as a result of the many changes made by recent ESC Chairmen to re-engineer ESC's service delivery model.

Most sincerely,

A handwritten signature in cursive script, appearing to read "Harry E. Payne, Jr.", written in black ink.

Harry E. Payne, Jr.

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March 27, 2003

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