

**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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September 3, 2009

Mr. Britt Cobb, Secretary  
North Carolina Department of Administration  
Office of the Secretary  
1301 Mail Service Center  
Raleigh, North Carolina 27699-1301

Dear Secretary Cobb:

The Office of the State Auditor received a complaint through its *Hotline* concerning a lease agreement between the State of North Carolina and the North Carolina Indian Cultural Center, Inc.<sup>1</sup> It was alleged that the Cultural Center is in violation of its lease agreement through its failure to maintain insurance coverage. It was further alleged that the Cultural Center is in violation of the lease through its subleasing of the leased property without the prior written approval of the Secretary of the Department of Administration. It was also alleged that the property was not maintained in accordance with the provisions of the lease agreement.

Pursuant to North Carolina General Statute §147-64.6, our investigation of this matter resulted in the following findings and recommendations.

**1. Lack of Insurance Coverage**

The Cultural Center did not maintain any insurance coverage between June 13, 2008, and May 10, 2009. An insurance policy was purchased on May 11, 2009, but the policy was deficient in the following areas:

- No workers compensation coverage
- No fire and extended coverage
- No builders risk insurance
- No 30-day cancellation notice requirement

Insurance coverage requirements under the terms of the lease agreement are:

- General liability insurance with protection of at least \$500,000 combined single limit coverage for bodily injury or property damage.<sup>2</sup>
- Appropriate workers compensation insurance in connection with any work on the property.
- Fire and extended coverage on the permanent structures located on the leased property.

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<sup>1</sup> The lease between the State and the Cultural Center is dated May 12, 1994, with the latest amendment dated June 6, 2001. The leased property consists of approximately 386 acres of land and includes several small buildings, picnic areas, a basketball court, a swimming pool, a 100 acre lake, and an amphitheater. The term of the lease is 99 years.

<sup>2</sup> The requirement for general liability insurance was satisfied on May 11, 2009.

- Builders risk insurance including vandalism and malicious mischief.
- Requirement that all policies contain a clause which provides that 30 days notice will be given to the Cultural Center prior to cancellation of a policy.

It is noteworthy that the general liability insurance policy was purchased after the announced date of our visit to the leased property and two days before our arrival on May 13, 2009.

**Recommendation:**

The Cultural Center should immediately obtain all insurance coverage required under the terms of its lease agreement with the State of North Carolina. Additionally, the Cultural Center should immediately provide such proof of insurance to the Department of Administration.

**2. Sublease of Property**

The Cultural Center subleased the property in violation of the lease agreement with the State. The sublease was executed with Iron Bear Visions, Inc. on April 1, 2004, and renewed on February 3, 2007. Paragraph 14 of the lease between the State and the Cultural Center provides that the Cultural Center may not assign or sublease the property without the prior written approval of the Secretary of the Department of Administration. No such approval was obtained.

**Recommendation:**

The Cultural Center should terminate any subleases of the property which have not been approved in writing by the Secretary of Administration. In the event that the Cultural Center desires to sublease all or any part of the property going forward, prior written permission to do so should be obtained from the Secretary of Administration.

**3. Maintenance of Property**

Most of the permanent structures on the leased property appear to have been maintained in reasonably good condition. Two obvious exceptions were a broken wooden fishing pier and a basketball court with a torn-down goal post and badly cracked asphalt on the playing surface. The landscaping appeared to be good and we did not see any trash on the property.

Maintenance requirements under the terms of the lease agreement are:

- The Lessee shall, during the term of its possession, at its expense, maintain all permanent structures on the leased premises.
- The Lessee shall cause the leased premises and all improvements thereon to be maintained in accordance with all applicable laws, rules, ordinances, orders and regulations of (i) federal, state, county, municipal and other governmental agencies and bodies having or claiming jurisdiction, and (ii) all insurance companies insuring all or any part of the leased premises or improvements or both.
- Lessee shall cause to be made such arrangements for the storage and timely disposal of all garbage and refuse generated by the use or occupation of the leased premises as may be required in order to keep the leased premises in a neat and orderly condition and reasonably clean and free from rubbish.

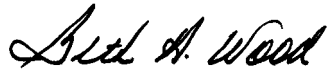
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**Recommendation:**

The Department of Administration should consider sending an expert in building inspection to the leased property to assess the condition of all permanent structures.

Please provide your written response to these findings and recommendations including corrective actions taken or planned by September 18, 2009. 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. We appreciate the cooperation received from representatives of the North Carolina Indian Cultural Center during the course of our review.

Sincerely,



Beth A. Wood, CPA  
State Auditor

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



## North Carolina Department of Administration

Beverly Eaves Perdue, Governor

Britt Cobb, Secretary

September 18, 2009

Honorable Beth A. Wood, CPA  
State Auditor  
Office of State Auditor  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

RE: Audit of North Carolina Indian Cultural Center Lease Agreement

Dear Ms. Wood:

On September 3, 2009, I received your draft report on the audit of the North Carolina Indian Cultural Center. The State Property Office and Commission of Indian Affairs have prepared a response to address your office's concerns and recommendations. A copy of this response is attached.

The Department of Administration remains committed to providing effective and efficient services. We anticipate your recommendations will assist us in providing improved business practices.

If there are questions or comments please let me know.

Sincerely,

A handwritten signature in cursive script that reads "Britt Cobb".

Britt Cobb

Attachment

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Raleigh, N.C. 27699-1301

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Fax (919) 733-9571  
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*e-mail: britt.cobb@doa.nc.gov*

**Location:**  
116 West Jones Street  
Raleigh, North Carolina

Response to the North Carolina Indian Cultural Center (Cultural Center)  
Lease Agreement Audit

1. Lack of Insurance Coverage

The Cultural Center has failed to maintain adequate insurance coverage with deficiencies in the following areas:

- No workers compensation coverage
- No fire and extended coverage
- No builders risk insurance
- No 30 day cancellation notice requirement

Recommendation:

The Cultural Center should immediately obtain all insurance coverage required under the terms of its lease agreement with the State of North Carolina. Additionally, the Cultural Center should immediately provide such proof of insurance to the Department of Administration.

Response

The State Property Office (SPO) received a new certificate of insurance from the Cultural Center on July 27, 2009 and forwarded to the Auditor which provides for both liability and workers compensation coverage. The SPO has requested that the Cultural Center provide proof of the deficient areas that are noted in the Audit within the required time in accordance with the lease agreement. This request excludes builders risk since the coverage applies only to construction which is not occurring at the Center.

2. Sublease of Property

The Cultural Center subleased the property in violation of the lease agreement with the State. The sublease was executed with Iron Bear Visions, Inc. on April 2, 2004, and renewed on February 3, 2007. Paragraph 14 of the lease between the State and the Cultural Center provides that the Cultural Center may not assign or sublease the property without the prior written approval of the Secretary of the Department of Administration. No such approval was obtained.

Recommendation:

The Cultural Center should terminate any subleases of the property which have not been approved in writing by the Secretary of Administration. In the event that the Cultural

Center desires to sublease all or any part of the property going forward; prior written permission to do so should be obtained from the Secretary of Administration.

Response

The Cultural Center has provided the SPO with a cancellation notice of the sublease. We will continue to monitor compliance with the lease agreement. Additionally, the Cultural Center has been informed that prior written permission to sublease all or any part of the property should be obtained from the Secretary of the Department of Administration.

3. Maintenance of Property

Most of the permanent structures on the leased property appear to have been maintained in reasonably good condition. Two obvious exceptions were a broken wooden fishing pier and a basketball court with torn- down goal post and badly cracked asphalt on the playing surface. The landscaping appeared to be good and we did not see any trash on the property.

Recommendation:

The Department of Administration should send an expert in building inspection to the leased property to assess the condition of all permanent structures.

Response

The State Construction Office is scheduled to inspect the property to assess the condition of all of the permanent structures. The maintenance requirements under the lease will be addressed with the Cultural Center.