



STATE OF NORTH CAROLINA
Office of the State Auditor

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

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November 14, 2006

Mr. William G. Ross, Jr., Secretary
North Carolina Department of
Environment and Natural Resources
Archdale Building
512 North Salisbury Street
Raleigh, North Carolina 27604

Dear Mr. Ross:

We received notification through the State Auditor's Hotline alleging that management at the North Carolina Department of Environment and Natural Resources (DENR), Division of Pollution Prevention and Environmental Assistance (Pollution Prevention), did not perform yearly performance evaluations of employees. The following findings and recommendations are based on our investigation of this matter.

Noncompliance with State Personnel Regulations

We requested work plans and appraisals from Pollution Prevention for the four-year period May 1, 2001 through April 30, 2005. Based on the nineteen work plans and performance appraisals provided in response to our request, Pollution Prevention did not complete work plans and appraisals for 84% of the 116 potential appraisals for the four-year period. To determine if this rate of noncompliance was isolated to Pollution Prevention we also reviewed documentation for the Division of Forest Resources (Forest Resources) and the Division of Water Quality (Water Quality).

The Administrative Section of Forest Resources, consisting of 20 employees, did not have work plans and performance appraisals initiated or completed for the work cycle May 1, 2005 through April 30, 2006. A Forest Resources personnel employee said they had a new section chief who was too busy to complete the appraisals and the appraisals were not considered a "high priority." In addition, there were no manager signatures on 28% of Forest Resource's 106 sampled appraisals for the three year period May 1, 2003 through April 30, 2006.

Fourteen percent of Water Quality's 114 sampled work plans for the three-year period May 1, 2003 through April 30, 2006 were not completed at the beginning of the work cycle. Work plans were either signed at the interim review or at the year-end performance appraisal. Water Quality personnel said some supervisors, due to staffing changes, may not have received an employee's work plan in time to review it with the employee at the beginning of the cycle.

Mr. William G. Ross, Jr., Secretary
November 14, 2006
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According to *North Carolina General Statute* § 126-7(c) (2), an agency "...shall have an operative performance appraisal system...that adheres to modern personnel management techniques and practices..." An operative system includes, among other components, an individual work plan at the beginning of the review cycle and a performance appraisal at the end of the review cycle, as stated in *25 North Carolina Administrative Code* 01O .0201 and .0202. Section 10 of the *State of North Carolina State Personnel Manual* requires that both the work plan and performance appraisal "...be dated and signed by the employee, the supervisor, and the supervisor's manager." DENR's *SOP Manual*, Section 12-A, Managing Quality Performance, incorporates the above state regulations. Thus, based on the results of our investigation, DENR management has failed to ensure compliance, in at least three divisions, with state personnel regulations.

According to the *State Personnel Manual*, every state agency should have a system for managing employee performance with a two-fold purpose: (1) establishing, monitoring, and evaluating organizational goals, and (2) establishing individual expectations, monitoring progress, and appraising performance. In addition to providing feedback to employees, Performance Management Systems also provide a basis for various personnel actions, including promotions, disciplinary actions, and compensation adjustments.

Recommendations

DENR Management should develop a corrective action plan to ensure compliance with state personnel regulations governing Performance Management. The plan should include a mechanism to monitor compliance with the requirements of the state's Performance Management System.

Please provide your written response to these findings and recommendations, including corrective actions taken or planned by November 28, 2006. In accordance with North Carolina General Statute §147-64(c)(12), the Governor, the Attorney General and other appropriate officials will receive a copy of this management letter. We appreciate the cooperation received from the employees of the Department of Environment and Natural Resources during our review. If you have any questions or wish to discuss this matter further, please contact us.

Sincerely,



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

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



North Carolina Department of Environment and Natural Resources

Michael F. Easley, Governor
December 8, 2006

William G. Ross Jr., Secretary

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

Subject: Response to November 14, 2006 letter.

Dear Mr. Merritt:

This letter and the attached corrective action plan respond to your letter of November 14, 2006. In addition to reviewing your letter carefully, I have discussed it with Ms. O'Connor and Mr. King of your office. As I hope you will see from our response, we take your office's findings and recommendations seriously and are moving to address them in an appropriate and effective way.

Among your office's findings and recommendations is the finding that "DENR management has failed to ensure compliance, in at least three divisions, with state personnel regulations" regarding work plans and performance appraisals. As I understand it, your office, responding to a hotline tip about one of the department's divisions, reviewed work planning and performance appraisal in that division and two others, and found that, although the nature and extent of the noncompliance varied in each of the three divisions in which your office sampled documents and reviewed actions, each division fell short of compliance in ways that your letter specifies.

In connection with the preparation of our response, I asked a workgroup of leaders from the involved divisions and from other parts of our department to give me their input regarding a corrective action plan. We thought that it was important that would a corrective action plan address not only the instances of noncompliance that were the subject of your office's findings and recommendations, but also help assure that our department, more broadly, is meeting the requirements of the state's performance management system.

Based on the input of the workgroup and on additional research and discussions, we have prepared the enclosed corrective action plan. I believe that it addresses the findings and satisfies the goals described above. Please review it. If there are questions or comments, please let me know.

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We appreciate the way Ms. O'Connor and Mr. King have worked with us to allow adequate time to prepare this response in the midst of the holiday season.

With best wishes for a Merry Christmas and a Happy Holiday Season, I am

Sincerely,


Bill Ross
Secretary

Cc: Dempsey Benton, Chief Deputy Secretary
Harlan Frye, Director, Division of Human Resources

Attachment
Corrective Action Plan
In Response to November 14, 2006 Letter from the Office of the State Auditor
Regarding
Work Plans and Performance Appraisal
NC Department of Environment and Natural Resources
December 8, 2006

As stated in the December 8, 2006, letter to which it is attached, this corrective action plan is intended to address not only the instances of noncompliance that were the subject of the Office of State Auditor's findings and recommendations, but also to help assure that the department, more broadly, is meeting the requirements of the state's performance management system. The actions items in this plan are as follows:

1. Revise, update, and communicate DENR's Standard Operating Processes manual, Section 12-A, Managing Quality Performance.
 - DENR's Division of Human Resources will update the department's written procedure for Managing Quality Performance (section 12-A of the Standard Operating Processes manual), and will reflect in that procedure the steps in this corrective action plan, by February 1, 2007.
 - DENR's Division of Human Resources will arrange for the revision and updating of other portions of the division and department website to be consistent with the revised and updated Section 12-A, by March 1, 2007.
 - DENR's Division of Human Resources will communicate the revised and updated procedure to relevant staff in the Division of Human Resources, division and office directors, and supervisors, by March 1, 2007.
2. Reinforce supervisor accountability.
 - By April 1, 2007, the leader of each office and division in the department will take appropriate steps to remind each supervisor in that office or division that compliance with the requirements of the state's performance management system is both a state and departmental priority and requirement for every supervisor.
3. Provide performance management training.
 - Before the beginning of the next performance management cycle on May 1, 2007, DENR's Division of Human Resources, with assistance from the Office of State Personnel and with cooperation and support from the department's office and division directors, will provide training to supervisors on work plans and performance appraisal. The Division of Human Resources will provide the training plan and schedule to the secretary by February 1, 2007. The first training will be provided to the three divisions that were the subject of the November 14, 2006 letter.
4. Provide a mechanism for monitoring compliance with the requirements of the state's performance management system.

- DENR will develop an auditing process for the performance management system, and will begin the first audits by March 1, 2007. The auditing process will be fully operational by the beginning of the next performance management cycle on May 1, 2007. Department and divisional human resource staff will conduct annual spot audits of a sample of each division's work plans and performance appraisals to determine compliance with the performance management system. Results will be reported to the respective supervisor, division director and senior management.