



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

STATE OF NORTH CAROLINA
Office of the 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>

September 27, 2007

Mr. Jim Fain, Secretary
North Carolina Department of Commerce
301 North Wilmington Street
Raleigh, North Carolina 27699

Dear Mr. Fain:

We received a complaint through the State Auditor's Hotline related to a possible conflict of interest involving a member of the Region Q Workforce Development Board. Pursuant to North Carolina General Statute § 147-64.6(c)(16), our review resulted in the following findings and recommendations.

Inadequate Conflict of Interest Policy

Based on our review, we determined that the Region Q Workforce Development Board (Region Q Board) and the Mid-East Commission (Commission) do not require board members to complete conflict of interest forms. We interviewed Commission officials and Region Q Board members and reviewed the policies and procedure manuals related to the Region Q Board. Region Q Board policy requires employees to complete a Code of Conduct form that addresses potential conflicts of interest. However, based on conversations with both the Region Q Board Director and the Commission's Executive Director, no requirement exists for board members.

Our review related to a property lease arrangement between a youth program service provider funded by the Region Q Board and a non-profit organization headed by a Region Q Board member. In addition, the board member's non-profit organization received direct funding as a Joblink Information Site. The board member chaired a committee that recommended that the Region Q Board fund the youth program services. Further, the Region Q Board approved funding for the Joblink Information Site. We reviewed the minutes of the board meetings related to the funding approvals and found no discussion of the board member's involvement with the non-profit organization that benefited from the funding.

We did not find any inappropriate conduct related to the allegations. However, a conflict of interest exists even if no unethical or improper act occurs. A conflict of interest may create an appearance of impropriety. When a conflict of interest exists, it should be

Mr. Jim Fain, Secretary
September 27, 2007
Page 2

adequately disclosed and those with the conflict should not participate in any decision involving the conflict.

Other board members knew about the board member's affiliation with the non-profit organization. However, board meeting minutes did not indicate any acknowledgement of the board member's relationship during funding decision discussions. Also, there was no disclosure of the relationship on file with the Region Q Board. This non-disclosure created a situation that may be perceived as inappropriate.

Recommendation

We recommend that the Commission and Region Q Board provide conflict of interest education to all board members. In addition, board members should be required to formally acknowledge their understanding of possible conflicts of interest and disclose any potential situations. Each board member should complete a conflict of interest disclosure form annually.

Please provide your written response to this finding and recommendation including corrective actions taken or planned by September 26, 2007. In accordance with General Statute §147-64.6(c) (12), the Governor, the Attorney General and other appropriate officials will receive copies of this management letter. If you have any questions or wish to discuss this matter further, please contact us.

Sincerely,

A handwritten signature in black ink that reads "Leslie W. Merritt, Jr." in a cursive script.

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

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



NORTH CAROLINA
DEPARTMENT OF COMMERCE

MICHAEL F. EASLEY, GOVERNOR

JAMES T. FAIN III, SECRETARY

September 26, 2007

Mr. Leslie W Merritt Jr.
State Auditor
2 South Salisbury Street
Raleigh, North Carolina 27699

Dear Mr. Merritt:

We received your letter dated September 12, 2007 regarding the Region Q Workforce Development Board (Region Q Board) and an allegation of conflict of interest received by your office. Your findings determined no inappropriate conduct related to the allegation. However your findings determined that because of inadequate conflict of interest policy for board members of the Region Q Board and the Mideast Commission (administrative entity of the Region Q Board), allegations of this nature can result in an appearance of conflict of interest.

Based on your findings, you recommended the following:

1. The Mideast Commission and the Region Q Board should provide conflict of interest education to all board members.
2. Board members should be required to formally acknowledge their understanding of possible conflict of interest and disclose any potential situations.
3. Each board member should complete a conflict of interest disclosure form annually.

The Division of Workforce Development (DWD) in the Department of Commerce is the state administrative entity for the federal Workforce Investment Act. Staff from the DWD has discussed the elements of your findings and recommendations with officials from the Mideast Commission and Region Q Board. Based on your recommendations, the following actions have taken place or are being planned by the Region Q Board in response to the recommendations:

1. Mideast Commission/Region Q Board staff worked on a revision of their Code of Conduct/Conflict of Interest form to update the language, with specific reference to Region Q Board members. Consultation regarding the conflict of interest issue was held with David Francisco, Region Q Board Attorney, and based on his comments, the draft form was revised.
2. On September 12, 2007, Attorney Francisco met with the full Region Q Board and its Youth Committee members and presented the draft code of conduct/conflict of interest form and explained the conflict of interest requirements for board members, including discussion on the new state ethics laws. The Region Q Board did not take action on the code of conduct/conflict of interest form at this meeting, but instead decided that all board members would e-mail comments, concerns/recommended changes before October 15, 2007 to board staff. Staff was charged with revising the draft form based on board member feedback, and present revised document at the next Region Q Board meeting scheduled for November 14th, 2007.

North Carolina: The State of Minds

301 North Wilmington Street • 4301 Mail Service Center • Raleigh, North Carolina 27699-4301

Tel: (919) 733-3449 • Fax: (919) 715-9593

An Equal Opportunity/Affirmative Action Employer

Mr. Leslie W Merritt Jr., State Auditor
Page 2
September 26, 2007

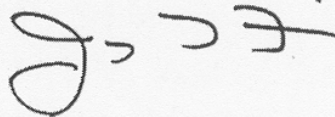
The Mideast Commission and Region Q Board have communicated to our Division of Workforce Development their intention to require each board member and its committee members to sign and be covered under a code of conduct/conflict of interest form and policy.

I have instructed the Division of Workforce Development to provide assistance to the Region Q Board in its effort to establish effective conflict of interest policy and to monitor the progress of the Region Q Board until this is completed. We will update your office when these efforts are concluded.

I have also asked the Division of Workforce Development to survey the other Workforce Development Boards around the state in regard to the adequacy of the conflict of interest policy and documentation and to establish the appropriate state policy if survey findings indicate a need for expanded statewide guidelines.

Please contact us if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. T. Fain III', with a stylized flourish at the end.

James T. Fain III

cc: Denise Sessoms
Roger Shackelford