



STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

May 15, 2007

Mr. William G. Ross, Jr., Secretary
North Carolina Department of Environment and Natural Resources
1601 Mail Service Center
Raleigh, North Carolina 27699-1601

Dear Secretary Ross:

We received an allegation through the *State Auditor's Hotline* alleging that funds designated for the Department of Environment and Natural Resources (DENR) Sleep Products program were used for other programs within the Division of Environmental Health. Our review of this matter resulted in the following findings and recommendations.

The Sleep Products Branch operates under the Public Health Pest Management Section of the Division of Environmental Health within DENR. The Sleep Products Branch enforces licensing standards for the manufacture of bedding products within North Carolina. North Carolina General Statute §130A-261 defines bedding products as "any mattress, upholstered spring, sleeping bag, pad, comforter, cushion, pillow, decorative pillow, and any other padded or stuffed item designed to be or commonly used for reclining or sleeping."

North Carolina General Statute §130A-270 defines the "Bedding Law Account" and includes a provision that "all fees collected under this Part shall be credited to the Account and applied to the following costs:

- (1) Salaries and expenses of inspectors and other employees who enforce this Part.
- (2) Expenses *directly connected* [emphasis added] with the enforcement of this Part, including attorney's fees, which are expressly authorized to be incurred by the Secretary without authority from any other source when in the Secretary's opinion it is advisable to employ an attorney to prosecute any persons."

DENR collects fees from manufacturers of bedding products to facilitate the enforcement of applicable regulations. For the fiscal year ended June 30, 2006, DENR collected \$570,053 from bedding manufacturers for this program. Expenditures charged to the Sleep Products program during the same period totaled \$444,590, resulting in a surplus of \$125,463. During the 5-year period ended June 30, 2006, DENR transferred \$746,437 of surplus funds from the Sleep Products program to other state programs.

Expenses Inappropriately Charged to the Sleep Products Program

Our review of expenses for the Sleep Products program from July 2005 to December 2006 revealed that \$28,792 of travel and lodging costs associated with a Centralized Intern Training class held in March 2006 were incorrectly charged to the Sleep Products program. This amount was charged to the Sleep Products program, even though the interns were trained in multiple

William G. Ross, Jr., Secretary
May 15, 2007
Page 2

disciplines within the Division of Environmental Health. We also found the Sleep Products program was charged \$10,000 for the expansion of a training facility in December 2005.

We determined that \$29,531 of the \$38,792 for travel, lodging, and the expansion of the training facility should have been charged to other programs within the Division of Environmental Health.

The Education and Training Office of the Division of Environmental Health manages Centralized Intern Training for new environmental health specialists. Division of Environmental Health representatives said the budget for the Education and Training Office was reduced and funds were not available to cover all of the expenses for Centralized Intern Training. According to Division representatives, Centralized Intern Training expenses in March 2006 were charged entirely to the Sleep Products program because the Sleep Products Branch had available funding. The decision to use funds from the Sleep Products Branch for Centralized Intern Training was made during a meeting of the Administrative Officer, Section Chief, and Director of the Division of Environmental Health.

Our review also found three additional expenditures that should have been charged to other Division of Environmental Health programs. Based on accounting records and discussions with DENR personnel, the following expenditures were inappropriately charged to the Sleep Products program: \$3,801 for a microscope and \$2,529 for two computers. We determined that \$4,152 of the \$6,330 should have been charged to other programs within the Division of Environmental Health.

Recommendations

DENR management should ensure that expenses associated with multiple programs are allocated based on an appropriate cost allocation methodology. In addition, DENR management should develop a plan to provide Centralized Intern Training within the budgetary restrictions of state law. Finally, DENR management should evaluate the fee structure for bedding manufacturers that has resulted in the accumulation of surplus funds for the Sleep Products program.

Please provide a written response to these findings and recommendations, including corrective action taken or planned, by May 29, 2007. In accordance with North Carolina General Statute §147-64.6 (c) (12), the Governor, the Attorney General, and other appropriate officials, will receive a copy of this management letter. If you have any questions or wish to discuss this matter further, please contact us. We appreciate the cooperation received from the Department of Environment and Natural Resources.

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
William G. Ross Jr., Secretary**



May 29, 2007

Leslie W. Merritt, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Mr. Merritt:

We have reviewed the findings and recommendations resulting from the special review of a *State Auditor Hotline* notification relating to funds designated for the Sleep Products Program in the Division of Environmental Health.

Based on our review, we agree that a portion of the expenditures identified for training and equipment should have been allocated to other programs. We also agree with the amount to be allocated and will allocate these costs to the correct cost centers.

The Department reviews all budgets and fee structures on a regular basis. The results of these reviews and the Department's recommendations are forwarded to the Office of State Budget and Management and to the General Assembly.

A contributing factor in this case is that Division of Environmental Health staff did not follow the Department chain of command when a problem was perceived. If the situation had been presented to the Office of Budget and Planning, or to the DENR Controller's Office, the expenditures would have been correctly allocated.

The Division of Environmental Health, the Office of Budget and Planning, and the DENR Office of the Controller will initiate steps to provide additional training to current employees on the correct handling of these expenditures.

Sincerely,



William G. Laxton, Chief Deputy Secretary

WGL/rd

Cc: Rod Davis
Cathy Hardy
Terry Pierce