



STATE OF NORTH CAROLINA

SPECIAL REVIEW

NORTH CAROLINA'S EASTERN REGION

KINSTON, NORTH CAROLINA

MAY 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

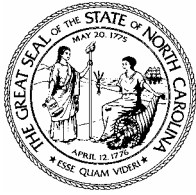
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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Mr. Jim Fain, Secretary, North Carolina Department of Commerce
Mr. Calvin Anderson, Chairman, North Carolina's Eastern Region Development Commission

Pursuant to North Carolina General Statute § 147-64.6(c) (16), we have completed a special review of allegations concerning North Carolina's Eastern Region. The results of our review, along with recommendations for corrective action, are contained in this report.

Copies of this report have been provided to the Governor, the Attorney General and other appropriate officials in accordance with North Carolina General Statute §147-64.6(c) (12) which requires the State Auditor to provide written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr. CPA, CFP
State Auditor

June 5, 2006

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INTRODUCTION

The Office of the State Auditor received a number of allegations concerning the financial management and oversight of North Carolina's Eastern Region (Eastern Region), an economic development partnership created pursuant to North Carolina General Statute §158-33. The allegations primarily concerned the Executive Director. Allegedly, the Executive Director received excessive and undocumented expense reimbursements, and engaged in unnecessary activities often involving extensive travel. We also received allegations related to the reporting of interest income to the North Carolina General Assembly.

To conduct a special review of these allegations, we performed the following procedures:

- Interviews with current and former staff and Commission members;
- Examination of relevant documents and records of the Eastern Region including invoices, travel reimbursement forms, check registers, bank statements, loan agreements, minutes from Commission meetings;
- Review of audited financial statements;
- Interviews with individuals external to the Eastern Region;
- Consultation with the North Carolina General Assembly Fiscal Research Division and the North Carolina Department of Commerce.

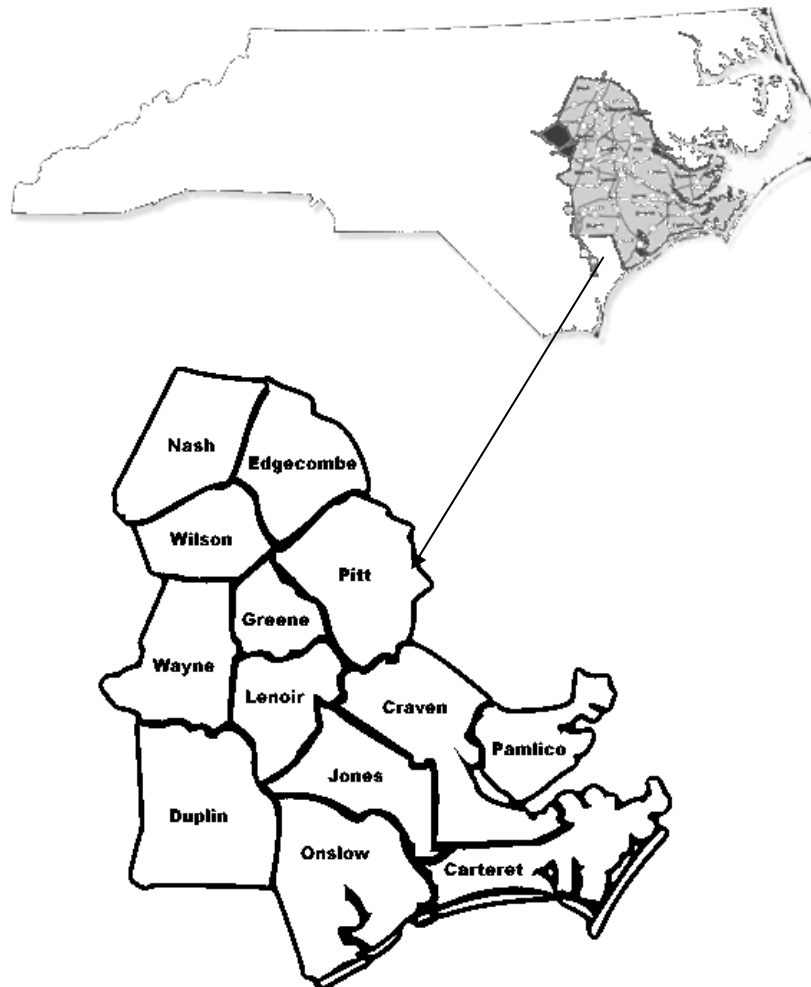
This report presents the results of our special review. The review was conducted pursuant to North Carolina General Statute § 147-64.6(c)(16) rather than as a financial or performance audit. An independent public accounting firm conducts an annual financial audit of the Eastern Region.

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BACKGROUND

North Carolina's Eastern Region is a multi-county partnership originally created pursuant to Article 4 of Chapter 158 of the North Carolina General Statutes, as enacted by Senate Bill 853, 1993 General Assembly and includes the 13 county geographic region identified below. North Carolina's Eastern Region Development Commission is the governing body of North Carolina's Eastern Region (Eastern Region).

The purpose of the Eastern Region is to promote and encourage economic development within its territorial jurisdiction by fostering or sponsoring development projects to provide land, buildings, facilities, programs, information and data systems and infrastructure requirements for business and industry. It is one of seven economic development partnerships in North Carolina that operate in cooperation with the North Carolina Department of Commerce to attract new business development and stimulate economic growth.



The Eastern Region was initially known as the Global TransPark Development Zone. However, the Eastern Region is a separate and distinct entity from both the Global

BACKGROUND (CONTINUED)

TransPark Authority which operates the Global TransPark, and the Global TransPark Foundation which is a 501(c) (3) tax exempt organization that supports the recruitment efforts of the Global TransPark through private funding.

Until recently, the Eastern Region was administered by a development commission comprised of three representatives from each of its 13 counties. Effective September 30, 2005, the terms of office of the existing members were terminated and a new commission was seated to include one representative from each member county and six additional members appointed by the General Assembly on the recommendation of the Speaker of the House of Representatives (2), President Pro Tempore of the Senate (2), and the Governor (2).

The new Eastern Region Commission held its first official meeting on February 9, 2006. During this initial meeting, the Board of Directors received and accepted the resignation of the Executive Director.

Funding

The Eastern Region receives an annual appropriation from the North Carolina General Assembly. The appropriation covers administrative and operating expenses such as marketing, advertising, promotion, and other economic development activities.

When the Eastern Region was initially established, it was authorized by statute to levy a temporary annual vehicle registration tax of five dollars per vehicle for a period not to exceed five years. The Eastern Region was required to place eighty-five percent (85%) of those proceeds into an interest bearing trust account. The remaining fifteen percent (15%) was placed into a general fund account and was available for general operating expenses.

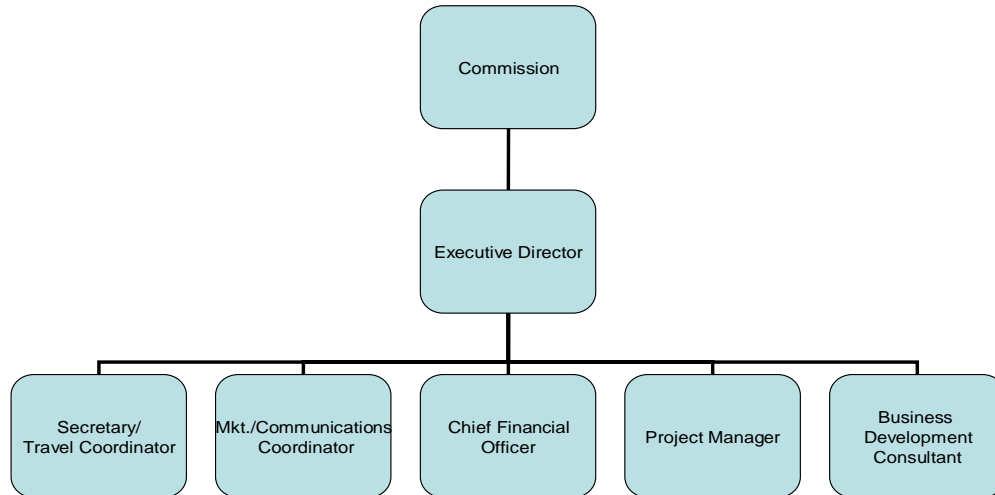
The portion of the vehicle registration tax placed in the trust account is restricted by statute and can only be used for economic development projects and infrastructure construction projects that are within the territorial jurisdiction of the region but are not within the Global Transpark.

In addition to the vehicle registration tax, the North Carolina General Assembly granted the Eastern Region a one time appropriation of \$7,500,000 to be placed in the same trust account. The Eastern Region receives interest revenue on these funds which are used for operating expenses and to fund various grants to member counties. The Eastern Region receives no funding from private sources. For the 2005-2006 fiscal year, the Eastern Region received an appropriation of \$766,830.

Organizational Structure

The Eastern Region has a full-time staff of six professionals to create and execute economic development programs and policies.

North Carolina's Eastern Region Organization Chart



The Eastern Region staff works in coordination with the North Carolina Department of Commerce to market the region and develop clients. The Department of Commerce also invites the Eastern Region and the other regional economic development partnerships to participate in various economic development activities throughout the state, nation and abroad.

Facilities

The Eastern Region maintains administrative offices in Kinston, North Carolina in a building adjacent to the Global Transpark Education and Training Center.

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1. THE COMMISSION DID NOT EXERCISE ADEQUATE OVERSIGHT AND MONITORING OF THE EASTERN REGION'S MARKETING AND CLIENT DEVELOPMENT ACTIVITIES.

The process of encouraging prospective businesses to consider locating or relocating into the region involves building relationships with key decision makers within an organization. This process can sometimes take months or even years to produce results. An essential element in the process requires detailed and accurate records of meetings with prospects in order to better respond to any need that the client may have in the future related to a potential relocation. When a major marketing event is held, detailed records related to the event are needed to identify potential clients and assess the success or failure of the activity for future planning.

The Eastern Region organizes and participates in various events to fulfill its mission of attracting business to the region. Some events are designed as “networking” opportunities with potential clients or established clients interested in relocating to the region. Other events include trade shows or conferences where Eastern Region staff interact with other economic developers from around the country.

Concerns about three specific events were brought to our attention prior to our review. One was a hospitality house rented for the US Open golf tournament, another was a trip to Ireland taken by the Executive Director and the other was a trip to New Orleans taken by the Executive Director and the Business Development Consultant.

US Open Golf Tournament

The Eastern Region conducted a marketing event in conjunction with the US Open Golf Tournament held in Pinehurst in June of 2005. A review of relevant records and interviews with Eastern Region staff raised a number of questions regarding the purpose and actual attendance at the event.

The Eastern Region staff member responsible for mailing invitations to the event said she sent out a number of invitations but there was very little response. This staff member along with other staff informed us that they had no knowledge of who actually attended the event. When questioned about the matter one staff member replied “I wish I knew who attended.”

When we questioned the Executive Director about the event, he was unable to provide us with an accurate list of attendees. We determined that the attendees included one lead generating contact, a local business owner, individuals who assist with the Eastern Region's marketing efforts, and the Executive Director's spouse and son.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

After our interview with the Executive Director he provided what was purported to be a complete and accurate list of event participants. However, based on interviews with some of the individuals on the list, discrepancies remain.¹

One associate of a marketing contractor for the Eastern Region said they were at the house for only two days and one night and the Executive Director and Business Development Consultant left in the morning and they did not see them again. This individual said that they took it upon themselves to purchase breakfast and lunch for the one prospective business client that was staying at the house.

Costs Associated with US Open Golf Tournament

House Rental	\$12,000.00
Seven Additional Tickets	2,435.00
Food, Refreshments, Misc.	<u>1,131.46</u>
	<u>\$15,566.46</u>

Travel to Ireland

The Executive Director traveled to Ireland from June 29 to July 11, 2003. According to the Executive Director the purpose of the trip was to visit other economic development organizations in order to look at how Ireland “turned their education around.” The Executive Director said that Ireland was chosen as a destination because the Eastern Region is similar to Ireland and they were successful in turning themselves around. We asked the Executive Director if there was any other reason for the trip and he said that he had a golf trip planned a year in advance for the first week of the trip. He said that he took the opportunity to set up meetings for the second week.

We interviewed an Eastern Region staff member who coordinated the meetings for the Executive Director. He stated that the Executive Director asked him to see if he could set up meetings with companies while he was in Ireland for his golf trip. The staff member stated that he had a difficult time researching and calling around with other developers as there were not any current projects associated with Ireland. The staff member said that he was finally able to line up meetings with various government and economic development officials for the Executive Director.

We were able to confirm that the meetings did in fact take place and only costs associated with the second week of the trip were charged to the Eastern Region. Still, any benefit to the Eastern Region from this trip to Ireland appears minimal at best. The Executive Director stated that he did not discuss this trip in advance with the Commission and that after he returned he mentioned it to them but did not give a formal report of the trip.

¹ Appendix A shows a brief report prepared by the Executive Director and Business Development Consultant to summarize the US Open event. This report infers that numerous clients were in attendance. However, we verified only one prospective business client attended the event for one or two days. Therefore, the benefit derived from the event for the Eastern is questionable.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The Eastern Region Commission meeting minutes did not reflect any discussion of a trip to Ireland.

Costs Associated with Ireland Trip

Out of Pocket (meals, taxi, etc.)	\$ 325.26
Lodging	919.76
Car Rental	937.81
Airport Parking	32.50
Meal in Raleigh night before travel	<u>141.96</u>
	<u>\$2,357.27</u>

Travel to New Orleans

The Executive Director and Business Development Consultant traveled to New Orleans from February 16-18, 2005. The Executive Director said that the purpose of the trip was to find out about a program called I CAN Learn®². He stated that it is a way to teach math in the classroom. He stated that as a result of the trip, individuals from the organization came to the region and gave a presentation to some school superintendents and community colleges.

We confirmed that a representative for the I CAN Learn® program did give a presentation at the Eastern Region office but according to Eastern Region staff that was all that resulted from the trip.

There may have been some benefit derived from having an organization which markets educational software present its product to local educational leaders. However, we question the need for the Executive Director and the Business Development Consultant to travel to the company's headquarters to learn about the product in advance considering the timing of the trip was during Mardi Gras celebrations in New Orleans.

Costs Associated with New Orleans Trip³

Out of Pocket (meals, taxi, etc.)	\$ 296.45
Car Rental	204.76
Parking	<u>30.00</u>
	<u>\$ 531.20</u>

²I CANLearn® is an educational system owned and marketed by JBL Enterprises that is a complete software and hardware computer package for delivering standards based Algebra and Pre-Algebra courses to the K-12, College and adult education markets.

³ Airfare and lodging were paid by I CANLearn®. Therefore, there was no cost for the Eastern Region for those items.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The Eastern Region uses a software program called A.C.T. which is used to record detailed information about prospect development. However, the Eastern Region staff member responsible for updating the A.C.T. system said it was a constant source of frustration trying to obtain information regarding client interaction from the Executive Director and Business Development Consultant.

We found no indication of a policy requiring discussion or prior approval by the Commission for travel or other events. In addition, neither Commission meeting minutes nor discussions with Commission members reflect any detailed reports were provided addressing the benefits derived from the above activities.

RECOMMENDATION

The Eastern Region should develop and implement policies and procedures to requires the Commission to more effectively fulfill its fiduciary oversight responsibilities. These policies should include a requirement that the Commission be updated by management or appropriate staff about proposed marketing events, seminar attendance or other “mission” trips planned by the Eastern Region staff in advance.

Policies should require detailed reports to Commission members subsequent to an event or trip. By implementing these procedures, the organization will create a system of “checks and balances” to allow the Eastern Region to evaluate its activities to ensure that they are consistent with the mission of the organization. Also, this information will provide data that can be used to effectively plan future activities for the Eastern Region.

2. THE EXECUTIVE DIRECTOR WAS REIMBURSED FOR EXPENSES WITHOUT ADEQUATE SUPPORTING DOCUMENTATION.

We reviewed documentation for expense reimbursements made directly to Eastern Region staff for out of pocket expenses as well as payments for credit card charges made by staff on Eastern Region business. Particularly in the case of meals and entertainment related expenses by the Executive Director, a significant amount of the documentation did not adequately indicate a business purpose of the expense or the name and business relationship of any other individuals whose expenses were paid by the Eastern Region.

According to the Chief Financial Officer (CFO), the Eastern Region has never had any written policies and procedures related to reimbursement of staff expenditures. The CFO said her own practice is to reimburse an expense only if there is a receipt. However, there is no written policy stating what constitutes an adequate receipt or other items such as prior/post authorization, expenditure limits, timeliness of submission, or documentation review requirements.

Because of the nature of the Executive Director’s activities, there were many instances when he incurred out-of-pocket expenses for activities that could be construed as personal even though there may have been a legitimate business purpose for the expense. However, based on the documentation that was presented for reimbursement, it was difficult to determine if there was an actual business purpose associated with certain expenses.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The Executive Director often created receipts to document meals associated with Eastern Region business. The activities purported to be associated with these expenses included trips to various trade shows, conventions, meetings and visits with prospective business leaders interested in moving to the region as well as meetings with local and state officials.

We also noted that the Executive Director used an American Express Platinum Card issued in his name for both personal expenses and Eastern Region expenses. He also had a credit card issued in the name of the Eastern Region. Payments for these expenses were made directly to American Express.

To identify business expenses, the Executive Director either indicated his personal charges on the statement or the CFO made a determination and gave the information to the Executive Director to verify. Therefore, there are questions as to how accurately personal expenses were separated from business expenses. Identified personal charges placed on the credit card were paid by the Executive Director either as reimbursement to the Eastern Region or were paid directly to American Express. In addition to meals, expenses included travel, conference fees, and mileage reimbursement for travel outside of the region.⁴ Also, internet service at the Executive Director's home and membership dues at The Kinston Country Club in the Executive Director's and spouse's name were reimbursed by the Eastern Region.⁵

Some receipts for meals were noted to be similar and in numerical sequence even though they related to meals from different time periods. For example, a "guest check" numbered 293145 with only a hand written amount for \$10.25 was submitted for a lunch on July 10, 2003 while on October 11, 2003, a stub from the same "guest check" numbered 293145 for \$11.83 was submitted as a lunch receipt. Other guest checks were submitted in a similar manner with numbers ranging from 293139 through 293149 as well as other sequential receipts.

Another example of a questionable receipt involved a request for reimbursement of a lunch on April 6, 2003, while at a meeting in Southern Pines, North Carolina. The receipt for \$40.78 was from a restaurant located in Atlanta, Georgia. In another instance, the Executive Director submitted a receipt in the amount of \$21.99 for a dinner in Richmond, Virginia on November 5, 2004, but the receipt was dated October 26, 2004, and did not include the name of the establishment.

When we questioned the Executive Director about these receipts he said that sometimes he forgot to get a receipt so he just made one up. These types of receipts appeared to be

⁴ The Executive Director received a vehicle allowance of \$900 per month for travel within the thirteen county area of the Eastern Region which was increased in 2005 to \$1,000 by the Commission.

⁵ We were told by Eastern Region staff that the country club membership was needed for entertainment of prospects. However, we did not see evidence of significant business related use of the membership other than an occasional meal with Eastern Region staff and/or Commission member. We confirmed the country club requires memberships to be in an individual's name rather than a corporate name.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

submitted on a regular basis. The Executive Director said that the amounts entered on the receipts were representative of what he had spent and he did not have time to keep up with his receipts.

We reviewed a significant number of receipts that were either altered by having detailed information cut off and new information handwritten in or simply included the bottom portion of the receipt with only an amount. We questioned the reason for submitting receipts like this when it appeared submitting the original receipt would have taken less time. The Executive Director said that “it’s nobody’s business where I eat or what I have to eat.”⁶

We also noted reimbursement for meals that were at the Kinston Country Club or restaurants located in Kinston where the Eastern Region office is located. The receipts for those meals either lacked a business purpose or indicated “meeting” with a staff or Commission member. In our opinion, if there is a compelling reason to conduct a meeting outside the Eastern Region office, then the business purpose should be documented.

We questioned the CFO about the documentation submitted by the Executive Director and she stated that she did not feel comfortable questioning the Executive Director about these issues. She stated that the Executive Director on more than one occasion had informed her and other staff that any communication with the Commission without his approval could lead to dismissal. She thought that the issues related to the Executive Director’s expenses would be addressed by the Commission treasurer who also reviewed the summaries.

Total reimbursements for expenses paid to the Executive Director directly or to American Express in his name during the three year period 2003-2005 were as follows:

Year	Expenses Initially Paid by Eastern Region	Personal Expenses Paid by Executive Director	Eastern Region Expense (includes car allowance)
2003	\$ 46,650.56	\$ (8,762.58)	\$ 37,887.98
2004	75,273.76	(11,009.93)	64,263.83
2005	<u>38,101.35</u>	<u>(10,351.44)</u>	<u>27,749.91</u>
	<u>\$160,025.67</u>	<u>\$(30,123.95)</u>	<u>\$129,901.72</u>

⁶ Appendix B provides examples of the types of receipts that were submitted by the Executive Director to support his reimbursement requests.

RECOMMENDATION

We recommend that the Eastern Region develop policies and procedures to require adequate support for payments made to staff for out-of-pocket or credit card purchases while conducting Eastern Region business. The Eastern Region should not authorize payment for travel, meals, or entertainment of clients without an actual receipt that documents:

- 1) The amount of each expense;
- 2) The time and place of the travel, meal or entertainment expense;
- 3) The business purpose of the expense;
- 4) The business relationship to the Eastern Region of the persons being entertained or who are having expenses paid by the Eastern Region.

Eastern Region employees who travel or entertain clients should be issued an Eastern Region credit card to be used for Eastern Region business only. This will eliminate the need to separate personal expenses from business expenses on credit card statements.

In addition to proper documentation, the Eastern Region should develop sufficient internal controls that address the authorization and independent verification of transactions as well as proper segregation of duties related to the expense payment function.

3. THE BUSINESS DEVELOPMENT CONSULTANT WAS PAID TWICE FOR THE SAME EXPENSE.

During our review of documentation related to travel expenses, we discovered that the Business Development Consultant received two reimbursements for the same expenses. On May 11, 2005, the Business Development Consultant received a check for \$1,087.30 for out of pocket travel expenses incurred between January 16, 2005 and April 23, 2005. On May 27, 2005, the Business Development Consultant received a check for \$1,128.15 for out of pocket travel expenses that included the same items that were previously paid and an additional \$40.85 for items added to the original reimbursement request.

The Eastern Region has no policies or procedures in place to require employees to submit reimbursement requests in a timely manner. Often, reimbursement requests are submitted for items/events that occur over a 2-4 month period. This makes it difficult to verify that the documentation matches the dates of the event and if the request was previously paid. In addition, there are no policies that ensure independent authorization or review of payments to ensure that reimbursement requests have not previously been submitted.

RECOMMENDATION

We recommend that Eastern Region management request repayment of \$1,087.30 from the Business Development Consultant for the duplicate payment.⁷ In addition, the Eastern Region should develop policies and procedures to ensure that staff is required to submit reimbursement requests in a timely manner and that a pre-payment review is conducted to ensure that a reimbursement request was not previously submitted.

4. NORTH CAROLINA'S EASTERN REGION HAS UNDER REPORTED INTEREST EARNED ON ITS ORIGINAL STATE APPROPRIATION.

In 1993, the NC General Assembly through Senate Bill 26, appropriated \$7,500,000 in state funds to North Carolina's Eastern Region. Sec.72 *"The funds appropriated in this act from the General Fund to the Global Transpark Development Zone created pursuant to Article 4 of Chapter 158 of the General Statutes, as enacted by Senate Bill 853, 1993 General Assembly, shall be used for economic development projects and infrastructure construction projects as provided in Article 4 of Chapter 158 of the General Statutes."* The funds shall be credited *"to the interest-bearing trust account created pursuant to G.S. 158-42, as enacted by Senate Bill 853, 1993 General Assembly, and shall be subject to the restrictions on funds in that account provided in G.S. 158-42."*

The enabling legislation of the Eastern Region outlines the method of allocation and required usage of the funds. In addition to the initial state appropriation, the fund includes 85% of the proceeds of a \$5 motor vehicle registration fee collected by the North Carolina Department of Transportation from each member county. The motor vehicle tax was adopted by the legislature and the participating counties and was collected for a period of five years ended June 30, 1999. The principal balance of the combined funds is non-expendable in accordance with state law.

On February 9, 1995, the Eastern Region's Commission adopted policies and procedures to govern the disbursement of these funds in accordance with G.S. 158-42(f) which states that; *"The Region may not disburse the principal of the trust account except pursuant to a contract that provides that, within a reasonable time not to exceed 20 years, the Region will recover or be repaid the amount disbursed. The Region may, in its discretion, set reasonable terms and conditions for repayment of the principal disbursed, including provisions for securing the debt and the payment of interest."* The Eastern Region allocated the \$7,500,000 state appropriation equally among each member county (\$576,923.08 each). In addition to that amount, each county is able to borrow up to the balance of the vehicle registration fees collected from its county. Below is a summary of the amount of trust funds available to each county.

⁷On February 8, 2006, the Eastern Region received a personal check from the business development consultant for \$1,087.30.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

COUNTY	DMV FUNDS	STATE FUNDS	TOTAL AVAILABLE
CARTERET	\$1,128,496.92	\$576,923.08	\$1,705,419.55
CRAVEN	1,516,281.09	576,923.08	2,093,239.85
DUPLIN	834,631.49	576,923.08	1,411,557.21
EDGECOMBE	946,776.28	576,923.08	1,523,721.64
GREENE	286,835.52	576,923.08	863,765.35
JONES	174,307.86	576,923.08	751,235.04
LENOIR	1,044,578.88	576,923.08	1,621,526.54
NASH	1,570,756.35	576,923.08	2,147,716.39
ONSLOW	2,040,650.21	576,923.08	2,617,621.30
PAMLICO	211,139.28	576,923.08	788,067.33
PITT	1,965,673.94	576,923.08	2,692,643.27
WAYNE	1,877,820.57	576,923.08	2,454,787.83
WILSON	1,245,653.35	576,923.08	1,822,605.74
TOTALS	<u>\$14,843,601.74</u>	<u>\$7,500,000.04</u>	<u>\$22,493,907.04</u>

The Eastern Region Commission also approved policies that govern the terms of any loans from the trust fund. The Commission's policy is to charge member counties an interest rate that is no less than 50% of the Prime Rate or 3.5% whichever is greater in addition to any costs associated with processing the loan.

When loan payments are received by the Eastern Region, the principal portion of each payment is deposited into the State Treasurer's Short Term Investment Fund (STIF) account in accordance with fund requirements and the interest portion is deposited into the Eastern Region's general operating account to be used at its discretion. According to an opinion letter from the North Carolina Attorney General's office dated April 13, 1995, any interest earned on the trust funds, may be used by the Eastern Region for operating and marketing purposes.

In conjunction with the preparation of the bi-annual budget, the Department of Commerce Finance Center contacts the Eastern Region and requests an estimate of interest earnings on the state appropriated funds. The reported figure is then used in an allocation formula to redistribute the interest earned on the \$7,500,000 state appropriation. The process for allocating these funds involves three steps. For the 2005-06 fiscal year budget, the

- 1) The Department established each Commission's allocation by determining the sum of allocations to each county that was a member of that Commission. Each county's allocation was determined by dividing the county's enterprise factor (calculated in accordance to G.S.105-129.3) by the sum of the enterprise factors for eligible counties and multiplying the resulting percentage by the amount of the appropriation. As used in this subdivision, the term "enterprise factor" means a county's enterprise factor as calculated under G.S. 105-129.3.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

	% of Total	Allocation
Advantage West	23.44%	\$1,587,988
Carolina's Partnership	11.39%	\$ 771,411
Piedmont Triad	11.87%	\$ 804,056
Research Triangle	9.95%	\$ 674,370
Southeast	12.42%	\$ 841,620
Eastern Region	12.84%	\$ 869,794
Northeastern Region	18.09%	\$1,225,761
	<u>100%</u>	<u>\$6,775,000</u>

- 2) Next, the Department subtracted from funds allocated to the Eastern Region, the sum of one hundred eighteen thousand one hundred twenty-nine dollars (\$118,129) in the 2005-2006 fiscal year and one hundred eighteen thousand four hundred seventy-seven dollars (\$118,477) in the 2006-2007 fiscal year, which represented the interest earnings in each fiscal year on the estimated balance of seven million five hundred thousand dollars (\$7,500,000) appropriated to the Eastern Region in Section 6 of Chapter 561 of the 1993 Session Laws.

	% of Total	Adjusted Allocation	Interest to Redistribute
Advantage West	23.44%	\$1,587,988	
Carolina's Partnership	11.39%	\$771,411	
Piedmont Triad	11.87%	\$804,056	
Research Triangle	9.95%	\$674,370	
Southeast	12.42%	\$841,620	
Eastern Region	12.84%	\$751,665	\$118,129
Northeastern Region	18.09%	\$1,225,761	
	<u>100%</u>	<u>\$6,656,871</u>	

- 3) Next, the Department redistributed the sum of one hundred eighteen thousand one hundred twenty-nine dollars (\$118,129) in the 2005-2006 fiscal year and one hundred eighteen thousand four hundred seventy-seven dollars (\$118,477) in the 2006-2007 fiscal year to the seven regional economic development commissions. Each commission's share of this redistribution was determined according to the enterprise factor formula noted above. This redistribution was in addition to each commission's allocation determined above.

	% of Total	Adjusted Allocation	Allocation Interest	Total
Advantage West	23.44%	\$1,587,988	\$ 27,688	\$1,615,677
Carolina's Partnership	11.39%	\$ 771,411	\$ 13,450	\$ 784,861
Piedmont Triad	11.87%	\$ 804,056	\$ 14,020	\$ 818,076
Research Triangle	9.95%	\$ 674,370	\$ 11,758	\$ 686,128
Southeast	12.42%	\$ 841,620	\$ 14,675	\$ 856,295
Eastern Region	12.84%	\$ 751,665	\$ 15,166	\$ 766,830
Northeastern Region	18.09%	\$1,225,761	\$ 21,372	\$1,247,133
	<u>100%</u>	<u>\$6,656,871</u>	<u>\$118,129</u>	<u>\$6,775,000</u>

FINDINGS AND RECOMMENDATIONS (CONTINUED)

We determined that the Eastern Region reported an estimate of interest earnings only on the unloaned portion of the \$7,500,000 remaining on deposit in the STIF account and none of the interest generated on funds loaned to member counties. The reporting of estimated interest on the unloaned portion of the \$7,500,000 appears to have resulted from the Eastern Region's interpretation of legislative intent. The Eastern Region was the only Commission to receive the original \$7,500,000 appropriation. We believe the intent of the state appropriation allocation formula is to include all interest earnings derived from the entire amount of the \$7,500,000 appropriation to the Eastern Region and not just the unloaned amount on deposit with the State Treasurer.

In addition, the Eastern Region's Revolving Loan Policy states that with respect to any loan of the state appropriated funds or any loan consisting in part of the appropriated funds, repayments of principal shall be deemed to be, first repayments of that portion of the loan attributable to the appropriated funds and second to that portion attributable to the net tax proceeds.

While reviewing trust fund records and after discussing the loan procedures with Eastern Region staff, we determined that the principal portion of loan repayments are being credited based on the same percentage that the funds were originally loaned and not to the state appropriation first in accordance with Commission policy.

The following table represents a recalculation of the total interest earned on the original \$7,500,000 state appropriation and what we believe should have been reported and redistributed among the seven partnerships:

Fiscal Year Ended	Total Interest Earned on Funds	Interest Reported to Fiscal Research and used in Formula	Difference
6/30/96	439,200	315,000	(124,200)
6/30/97	422,397	315,000	(107,397)
6/30/98	389,522	276,923	(112,599)
6/30/99	366,866	280,502	(86,364)
6/30/00	362,976	240,350	(122,626)
6/30/01	395,311	206,088	(189,223)
6/30/02	358,045	204,433	(153,612)
6/30/03	371,770	171,979	(199,791)
6/30/04	249,746	171,979	(77,767)
6/30/05	222,232	125,681	(96,551)
6/30/06	<u>233,062</u>	<u>118,129</u>	<u>(114,933)</u>
Totals	<u>\$3,811,127</u>	<u>\$2,426,064</u>	<u>\$(1,385,063)</u>

Because of the underreporting of interest associated with the initial state appropriation, the Eastern Region was allowed to use funds generated by the initial state appropriation that were intended to be redistributed among the other six economic development partnerships.

RECOMMENDATION

In the absence of clear legislative intent, the Eastern Region should work with the North Carolina Department of Commerce Finance Center as well as the North Carolina General Assembly to clarify the reporting of interest earnings. We recommend the Eastern Region report all interest earnings, (including interest from loans) related to the original \$7,500,000 state appropriation or simply an estimate of interest earnings on the total of \$7,500,000 using the average interest rate that was paid on the State Treasurer's STIF account for the preceding fiscal year.

5. THE BUSINESS DEVELOPMENT CONSULTANT WAS MISCLASSIFIED AS AN INDEPENDENT CONTRACTOR.

From November 15, 2004 to early 2006, the Eastern Region employed a Business Development Consultant (Consultant) as an independent contractor. We discussed the duties and payment arrangements for this individual with Eastern Region personnel and reviewed records related to his activities. Our review indicated that this individual should have been classified as an employee rather than an independent contractor.

According to the Internal Revenue Service, there are three main areas to consider when determining the status of an employee; Behavioral Control, Financial Control and Relationship of the Parties.

Behavioral Control: A worker is an employee when the business has the right to direct and control the worker. The business does not have to actually direct or control the way the work is done as long as the employer has the right to direct and control the work.

During our interviews with the Executive Director and the Consultant, we were told the Executive Director directs all of the actions of the Consultant and he is aware of where he is and what he is doing at all times. Also, the function of the Consultant is included on an organizational chart along with other employees with a direct reporting line to the Executive Director.

Financial Control: If an individual is reimbursed for some or all business expenses, does not have a significant financial investment in his work, and can not realize a profit or incur a loss from his activities, this suggests an employee relationship.

We reviewed the contract signed by both parties as well as other documentation related to the Consultant and determined that the Consultant was paid \$3,500 bi-weekly in conjunction with the normal Eastern Region payroll. The Eastern Region reimburses the Consultant for all business expenses in the same manner as expenses incurred by other staff including the purchase of a laptop computer and monthly internet access at the Consultant's personal residence.

In addition, the Eastern Region furnishes office space, furniture, and equipment as well as access to support personnel for the Consultant to use in the course of his work. The Consultant is also provided a credit card to use while conducting Eastern Region business.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Relationship of the Parties: If the business provides benefits to the individual such as insurance, pension, or vacation, an employee relationship may exist.

Based on a review of the Consultant contract and review of Eastern Region records, we determined that the Eastern Region is furnishing health insurance to the Consultant as part of his contractual arrangement.

We verified that the Eastern Region issued an IRS form 1099 to the Consultant for the time that he provided services, however, we believe the Consultant should have been classified as an employee rather than as an independent contractor. The incorrect classification of an employee as an independent contractor subjects the Eastern Region to potential liabilities for federal and state employment taxes for that employee, plus penalties and interest.

RECOMMENDATION

The Eastern Region should follow the Internal Revenue Service guidelines for determining the correct classification of employees and contractors. The Eastern Region should also consider filing a Form SS-8 Determination of Worker Status with the Internal Revenue Service.

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CONCLUSION

Our review of North Carolina's Eastern Region (Eastern Region) indicated that its Executive Director operated without sufficient oversight from the Eastern Region Development Commission (Commission). The Executive Director had wide authority to engage in activities and authorize expenditures from the annual state appropriation at his discretion.

The Commission overseeing the Eastern Region has a fiduciary responsibility to ensure that taxpayer funds are spent in an appropriate manner. When payments are made to vendors or staff for Eastern Region business, proper documentation should be available for review and evaluation by Commission members. Formal policies should be developed that address expense limits, purpose of expenditures, and adequate documentation to support all expenditures.

The absence of policies regarding expense reimbursements may have allowed the Executive Director to receive reimbursements for personal expenses. Also, the lack of oversight from the Commission relative to development activities resulted in certain expenditures that were inconsistent with the Eastern Region mission which is:

...to promote and encourage economic development by fostering or sponsoring development projects to provide land, buildings, and infrastructure requirements for business and industry within the thirteen-county development zone.

When economic development activities or events are proposed by the Eastern Region Executive Director, there should be an evaluation process in place to assess the anticipated benefit of the activity or event. Subsequent to the event, a mechanism should exist to allow the Commission to evaluate the outcome in order to plan for future activities.

Through our discussions with individuals responsible for encouraging the expansion of existing business and attraction of new business, we learned that the results of economic development efforts often cannot be measured immediately or directly. This fact makes it essential that the activities related to the operation of the Eastern Region be well documented to ensure that state funds are expended in a prudent manner.

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APPENDIX A



IN PARTNERSHIP FOR ECONOMIC DEVELOPMENT
US Open Monday 6-13 through Sunday 6-19

NCER hosted a prospect marketing event June 6th through June 13th in Pinehurst NC. The goal was to create a marketing venue for prospect clients utilizing a world class event to draw them to NC. The Friends of NC and the NC Department of Commerce sponsored a tent staffed by top economic development officials including Secretary Fain that were available to introduce prospects to.

All active prospects were sent invitations to attend the US Open and stay in the NCER guesthouse. A room reservations matrix was established and as prospects confirmed, they were added to the list along with dates of arrival and departure. When the house was totally committed, outreach marketing was suspended.

During the day, prospects were taken to the Friends of NC tent hosted by the Department of Commerce to eat lunch free. For evening meals during the event, the guests were treated to home cooked meals at the house prepared by NCER staff. This was done to minimize meal costs and to provide maximum time for prospects and staff to interact.

Invited guests included:

[REDACTED]

This marketing initiative was successful and afforded an opportunity to establish long term relationships with economic development prospects and allies. [REDACTED] has visited the region several times and is still considered active and [REDACTED] visited the region in November for 4 days. [REDACTED] is a long term lead generating contact for Japanese companies and was followed up with a visit to their Tokyo headquarters office in October. [REDACTED] had proved available as an asset participating in teleconference calls with targeted marine trades companies.



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GUEST RECEIPT			
NO. PERSONS	DATE	CHECK NO.	AMOUNT
✓	Oct 11	293145	11.83

1 NAME, NAME 0.00
3 ABSLT CITRON 13.50
1 CABANA BURGER 6.95

Sub Total: 20.45
Tax: 1.54
10/26 8.00p TOTAL: 21.99

THANK YOU!
PLEASE COME AGAIN!

APPENDIX B (CONTINUED)

Guest Check					
TABLE NO.	NO. PERSONS	CHECK NO.	SERVER NO.		
/		293140			
BEV • APPET • SOUP/SALAD • ENTREE • VEG • DESSERT					
<div style="text-align: center;">✓ L W \$7 10/12</div>					
TAX					
TOTAL					

adrian A 3832

Thank You - Call Again

GUEST RECEIPT			
NO. PERSONS	DATE	CHECK NO.	AMOUNT
1 ✓	10/18	293140	1.92

Transaction # 9
Acc: *****5938
Entry: Swiped
Debited: 15.74
TermID: LK326032
Sequence Number: 0580

[illegible]

GUEST RECEIPT			
NO. PERSONS	DATE	CHECK NO.	AMOUNT
	OCT. 1	293142	13.04

SUB	6.19
State	0.28
Local	0.15
TOTAL	6.62
CASH	10.00
CHANGE DUE	3.38

APPENDIX B (CONTINUED)

Amount	Guests	
3.12	✓	775351

Guest Receipt		
Date	Amount	Guests
5-27	2.58	✓ 774812

Guest Receipt		
Date	Amount	Guests
5-23	3.67	✓ 774812

Guest Receipt		
Date	Amount	Guests
5-16-03	11-	✓ 775348

Guest Receipt		
Date	Amount	Guests
3-17	21-	✓ 775351

Guest Receipt		
Date	Amount	Guests
Sept 22	11.03	✓ 1. 774802

Guest Receipt		
Date	Amount	Guests
Sept 23	11.03	✓ 775346

est Receipt		
Date	Amount	Guests
7-24-03	8.89	✓ 1. 775345

1 FRIED OYSTER	8.99
1 MEDITERRANEAN WR	6.99
TOTAL SALES	15.98
TAX	0.80
1:17 AMOUNT DUE	\$16.78
✓ Tip	2.50
	19.28
1-19-05	

APPENDIX B (CONTINUED)

Guest Check

TABLE NO.	NO. PERSONS	CHECK NO.	SERVER NO.
1	1	293144	

BEV • APPET • SOUP/SALAD • ENTREE • VEG • DESSERT

760

6-20-03

TAX

TOTAL

adams A 3632 **Thank You - Call Again**

Guest Check

TABLE NO.	NO. PERSONS	CHECK NO.	SERVER NO.
		293143	

BEV • APPET • SOUP/SALAD • ENTREE • VEG • DESSERT

3-18-03

10.11

TAX

TOTAL

adams A 3632 **Thank You - Call Again**

GUEST RECEIPT

NO. PERSONS	DATE	CHECK NO.	AMOUNT
1	8/9/03	293144	32.67

GUEST RECEIPT

NO. PERSONS	DATE	CHECK NO.	AMOUNT
1	4-7-03	293143	8.50

Date	Amount	Guests	
6/24	22.00	1	100493

Date	Amount	Guests	
Oct 7	18.48	1	100494

Dinner

Date	Amount	Guests	
3-31-03	38.14	2	100496

Date	Amount	Guests	
6/23	10.01	1	100495

Date	Amount	Guests	
Oct 12	8.71	1	100491

Lunch

TABLE NO.	NO. PERSONS	CHECK NO. 293147	SERVER NO.
BEV • APPET • SOUP/SALAD • ENTREE • VEG • DESSERT			
TAX			
TOTAL			

Thank You - Call Again

GUEST RECEIPT			
NO. PERSONS	DATE	CHECK NO.	AMOUNT
1	12/20/04	293148	20.25

Subtotal	12.00
Total Tax	0.60
TOTAL	12.60
Amount Tendered: \$20.60 Cash Change Due: 8.00	

29

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RESPONSE FROM NORTH CAROLINA'S EASTERN REGION



IN PARTNERSHIP FOR ECONOMIC DEVELOPMENT

May 30, 2006

Leslie W. Merritt, Jr., CPA, CFP
North Carolina State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Re: Special Review of North Carolina's Eastern Region Development Commission

Dear Mr. Merritt:

Thank you for the extensive special review (the "Review") undertaken by your office over the past several months. We understand this Review was initiated in response to allegations made to your office pursuant to N.C. General Statute 147-64.6(c)(16). This letter and the enclosures are in response to your Confidential Draft of the Review which was provided to me on May 15, 2006. The Review has been studied by the board of commissioners of North Carolina's Eastern Region Development Commission and they have approved this response. In accordance with your request, we have made every effort to maintain the confidentiality of the Review.

Before responding to the findings contained in the Review, it is important to note that all of the matters addressed therein occurred prior to the terms of the current board of commissioners for the Eastern Region. The current board of commissioners, which is in place at the time of the Review, has been in place only since February 9, 2006. At the request of the previous board of commissioners, the Eastern Region board was restructured during the 2005 legislative session resulting in a reduction in the number of board members from 39 to the current 19 members. Following the passage of legislation to reduce the size of the board in 2005, there was a considerable delay in the appointment of new board members. In fact, there was actually not a seated board of commissioners in place for a period of over four months (October 1, 2005 through February 9, 2006). All of the events referred to in the Review occurred prior to 2006. Part of the rationale for the board restructuring was that the board size was unduly large and its operations were cumbersome. The Review findings reinforce that rationale.

3802 Highway 58 North • Kinston, North Carolina 28504 • 800-474-8499 • 252-522-2400 • Fax 252-523-9017
E-Mail: info@nceast.org • www.nceast.org



Leslie W. Merritt, Jr., CPA, CFP
May 30, 2006
Page 2

Although the Review indicates that the allegations primarily concerned the executive director, the Review did not result in any findings by your staff of criminal conduct. Even so, this present board of commissioners takes very seriously the Review findings. As indicated in the enclosed Responses, the newly seated board has already undertaken several significant changes in overseeing the operations of the Eastern Region and is currently conducting a search for a new executive director. We are committed to using your findings to seek to better serve the citizens of the Eastern Region.

Thank you for your work for the citizens of North Carolina. Thank you also you for the very professional manner in which your staff, in particular, Assistant State Auditor, Mr. Frank Dziepak, has handled this Review.

NORTH CAROLINA'S EASTERN
REGION DEVELOPMENT COMMISSION

By: Calvin Anderson
Calvin Anderson, Chairman

CA/jpc
Enclosure

RESPONSES BY
NORTH CAROLINA'S EASTERN REGION DEVELOPMENT COMMISSION
TO STATE AUDITOR'S SPECIAL REVIEW
FINDINGS AND RECOMMENDATIONS
May, 2006

1. FINDING

The Commission did not exercise adequate oversight and monitoring of the Eastern Region's marketing and client development activities.

RECOMMENDATION

The Eastern Region should develop and implement policies and procedures that will allow the Commission to more effectively fulfill its fiduciary oversight responsibilities. These policies should include a requirement that the Commission be updated by management about proposed marketing events, seminar attendance or other "mission" trips planned by the Eastern Region staff in advance.

Policies should require detailed reports to Commission members subsequent to an event or trip. By implementing these procedures, the organization will create a system of "checks and balances" that will allow the Eastern Region to evaluate its activities to ensure that they are consistent with the mission of the organization. Also, this information will provide data that can be used to effectively plan future activities for the Eastern Region.

RESPONSE

The Board's evaluation of NCER marketing and client development activities was substantially based on yearly results. At the outset of each fiscal year, a financial budget was established and the organization has consistently stayed within budget. The results achieved were highly positive (See attached Appendix A) and were within the fixed budget. There were numerous occasions when individual board members sought further information from staff and it was routinely available.

The Review questions the business purpose or value of three specific marketing trips by the former director. We believe that it is important in economic development to positively market the Region. Likewise, as the Review recommends, we believe it is important that the board be able to gauge the effectiveness of different marketing strategies. Pursuant to your suggestions, and in order to better gauge the strategic effectiveness of the Commission's targeted marketing efforts, the new board has already implemented or will implement the following policies:

- a) all 19 board members will participate in the oversight of all planned and actual expenditures of funds with regard to management, staff and marketing events, and any activity concerning the Eastern Region's resources;
- b) the board has directed that the Treasurer and/or the Assistant Treasurer review on a monthly basis all expenditures and required budget amendments;
- c) a report from the Treasurer will be included as a standing agenda item in each monthly meeting for review by the board;

- d) the board will develop a written policy to require the Executive Director and other staff to obtain specific pre-approval from the board for all outreach marketing events, seminars, or other similar trips representing the Eastern Region; and
- e) a written report will be required to be completed on all such events and trips so that the board can assess their effectiveness.

2. FINDING

The executive director was reimbursed for expenses without adequate supporting documentation.

RECOMMENDATION

We recommend that the Eastern Region develop policies and procedures that require adequate support for payments made to staff for out-of-pocket or credit card purchases while conducting Eastern Region business. The Eastern Region should not authorize payment for travel, meals, or entertainment of clients without an actual receipt that documents:

- 1) The amount of each expense;
- 2) The time and place of the travel, meal or entertainment expense;
- 3) The business purpose of the expense;
- 4) The business relationship to the Eastern Region of the persons being entertained or who are having expenses paid by the Eastern Region.

Eastern Region employees who travel or entertain clients should be issued an Eastern Region credit card to be used for Eastern Region business only. This will eliminate the need to separate personal expenses from business expenses on credit card statements. In addition to proper documentation, the Eastern Region should develop sufficient internal controls that address the authorization and independent verification of transactions as well as proper segregation of duties related to the expense payment function.

RESPONSE

The board has already adopted a more restrictive policy for reimbursement of expenses. A copy is attached as Appendix B. In accordance with this new policy, reimbursement only occurs provided that the person seeking reimbursement exercises the same care in incurring expenses that a reasonably prudent person would exercise if traveling on personal business and expending personal funds. In order to be reimbursed for permissible expenses, an employee, agent, or Board Member must submit a statement containing the following:

- 1. The name of the person to be reimbursed;
- 2. The purpose for which the expense was incurred;
- 3. The date the expense was incurred;
- 4. The amount to be reimbursed; and
- 5. If reimbursement is for mileage, the actual miles traveled, and locations thereto.

Each request for reimbursement, except for those based on mileage, must be accompanied by a copy of (a) a receipt from the place where the expense was incurred or (b) a credit card or bank statement which documents the expense incurred. All requests for reimbursement must be submitted

within thirty (30) days of the date the expense was incurred.

Upon adoption of this policy, the board recognized that it may be necessary at times to balance the strict policy requirements with the confidentiality requirements inherent in the business of economic development.

The new expense reimbursement policy will address the Review's recommendation. In addition, the board has directed that credit card use be limited to official Region business and that no personal expenses will be allowed. Further, the board is considering establishment of a standing audit/finance committee.

3. FINDING

The business development consultant was paid twice for the same expense.

RECOMMENDATION

We recommend that Eastern Region management request repayment of \$1,087.30 from the Business Development Consultant for the duplicate payment. In addition, the Eastern Region should develop policies and procedures to ensure that staff is required to submit reimbursement requests in a timely manner and that a pre-payment review is conducted to ensure that a reimbursement request was not previously submitted.

RESPONSE

As noted in the Review, the overpayment was reimbursed to the Region in February, 2006. The Commission's new reimbursement policy requires that requests for reimbursement of expenses be submitted with thirty (30) days. The timeliness, mandatory information and other pre-payment requirements in the new policy should address the recommendation in the Review. The Region's Chief Financial Officer has established a review procedure to ensure that any duplicate reimbursement requests are found and eliminated.

4. FINDING

North Carolina's Eastern Region has under reported interest earned on its original state appropriation.

RECOMMENDATION

In the absence of clear legislative intent, the Eastern Region should work with the North Carolina Department of Commerce Finance Center as well as the North Carolina General Assembly to clarify the reporting of interest earnings. We recommend the Eastern Region report all interest earnings, (including interest from loans) related to the original \$7,500,000 state appropriation or simply an estimate of interest earnings on the total of \$7,500,000 using the average interest rate that was paid on the State Treasurer's STIF account for the preceding fiscal year.

RESPONSE

On July 11, 1994, the Commission received a one-time State appropriation of \$7.5 million to establish a loan trust fund for the thirteen-county region. DMV funds were added to this appropriation from July 1, 1994 through June 30, 1999 to create a fund of \$22,343,907.04.

In 1995, House Bill 229 provided funding to each of the seven regional partnerships based on a formula that divides each county's distress factor by the sum of the distress factors for eligible counties in each of the regions and multiplying the resulting percentage by the amount of the appropriation (see attached Appendix C-1). From this sum, the bill provided that \$315,000 would be deducted from the Commission allocation, representing the interest earnings on the \$7.5 million, then redistributing the \$315,000 based on the distress factor formula noted above. For FY 95/96 and FY 96/97, \$315,000 was the amount used to determine the Commission's share of the partnership allocation.

In March 1997, the NC Department of Commerce (DOC) requested the amount of projected revenue from the loan fund (which included the \$7.5 million appropriation and collections to date of the DMV funds). That information was provided to Stuart Dickerson with the DOC. DOC then included total projected revenues in its calculation of the Commission's allocation for FY 97/98.

On April 18, 1997, the former Executive Director sent letters to the Senate Appropriation Committee members requesting reconsideration of the allocation distribution, based on interest earnings on the unloaned portion of the \$7.5 million appropriation (see attached Appendix C-2, C-3 and C-4). These letters further indicate that discussions had also been held with the Fiscal Research Division of the General Assembly.

On April 21, 1997, the Commission received a fax from (then) Senator Beverly Perdue which reflected a proposed allocation based on the Commission's estimated interest earnings (see Appendix C-5). Note that this estimate did not include interest on the loaned portion of the fund. This fax was provided to (then) Commission Chairman Jimmie Smith with a notation that Senator John Kerr had called about this issue and said he would do what he could to take care of NCER.

On April 24, 1997, Senator Kerr sent a letter to the former Executive Director stating, "I appreciate your letter of April 18, 1997, concerning economic development commission funding. I hope that this was taken care of in the budget bill" (see attached Appendix C-6). As reflected in North Carolina Session Law 1997-443, Senate Bill 352, the language of Section 25.4(b) of the 1995 session laws was revised to reflect a new redistribution amount of \$276,923.00 (previously \$315,000.00) (see attached Appendix C-7). Session Law 16.11 further indicated that this amount represented the "estimated balance of seven million five hundred thousand dollars (\$7,500,000) appropriated to the Global Transpark Development Zone." From that point forward, file records indicate that the amount reported to DOC each year was based on the *unloaned* portion of the \$7.5 million appropriation.

To determine the unloaned portion of the \$7.5 million appropriation, Sylvia Nesbitt, the Region's Chief Financial Officer, developed a spreadsheet that considered the total trust fund balance, the portion of that balance made up from the \$7.5 million, and the portion made up from the DMV collections. For example:

With the first DMV collection, the loan trust fund totaled: \$8,222,713.35

Of this sum, \$7,500,000 was from the State appropriation: 91.21%

Of this sum, \$722,713.35 was from DMV collections: 8.79%

The next month's interest earnings of \$39,960.84 was allocated at 91.21% from the \$7.5 million and 8.79% from the DMV collections.

As loans were closed, the same scenario was applied to the loan sum. For example, the first loan issued by the Commission was a \$200,000 loan to Nash County.

The loan trust fund totaled \$10,305,918.50.

Of this sum, \$7,500,000 was from the State appropriation: 72.77

Of this sum, \$2,805,918.50 was from DMV collections: 27.23%

The \$200,000 loan was allocated at 72.77% (\$145,540) from the State appropriation and 27.23% (\$54,460) from the DMV collections.

This format has been used throughout the life of the loan trust fund.

Based on the practice of the Commission over several years and the understandings expressed in prior correspondence, the Commission staff believes that it has correctly reported interest earnings. In accordance with the recommendation in the Review, the board will seek further clarification from the NC Department of Commerce Finance Center and the NC General Assembly Fiscal Research Division.

5. FINDING

The business development consultant was misclassified as an independent contractor.

RECOMMENDATION

The Eastern Region should follow the Internal Revenue Service guidelines for determining the correct classification of employees and contractors. The Eastern Region should also consider filing a Form SS-8 Determination of Worker Status with the Internal Revenue Service.

RESPONSE

The Eastern Region contracted with Scott Frederick Enterprises for economic marketing and recruiting services for the period of November 15, 2004 through June 30, 2006. Although the hiring was formally authorized by the Commission, the specific contract terms were not submitted to the Commission's legal counsel for review. Mr. Frederick was not treated as an employee of the Eastern Region prior to or during the contract term and is not currently affiliated with the Eastern Region in any way. The contract for services was terminated on March 14, 2006, and was reviewed by legal counsel in connection with the termination. As a part of the contract termination, a complete release of all claims, (which would include any potential liability related to mis-classification as an independent contractor rather than as an employee) was executed by Scott Frederick Enterprises. Based on the variety of considerations available under the IRS guidance documents, the Region may disagree that Mr. Frederick was mis-classified. However, before the services of any other similar employees or contractors are retained, the Commission will seek review of the contractual arrangement by its legal counsel and will seek a pre-determination of worker status with the IRS.

Appendix A
(p1 of 16)

NORTH CAROLINA'S EASTERN REGION

Making a Difference



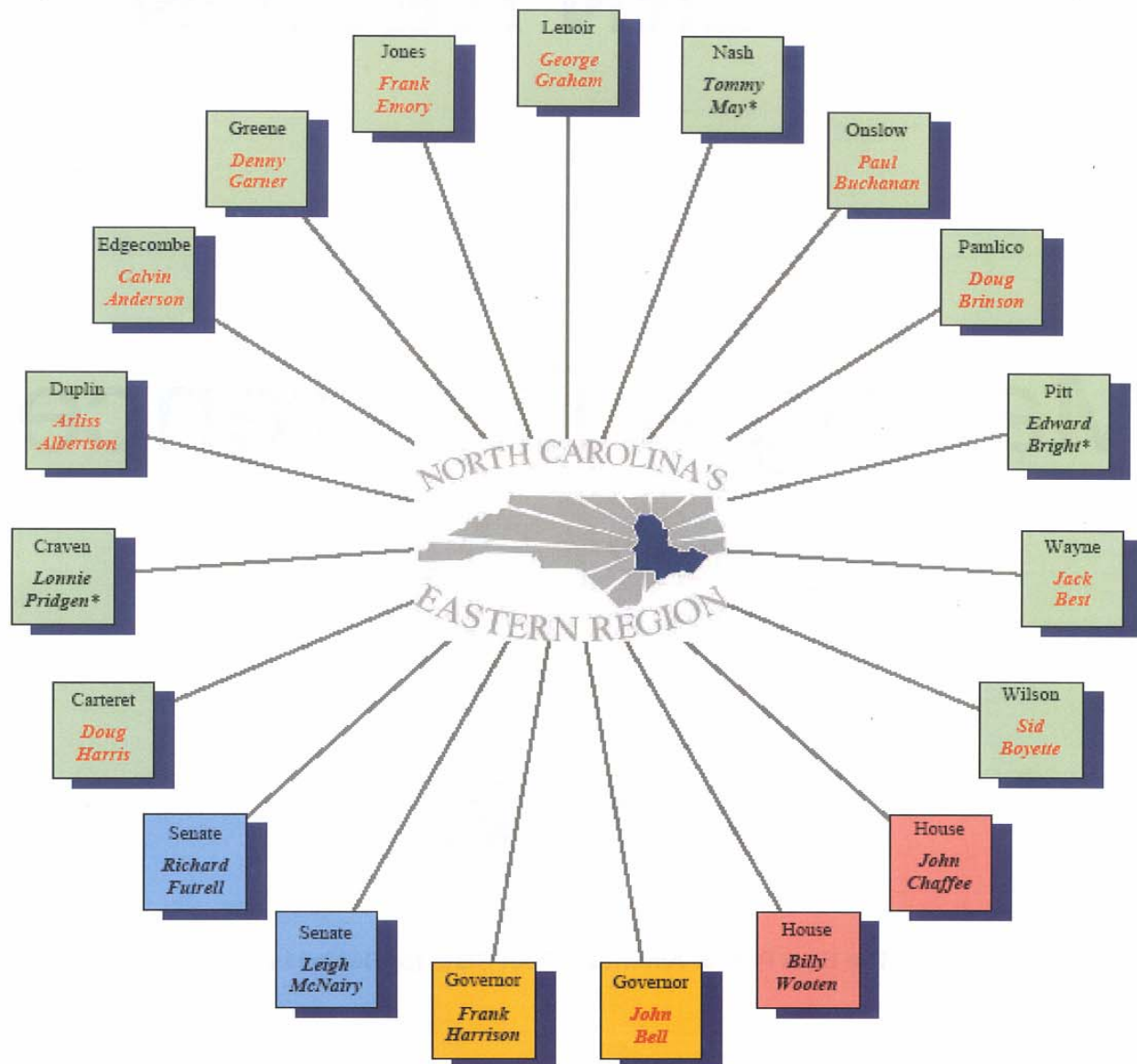
The Best Part of America's Best State for Business

Updated May 1, 2006

NCER Board Structure

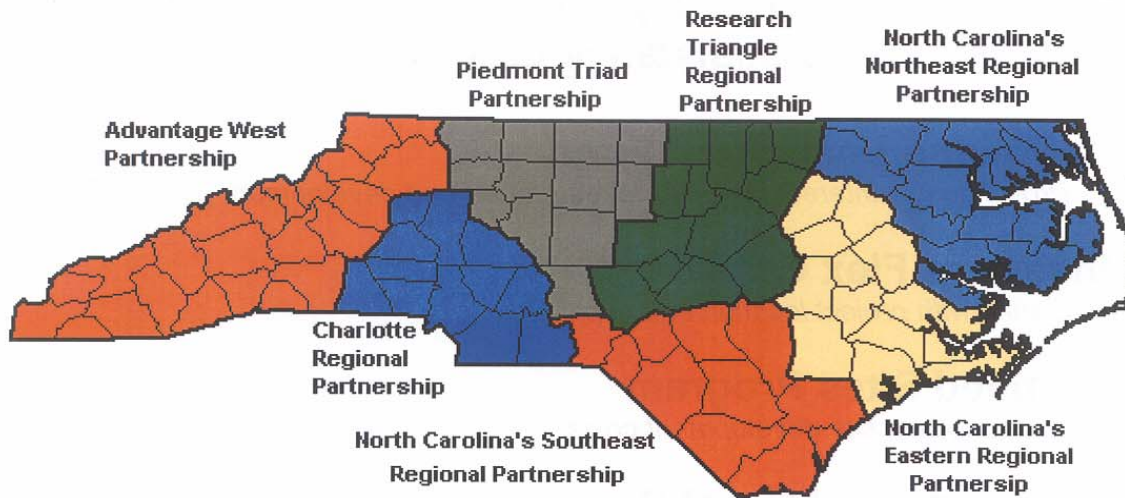
Effective October 1, 2005

Active County Commissioners' names are shown in red typeface.



* Former County Commissioner

North Carolina's Eastern Region is one of seven regional economic development partnerships in the state.



Our Mission

Our mission is to promote and encourage economic development by fostering or sponsoring development projects to provide land, buildings, and infrastructure requirements for business and industry within the thirteen-county development zone.

Assistance

North Carolina's Eastern Region provides assistance to its thirteen counties with a variety of product development, professional advancement, and marketing assistance programs, including:

- **Revolving Loan Trust Fund**
Providing low-interest loans for infrastructure and development projects
- **Incentive Flex Grants**
Assisting with project location and expansion
- **Certified Sites Program**
Assisting with site development costs
- **Environmental Grant Program**
Matching funds to assist with environmental planning costs
- **Economic Development Grants**
One-time grant pool used for a variety of economic development initiatives
- **Executive Director's Discretionary Grants**
Assisting with project proposal development and related activities
- **Product Development Grants**
One-time grant pool designated for specific development needs
- **EDC Upgrade Grant Program**
Assisting local development offices with equipment, training, etc.
- **EDI Tuition Program**
Assisting with costs associated with professional advancement courses

Revolving Loan Trust Fund

Appendix A
(p. 5 of 16)

Established with a one-time \$7.5 million appropriation by the NC General Assembly and a five-year \$5 motor vehicle fee in the 13-county region, this \$22-million fund has provided low-interest loans for infrastructure and development projects since FY 1995/1996.

FY 95/96	\$ 1,000,000	Craven County used these funds for infrastructure improvements which opened property to development along the US 70 corridor.
FY 98/99	650,000	Craven County provided infrastructure improvement to construct a shell building at Craven Industrial Park.
FY 96/97	798,000	Duplin County provided infrastructure to develop SouthPark and WestPark, which led to the location or expansion of US Cold Storage, Carolina Soy, Slocumb Industries, and Precision Hydraulics.
FY 97/98	350,000	Duplin County borrowed funds for additional infrastructure improvements at SouthPark and WestPark.
FY 98/99	250,000	Duplin County purchased a tract of land for its Airport Industrial Park.
FY 03/04	600,000	Duplin County purchased an additional tract of land for its Airport Industrial Park.
FY 97/98	200,000	Edgecombe County purchased property for the Tarboro-Edgecombe Industrial Park, which led to the location of CST.
FY 97/98	200,000	Edgecombe County used these funds to up-fit an industrial building, leading to the location of Air Systems Components.
FY 98/99	379,000	Edgecombe County purchased a portion of the Kingsboro area mega-site, which led to the location of QVC's 1-million SF warehouse/distribution center.
FY 98/99	150,000	Edgecombe County used these funds to purchase additional property in Kingsboro area.
FY 98/99	300,000	Edgecombe County purchased the last of its Kingsboro area property.
FY 01/02	475,000	Greene County provided funds to assist Ham's Farms with renovation costs for a new produce operation.
FY 01/02	175,000	Greene County provided funds to assist Moye Construction with the purchase of a new facility.
FY 01/02	110,000	Greene County provided funds to Brittany Ridge Quail Farm for expansion costs.
FY 04/05	250,000	Greene County provided funds to assist NWL Capacitors with its expansion.
FY 05/06	100,000	Greene County used these funds to assist with relocation of a business destroyed by fire.
FY 98/99	65,000	Jones County used these funds for land acquisition for its first industrial park, leading to the location of Arbo Industries.
FY 96/97	1,000,000	Lenoir County constructed a 100,750 SF shell building. West Pharmaceuticals located its new facilities in this structure in FY 03/04.
FY 95/96	200,000	Nash County purchased land to develop the Whitaker Business and Industry Center, home of McLane Company.
FY 98/99	1,465,900	Nash County purchased property to expand the Whitaker Business and Industry Center, leading to the location of Poppies Bakery and Draka Elevators.
FY 05/06	499,500	Nash County used the funds to upfit its shell building for The Cheesecake Factory.
FY 96/97	1,200,000	Onslow County borrowed funds for infrastructure improvements at Burton Industrial Park.
FY 00/01	1,615,000	Onslow County provided landscaping and roadway improvements for the Burton Park.
FY 04/05	42,500	Pamlico County provided funds to assist P.I.N.E. with equipment costs.
FY 95/96	499,999	Pitt County used these funds to develop its technology business incubator.
FY 96/97	1,200,000	Pitt County used these funds to further develop and up-fit its technology business incubator.
FY 99/00	261,000	Pitt County constructed a pump station for a 600-acre industrial corridor.
FY 99/00	499,500	Pitt County used these funds to provide a gas main to Worthington Industrial Park.
FY 02/03	150,000	Pitt County used these funds to assist with up-fit at its Technology Center.
FY 04/05	250,000	Pitt County used these funds to assist with sewer extension project for Grifton.
FY 98/99	500,000	Wayne County provided up-fit for an industrial building, leading to the location of GAF Corporation.
FY 01/02	2,324,136	Wayne County used these funds for site preparation and construction of a new shell building at ParkEast Industrial Park.
FY 05/06	1,700,000	Wayne County used these funds to finance a shell building at Mt. Olive Industrial Park.
FY 97/98	1,340,875	Wilson County used its funds to construct a 1-million gallon water tank in Wilson Corporate Park, opening the park to further development.
FY 05/06	457,000	Wilson County will purchase and upfit a building to house its business incubator.
	<u>\$21,257,410</u>	

Incentive Flex Grants (Disbursed)

Appendix A
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Since FY 99/00, these grants have assisted with project location throughout the Region.

<u>Fiscal Year</u>	<u>County</u>	<u>Amount</u>	<u>Project</u>	<u>Investment</u>	<u>Jobs</u>
99/00	Carteret	\$25,000	Parker Marine	\$ 1,393,000	125
	Duplin	25,000	National Spinning	5,375,000	50
	Edgecombe	25,000	QVC Distribution Center	65,000,000	800
	Jones	25,000	Marine and Industrial Plastics	1,300,000	40
	Lenoir	25,000	Masterbrand Cabinets	50,000,000	800
	Nash	25,000	Poppies Bakery	20,000,000	300
	Pitt	25,000	Coastal Beverage	5,000,000	85
	Wayne	25,000	Gruma Corp./Mission Foods	13,000,000	105
00/01	Craven	25,000	BSH Home Appliances	152,000,000	1,200
	Duplin	25,000	40-East Steel	250,000	12
	Edgecombe	25,000	Tyco	12,000,000	121
	Lenoir	25,000	Carolina Turkey	2,500,000	70
	Nash	25,000	Aegis Communications	5,000,000	800
	Nash	25,000	Draka Elevators	10,000,000	55
	Nash	25,000	Universal Leaf	100,000,000	1,000
	Pitt	10,000	Pactiv Corporation	1,750,000	31
	Pitt	25,000	NC Bio-Tech Center	30,000,000	50
	Wayne	25,000	Anchor Coupling	2,000,000	50
	Carteret	25,000	I.Access Anywhere		
	Edgecombe	25,000	World Class Catamarans	2,500,000	46
01/02	Edgecombe	25,000	QVC Expansion	32,300,000	100
	Greene	25,000	Ham's Farms	2,000,000	10
	Jones	12,500	Act Manufacturing	100,000	35
	Jones	12,500	Blue Rock Structures	280,000	160
	Lenoir	10,000	Southern Vinyl	565,000	13
	Nash	25,000	Abbott Labs	20,000,000	50
	Craven	25,000	Wirthwein AG	14,000,000	125
	Duplin	25,000	Circle S Foods	6,000,000	55
	Edgecombe	12,500	Air Systems Components	3,000,000	75
	Edgecombe	25,000	CST Expansion	10,000,000	40
	Edgecombe	12,500	Paris Frames	3,000,000	100
	Greene	5,469	Carolina Farms Pipe Division	94,000	6
	Greene	25,000	Greene Natural Fibers	4,000,000	25
	Jones	25,000	Jones Cotton Gin	1,500,000	6
	Jones	25,000	Arbco Industries	1,350,000	25
	Lenoir	5,469	William Barnet and Son	500,000	20
	Lenoir	25,000	Farval Lubricant Systems	1,500,000	25
02/03	Lenoir	21,875	Cam International/Spice Bouquet	2,000,000	30
	Lenoir	21,875	West Company	16,000,000	250
	Nash	7,500	K & R Sportswear	2,000,000	20
	Pitt	25,000	DSM	100,000,000	75
	Duplin	25,000	WestPark Business Tech Center	700,000	8
	Duplin	25,000	Precision Hydraulics	2,400,000	20
	Edgecombe	25,000	Riverside Printing Company	4,000,000	40
	Edgecombe	75,000	Superior Essex	16,100,000	150
	Greene	25,000	Tile Restoration, Inc.	780,000	97
	Nash	15,625	E-Commerce Auto	1,100,000	20
03/04	Nash	15,625	Performance Trailers, Inc.	1,200,000	20
	Nash	25,000	American Food Resources	6,000,000	50
	Nash	25,000	SEPRO Corporation	7,000,000	21
(Sub-totals)		1,138,438		738,537,000	7,411

Incentive Flex Grants (Disbursed)

Appendix A
(p. 7 of 16)

<u>Fiscal Year</u>	<u>County</u>	<u>Amount</u>	<u>Project</u>	<u>Investment</u>	<u>Jobs</u>
03/04	Pitt	7,813	Companies/Technology Center	777,000	38
	Pitt	7,813	Dimon	3,000,000	99
	Pitt	25,000	Metaldyne	25,000,000	33
	Pitt	7,813	Industry Relocation	4,000,000	100
	Wilson	18,750	Kidde Aerospace	3,200,000	68
04/05	Wilson	4,688	QT Corporation	238,000	32
	Carteret	25,000	Atlantic Veneer	7,000,000	337
	Craven	25,000	BSH Dishwasher Expansion Project	15,500,000	117
	Craven	25,000	BSH Central Distribution Center	25,000,000	72
	Duplin	25,000	Case Farms	12,000,000	30
	Edgecombe	6,250	North State Millworks	224,000	18
	Greene	25,000	NWL Capacitors	700,000	25
	Greene	18,750	Worth Products	325,000	6
	Greene	18,750	Tide Tamer Boat Lifts	455,000	8
	Nash	40,625	BSH Metal Stamping	12,000,000	200
	Nash	25,000	Engine Systems, Inc.	3,000,000	15
	Nash	25,000	The Cheesecake Factory	14,000,000	500
	Nash	3,000	RJE Telecom	500,000	100
	Nash	25,000	McLane Distribution	11,000,000	10
	Pitt	25,000	CLP, Inc.	3,000,000	20
	Wilson	7,813	Carolina Cabinets	750,000	25
	Wilson	25,000	Equipment Sales and Service, Inc.	800,000	5
	Wilson	25,000	Carolina Forge Company	2,300,000	21
	Carteret	12,500	Moore's Marine	1,000,000	16
	Duplin	25,000	Four County Peanut Services	2,500,000	6
	Edgecombe	25,000	Headway Corporate Resources	2,000,000	129
	Edgecombe	6,250	Bartley, Ellrod and Moore	450,000	50
	Lenoir	25,000	DuPont Line Expansion	55,000,000	66
	Nash	25,000	E-Z Set	2,000,000	100
	Nash	15,625	Eagle Press	2,500,000	50
	Nash	7,813	RW and Able Company	1,300,000	50
	Pitt	25,000	Paper Pak Expansion	10,000,000	150
	Wayne	50,000	AAR Manufacturing, Inc.	10,000,000	500
		\$ 1,797,691		\$970,056,000	10,407

Incentive Flex Grant Dollars Disbursed = \$172.74 per job
For every Incentive Flex Grant Dollars disbursed, \$539.62 has been returned in new investment.

Incentive Flex Grants (Pending)

<u>Fiscal Year</u>	<u>County</u>	<u>Amount</u>	<u>Project</u>	<u>Investment</u>	<u>Jobs</u>
05/06	Nash	7,813	Fawn Electronics	4,000,000	90
	Wayne	50,000	Project Telstar	10,000,000	300
		57,813		\$ 14,000,000	390

Certified Sites Program

Appendix A
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*This program assists counties with site development costs to meet regional and state certification.
Not all properties listed have completed the certification process with either the region and/or state.*

NOTE: Project locations on certified sites are listed in red.

<u>COUNTY</u>	<u>PROPERTY</u>	<u>ACRES</u>	<u>GRANT</u>
Carteret	Crystal Coast Business Park	50	\$ 50,000
Craven	Weyerhaeuser Property	5,081	50,000
Duplin	Airport Industrial Park	126	50,000
	SouthPark Industrial Park	85	50,000
	<i>Precision Hydraulics</i>		
	WestPark Industrial Park	930	50,000
	<i>WestPark Business Technology Center</i>		
Edgecombe	Kingsboro Site	122	50,000
	<i>QVC Distribution Center</i>		
	Kingsboro-Long Site	152	46,651
	Bourne-Long Site	543	32,310
	Long Site	154	32,421
	Fountain Industrial Park	80	12,500
	Tarboro Commerce Center	120	0
	<i>Air Systems Components</i>		
Greene	Greene Industrial Park	58	8,450
Jones	Jones Industrial Park	15	12,000
	<i>Arbco Industries</i>		
Lenoir	Lenoir County Shell #2	53	50,000
	<i>West Pharmaceuticals</i>		
	US-70 West Industrial Park	290	10,725
	<i>Smithfield Foods</i>		
	GTP Site A	308	0
Nash	Nashville Business Center	32	50,000
	<i>American Food Resources</i>		
	Whitaker B&I Center	327	38,409
	<i>Draka Elevators, Poppies Bakery, The Cheesecake Factory</i>		
	Lewis Industrial Park	600	50,000
	Lamm Industrial Site	1,000	50,000
	<i>Universal Leaf</i>		
	Nash Technology Park	213	27,075
	Mid-Atlantic Site	850	49,514
Onslow	Burton Industrial Park	730	48,978
Pitt	Indigreen Corporate Park	285	0
	<i>Fuji Silysia</i>		
	Farmville Corporate Park	300	26,619
	<i>Coastal Beverage Company</i>		
	Worthington Industrial Park	120	12,023
	Ayden Industrial Park	70	19,343
	<i>Minges Bottling Group</i>		
	Griton Industrial Park	50	12,018
	Greenville Industrial Park	15	3,960
	<i>Metallix</i>		
Wayne	ParkEast Industrial Park	500	50,000
	Mount Olive Industrial Park	100	50,000
Wilson	Woodard Parkway Site	950	50,000
	Wilson Corporate Park	500	25,000
Regional	Signage and Ceremonies		13,267
		14,809	\$1,081,263

Environmental Grant Program

Appendix A
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In FY 94/95, the Region allocated a total of \$1 million for environmental planning.

Carteret	\$ 20,000.00	Two environmental grants assisted in the development of the Crystal Coast Business Park, the Jarrett Bay Marine Industrial Park, and the environmental assessment of Radio Island.
Craven	39,932.38	Three environmental grants provided for soil boring studies, evaluation and wetland delineation at the Craven Industrial Park and the Craven Convention Center project. A fourth environmental grant will assist in environmental studies for Craven County Industrial Park.
Duplin	40,000.00	Four environmental grants have provided funds for studies for SouthPark, WestPark, and a county multi-purpose complex.
Edgecombe	20,000.00	Two environmental grants assisted in the studies required for the Kingsboro mega-site properties.
Greene	10,000.00	One grant was used to provide wetland studies and Phase I environmental studies on county industrial parks.
Lenoir	20,000.00	Two environmental grants have been used to assist the county with long-term water and sewer planning efforts.
Nash	59,636.78	Six environmental grants; two for the Whitaker Business & Industry Center, and three for the proposed Airport Industrial Park, and one for the Corbett Industrial Center.
Onslow	70,000.00	Seven environmental grants have been used for studies and planning for the 700+ acre Burton Industrial Park.
Pitt	42,174.14	Five environmental grants have assisted the county with long range water and sewer planning, water quality monitoring efforts, and environmental assessments at the Greenville Industrial Park and the county's proposed Science and Technology Park and an Environmental Education Center for Contentnea Creek.
Wayne	9,574.65	An environmental grant to assist with the studies and wetland delineation for the Mount Olive Industrial Park.
Wilson	30,000.00	Three environmental grants have assisted with the planning and studies required for an 850+ acre industrial park adjacent to US-264 and NC-58, a water re-use project, and planning and studies required for Wilson Corporate Park.
Regional	50,000.00	An environmental grant was used to conduct a regional water and sewer study, conducted by The Wooten Company, and distributed to all 13 counties.
Regional	50,000.00	An environmental grant was used to assist with the study of impacts of the Central Capacity Use Area Act on the region.
Regional	<u>88,819.75</u>	Support of environmental conferences and task force meetings.
	\$550,137.70	

Economic Development Grants

This one-time grant pool established in FY 95/96 provided assistance with a variety of economic development initiatives.

Carteret	\$ 24,765.00	Used for industrial park development that led to the location of Jarrett Bay Boat Works, Southern Skimmer, Gregory Poole, and Covington Diesel.
Craven	30,290.00	Used for infrastructure improvements that allowed for the expansion of BSH Home Appliances.
Duplin	20,670.00	Used for industrial park development in Wallace and Warsaw that led to the location of US Cold Storage, Slocomb Industries, and Carolina Soy Products.
Edgecombe	22,587.50	Used to conduct a feasibility study for a proposed industry location.
Greene	12,642.50	Used to develop marketing materials to promote interest in industry locations and expansions.
Jones	11,082.50	Used to develop data which was vital to the completion and approval of an Empowerment Zone application.
Lenoir	24,375.00	Used to develop and equip a regional Cyber Campus.
Nash	31,395.00	Used for industrial park development which led to the location of McLane Company, Alfex, Owens-Brockway, Draka Elevators, and Poppies Bakery.
Onslow	36,627.50	Used for infrastructure improvements that allowed for the location of American Transtech.
Pamlico	11,830.00	Used to develop marketing materials to promote interest in industry locations and expansions.
Pitt	36,465.00	Used for infrastructure improvements that led to the location of Anderson Truss, Atwell Industries, Phoenix Fabrication, Edgcomb Metals, Stevry Manufacturing, and Tuffliner.
Wayne	35,620.00	Used to develop marketing materials to promote interest in industry locations and expansions.
Wilson	<u>26,650.00</u>	Used to assist with the organization of a European Program.
	\$325,000.00	

Executive Director's Discretionary Grants ^{Appendix A} (p. 11 of 16)

Originally funded in FY 98/99 and as funds were available since that date, this program provides assistance with project proposal development and related activities.

Carteret	\$ 4,108.86	Research and GIS support for Project VentureStar
Carteret	25,000.00	Sponsorship of Friends of Maritime Museum "Tall Ships" Event
Craven	5,000.00	Research and analysis for Project Buffalo
Craven	5,000.00	Expenses incurred for the CargoLifter announcement
Greene	1,612.35	Assistance in negotiation cost for the DFI project
Onslow	5,000.00	Assist with proposal development for the AAV project
Onslow	1,612.35	Assistance in negotiation cost for the DFI project
Pitt	5,000.00	Assistance with a feasibility study for the Science Center
Pitt	10,000.00	Support NC Biotechnology Center Eastern Office
Wayne	5,000.00	Assistance with a military impact study
Region	7,861.17	Assist MARTEC with training and marketing costs
Region	<u>3,500.00</u>	Assist SBTDC/Marine Trades Services with Economic Development Program
	\$78,694.73	

Product Development Grants

Funded on an "as needed" basis, the program provided assistance to counties for specific development needs.

Craven	\$ 25,000.00	Exploratory costs associated with the development of property chosen for the CargoLifter Project.
Duplin	50,000.00	Assist with water and sewer services to the WestPark Business Development Center, home of Carolina Soy and US Cold Storage.
Edgecombe	16,500.00	Soil borings required for property selected by QVC for its 1-million square foot warehouse and distribution center.
Greene	50,000.00	Identification and assessment of properties designated as future industrial sites.
Jones	50,000.00	Assist with infrastructure improvements for the Jones Industrial Park.
Nash	25,000.00	Provided assistance to Universal Leaf Tobacco Company, requiring relocation due to floods.
Pamlico	<u>50,000.00</u>	Evaluation and purchase of property chosen for industrial development.
	\$266,500.00	

EDC Office Grants

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Since FY 95/96, the Region has provided grants as funding permitted to assist local economic developers with cost of equipment/furniture, marketing expenses, training, and material development.

Carteret	\$ 35,667.50
Craven	35,454.96
Duplin	37,309.75
Edgecombe	34,956.31
Greene	34,890.77
Jones	35,667.50
Lenoir	37,515.60
Nash	35,453.88
Onslow	35,455.50
Pamlico	35,519.40
Pitt	34,743.46
Wayne	35,290.40
Wilson	35,455.50
Regional DOC	<u>35,529.75</u>
	\$498,910.28

EDI Tuition Program

Beginning in FY 99/00, counties can designate one individual to complete the four phases of the Economic Development Institute professional training program.

Carteret	\$ 414.29
Craven	4,000.00
Duplin	4,000.00
Edgecombe	4,000.00
Greene	4,000.00
Lenoir	4,000.00
Nash	4,000.00
Onslow	4,000.00
Pamlico	4,000.00
Wayne	4,000.00
Regional DOC	<u>2,600.00</u>
	\$ 39,014.29

Total Grant Assistance

(Including Pending Flex Grants)

Carteret County	\$ 247,455.65
Craven County	294,677.34
Duplin County	476,979.75
Edgecombe County	559,425.81
Greene County	264,564.62
Jones County	208,750.00
Lenoir County	305,834.60
Nash County	809,109.66
Onslow County	201,673.35
Pamlico County	101,349.40
Pitt County	385,784.60
Wayne County	339,485.05
Wilson County	248,356.50
NC DOC Regional Office	38,129.75
Regional Assistance	<u>213,447.92</u>
	\$ 4,695,024.00

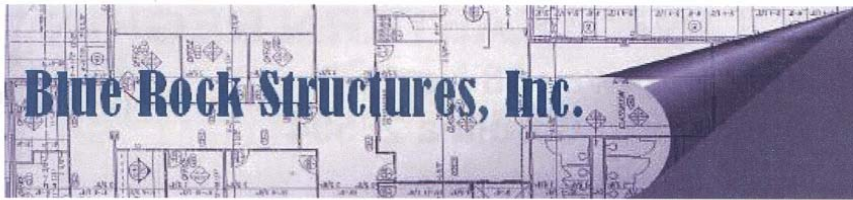
The grant programs in this report are made possible by the interest earnings derived from the revolving loan trust fund balance, outstanding loans, and cash reserves.

North Carolina's Eastern Region has provided assistance that has aided in the location of a virtual "Who's Who" of American and international companies.

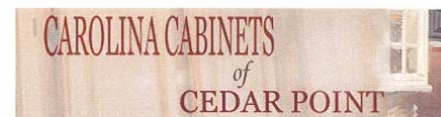
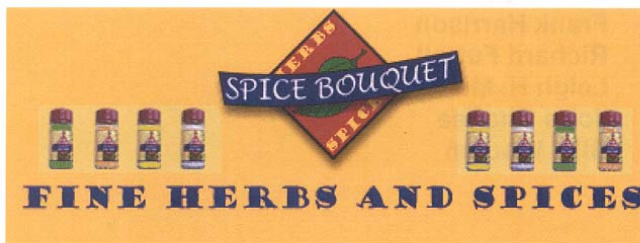


Parker Marine Enterprises, Inc.
Beaufort, North Carolina





Appendix A
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NORTH CAROLINA'S EASTERN REGION

3802 Highway 58 North
Kinston, North Carolina 28504

Appendix A
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BOARD MEMBERS

Carteret County	Douglas W. Harris
Craven County	Lonnie Pridgen
Duplin County	Arliss Albertson
Edgecombe County	Calvin C. Anderson, Chairman
Greene County	Denny Garner, Assistant Treasurer
Jones County	Frank Emory, Assistant Secretary
Lenoir County	George W. Graham, Vice Chairman
Nash County	Tommy May
Onslow County	Paul Buchanan
Pamlico County	Ann Holton
Pitt County	Edward B. Bright
Wayne County	C. Munroe Best, Jr., Treasurer
Wilson County	R. S. Boyette
Governor's Appointees	John Bell
	Frank Harrison
Senate Appointees	Richard Futrell
	Leigh H. McNairy, Secretary
House of Representative Appointees	John Chaffee
	Billy Wooten

STAFF

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Angela A. Faulkner, Secretary/Travel Coordinator	faulkner@nceast.org

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**RESOLUTION OF THE BOARD OF COMMISSIONERS
OF NORTH CAROLINA'S EASTERN REGION
REGARDING REIMBURSEMENT OF EXPENSES**

BE IT RESOLVED by the Board of Commissioners of North Carolina's Eastern Region Development Commission (NCER) that the Board hereby adopts the following policy:

SECTION 1. EXPENSE REIMBURSEMENTS. Each employee, agent, or Board Member of the NCER is responsible for his or her own request for reimbursement of permissible expenses incurred in connection with NCER business. Each such person is expected to use the same care in incurring expenses that a reasonably prudent person would exercise if traveling on personal business and expending personal funds. In order to be reimbursed for permissible expenses, an employee, agent, or Board Member must submit a statement containing the following:

1. The name of the person to be reimbursed;
2. The purpose for which the expense was incurred;
3. The date the expense was incurred;
4. The amount to be reimbursed; and
5. If reimbursement is for mileage, the actual miles traveled, and locations thereto.

Each request for reimbursement, except for those based on mileage, shall be accompanied by a copy of (a) a receipt from the place where the expense was incurred or (b) a credit card or bank statement which documents the expense incurred. All requests for reimbursement shall be submitted within thirty (30) days of the date the expense was incurred.

Failure to comply with the provisions of this policy may result in the denial of a request for reimbursement.

SECTION 2. This Resolution shall be effective on the date of its adoption.

Duly adopted this the 11th day of May, 2006.

North Carolina's Eastern Region
Development Commission

By: Calvin C. Anderson
Calvin C. Anderson, Chairman

ATTEST:

Leigh H. McNairy
Leigh H. McNairy, Secretary
(OFFICIAL SEAL)

F:\DATA\CAULEY\N.C.E.R.\Administration\Expense Reimbursement Policy.wpd

Requested by: Senators Martin of Pitt, Edwards, Representatives Mitchell, Weatherly, Crawford

REGIONAL COMMISSION REPORTS

Sec. 25.3. The regional economic development commissions receiving grants-in-aid from the Department of Commerce shall report on their programs to the Joint Legislative Commission on Governmental Operations on or before March 1 and October 1 of each fiscal year, and more frequently as requested by the Commission. The reports shall include information on the activities and accomplishments during the past fiscal year, itemized expenditures during the past fiscal year with sources of funding, planned activities and accomplishments for at least the next 12 months, and itemized anticipated expenditures with sources of funding for the next 12 months.

Requested by: Senators Martin of Pitt, Edwards, Representatives Mitchell, Weatherly, Crawford

REGIONAL ECONOMIC DEVELOPMENT COMMISSION ALLOCATIONS

Sec. 25.4. (a) Funds appropriated in this act to the Department of Commerce for regional economic development commissions shall be allocated to the following commissions in accordance with subsection (b) of this section: Western North Carolina Regional Economic Development Commission, Research Triangle Regional Commission, Southeastern North Carolina Regional Economic Development Commission, Piedmont Triad Partnership, Northeastern North Carolina Regional Economic Development Commission, Global TransPark Development Commission, and Carolinas Partnership, Inc.

(b) Funds appropriated pursuant to subsection (a) of this section shall be allocated to each regional economic development commission as follows:

- (1) First, the Department shall establish each commission's allocation by determining the sum of allocations to each county that is a member of that commission. Each county's allocation shall be determined by dividing the county's distress factor by the sum of the distress factors for eligible counties and multiplying the resulting percentage by the amount of the appropriation. As used in this subdivision, the term "distress factor" means a county's distress factor as calculated under G.S. 105-130.40(c);
- (2) Next, the Department shall subtract from funds allocated to the Global TransPark Development Zone the sum of three hundred fifteen thousand dollars (\$315,000) in each fiscal year, which sum represents the interest earnings of the Global TransPark Development Zone in each fiscal year; and
- (3) Next, the Department shall redistribute the sum of three hundred fifteen thousand dollars (\$315,000) in each fiscal year to the seven regional economic development commissions named in subsection (a) of this section. Each commission's share of this redistribution shall be determined according to the distress factor formula set out in subdivision (1) of this subsection. This redistribution shall be in addition to each commission's allocation determined under subdivision (1) of this subsection.

Requested by: Representatives Mitchell, Weatherly, Senator Martin of Pitt

TOURISM PROMOTION FUNDS

Sec. 25.5. Funds appropriated in this act to the Department of Commerce for tourism promotion grants shall be allocated according to per capita income, unemployment, and population growth in an effort to direct funds to



NORTH CAROLINA'S
GLOBAL
TRANSPARK
REGION
Business Link To The World

April 14, 1997

Appendix C-2
(p. 1 of 3)

The Honorable Ed Warren
Room 623
Legislative Office Building
Raleigh, NC 27601-2808

Dear Senator Warren:

I enjoyed visiting with you last Friday and appreciate the time you were able to afford me. We appreciate your interest and help in resolving the funding allocation problems which I discussed with you.

I am enclosing information relevant to the calculations prepared by the NC Department of Commerce in determining the amount of funding which will be granted for marketing each of the seven economic development regions of our state.

You can see from the text on page 84 of House Bill 229 that the original intent of this bill was to reduce the funding received by the Global TransPark Development Commission by the interest it earns. The calculation that provides the figure of \$315,000 was based on the one-time state appropriation of \$7.5 million.

The Commission also receives interest from the \$5 motor vehicle tax. However, it was never the intent of this bill to include the interest from those funds in the regional allocations. You can see in the calculation figures attached, that the figure taken from the Global TransPark Development Commission totals \$540,000.

Please understand, Senator, that we fully recognize the advantage we have received in the \$7.5 million appropriation. We agree that it is only fair to the other regions to allow for the interest this appropriation creates in calculating the sum allocated to this region. We should not, however, be required to forfeit another \$225,000.

Just as the other regions are not penalized because of additional sources of revenue they may have, neither should the Commission. For instance, the Carolina Partnership raises funds and draws interest from that source. It does not receive a deduction from its appropriation.

Our marketing success will be greatly hampered by this reduction in revenue and your help in resolving this matter would be sincerely appreciated.

Sincerely,

Thompson H. Greenwood
Executive Director

sjn

Enclosures

2340 JOHN MEWBORNERD

KINSTON, NC 28504

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GLOBAL TRANSPARK

DEVELOPMENT

COMMISSION



MEMBER OF THE
NORTH CAROLINA
PARTNERSHIP FOR
ECONOMIC
DEVELOPMENT

GLOBAL TRANSPARK DEVELOPMENT COMMISSION

Appendix C-2
04/18/97 (p. 2 of 3)

The original Senate Bill which established the formation of the Global TransPark Development Commission provided a one-time state appropriation of \$7.5 million. This appropriation is the foundation of the loan fund which, along with the revenues from the collection of the \$5 motor vehicle fee, allows the thirteen counties in the Global TransPark Development Zone to obtain low interest loans for economic development product enhancement.

With the formation of the other six economic development regions, it was determined that a state allocation of funds to each of the seven regions based on a county distress factor would be appropriate. House Bill 229, Section 25.4 provided for that allocation along with an allowance for a deduction and redistribution of \$315,000, to represent the annual interest earnings from the original \$7.5 million by the Global TransPark Development Zone. It should be noted that during the first two years of regional economic development commission allocations, this has been the format used to determine the distribution to each of the seven regions.

On this past March 24th, the Commission was asked to provide the Department of Commerce with our projected revenue figures for the current fiscal year. Those figures included the total interest projections from the loan fund which is made up of the unloaned balance of the \$7.5 million appropriation and the collections from the \$5 motor vehicle fee.

With this information in hand, the DOC financial analyst prepared the calculations to distribute the \$4,455,000 allocation to the seven regions for fiscal year 97/98. In doing so, the entire trust fund interest projection included in our FY 96/97 budget was deducted from the county distress factor for our region.

The Global TransPark Development Commission contends that a more fair and appropriate allocation would be as follows:

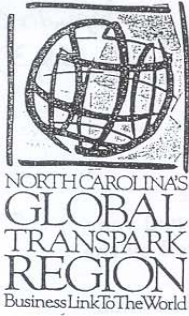
	<u>One-Time Appropriation</u>	<u>\$5 Motor Vehicle Revenue</u>
Revenue to date	\$ 7,500,000	\$6,643,732
Less loans to date	- 1,730,769	- 1,467,231
Less loans pending	- 1,153,846	- 1,046,154
Fund balance	\$ 4,615,385	\$4,130,347
County distress factor formula	\$ 609,585	
Interest on appropriation balance	- 276,923 (6% of 4,615,385)	
Regional Commission Allocation	\$ 332,662	

The Department of Commerce informed the Global TransPark Development Commission that our share of the regional commission allocation would be \$143,474, which means that if approved by the legislature, we will be penalized \$189,188 for interest on funds never intended to be considered in the calculation.

We ask for your support in correcting this funding inaccuracy and submit the attached wording change for original House Bill 229, Section 25.4.(b)(2) and (3) to prevent any possibility of misunderstanding for future regional economic development commission allocations.

REGIONAL ECONOMIC DEVELOPMENT COMMISSION
Section 25.4 (b)

- (2) Next, the Department shall subtract from funds allocated to the Global TransPark Development Zone the sum of the interest earned in each fiscal year from the unloaned balance of the \$7,500,000 state appropriation received by the Global TransPark Development Zone; and
- (3) Next, the Department shall redistribute the sum of the interest earned in each fiscal year from the unloaned balance of the \$7,500,000 state appropriation to the seven regional economic development commissions named in subsection (a) of this section. Each commission's share of this redistribution shall be determined according to the distress factor formula set out in subdivision (1) of this subsection. This redistribution shall be in addition to each commission's allocation determined under subdivision (1) of this subsection.



April 18, 1997

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GLOBAL TRANSPARK

DEVELOPMENT

COMMISSION

The Honorable James C. Carpenter
Legislative Office Building, Room 537
300 North Salisbury Street
Raleigh, NC 27601-2808

Dear Representative Carpenter:

We ask you consider the attached information regarding regional economic development commission funding. This situation will greatly impact our ability to successfully market this region. Your support and aid will be appreciated.

We have discussed this matter with Mark Trogon of the Fiscal Research Division of the General Assembly. If you have any questions, you can reach him at 919-733-4910.

I hope to see you at the North Carolina Economic Development Association legislative event in Raleigh on Tuesday, April 22nd.

Sincerely,

Thompson H. Greenwood
Executive Director

sjn

Enclosures



MEMBER OF THE
NORTH CAROLINA
PARTNERSHIP, FOR
ECONOMIC
DEVELOPMENT



NORTH CAROLINA'S
GLOBAL
TRANSPARK
REGION
Business Link To The World

April 18, 1997

The Honorable Beverly Perdue
211 Wilson Point Road
New Bern, NC 28563

Dear Senator Perdue:

We ask you consider the attached information regarding regional economic development commission funding. This situation will greatly impact our ability to successfully market this region. Your support and aid will be appreciated.

We have discussed this matter with Mark Trogdon of the Fiscal Research Division of the General Assembly. If you have any questions, you can reach him at 919-733-4910.

I hope to see you at the North Carolina Economic Development Association legislative event in Raleigh on Tuesday, April 22nd.

Sincerely,

Thompson H. Greenwood
Executive Director

sjn

Enclosures

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GLOBAL TRANSPARK

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Appendix C-5

REGIONAL COMMISSION ALLOCATIONS (PROJECTED)					
Regional Commission	FY 1996-97 Actual	Allocation Includes \$225,000 Reduction		Allocation Without \$225,000 Reduction	
		FY 1997-98 Estimated	+/- Change Over FY 1996-97	FY 1997-98 Estimated	+/- Change Over FY 1996-97
Carollinas Partnership	414,767	416,659	1,892	436,471	21,704
GTP	391,884	370,554	(21,330)	401,342	9,458
Northeast	1,093,954	1,002,918	(91,036)	1,050,606	(43,348)
Piedmont	431,581	420,407	(11,174)	440,397	8,816
RTP	435,537	408,851	(26,686)	428,291	(7,246)
Southeast	673,593	613,120	(60,463)	642,273	(31,310)
West	1,238,694	1,222,491	(16,203)	1,280,620	41,928
Total	4,680,000	4,455,000	(225,000)	4,680,000	-

Issue: When the \$225,000 budget reduction was presented to the subcommittee, it was expected that the reduction would come out of the GTP Commission's allocation since they were anticipating higher interest earnings. Now that we know that the interest earnings figure was incorrectly overstated, the proposed budget reduction will impact all the commissions. Therefore, the table above reflects by commission, the estimated FY 1997-98 funding allocations/net funding changes over the current fiscal year for both a scenario including the \$225,000 reduction and a scenario not including the \$225,000 reduction. These projections are based on revising the funding formula to reflect the GTP Commission's applicable estimated interest earnings at \$276,923 versus the incorrect figure of \$540,000 included in the current special provision.

Appendix C-6



North Carolina General Assembly
Senate Chamber
State Legislative Building
Raleigh 27601-2808

SENATOR JOHN H. KERR, III
8TH DISTRICT

BUSINESS ADDRESS: POST OFFICE BOX 1616
GOLDSBORO, N.C. 27533-1616
TELEPHONE: (919) 734-1841

RALEIGH OFFICE: ROOM 526 LOB
TELEPHONE: (919) 733-5621
FAX No.: (919) 733-3113

April 24, 1997

COMMITTEES:

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VICE CHAIRMAN
CHILDREN AND HUMAN RESOURCES
COMMERCE
WAYS AND MEANS

Mr. Thompson H. Greenwood
Executive Director
Global Transpark
2340 John Mewborne Rd.
Kinston, NC 28504

Dear Mr. Greenwood:

I appreciate your letter of April 18, 1997, concerning economic development commission funding. I hope that this was taken care of in the budget bill.

With best wishes and warm personal regards, I am

Yours very truly,

John H. Kerr, III

JHK,III:esh

WAYNE, GREENE, AND LENOIR (PART) COUNTIES



GENERAL ASSEMBLY OF NORTH CAROLINA
1997 SESSION

Appendix C-7
(p. 1 of 2)

S.L. 1997-443
SENATE BILL 352

AN ACT TO MAKE APPROPRIATIONS FOR CURRENT OPERATIONS AND FOR CAPITAL IMPROVEMENTS FOR STATE DEPARTMENTS, INSTITUTIONS, AND AGENCIES, AND FOR OTHER PURPOSES.

PART I. INTRODUCTION AND TITLE OF ACT

INTRODUCTION

Section 1. The appropriations made in this act are for maximum amounts necessary to provide the services and accomplish the purposes described in the budget. Savings shall be effected where the total amounts appropriated are not required to perform these services and accomplish these purposes and, except as allowed by the Executive Budget Act, or this act, the savings shall revert to the appropriate fund at the end of each fiscal year.

TITLE OF ACT

Section 1.1. This act shall be known as "The Current Operations and Capital Improvements Appropriations Act of 1997."

PART II. CURRENT OPERATIONS/GENERAL FUND

Section 2. Appropriations from the General Fund of the State for the maintenance of the State departments, institutions, and agencies, and for other purposes as enumerated are made for the biennium ending June 30, 1999, according to the following schedule:

<u>Current Operations - General Fund</u>	<u>1997-98</u>	<u>1998-99</u>
General Assembly	\$ 31,226,277	\$ 34,642,598
Judicial Department	327,814,503	327,102,308
Office of the Governor		
01. Office of the Governor	5,232,934	5,150,352
02. Office of State Budget and Management	13,923,220	10,930,838
03. Office of State Planning	1,802,450	1,815,850
04. Housing Finance Agency	7,300,000	2,300,000
Office of the Lieutenant Governor	609,230	609,390
Department of Secretary of State	6,553,012	5,310,680
Department of State Auditor	10,184,864	10,016,613
Department of State Treasurer	18,890,311	18,872,768

- d. State fiscal year 1998-99 estimated itemized expenditures and fund sources including actual expenditures and fund sources through December 31, 1998.
- (3) Provide to the Fiscal Research Division and the Department of Commerce a copy of its annual audited financial statement within 30 days of issuance of the statement.
- (b) Each regional economic development commission receiving a grant-in-aid from the Department of Commerce in each fiscal year of the 1997-99 biennium shall by the 25th day of the month following the end of a fiscal quarter, report to the Department of Commerce the following information for the most recent completed fiscal quarter:
 - (1) The number of and description of marketing outreach events including trade shows, recruitment missions, and related activities;
 - (2) The number of inquiries, leads, and prospects generated;
 - (3) The amount of investment and number of jobs created by the direct efforts of a commission;
 - (4) The amount of investment and number of jobs created by the indirect efforts of a commission;
 - (5) The number and listing of available sites and buildings within the region served by a commission;
 - (6) A listing of major accomplishments.

Requested by: Senator Martin of Pitt, Representatives Mitchell, Baker, Carpenter

REGIONAL ECONOMIC DEVELOPMENT COMMISSION ALLOCATIONS

Section 16.11. (a) Funds appropriated in this act to the Department of Commerce for regional economic development commissions shall be allocated to the following commissions in accordance with subsection (b) of this section: Western North Carolina Regional Economic Development Commission, Research Triangle Regional Commission, Southeastern North Carolina Regional Economic Development Commission, Piedmont Triad Partnership, Northeastern North Carolina Regional Economic Development Commission, Global TransPark Development Commission, and Carolinas Partnership, Inc.

(b) Funds appropriated pursuant to subsection (a) of this section shall be allocated to each regional economic development commission as follows:

- (1) First, the Department shall establish each commission's allocation by determining the sum of allocations to each county that is a member of that commission. Each county's allocation shall be determined by dividing the county's enterprise factor by the sum of the enterprise factors for eligible counties and multiplying the resulting percentage by the amount of the appropriation. As used in this subdivision, the term "enterprise factor" means a county's enterprise factor as calculated under G.S. 105-129.3;
- (2) Next, the Department shall subtract from funds allocated to the Global TransPark Development Zone the sum of two hundred seventy-six thousand nine hundred twenty-three dollars (\$276,923) in each fiscal year, which sum represents the interest earnings in each fiscal year on the estimated balance of seven million five hundred thousand dollars (\$7,500,000) appropriated to the Global TransPark Development Zone in Section 6 of Chapter 561 of the 1993 Session Laws; and
- (3) Next, the Department shall redistribute the sum of two hundred seventy-six thousand nine hundred twenty-three dollars (\$276,923) in each fiscal year to the seven regional economic development commissions named in subsection (a) of this section. Each commission's share of this redistribution shall be determined according to the enterprise factor formula set out in subdivision (1) of this subsection. This redistribution shall be in addition to each commission's allocation determined under subdivision (1) of this subsection.

Requested by: Senator Martin of Pitt, Representatives Mitchell, Baker, Carpenter, H. Hunter

TOURISM PROMOTION FUNDS

Section 16.12. Funds appropriated in this act to the Department of Commerce for tourism promotion grants shall be allocated according to per capita income, unemployment, and population growth in an effort to direct funds to counties most in need in terms of lowest per capita income, highest unemployment.

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