

STATE OF NORTH CAROLINA

AUDIT OF

THE OFFICE OF

THE SECRETARY OF STATE

DECEMBER 1995

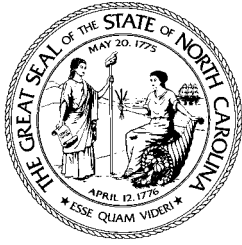
OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**AUDIT OF THE
OFFICE OF THE SECRETARY OF STATE**

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AUDITOR'S TRANSMITTAL

December 14, 1995

The Honorable James B. Hunt, Jr., Governor
The Honorable Rufus L. Edmisten, Secretary of State
Members of the North Carolina General Assembly

Ladies and Gentlemen:

We have conducted an audit of the Office of the Secretary of State. As provided by statute, we submit this report for your consideration.

The objectives of the audit were to determine the current organizational structure and staffing levels; to identify the functions and responsibilities of the various sections; to examine the personnel policies and hiring practices of the Office; to conduct a comprehensive review of financial activities of the Office for Fiscal Years 1993-94 and 1994-95; to identify statutorily assigned responsibilities and examine compliance with all applicable State laws and regulations; and to follow up on findings from previous audits. This audit also evaluated the efficiency and effectiveness of operational areas. Based on our review, we believe there is an opportunity to restructure the organization to improve its efficiency and effectiveness. In addition, we have identified operational issues which will need to be addressed if the new organization is to operate efficiently and effectively.

This report consists of an executive summary, background information, findings and recommendations from a special review, and procedural audit findings and recommendations. The Secretary has reviewed a draft copy of this report, and his written comments are included. As per GS §147-64.6(c)(12), we have provided copies of this audit to the Governor, the Attorney General, and other appropriate officials.

We wish to express our appreciation to Secretary Edmisten and his staff for the courtesy and cooperation extended to us during the audit.

Respectfully submitted,

/s/ Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

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EXECUTIVE SUMMARY

We have conducted an extensive audit of the Office of the Secretary of State (**Office**). The audit was performed in response to allegations received recently as well as to evaluate the Office's response to findings issued in a management letter following a previous special review. To accomplish the many elements identified for examination, we have conducted a combination performance and financial audit. Inasmuch as there were allegations of improper or illegal activities, our Fraud, Waste and Abuse Section also conducted a special review during the time of the audit, and those findings have been incorporated into this report under the Special Review Section. Yet, even with the breadth of coverage and the allocation of substantial resources to conduct it, our examination could not review in detail every transaction and every aspect of the operation of the Office. This report is intended to provide the management of the Office of the Secretary of State with factual, unbiased information upon which it can establish policies and procedures which will allow improvements in the economy, efficiency, and effectiveness of its operations.

What our examination did reveal is summarized in our findings below and in greater detail in the report which follows. Taken together, the findings illustrate a pattern of both unacceptable behavior as well as very lax administrative practices in conducting public business in accordance with the policies and regulations of the State of North Carolina. There is a clear lack of appropriate controls to ensure the prudent and efficient use of public resources, and further, there is evidence of misplaced management priorities in how a public agency should conduct its functions.

Our review has confirmed substantial problems with the administration of the Office. We have identified numerous serious abuses of authority by the Secretary and members of his staff. General Statute 147-64.6(c)(12) requires the Office of the State Auditor to refer apparent violations of penal statutes or apparent instances of malfeasance, misfeasance or nonfeasance to the Governor, the Attorney General, and other appropriate officials. This audit contains such findings. Therefore, in satisfaction of that obligation this audit has been forwarded to the Governor, the Attorney General, and the District Attorney for the 10th Judicial District (who had been presented with some of the evidence relative to the embezzlement), as well as other officials listed on our distribution appearing on page 132.

Each of the findings contained herein is accompanied by a related recommendation to remediate the conditions found during our audit. While making specific recommendations for specific conditions, we have also proposed a new organizational structure to include the assignment to other agencies of certain functions and the transfer of staff performing those tasks. In some instances the functions seemed to more closely fit the mission or function of the other agency; in other instances they did not seem to fit the duties of the Secretary of State's Office. In either case, the recommendations are intended to refocus the priorities of the Secretary of State's Office and to facilitate the management of its remaining operations.

A copy of the letter of response to these findings from the Secretary of State is included here as Appendix C, page 118.

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AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

This audit was performed in response to allegations received regarding the Office of the Secretary of State (**Office**). In addition to investigating those allegations and following up on the Office's response to earlier findings, we also conducted a performance audit of the Office in order to identify possible improvements in the economy and efficiency of operations. Furthermore, we reviewed the financial transactions of the agency to determine compliance with applicable laws and regulations.

During the period August 18, 1995, through October 13, 1995, we conducted the field work for the audit of the Office of the Secretary of State. The objectives of our review were to determine the current organizational structure and staffing levels; to identify the functions and responsibilities of the various sections; to examine the personnel policies and hiring practices of the Office; to conduct a comprehensive review of financial activities of the Office for the last two fiscal years (FY93-94 and 94-95); to identify statutorily assigned responsibilities and examine compliance with all applicable State laws and regulations; and to follow up findings from previous audits. The audit also evaluated the efficiency and effectiveness of operational areas.

In order to achieve the audit objectives, we reviewed legislation and regulations which pertain to the functions of the Office; reviewed the policies and procedures of the Office, especially as they pertained to personnel and hiring practices; conducted compliance testing of transactions with existing statutory, budgetary, and fiscal policies; examined payroll and time records; and obtained an understanding of the internal control structure and its operations. Additionally, we interviewed staff to gain insight on the goals and purposes of the Office, to determine the specific duties of each staff member, their reporting responsibilities, and their workloads associated with these responsibilities.

Specifically, we obtained organizational charts, payroll data, and job descriptions from the Secretary and his staff for analysis. We obtained data on the operational status, where available, for each of the divisions. In addition, we examined samples of expenditures; travel requests and reimbursements; salary increases; usage of cellular telephones and state vehicles; cash receipts; fixed assets; and selected contractual costs.

We designed a questionnaire to survey all employees in the Office (109 filled positions as identified by the Office's Personnel Officer) on perceived problem areas with the current organizational structure and procedures in place. We conducted a detailed review and compilation of the 76 returned questionnaires. Summary results from the questionnaires are contained in Appendix A, page 99. We assigned auditors to work in each operational area to determine the status of actual operations and to identify potential weaknesses in procedures. As part of the process, we conducted in-depth interviews with a representative sample of the staff of each division. In total, we conducted 136 interviews with personnel both inside and outside the Office of the Secretary of State.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY (CONTINUED)

Our review also included an examination of various internal reports on the operations of the Office. Further, we reviewed organizational charts from the offices of Secretaries of State in other states to identify current trends in structure and service delivery.

The performance and financial aspects of this report were prepared in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any system of internal and management control, this review would not necessarily disclose all weakness in the system or lack of compliance. Also, projections of any of the results contained in this report to future periods is subject to the risk that procedures may become inadequate because of changes in conditions and/or personnel, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

BACKGROUND INFORMATION

STATUTORY AUTHORITY

The Office of the Secretary of State (**Office**) is a constitutionally established state agency. In general, the Office is charged with recording, registering, and storing all official documents of the State of North Carolina and certain records pertaining to private businesses. Additionally, the Office is required to compile and prepare for distribution official publications relative to the operations of the State and local governments.

Some 200 authorities and duties for the Office are contained in the statutes. The main statutory authority for the Office is contained in Article 4 of Chapter 147 of the General Statutes. Specific duties outlined in GS §147-36 are:

1. To attend at every session of the legislature for the purpose of receiving bills which shall have become laws, and to perform such other duties as may then be devolved upon him by resolution of the two Houses, or either of them;
2. To attend the Governor, whenever required by him, for the purpose of receiving documents which have passed the great seal;
3. To receive and keep all conveyances and mortgages belonging to the State;
4. To distribute annually the statutes and the legislative journals;
5. To distribute the acts of Congress received at his office in the manner prescribed for the statutes of the State;
6. To keep a receipt book, in which he shall take from every person to whom a grant shall be delivered, a receipt for the same, but he may inclose (sic) grants by mail in a registered letter at the expense of the grantee, unless otherwise directed, first entering the same upon the receipt book;
7. To issue charters and all necessary certificates for the incorporation, domestication, suspension, reinstatement, cancellation and dissolution of corporations as may be required by the corporation laws of the State and maintain a record thereof;
8. To issue certificates of registration of trademarks, labels and designs as may be required by law and maintain a record thereof;
9. To maintain a Division of Publications to compile data on the State's several governmental agencies and for legislative reference;
10. To receive, enroll and safely preserve the Constitution of the State and all amendments thereto;
11. To serve as a member of such boards and commissions as the Constitution and laws of the State may designate;
12. To administer the Securities Laws of the State, regulating the issuance and sale of securities, as is now or may be directed;
13. To receive and keep all oaths of public officials required by law to be filed in his office, and as Secretary of State, he is fully empowered to administer official oaths to any public official of whom an oath is required; and
14. To receive and maintain a journal of all appointments made to any State board, agency, commission, council or authority which is filed in the Office of the Secretary of State.

In addition to these specific duties, the Office of the Secretary of State is charged with duties under a number of other statutes as shown in Table 1, page 9. A number of additional responsibilities have recently been assigned to the Office. These include the

BACKGROUND INFORMATION (CONTINUED)

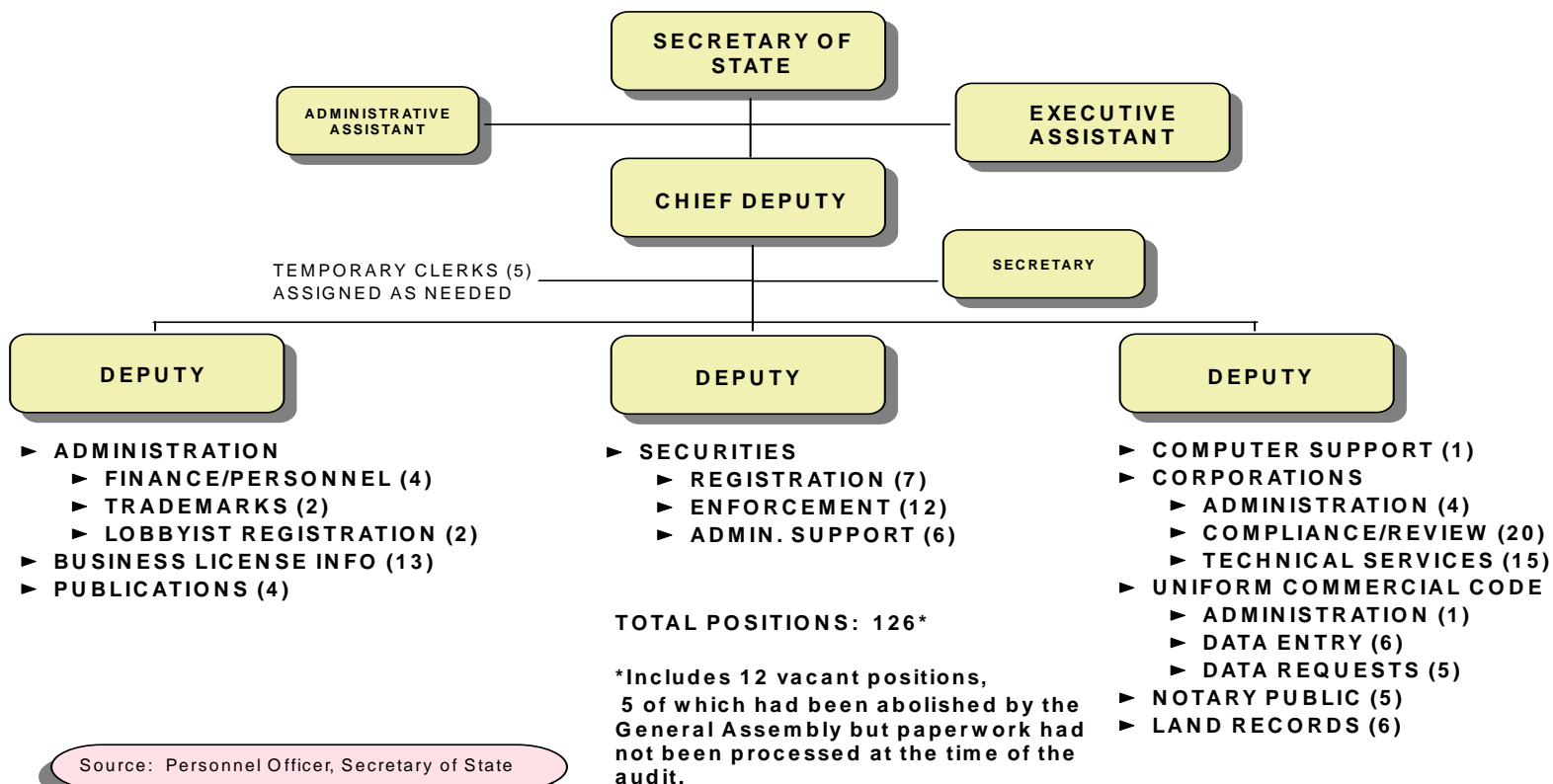
Boxing Commission and enhanced investigatory responsibilities in the areas of counterfeit trademarks and notary fraud.

Chapter 10A	Notaries
Chapter 25	Uniform Commercial Code
Chapter 36A	Community Trusts
Chapter 47	Certificates of Merger
Chapter 53	Banks
Chapter 54	Cooperative Associations
Chapter 54B	Savings and Loan Associations
Chapter 54C	Mutual Savings Banks
Chapter 55	Business Corporation Act
Chapter 55A	NonProfit Corporation Act
Chapter 55B	Professional Corporation Act
Chapter 57	Limited Liability Companies
Chapter 58	Insurance Companies
Chapter 59	Limited Partnerships and Limited Liability Partnerships
Chapter 66:	
-94	Business Opportunities
-106	Loan Brokers
-233	Membership Camping Act
Chapter 78A	North Carolina Securities Act
Chapter 78C	North Carolina Investment Advisor Act
Chapter 78D	North Carolina Commodities Act
Chapter 80	Trademarks/Service Marks
Chapter 105-163	Qualified Business Tax Credits
Chapter 120:	
-33	Ratified Bills
-47	Lobbying (Registration of Legislative Lobbyists)
Chapter 147:	
-37	Document Authentication
-54	Business License Information; Land Records Management
Chapter 153A-64	County Abstracts
Chapter 163-193	Certification of Election Results

CURRENT ORGANIZATIONAL STRUCTURE

Exhibit 1, page 10, depicts the organizational structure in place at the beginning of our field work. The Office had undergone a reorganization during July and August 1995, just prior to the beginning of the audit. This organization features eight distinct areas: administration, business license information, publications, securities, corporations, uniform commercial code, notaries, and land records management.

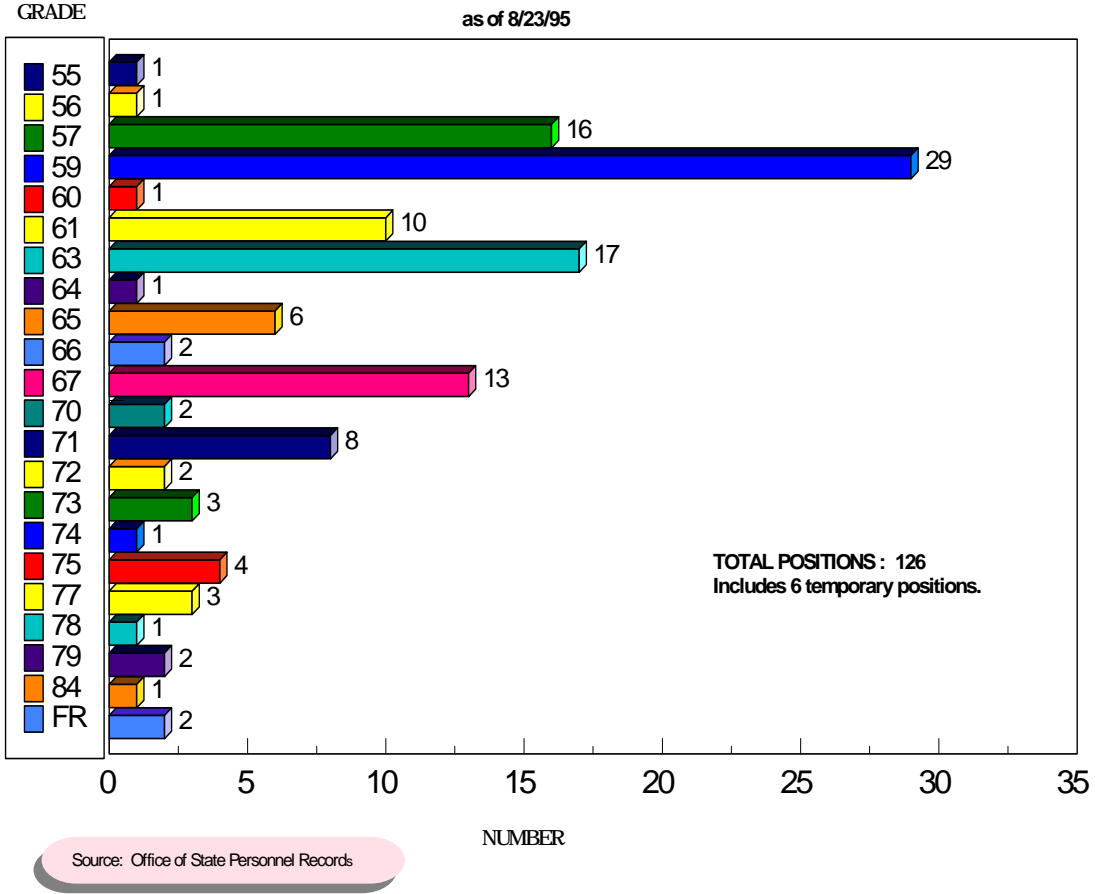
EXHIBIT 1
OFFICE OF THE SECRETARY OF STATE
CURRENT ORGANIZATIONAL STRUCTURE
AS OF AUGUST 11, 1995



BACKGROUND INFORMATION (CONTINUED)

Analysis of the composition of the 126 positions, as identified by the Office of State Personnel (OSP), reveals that the majority of the positions are clerical in nature, with 59.5% of positions grade 63 and below. Exhibit 2 below shows the number of positions by grade.

EXHIBIT 2
SECRETARY OF STATE
NUMBER OF POSITIONS BY GRADE



ADMINISTRATIVE AREA

This area is composed of: Administrative Division, Business License Information Office, and the Publications Division. The purpose of the *Administrative Division* is to provide managerial support for the Office and to provide for the public a registry of legislative agents, trademarks, and service marks. Additionally, this area contains the *Publications* function as required by GS §147-54.1 and serves as a source of election abstracts, authentications, apostilles, and annexation ordinances recorded in the State. The *Business License Division* acts as a clearinghouse for state business license information, provides coordination and assistance to applicants for state licenses and permits, and is responsible for developing a master application system for licenses.

BACKGROUND INFORMATION (CONTINUED)

SECURITIES DIVISION

The purpose of the *Securities Division* is to prevent fraud in the public sale of securities and thereby protect the investing public. This is accomplished through review of applications for registration of securities, licensing of securities dealers and salesmen, registration of financial advisors, and investigation and prosecution of violations of the securities laws. Additional functions assigned to this division include: registration of membership campgrounds, athlete agents and loan brokers, qualification of businesses for investment tax credits, and investigations of notary fraud and counterfeit trademarks. Plans are to house the recently created Boxing Commission in this division.

CORPORATE ACTIVITIES AREA

This area consists of four divisions: Corporations, Uniform Commercial Code, Notary, and Land Records Management. The *Corporations Division* is responsible for the filing of corporate documents, providing information and technical assistance to the public, acting as agent for corporations, and accepting service of process as needed. The *Uniform Commercial Code Division* is responsible for filing financing statements showing liens against commercial and/or agricultural property, filing federal tax lien information against corporations and partnerships, and providing responses to requests for information on filings. The *Notary Division* is responsible for the initial and renewal commissions for all notaries public across the state, as well as an educational function for notaries. The *Land Records Management Division* is responsible for providing technical assistance to counties in modernizing and standardizing their indexing and land records systems. (Until the last legislative session, this division was also responsible for administering a grants program for the modernization of indexing and land records systems.)

BUDGETARY DATA

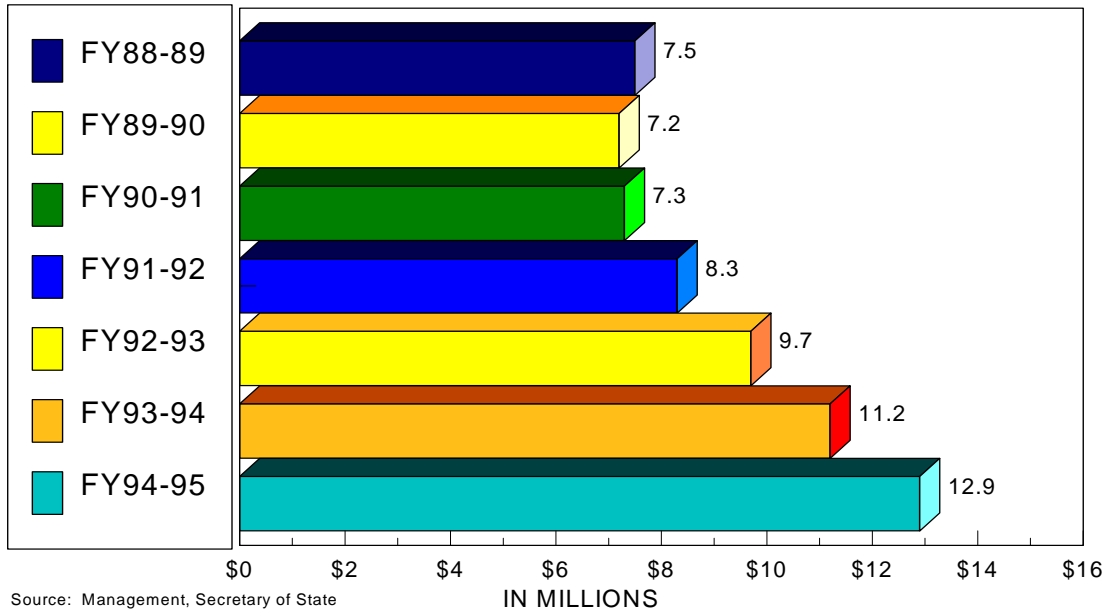
A review of budgetary data for the Office reveals that, during the period FY91-92 through FY94-95, the total funding requested has remained relatively stable. Table 2

TABLE 2				
OFFICE OF THE SECRETARY OF STATE				
SUMMARY OF BUDGET DATA				
for the period FY91-92 through FY94-95				
Description	FY91-92	FY92-93	FY93-94	FY94-95
Expenditures	\$4,946,908	\$5,434,807	\$6,122,482	\$5,884,613
Revenue	201,857	413,347	694,598	746,061
Appropriations	\$4,745,051	\$5,021,460	\$5,427,884	\$5,138,552
Source: 1992-1995 BD 701's Monthly Budget Reports				

above summarizes this data. Exhibit 3, page 13 depicts the gross revenues collected by the Office for the State's General Fund for the various services provided to the public. Table 3, page 13 summarizes the operation of the trust and agency fund for the Investor Awareness and Protection Program. Appendix B, page 104, contains statements of monthly budget reports for FY93-94 and FY94-95 for information purposes only.

BACKGROUND INFORMATION (CONTINUED)

EXHIBIT 3
OFFICE OF THE SECRETARY OF STATE
GROSS REVENUES COLLECTED FOR THE STATE'S GENERAL FUND



Revenues collected by the Office are deposited in the General Fund of the State. In addition to these revenues, the Office also operates a trust and agency fund. This fund is the Investor Awareness and Protection Program which began in 1986. The program is funded by money received through consent orders negotiated by the Office following investigations into the investment practices of individuals and brokerage firms. According to the terms of the consent agreements, the funds paid to the Office are to be used to provide investor awareness, protection, and education.

TABLE 3
OFFICE OF THE SECRETARY OF STATE
SUMMARY OF TRUST AND AGENCY FUND
for the period FY91-92 through FY94-95

Description	FY91-92	FY92-93	FY93-94	FY94-95
Beginning Balance	\$ 0	\$ 196,450	\$ 50,730	\$ 347,676
Cash Receipts	292,834	76,910	537,333	66,325
Cash Disbursements	96,384	222,630	240,387	270,847
Ending Balance	\$ 196,450	\$ 50,730	\$ 347,676	\$ 143,154

Source: 1992-1995 BD 701's Monthly Budget Reports
 NOTE: FY93-94 receipts and disbursements have been adjusted for a \$11,265.00 refund from the Office's operating budget.

SPECIAL REVIEW

FRAUD, WASTE, AND ABUSE ISSUES

In 1994, the Office of the State Auditor received a number of calls to our fraud, waste, and abuse hotline regarding certain situations in the Office of the Secretary of State (Office). After our investigation, we issued a management letter outlining the problems identified and recommended corrective actions. As part of the current audit of the Office, we followed-up those findings and recommendations. Additionally, as the audit progressed, we received a number of calls from employees of the Office relative to specific instances of potential abuse. This section details the findings from our investigation of the complaints.

EMPLOYEES SERVE AS “SECURITY,” “DRIVERS,” AND “ADVANCE MEN” FOR THE SECRETARY OF STATE ON BUSINESS TRIPS.

The Secretary travels both in-state and out-of-state on a regular basis. It is common practice for the Secretary to require one or more of his employees to accompany him on his business trips. An employee, usually from the Securities Division, will drive the Secretary in a state-owned vehicle assigned to the Secretary to functions attended by the Secretary. Upon arrival at their destination, the employee will always stay within close proximity to the Secretary in order to assure the Secretary’s safety.

On some out-of-state trips, the Secretary will send from one to three employees to a city the day before he is to arrive. Their function, as they have described it, is to serve as “advance men” or “facilitators” for the Secretary of State. These employees make sure that the hotel is adequate, check to see if the Secretary’s room at the hotel is secure, and that all the Secretary’s needs will be adequately met.

While the use of employees for security, drivers, and advance men on out-of-town trips ensures that the trips go smoothly, it unnecessarily takes the employees away from the duties for which they were hired. In our opinion, the use of employees for these type functions is an abuse of power and authority by the Secretary of State.

In response to our questions as to the appropriateness of the above activities, the Secretary stated that the employees serve as administrative assistants. He said that he needs employees with him at public gatherings because he needs someone with him taking notes when the public requests assistance.

RECOMMENDATION

We recommend that the Secretary stop using employees for security, drivers, and advance men. If it is necessary for someone to drive the Secretary, he should request the approval of such personnel by the General Assembly through the budget process.

SPECIAL REVIEW (CONTINUED)

EMPLOYEES SERVE AS “SECURITY,” AND “DRIVERS” FOR THE SECRETARY OF STATE ON PERSONAL TRIPS AND POLITICAL FUNCTIONS.

The Secretary has used employees, usually from the Securities Division, to drive him to sporting, social, and political events. These events usually occur after normal working hours or on weekends. However, some of the time spent getting to and from these events has occurred during working hours. Interviews with employees who act as chauffeurs and security for the Secretary revealed that they drove the Secretary to NASCAR races in Charlotte and Rockingham; boxing events in Raleigh; political fund-raisers in Morehead City, West Jefferson, and Sunset Beach; the Secretary’s parents’ residence in Boone; Charlotte Hornet basketball games; college basketball and football games in Chapel Hill; and to several concerts at Walnut Creek Amphitheater in Raleigh. When employees attended these events with the Secretary as his driver and security, they were allowed to count the time involved as compensatory work time. This allows the employees to take an equal amount of time off from their jobs during normal work hours which, in effect, is the same as if they attended these events on state time.

This is an abuse of compensatory time since this time is personal in nature and is a wasteful use of taxpayers’ money. GS §126-13 prohibits state employees from engaging in political activity on state time. When questioned about the above activities, the Secretary stated that these trips were official state business. However, we found no documentation supporting this assertion.

We disagree that the above mentioned events constitute official state business. We fail to see what benefit the citizens of this State derive from the Secretary’s attendance at a concert at Walnut Creek or the various sporting events described above. In addition, it should be noted on many occasions the individuals serving the Secretary at these functions are not one of his administrative assistants, but one of his sworn law enforcement officers whose responsibilities are to investigate securities violations. The Office of the Secretary of State has a limited number of such officers.

RECOMMENDATION

We recommend that the Secretary discontinue using employees to drive him on personal trips and political functions on state time. We also recommend that the practice of allowing employees to earn compensatory time while attending personal, social, and political functions be stopped immediately. For the instances discussed above, we recommend the employees involved be required to take annual leave for all hours used to drive and/or assist the Secretary on personal business which occurred on state time.

SPECIAL REVIEW (CONTINUED)

THE SECRETARY OF STATE HAS MISUSED HIS ASSIGNED STATE-OWNED VEHICLE AND HAS OFTEN SWITCHED LICENSE PLATES TO CONCEAL HIS IDENTITY.

Staff members have given us sworn testimony that they have driven the Secretary to political, social, and sporting events, and on personal trips in the Secretary's assigned state vehicle. These trips occur regularly. GS §14-247 prohibits the private use of state-owned vehicles except for authorized commuting use. The NC Department of Administration Motor Fleet Management regulations state . . . *"State-owned, passenger-carrying vehicles shall be driven only by state employees and used for official state business only. It shall be unlawful for any state employee to use a state-owned vehicle for any private purpose whatsoever."* The drivers said that they would often switch the Council of State "5" license plate with a private, confidential license plate assigned by the Division of Motor Vehicles to an undercover security investigator's vehicle. The drivers said in sworn testimony that this was done at the direction of the Secretary. Some of the drivers stated that this was referred to as going "Signal 8."

The Secretary stated, also in sworn testimony, that he would never ask an employee to do this. He did say, however, that he had switched tags because he was concerned that the car may be vandalized if the "5" plate remained on the car.

In addition, some staff members have stated that on many occasions when they were driving the Secretary to a function and were running late, they would drive in excess of 85 miles per hour for various periods of time. They stated that the undercover license plate would usually discourage law-enforcement officers from giving them a traffic citation.

The use of a state vehicle and the confidential license plate by the Secretary in the above described manner is an abuse of his privilege and position. Also, the speed at which the vehicle was reported to be moving in many cases was an endangerment to public safety. We could not determine the actual number of miles this vehicle has been misused. The cost to the State to operate this vehicle is .25¢ per mile.

RECOMMENDATION

We recommend that the Secretary and staff stop using assigned state-owned vehicles for purposes other than state business. The State should be reimbursed for any trip(s) for which assigned state-owned vehicles were used that were personal or political in nature. We also recommend that the Secretary and his staff observe the speed limit at all times. License plates should be used legally on the car for which they are assigned. We are referring this finding to the Attorney General for his review to determine if any additional action is appropriate.

SPECIAL REVIEW (CONTINUED)

THE LOCATIONS SHOWN ON THE TRAVEL LOGS FOR THE STATE-OWNED VEHICLE ASSIGNED TO THE SECRETARY OF STATE DO NOT AGREE WITH THE GASOLINE RECEIPTS.

We examined the travel logs for the Secretary of State's assigned state-owned vehicle for the period January, 1994, through September, 1995. We compared the travel locations on the logs by date to the locations where gasoline was purchased on the vehicle's assigned credit cards.

We found twenty incidents where the destination listed on the travel logs differed from the location where gasoline was purchased. In one instance, the Secretary of State's travel log indicated that the vehicle traveled in Raleigh and the Wake County area that day. However, on the same day, gasoline was purchased in the State of Virginia using the credit card assigned to that vehicle. Also, on four occasions, the travel log did not indicate any travel was done in the vehicle at all. However, gasoline was purchased using the credit cards on those same days in cities such as: Vienna, VA; Rutherfordton, NC; McLeanville, NC; and Greensboro, NC. Table 4 below lists the discrepancies noted during our review.

Date	Location of Gas Purchase	Travel Log	
		To	From
02/04/94	Triangle, VA	Raleigh	Wake Co.
03/23/94	Greenville, NC	Raleigh	Wake Co.
03/30/94	Ronda, NC	Wake Co.	Raleigh
03/31/94	Salisbury, NC	Raleigh	Wake Co.
04/08/94	Warsaw, NC	Raleigh	Pinehurst
04/18/94	Vienna, VA	No trip indicated	
08/01/94	Boone, NC	Raleigh	Pinehurst
08/12/94	Wingate, NC	RTP	Wake Co.
08/29/94	Kernersville, NC	Raleigh	Wake Co.
08/31/94	Roaring Gap, NC	Raleigh	Wake Co.
09/02/94	Conover, NC	Raleigh	Wake Co.
09/19/94	Beaufort, NC	Raleigh	Wake Co.
10/19/94	Rutherfordton, NC	No trip indicated	
03/11/95	McLeanville, NC	No trip indicated	
03/11/95	Greensboro, NC	No trip indicated	
03/13/95	Newton Grove, NC	Raleigh	Wake Co.
05/16/95	Morganton, NC	Raleigh	Wake Co.
05/18/95	Atlantic Beach, NC	Raleigh	Wake Co.
05/24/95	Kernersville, NC	Raleigh	Wake Co.
06/01/95	Asheville, NC	Rockingham	Wake Co.

RECOMMENDATION

We recommend that the Secretary of State determine why these discrepancies exist. We could not determine if the car was being used improperly, or if the travel logs were incorrect, or if fuel was purchased for vehicles other than the state-owned car assigned to the Secretary.

SPECIAL REVIEW (CONTINUED)

STAFF MEMBERS HAVE USED THE STATE-OWNED VEHICLE ASSIGNED TO THE SECRETARY TO DRIVE THE SECRETARY AND ROSEMARY MCBRYDE TO VARIOUS LOCATIONS.

Three staff members have admitted under oath that they have driven the state-owned vehicle assigned to the Secretary to transport Ms. Rosemary McBryde from work to home, to various locations to meet the Secretary, and to many events across the State with the Secretary when she was both a state employee and a non-state employee. It was evident to the staff that Ms. McBryde had no official state function while being driven in the Secretary's car. The Secretary, under oath, and Ms. McBryde stated that the state-owned vehicle has never been used to transport her back and forth from home to work.

RECOMMENDATION

We recommend that the Secretary discontinue the practice of transporting his friends in a stated-owned vehicle when the friends are performing no official duties.

THE CHIEF INVESTIGATOR DROVE HIS ASSIGNED STATE-OWNED LAW ENFORCEMENT VEHICLE TO POLITICAL AND CHARITY EVENTS.

Mr. Galen Newsom, Chief Investigator of the Securities Division, used his assigned state-owned vehicle to drive the Secretary on at least two occasions to political events during the past two years. In addition, Mr. Newsom drove his assigned state-owned vehicle to a charity function in Durham. According to Mr. Newsom, he drove the Secretary to the political functions because he was working in the area. The Secretary stated that he rode with Mr. Newsom because he needed to discuss investigations that Mr. Newsom was conducting. In addition, he stated that his personal safety was in jeopardy on one of the trips, so he needed Mr. Newsom to serve as security. Some employees stated they saw Mr. Newsom at these events. We could not determine the actual number of miles this vehicle has been misused, but the cost to the State to operate this vehicle is .22¢ per mile.

RECOMMENDATION

We recommend that management take appropriate action to ensure that Mr. Newsom does not continue to misuse his state-owned vehicle. Management should hold Mr. Newsom accountable for the legitimacy of all travel done on state time and with his state vehicle.

EMPLOYEES PERFORMED PERSONAL WORK FOR THE SECRETARY OF STATE AND ROSEMARY MCBRYDE.

SPECIAL REVIEW (CONTINUED)

Staff members have stated under oath that they have performed yard work for the Secretary at his residence during normal working hours. According to two members of the Secretary's staff, they refer to these days as "Myrtle Manor" days, and their time was spent mowing grass, planting or moving shrubbery, and other various yard maintenance chores. One of the employees testified he did not take leave on these days. Others stated that they performed yard work for the Secretary on their own time, but they do not remember the exact dates. We were not able to determine the exact days that all of the employees did the work. Therefore, we cannot confirm whether all time has been properly accounted for, nor the exact amount of time spent on these services. The Secretary stated that employees have performed work at his residence. He also stated he had told employees they must take time off and cannot do the work for him on state time.

In addition, at least three members of the staff were used on at least three occasions to help Ms. Rosemary McBryde move from residence to residence. Their testimony differed as to whether this was done on state time. Some stated that they were asked by the Secretary to help Ms. McBryde. Others stated that they were asked by Ms. McBryde. All the employees stated they were not paid by Ms. McBryde nor the Secretary for performing these services.

On one occasion, two staff members used state time to perform alterations to Ms. McBryde's kitchen cabinets. They were instructed by the Secretary to meet him at Ms. McBryde's residence on April 28, 1995, to perform the tasks. In addition, he told the employees that the work was "Investor Awareness" work. The Secretary denied ever telling the employees this. He said that Ms. McBryde asked the employees to perform the work. He said that he and his driver just dropped by Ms. McBryde's residence the afternoon the work was being performed. Ms. McBryde said that she did not get home until after work and that the employees were already there working. The employees, however, stated that Ms. McBryde was there when they arrived early in the afternoon.

RECOMMENDATION

We recommend that the Secretary refrain from asking any employees to perform personal errands for him or his friends on state time. Employees should charge any time they have already spent doing personal errands for the Secretary or Ms. McBryde to annual leave. In addition, we recommend that the Secretary refrain from asking employees to perform personal tasks for him on their own time since this gives the appearance of impropriety.

SPECIAL REVIEW (CONTINUED)

THE SECRETARY EXERCISED UNDUE INFLUENCE IN THE EMPLOYMENT OF ROSEMARY MCBRYDE.

During the 1994 session of the General Assembly, the Appropriations Committee added the position of Travel and Tourism Area Promoter to the budget of the Division of Travel and Tourism (Division) in the Department of Commerce (Department). According to Mr. Leo Tilley, the Assistant Secretary of Administration for the Department, the position was not requested in their budget package and his first knowledge of the position was when the above legislation was passed. On December 12, 1994, the Department sent the request to the Office of State Personnel (OSP) to allocate the new position as a Tourist Information Specialist within the Sports Development Office at a pay grade 70 with a salary of \$28,168. The position was posted on December 14, 1994, as an anticipated vacancy subject to final approval by OSP.

The Department Personnel Officer, Ms. Lynn Minges, said that the Secretary of State called and recommended Ms. McBryde for the job before it was even posted. During the conversation, the tentative pay grade and salary were discussed. In addition, Mr. Tilley stated he received telephone calls from the Secretary of State and Senator Plyler, Chairman of the Appropriations Committee, recommending Ms. McBryde for the position. According to the Secretary of State, Senator Plyler created the position specifically for Ms. McBryde because he and her father are good friends. After the interviewing process, Ms. McBryde was selected as the best candidate for the position on January 11, 1995.

Meanwhile, OSP classified the position as an Information and Communications Specialist II at a pay grade 68 with a salary of \$25,841 as documented in a letter to the Department dated January 4, 1995. While final approval to offer Ms. McBryde the position was being obtained, the Secretary of State called Ms. Minges to inquire about the position. According to Ms. Minges, he asked about the salary of the position again. When she informed him of OSP's classification changing the salary to \$25,841, he became upset because she had earlier told him the salary would be \$28,168. According to Ms. Minges, he made her feel uncomfortable as if she had done something wrong. Ms. Minges then contacted OSP and discussed the miscommunications between the Secretary of State and herself and requested a salary exception. On January 17, 1995, OSP granted the Department a 9% exception for Ms. McBryde. The Department confirmed Ms. McBryde's employment as an Information and Communications Specialist II at a salary of \$28,168 on January 25, 1995, with an effective date of January 19, 1995. It appears that Ms. McBryde barely qualified for the position at a pay grade 68 and would not have been entitled to the salary exception. OSP could not provide us with documentation supporting the 9% exception.

Ms. McBryde worked in the position from January, 1995, through March, 1995. Due to budget cuts, a secretarial position within Sports Development was eliminated leaving secretarial duties for Ms. McBryde to perform. According to her supervisor, Mr. Bill Dooley, and Mr. Tilley, she became unhappy and requested to be transferred.

SPECIAL REVIEW (CONTINUED)

The Department transferred Ms. McBryde to the Division of Travel and Tourism. There is no documentation of this transfer in Ms. McBryde's personnel file. According to employees within this division, Ms. McBryde had no work to do and spent most of her time talking on the telephone to the Secretary of State or other members of his staff. In addition, employees stated she was often absent from work and no one knew where she was or what she was doing.

Again, Ms. McBryde became unhappy because of her lack of duties and because she was required to perform secretarial duties. During this period, the Secretary of State called Ms. Minges (Personnel Officer) complaining about the treatment of Ms. McBryde. He also threatened to have Department positions abolished by Senator Plyler. The Secretary has denied making such a threat.

According to Mr. Tilley, he received a telephone call from the Secretary of State telling him that Ms. McBryde was going to transfer to the Office of the Secretary of State. An agreement was reached to let Ms. McBryde go to work at the Secretary of State's Office for two weeks until a position in the Office of the Secretary of State could be established. According to personnel records, during these two weeks, Ms. McBryde was still assigned to the Department of Commerce.

On July 6, 1995, the Secretary of State's office prepared and submitted a position action form requesting a new Securities Investigator at a budgeted salary of \$28,168. The position was requested at a pay grade 71T with a salary range of \$29,376-\$46,266. It should be noted \$28,168 was Ms. McBryde's salary while at the Department of Commerce. This request was approved by the Office of State Personnel on July 7, 1995.

On July 17, 1995, a mandatory staff meeting of the Enforcement Section of the Securities Division was held by the Chief Investigator, Mr. Galen Newsom. According to the staff members who attended the meeting, Ms. McBryde was introduced as the new Securities Investigator. Prior to this meeting no one within the Securities Division knew that a position was even available. The position was posted two days later on July 19, 1995, and some applications were received. However, no interviews were performed. The final paper work was prepared at OSP on July 19, 1995, with an effective date of July 1, 1995, for the Securities Investigator position.

According to Mr. Ralph Peters, Ms. McBryde's Supervisor at Commerce, his secretary informed him that Ms. McBryde had called and said she had been transferred to the Secretary of State's Office. However, the Department of Commerce paid Ms. McBryde for the entire month of July 1995, even though no one saw her working there after the middle of the month. Ms. McBryde resigned from the Department of Commerce effective August 1, 1995.

According to Ms. McBryde, her first knowledge of this transfer was when Mr. Peters and Mr. Tilley told her to report to the Secretary of State's Office on a given date. She does not

SPECIAL REVIEW (CONTINUED)

remember the exact date. She said she did not know why she was being transferred since she did not apply for a job in the Secretary of State's Office.

The newly established Securities Investigator position was abolished at the request of the Secretary of State's Office on September 27, 1995, with an effective date of August 1, 1995. In our opinion, this action clearly shows that the position was created solely for Ms. McBryde and that there was no real need for the position. None of the other applicants were considered for the position after publicity prevented Ms. McBryde from taking the position.

RECOMMENDATION

We recommend that the Secretary comply with all state personnel hiring procedures when hiring employees. (See discussion, page 69.) We also recommend that the Secretary refrain from putting pressure on personnel in other departments relative to hiring procedures and internal procedures within their agencies.

THE SECRETARY OF STATE WAS REIMBURSED FOR A QUESTIONABLE TRIP TO ATLANTA, GEORGIA.

The grand opening of the Welcome South Visitors Center took place in Atlanta, Georgia during the period May 8-14, 1995. According to Ms. Rosemary McBryde, she attended the grand opening during May 10-13, 1995, representing the Department of Commerce. She was reimbursed \$578 for airfare, taxi fare, hotel, and meals. The State of North Carolina's primary participation was providing a band for the event on May 10, 1995.

During our review of telephone records, we noted four telephone calls made by the Secretary to the hotel where Ms. McBryde was staying. Two calls were made from the Secretary of State's residence with his state calling card: May 10, 1995, at 11:13 p.m., and May 11, 1995, at 7:42 a.m. In addition, a call was made from his direct telephone line in his State office on May 10, 1995, at 5:06 p.m. Another call was made from the Secretary's cellular telephone in his assigned state-owned vehicle on May 11, 1995, at 1:01 p.m. According to the Secretary, he called the hotel to talk with someone from the Department of Commerce to see what he needed to do at the event. He said that he may have possibly talked to Ms. McBryde. Ms. McBryde was the only Department of Commerce employee staying at the hotel.

We determined that the Secretary of State subsequently attended the grand opening during May 12-13, 1995. His flight arrived in Atlanta at 2:39 p.m. on May 12 and departed from Atlanta at 12:13 p.m. on May 13. His justification for this trip was to represent the Governor and the State at the Southern Travel and Tourism Show. According to Mr. Ed Turlington, the Governor's Executive Assistant, the Secretary of State called on his own initiative to inform the Governor that he was going to Atlanta to represent the State at this event. Mr. Turlington stated that prior to the telephone call the Governor's office had not intended on sending a representative in addition to the employees from the Department of Commerce. The

SPECIAL REVIEW (CONTINUED)

Secretary of State was reimbursed \$590 for airfare and \$83 for meals and taxi fare. The explanation for one of the taxi fares was travel from the airport to the hotel. However, the Secretary of State did not turn in a hotel receipt for reimbursement; he stated that he stayed with a friend. None of the events took place at the hotel. We could not determine that he served in any official role at the grand opening.

According to the Secretary, he visited the North Carolina booth and spoke to the group at a reception. He said he stood-up and spoke for North Carolina.

RECOMMENDATION

We recommend that the Secretary reimburse the State the total of \$673.

THE CHIEF INVESTIGATOR ASKED TWO EMPLOYEES FOR A CASH CONTRIBUTION TO GIVE TO THE SECRETARY OF STATE.

In 1994, a group of people from Saudi Arabia, including members of the Foreign Minister's family, were in Durham, NC for approximately two weeks. During this visit, the Secretary approved requests from three staff members to work for the Saudis. These employees were required to take leave for this period of time. When the three employees were paid for their services at the end of the Saudis' trip, two of the employees, Mr. Howard Crutchfield and Mr. Jonathan DeMers, were approached by the third employee, Mr. Galen Newsom (Chief Investigator) who asked for a cash contribution for the Secretary of State. Mr. Newsom reminded the employees that the Secretary had given them permission and time off to do the work. Mr. Newsom was given \$50 by Mr. Crutchfield. Mr. Newsom said that he gave the Secretary \$100, \$50 from Crutchfield and \$50 of his own. The Secretary stated he gave the \$100 to charity. Mr. DeMers said that he personally gave \$500 to the Secretary. The Secretary strongly denies that Mr. DeMers gave him this money. Mr. DeMers and Mr. Crutchfield said that after they were approached by Mr. Newsom, they felt that this personal contribution was expected by Mr. Newsom. According to Mr. Newsom, he mentioned to the employees that he was giving some money to the Secretary and they may want to do the same.

RECOMMENDATION

We recommend that the Secretary take appropriate action to ensure that staff members, particularly those in supervisory roles, do not put pressure on fellow employees for personal contributions to the Secretary.

SPECIAL REVIEW (CONTINUED)

THE CHIEF INVESTIGATOR INAPPROPRIATELY USED HIS “BLUE LIGHT” TO STOP A VEHICLE.

According to Mr. Richard Carlton, Chief Deputy, he received a complaint from either the SBI or the State Highway Patrol during September, 1993, relative to a woman who complained that Mr. Galen Newsom, Chief Investigator, had pulled her over with his blue light. According to Mr. Newsom, he saw a lady driving recklessly. He said that he contacted the Highway Patrol but no patrol cars were in the area, so he pulled the car over and warned the driver. He said that Monday when he arrived at work, the Secretary called him in and disciplined him. He said that he did not remember whether the Secretary took away his state car or his blue light. The Secretary said that he took Mr. Newsom’s car and blue light away from him for one or two weeks. Employers are required to document any disciplinary actions against employees in their official personnel file. However, we found no documentation of the incident on file.

RECOMMENDATION

We recommend that the Office of the Secretary of State record complaints when filed with the office. In addition, we recommend that any personnel action taken be recorded in the appropriate file.

UNNECESSARY STATE EXPENSES WERE INCURRED IN SENDING TWO EMPLOYEES TO EXECUTIVE PROTECTION SCHOOL.

Mr. Galen Newsom, the Chief Investigator, and Mr. Keith Whitfield, a former Securities Investigator, were sent to Ft. Lauderdale, FL in January 1993 to attend an Executive Protection School. The cost of this training to the state, including travel expenses, was \$2,291.63. According to Mr. Eugene Cella, Deputy Securities Administrator, the approval of this training was done without his knowledge. Mr. Richard Carlton, Chief Deputy Secretary of State, signed the authorization forms approving the training and travel. He stated that his approval was based on the fact that Mr. Newsom had bypassed all his superiors to personally get the Secretary to approve the trip prior to requesting official authorization. Mr. Cella reported he saw no justification for this training as it related to the employees’ job duties in the Securities Division. According to the State of North Carolina Budget Manual Section 5, X, G.1. Employee Training Fees, “. . . *employee training involves courses that develop an employee’s knowledge, skill, and ability to perform the duties of his/her present job . . .*”

We learned that training of this nature can be obtained at no cost to state employees in a course offered by the North Carolina Highway Patrol. We found no evidence that Executive Protection Training would benefit the two employees in performing their job duties.

SPECIAL REVIEW (CONTINUED)

RECOMMENDATION

We recommend that the Office of the Secretary of State only send employees to training that is beneficial to the employees in their state job functions. In addition, we recommend that the Office of the Secretary of State determine if necessary training is offered within state government before sending an employee to expensive training by outside entities.

EMPLOYEES WITHIN THE SECRETARY OF STATE'S OFFICE HAVE CONTINUED TO MISUSE THE STATE TELEPHONE SYSTEM.

In our management letter issued to the Office of the Secretary of State (Office) in August 1994, we questioned \$1,478 in personal telephone calls for the period November, 1992, through November, 1993. The Secretary stated in his response to our management letter, "It is our very strict policy that if a call is purely personal in nature, it should never be charged to the state." During our current review, we learned that only one employee had paid back \$65 of personal calls questioned in the management letter.

Just prior to our current review, the Office asked employees to review telephone records to identify any personal calls made from August 1994 through June 1995. A total of \$1,828 was reimbursed by employees. Three employees reimbursed \$1,398 of this amount. Mr. Garland Garrett, III reimbursed \$1,020, which included \$986 of personal calls made on his state cellular telephone. He stated in a letter dated August 4, 1995, that he incorrectly assumed that cellular telephone calls were free to the State. Interestingly, however, he reimbursed the Office \$19.83 in March 1994 for personal calls he had made on a state cellular telephone. In addition, the Secretary of State reimbursed the Office \$195 for personal calls made on his state cellular telephone to Ms. Rosemary McBryde. Mr. Matthew Mikula also reimbursed the Office \$183 for personal telephone calls he had made.

During our current review, we examined telephone records for the period December, 1993, through July, 1995, and cellular telephone bills for the period July, 1992, through June, 1995. We identified telephone calls made to the same telephone numbers that were acknowledged as being personal by employees for the period August, 1994, through June, 1995. These calls totaled \$682.00, which includes \$284 in unreimbursed calls to Rosemary McBryde. In addition, we observed other calls that appear questionable. However, due to the limited time frame in which we were working and the fact that employees are continuing to make these calls, we request that the Secretary assign an employee to examine the telephone bills and determine exactly how many calls are personal in nature.

SPECIAL REVIEW (CONTINUED)

RECOMMENDATION

We recommend that the Secretary of State require all employees to reimburse the State for the personal telephone calls identified during our review. In addition, personal telephone calls questioned in our August 1994 management letter to the Secretary should also be reimbursed. All staff should immediately cease from making personal long-distance telephone calls at the State's expense. The Secretary should serve as an example to his staff by reimbursing any additional amounts he owes for personal calls and refrain from misusing the telephone in the future.

THE SECRETARY OF STATE'S BUSINESS ADVISORY COUNCIL TAKES TRIPS TO NEW YORK CITY EACH YEAR.

The Secretary of State has formed a Business Advisory Council for the purpose of providing information to him on a regular basis on all aspects of business life in North Carolina. According to the Secretary, he "...strongly believes that his office serves as the very heartbeat of the business community, and touches many different areas of commercial enterprise." The Business Advisory Council goes on an annual trip to New York City each December. We examined the agendas prepared for the trips to New York City. In our opinion, the State benefits very little from this activity which appears to be basically the same each year. Other than parties and receptions, the activities included tours of the New York Stock Exchange and short meetings at Moody's Investor Service, Standard and Poors and J. P. Morgan.

An examination of the statutory duties of the Secretary of State's office reveals that the Secretary is the Securities Administrator for the State, but the Office is not authorized to perform a significant role in the State's economic development. However, this appears to be a role that the current Secretary has assumed at considerable state expense. Travel costs incurred by the Secretary and members of his staff are reimbursed by the Secretary of State's Office. Total travel reimbursements for the New York City trip were \$2,356.51 in December, 1993, and \$4,042.10 in December, 1994. Included in the 1994 total is \$991.03, representing travel costs reimbursed to Howard Boney, Jr., who is not an employee of the Secretary of State's Office. The Secretary and members of his staff attended these trips on state time.

RECOMMENDATION

We recommend that the Secretary discontinue payment of expenses from state funds for the annual New York City trip or any trip that is not consistent with the legal mandates of his Office.

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PROCEDURAL FINDINGS AND RECOMMENDATIONS

GENERAL COMMENTS

During the audit, we encountered problems in locating records, files, and documentation of various events and actions. We were able, however, to locate and/or reconstruct records to an extent which allowed us to reach conclusions relative to the operations of the Office. Our examination of records identified a number of non-compliance, operational, and efficiency issues which appear to have an adverse effect on operations. We have grouped these items into broad categories with a discussion of the issues and recommendations for improvements. Where possible, we have identified the financial impact of our recommendations. We should note that while we have identified a number of areas where improvements can be achieved, overall the Office has generally provided services to the public as required by legislation. However, as identified in this report, there are a number of areas of non-compliance to both statutory requirements and state policies and procedures.

ADMINISTRATION

THE OFFICE'S PLANNING PROCESS DOES NOT CAPTURE THE NECESSARY LEVEL OF DETAIL.

As part of our audit, we reviewed the Office's planning process. State Planning and Budgetary Regulations (GS §143A-17 and 143B-10) require each agency to submit both short-term and long-term plans as part of its budgetary request. The Office did have a six-year plan dated October 10, 1994. This plan addressed, in broad terms, the goals and objectives of the Office and listed outcome measures. However, data supplied by management showed documentation of these measures was not kept at the level of detail needed to accurately measure performance. We were unable to locate any short-term plan other than the biennial budget requests, which did not contain the level of detail necessary to constitute a short-term plan. A number of the shortcomings we have identified can be attributed to the lack of, or poor, planning. Therefore, it is our opinion that the planning process only marginally meets the requirements of the budgetary regulations.

RECOMMENDATION

We recommend the Office institute procedures for a comprehensive short-term and long-term planning process. The long-term plan should address in detail the areas contained in the current plan. Each division director should submit detailed goals and objectives to management for inclusion in the Office's overall plan. The short-term plan should be prepared each year detailing how funds appropriated by the Legislature will be spent in the major operational

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

areas contained in the long-term plan. Detailed measures of performance should be kept for each objective.

THE LACK OF CLEARLY WRITTEN, SPECIFIC POLICIES AND PROCEDURES HAMPERS EFFECTIVE OPERATIONS.

The Office has a “*personnel manual*” which was presented to us as the internal policies and procedures manual. Review of this manual reveals that it contains only minimal restatements of state policies and procedures relative to daily office operations. In our opinion, this document does not contain the level of detail necessary to function as a true internal policies and procedures manual. Additionally, this document was not dated, and we found no evidence of a procedure for updating the information contained in the manual, nor procedures for distribution of the manual. Further review revealed that each major section within the Office does not have specific, written, step-by-step procedures in place.* Such procedures are critical, in our opinion, since the Office has a high turnover rate. As shown in Appendix A, page 99, 69.4% of the staff responding had been in their current position five years or less. (See page 84 for details on changes in the number of positions.) The lack of formal written procedures has resulted in inconsistent practices in the past in such critical areas as personnel and finance. The lack of specific procedures has contributed to staff confusion, frustration, and poor performance.

**AUDITOR’S NOTE: After fieldwork was concluded, we were provided “procedures” manuals for the Enforcement Section of the Securities Division and for the Document Examiners Section of the Corporations Division. Review of these manuals showed that they contain limited operating procedures for the respective units. For the most part, they are restatements of general statewide policies.*

RECOMMENDATION

We recommend management make the development of a comprehensive Office internal policies and procedures manual, as well as specific policies and procedures manuals for each major section within the Office, a priority. Specific, step-by-step procedures should be included in each section’s manual. A system for distributing and updating these procedural manuals should also be implemented. Once the procedures are in place, management should enforce strict adherence to the procedures in all areas.

THERE ARE COMMUNICATIONS PROBLEMS WITHIN THE OFFICE WHICH HAVE LED TO CONFUSION OVER LINES OF AUTHORITY AND RESPONSIBILITY.

Our audit revealed communications problems among the sections within the Office. The major concern identified by staff was the lack of consistency in managerial decisions and the implementation of policies, mainly in the area of personnel decisions. While we found that the senior level staff did have monthly staff meetings, many of the communication problems appear to stem from the lack of adequate planning and

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

coordination. The Chief Deputy appears to assume too much responsibility for daily operations. Additionally, we found evidence that top management overrules division directors' decisions and bypasses the directors to give special assignments to lower level employees. (See discussion on pages 14-19.) This situation has contributed to poor staff morale and motivation, as evidenced in the responses to the staff questionnaire (Appendix A, page 99). Communications problems are further complicated by the non-contiguous location of the various divisions within the Office.

Management reported to the auditors at the beginning of the audit that staff had been reorganized in August, 1995, in an effort to better align functions and reduce the need for the Chief Deputy to make daily operational decisions for the individual divisions. Our review of prior organizational charts revealed that the same basic reporting structure as the "new" August, 1995, chart has been in effect since November, 1993. Interviews with staff indicated that the formal organizational structure has remained the same since at least 1993. According to staff, recent organizational changes have not been effective in improving the communications and reporting problems.

RECOMMENDATION

We recommend that lines of authority and responsibility be clearly identified and communicated to all staff. Managers at all levels should be supported and their authority upheld by senior management. Organizational reporting lines should be adhered to, with top management requesting assistance from the division directors who should assign staff as needed. In our opinion, these changes should help to improve staff morale, motivation, and performance.

THE OFFICE SUFFERS FROM A LACK OF COORDINATION AND EXPERTISE FOR TECHNOLOGY.

The Applications System Development Division of the State Information Processing Services (SIPS) provides a greater variety of technological support services to the Office of the Secretary of State than to any other department in state government. The Office's *Information Resource Management (IRM) Plan* states . . . "today for IRM staff support, the Department relies almost entirely on SIPS." This degree of support is needed due to the absence of a person with the proper expertise to properly address the IRM issues of the Office. In 1994, an attempt was made to alleviate this situation by creating a senior level analyst programmer position in the Secretary of State's Office. This person was to provide sufficient expertise in addressing the Office's technological needs and also to lessen the dependency on SIPS personnel. The OSP position description describes the duties of this position as . . . "performing systems analysis, definition of system requirements, system design, writing of system and program specifications, program coding, and maintenance implementation duties on a variety of complex information

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

system applications." This position was budgeted as a grade 74, with an annual salary of \$36,201.

In October, 1994, management hired an individual who, according to documentation in his personnel file, does not have the required qualifications for the position. This individual was hired in a "trainee progression" (allowed by OSP procedures) at a salary approximately \$10,000 less than the budgeted salary. This action was taken although the primary reason for the approval of the position was to significantly improve the technological expertise of the Office immediately. Management stated this action was taken due to the lack of an available applicant with the minimum qualifications who would accept the job at the budgeted annual salary. Through June 30, 1995, the Office had incurred educational expenses of \$1,110.00 to provide the minimum education needed by the employee in the Applications Analyst Programmer position. During FY94-95, the Office incurred over \$77,000.00 in expenses for technological support from the Applications Development Division of SIPS. According to SIPS personnel, the dependency on SIPS has not diminished since this person was employed.

The lack of a coordinated effort on technology issues has led to the inefficient use of resources in both the Secretary of State's Office and SIPS. Employees in each division of the Office independently coordinate their technological needs with SIPS. Technological purchases (equipment, supplies, and training) are also uncoordinated. (See discussion on pages 49-53.) Operations of the Office are further hampered because only two of the eight divisions have access to a LAN (local area network). These two divisions, Business License and Securities, have access to two separate LANs. According to management, this situation is due to the two division's separate physical locations. Management states that plans are for all divisions to have access to a consolidated LAN after relocation to the old Education Building. (Relocation is scheduled for November 15, 1996.) Prior budget requests for funds to computerize the Office have not been approved by the legislature, according to management.

RECOMMENDATION

We recommend management evaluate the progress of the Applications Analyst Programmer. Proper internal and external coordination of technological needs is critical in order to provide the most efficient use of resources within the Office. Specific procedures should be implemented to assure coordination of technology to protect the integrity and internal compatibility of equipment and programs.

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

THE LACK OF TECHNOLOGY IMPEDES EFFECTIVE OPERATIONS.

During our audit, several technological deficiencies were noted. Obsolete and inefficient equipment have caused significant delays for the public in gaining communication with the Office initially and in subsequently obtaining the information needed. Obsolete telephone and computer equipment in all divisions has also caused delays in servicing the public, especially in the Corporations Division. The telephone system used by the Office is not automated and requires manual handling of all calls. This means some calls are unable to get through in a reasonable amount of time, if at all. According to our interviews, the computer equipment used to assist in providing answers for the majority of these calls is slow and in constant need of repair. (Currently, all divisions of the Office are connected to SIPS mainframes by "dumb terminals.")

Additionally, the Uniform Commercial Code (UCC) Division suffers from the lack of an imaging system. This necessitates maintaining a dual file of microfilm and paper because the microfilm copy is not of good enough quality for future reference. The microfilm equipment is old and parts are no longer available. Storage of paper is currently a major concern in this division. According to information received during the audit, the equipment used to store the paper records cannot be relocated to the old Education Building due to size limitations and age of the storage unit. Also, the division does not have equipment and/or programs capable of creating a database from which year-to-date fiscal transactions can be accessed. Currently, they are using a combination of a NCR machine and the Departmental Accounting System for fiscal input.

The estimate to upgrade the telephone system for the Office to an automated system which would offer voice mail capabilities is approximately \$50,000. The Director of the UCC Division reports that the estimate for installing an imaging system is \$942,458.* We have not done any detailed work to determine the exact needs of the Office; therefore, we cannot confirm these estimates.

**AUDITOR'S NOTE: Estimate of cost of imaging system obtained from Unisys Corp. on September 5, 1995.*

RECOMMENDATION

We recommend management revisit its *Information Resource Management Plan* and explore the possibility of implementing some of the technological changes, such as an automated telephone system, before relocation to enhance the productivity of the Office and service to the public. Management should determine the costs of upgrading all technological needs for operations and design a timetable for the implementation of these needs. Specific requests should be made to the legislature for funds to purchase all identified technological requirements.

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

CASH MANAGEMENT AND INTERNAL CONTROL ISSUES

THE OFFICE IS IN NON-COMPLIANCE WITH THE STATEWIDE CASH MANAGEMENT PLAN.

During our examination of the cash receipts cycle for the Office for FY94-95, we reviewed the *Cash Management Manual* and the Office's *Cash Management Plan*. GS §147-86.10 states:

It is the policy of the State of North Carolina that all agencies, departments, bureaus, boards, commissions and officers of the State, whether or not subject to the Executive Budget Act . . . shall devise techniques and procedures for the receipt, deposit, and disbursement of moneys coming into their control and custody which are designed to maximize the interest-bearing investment of cash, and to minimize idle and nonproductive cash balances.

Each agency and/or department must develop a cash management plan that coincides with the uniform statewide cash management plan and any cash management directives or policies issued by the State Controller. Our review of the Office's *Cash Management Plan* revealed that the plan was out of date, incomplete, and not in compliance with the statewide procedures.

Additionally, the Office is in non-compliance with the provision of the statewide plan which requires that bills to the State. . . *"be paid neither early nor late but on the discount date or the due date to the extent practicable."* The Office's plan did not include standards for the disbursing of funds in a manner to comply with this requirement. Invoices were batched and submitted to the Office of the State Controller* for processing and writing of checks. Included in these batches were numerous invoices that were paid from 65 days after due date to 23 days prior to the invoice due date. Late payments damage the reputation of the State as a debtor and early payment costs the State interest income.

* **AUDITOR'S NOTE:** *Per personnel in the Controller's Office, the Office of the Secretary of State is one of only 2 agencies that does not write its own checks. (The Controller's Office also writes checks for approximately 9 boards and/or commissions.) For the last two fiscal years, the Office had averaged approximately 140 checks per month.*

Further, we noted that applications fees in the Securities Division were being held up to ten days after receipt while the applications were in review. GS §147-77 requires that . . . *"any money belonging to the State of North Carolina . . . be deposited . . . on the same day received, at noon, or as near thereto as may be practical."* Receipts totaling \$250.00 or more per day must be deposited daily. Since receipts are being held for extended periods prior to deposit, there is a potential for loss of funds due to improper safeguarding of monies received, as well as lost interest to the State on funds not deposited daily.

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

We recommend the Office immediately take steps to comply with the Statewide Cash Management Plan. Further, we recommend the Chief Fiscal Officer immediately familiarize himself with the requirements of the statewide plan and all regulations regarding the handling and disbursing of cash. The Office's plan should also be updated periodically in compliance with statewide policy. Further, we recommend the Office take steps to begin performing its own check writing functions in order to have more control over disbursements. The Office of the State Controller should be contacted to help plan and coordinate the move to the disbursing account. Cost of doing this should be minimal since the Office of the State Controller will train Office personnel, will assist in the conversion, and will supply the equipment and initial supplies for check writing.

THE OFFICE DOES NOT HAVE ADEQUATE PROCEDURES IN PLACE TO SECURE FUNDS OVERNIGHT.

We noted that revenues collected through the various divisions were submitted to the accounting section after close-out for each day's deposit. The accounting personnel compiled, processed, and prepared the certification of funds to be deposited. We observed this process for three consecutive days during the audit and noted that these funds were not submitted to the State Treasurer for deposit at the end of each work day. The average deposit for each of these three days was \$46,630. The funds were kept overnight in a locked file cabinet. We also observed that all funds received in a day by the various divisions were not processed by the daily cut-off. The unprocessed work and receipts were kept in the various divisions overnight in unsecured areas such as desk drawers and file cabinets.

RECOMMENDATION

We recommend the Office examine in detail its receipting procedures in each division. Management should implement standard procedures for handling, receipting, securing, and depositing all funds received office-wide. When funds cannot be deposited daily, the funds should be transported to a centralized location at the end of the work day and secured overnight.

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

THE OFFICE IS IN NON-COMPLIANCE WITH REGULATIONS REGARDING REFUNDS OF OVERPAYMENTS.

The North Carolina Administrative Code, Title 18, Chapter 5, paragraph .0209 states:

Refunds will be made on overpayment of filing fees in connection with original Uniform Commercial Code Financing Statements. Refunds will not be made on continuations, amendments, assignments or releases. When overpayments were received in connection with continuations, amendments, releases and assignments, the entire document will be returned with a request for the exact amount due.

The UCC Division was processing **all** requests for service even if an overpayment was included. The Division was refunding only over payments in excess of \$6.00 in keeping with an unwritten internal policy. The \$6.00 threshold was established as being the approximate cost of processing a refund check. The effect of this situation is non-compliance with Title 18. Management said the Office instituted this internal policy as the result of an audit recommendation made by the State Auditor in 1981. Our review of this recommendation shows that we had recommended that the Office establish written procedures for handling refunds. The only procedures we found were contained in Title 18 of the Administrative Code which was last updated in 1976.

During the review of cash receipting procedures in the Securities Division, we learned that for each application to register securities, the applicant must submit both an applications fee and a registration fee based on the offering. GS §78A-28(b) states in part that:

*“ . . . every person filing a registration statement shall pay . . . a registration fee of one-tenth of one percent (1/10 of 1%) of the maximum aggregate offering price at which the registered securities are to be offered in the State, **but the registration fee may not be less than twenty five dollars (\$25.00) nor more than one thousand five hundred dollars (\$1,500.00).**”*

We noted a situation where a registration fee in excess of the maximum allowable \$1,500.00 was paid with an application for securities registration. The Division had retained the excess registration fee of \$1,000.00 and had originally deposited it in the General Revenue Fund (19956). This excess was later moved to the General Fund (13200). Based on conversations with Division personnel, this is the normal procedure for handling excess registration fees. It is our opinion that in keeping the excess registration fees, the Office is in non-compliance with the General Statutes.

RECOMMENDATION

We recommend management review the North Carolina Administrative Code and any other applicable laws and regulations regarding the filings of UCC instruments. In addition, we recommend that the Office review the rationale of Title 18 in requiring the Office to return the entire document when there is an

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

over payment. Further, we recommend that management and Securities Division personnel review and comply with GS §78A-28(b) in determining the appropriate registration fees for each securities registration. Internal policies and procedures regarding the handling of refunds for all divisions should be formalized and should comply in all respects to applicable regulations.

THE OFFICE DOES NOT HAVE ADEQUATE INTERNAL CONTROL PROCEDURES IN PLACE.

During our review, we noted several weaknesses in the various divisions concerning the separation of duties. This type problem was evidenced in the payroll and accounting functions, as well as the cash receipting functions in the various divisions. Separation of duties is a basic accounting control procedure that strengthens the system of internal control by not allowing the same individual to initiate, process, or record transactions without the review and approval of another individual. With proper separation of duties, the potential risk resulting from intentional or inadvertent actions of any individual is reduced.

Other areas of concern relative to the internal control environment included:

- Mail was opened in mailroom and transported openly to the divisions.
- Funds received were not entered individually on a receipts log as they were removed from envelopes.
- Checks were not restrictively endorsed at the earliest point possible.
- Receipts were not routinely issued for all monies collected at the public access areas.
- Some receipts used by the Office were not pre-numbered; logs of receipt books issued were not maintained.
- In the Corporations Division, a log of beginning and ending document identification numbers issued during a day was not maintained for the 94-95 fiscal year; therefore, a system was not in place to ensure that all documents were properly accounted for.
- In the Corporations Division, fees could be waived by staff without supervisory approval.
- In the Corporations Division, the date on the tracking system could be manipulated by staff.
- In the Corporations Division, there was no evidence of review by staff to indicate that the total fees submitted for deposit were verified against the total fees recorded in the tracking system.
- In the Corporations Division, document processors could reopen batches of transactions which had already been closed in the system.
- Only the top copy of multiple invoices batched for processing was marked as received, approved, and canceled.

Management of the Office determined that an employee within the Corporations Division embezzled \$150.00 on August 1, 1995. The Office has determined through a recent internal review that a much larger sum may have been embezzled over a period of time. The internal control weaknesses cited above for the Corporations Division contributed to this loss of funds.

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

We recommend that management review and evaluate the specific weaknesses identified during the audit in an effort to develop and implement control procedures which are practical and feasible to strengthen the internal control structure. The reassignment of duties and/or implementation of various review procedures should be strongly considered. We further recommend that the Office request assistance from the Office of the State Controller in the review of internal account controls and structure over general fund revenues to make adjustments needed to strengthen the controls and structure.

NUMEROUS CODING ERRORS WERE NOTED IN THE GENERAL FUND EXPENDITURE ACCOUNTS FOR FY94-95.

During our review of general fund expenditures for the fiscal year ending June 30, 1995, we noted numerous classification errors totaling \$76,133.71 out of \$800,429.18 tested. This error rate equaled 9.5% of the total sample. The result of these classification errors is that numerous expenditures were incorrectly classified causing several expenditure accounts to be misstated. Specific classification errors noted were:

- A total of \$2,095.17 was incorrectly charged to Telephone Service (3210) when it should have been charged to Cellular Telephone Service (3218).
- A total of \$1,081.30 was incorrectly charged to Data Processing Services (3800) when it should have been charged to Supplies and Materials (2600).
- \$29.85 was incorrectly charged to In-State Travel (3111) when it should have been charged to Data Processing Services (3800).
- \$49.00 was incorrectly charged to Data Processing Services (3800) when it should have been charged to Other Services (3900).
- A total of \$20,367.08 was incorrectly charged to Data Processing Services (3800) when it should have been charged to Data Processing Equipment (5200).
- A total of \$3,619.35 was incorrectly charged to Data Processing Services (3800) when it should have been charged to Service and Maintenance Contacts (4400).
- A total of \$18,831.54 was incorrectly charged to Data Processing Services - Receipts (3802) when it should have been charged to Data Processing Equipment - Receipts (5202).
- A total of \$3,619.35 was incorrectly charged to Data Processing Services - Receipts (3802) when it should have been charged to Service and Maintenance Contacts - Receipts (4402).
- A total of \$1,877.22 was incorrectly charged to Office Supplies and Materials - Receipts (2602) when it should have been charged to Advertising - Receipts (3702).
- A total of \$68.35 was incorrectly charged to Other Services (3990) when it should have been charged to Rent of Conference Rooms (4150).
- \$3,390.00 was incorrectly charged to Data Processing Equipment (5200) when it should have been charged to Other Services (3951).
- \$21,105.50 was incorrectly charged as a refund against Data Processing Services (3800) when it should have been charged to Data Tape Sales (0595).

Additionally, during our review of payroll charges to various objects, we noted that the Office was only verifying the total of transactions processed and keypunched rather than

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

at the detailed object level. For example, we noted one transaction in the amount of \$1,735.20 that was charged incorrectly to Retirement Contributions (1820) which should have been charged to Hospital Contribution (1830). As a result, incorrectly keypunched transactions might not be detected which could cause the financial accounting records to be materially misstated. Generally accepted accounting principles require all expenditures and related financial data to be properly processed, recorded, summarized, and reported in the accounting records.

RECOMMENDATION

We recommend management immediately implement internal procedures to ensure all expenditures are properly classified and recorded. Further, we recommend the Office begin to review detail journals at the detail object level as well as in total.

THE OFFICE IS IN NON-COMPLIANCE WITH ITS OWN RECORDS RETENTION AND DISPOSITION SCHEDULE.

Chapters 121 and 132 of the General Statutes require each state agency to develop a records retention and disposition schedule to assure adequate documentation to support the expenditure of public funds. The Office had a Records Retention and Disposition Schedule for the Uniform Commercial Code Division, dated February 20, 1991, which states in part. . . *“the refunds file may be destroyed . . . after three years and when released from all audits, whichever occurs later.”* During our audit, we learned that the refunds file for the fiscal year ending June 30, 1994, had been destroyed. These records should have been kept until FY96-97 before being destroyed. As a result of this action, adequate documentation was not available to determine the amount of refunds made during FY93-94.

RECOMMENDATION

We recommend that the Office comply with its Records Retention and Disposition Schedule. Before any future decision is made on the destruction of records, management should review the schedule to ensure that records are retained or destroyed in compliance with the schedule.

THERE HAS BEEN NO ACTIVITY IN THE OFFICE’S SPECIAL REVENUE FUND SINCE 1992.

During our review of the Office’s special revenue fund (budget code 23200), we noted that there was a fund balance in the amount of \$4,367.52. We further noted that there had been no activity since June 30, 1992, in this fund. The balance represented the remaining sales receipts from the publication, *North Carolina Government - 1585-1979*. This document was last printed in 1981. A portion of the balance was funds appropriated by the 1973 General Assembly for the purpose of revising and updating the publication,

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

A Manual of North Carolina. The Office does not have any current planned activity for the use of these funds. In our opinion, the goals and objectives of this special revenue fund have been met.

RECOMMENDATION

We recommend the special revenue fund be dissolved and the fund balance of \$4,367.52 be transferred to the State's general fund.

BUDGET ISSUES

In order to audit compliance with State budget regulations, we examined in detail a sample of 424 expenditures and reimbursements drawn from FY92-93 through FY94-95. The sample was determined judgmentally after reviewing a complete listing of all expenditures for those years. Additionally, we reviewed the cash disbursements in the General Fund for FY94-95. Supporting documentation was reviewed to determine whether the appropriate management review and approval was taking place. Below, we discuss the findings from our review.

State government agencies have an inherent responsibility to be prudent in the use of public resources. The leaders of state agencies have a responsibility to assure that control procedures are in place to review and approve only expenditures that are necessary, reasonable, and demonstrate an efficient use of State funds. Moreover, the agency head should lead by example in demonstrating personal commitment to the wise and efficient use of state funds. From the concerns noted which relate to purchasing, travel, use of state employees for questionable tasks, and improper use of telephones and state vehicles, it is apparent that the Office of the Secretary of State does not have appropriate controls in place to assure the prudent and efficient use of resources. Additionally, the Secretary himself has shown extravagance in expenditures and use of staff.

TRAVEL REIMBURSEMENTS DID NOT COMPLY WITH STATE BUDGET MANUAL REGULATIONS, OR THEY WERE VAGUE AND INCOMPLETE.

Section 5 X. of the *State Budget Manual* outlines regulations for reimbursing employees traveling on official state business. It states that employees should . . . “*exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business and expending personal funds*” and that . . . “*employees will be responsible for unauthorized costs.*” As summarized in Table 5, page 41, we identified the following instances of non-compliance:

- Lack of appropriate authorization or approval of travel.
- Absence of receipts to support expenses.
- Improper reimbursement for meals on commuting trips.
- Undocumented long distance telephone calls.
- Reimbursement for tips at meals in addition to statutory meal allowances.
- Requests for reimbursement not filed within the required time period.

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

- Reimbursement of meals for non-state employees.
- Reimbursement for parking citations.
- Payment of excess hotel expenses without prior authorization.

For reimbursements included in our sample, the justification and necessity of many trips were unclear. Several travel authorizations did not indicate the purpose, or if indicated, the purpose was vague. Employees attended seminars, conferences, and meetings which appear unrelated to their job duties or the Office's operations. Finally, excessive numbers of staff attended the same conferences. It appears that management permitted employees to travel on "official state business*" regardless of the purpose or necessity of the trip or the relevance to job duties. As a result, the Office has incurred costs that are inadequately supported and that may not be necessary for the operations of the Office. All questioned costs are summarized in Table 5, page 41.

**AUDITOR'S NOTE: The approval process for travel should include a more specific and descriptive explanation for the travel. "Official state business" does not allow management to effectively monitor travel.*

RECOMMENDATION

We recommend management more closely monitor travel reimbursements to ensure compliance with budget regulations. For costs that were improperly reimbursed, management should immediately request employees to repay the Office. Management should immediately institute procedures to ensure that all travel is necessary and relevant to the performance of the employee's duties and the Office's operations. Furthermore, the purpose of travel should be clearly indicated to properly support any expenses incurred.

**TABLE 5
OFFICE OF THE SECRETARY OF STATE
QUESTIONED COSTS-- TRAVEL FY93-95**

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
185	08/08/94	410.80	RICHARD H. CARLTON	TRAVEL MONTANA	EXCESS HOTEL NOT APPROVED (NOTE: TRAVEL AUTHORIZATION APPEARS TO HAVE BEEN COPIED FOR ALL ATTENDEES.)	APPROVAL WAS ATTACHED TO ANOTHER INVOICE. (AUDITOR NOTE: APPROVAL FOR WAGNER ADDED EXCESS SUBSISTENCE, CARLTON'S AND OTHER ATTENDEES BLANKET FORMS DID NOT INDICATE EXCESS SUBSISTENCE).
612	10/26/94	1,500.00	HAMMER AND COMPANY	REENGINEERING PROGRAM AT CAMBRIDGE FOR CARLTON	RELATION TO SEC OF STATE DUTIES?	GOVERNOR HAS ENCOURAGED REENGINEERING AND THIS IS THE BEST PROGRAM IN THE NATION. THE MATERIAL WAS IMMEDIATELY APPLIED TO MAJOR CHANGES IN THIS OFFICE.
845	12/16/94	444.13	RICHARD H. CARLTON	TRAVEL NEW YORK HOTEL	NO PURPOSE/JUSTIFICATION OF TRIP NOTED	THE PURPOSE WAS TO PARTICIPATE IN FINANCIAL, INVESTOR, AND SECURITIES PROGRAM SCHEDULED IN FINANCIAL DISTRICT. (AUDITOR NOTE: NO DOCUMENTATION)
CARLTON		2,354.93				
9	07/06/94	500.00	EDWARD G CARR, JR	TRAVEL ADVANCE	NO EXPLANATION FOR NECESSITY OR TRIP	THE ADVANCE WAS TO SUPPORT THE UP-FRONT COST OF FOUR SCHEDULED OUT-OF-STATE TRIPS. (AUDITOR NOTE: NO DOCUMENTATION)
CARR		500.00				
399	09/27/93	18.21	JOHN C CURRY	TRAVEL TO ATLANTA, GA	UNDOCUMENTED PHONE CALLS	
CURRY		18.21				

TABLE 5 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
856	12/16/94	38.90	JONATHAN DEMERS	STOCKING STUFFERS FOR NY TRIP	NO PRIOR APPROVAL OR PO, BUSINESS RELATED?	THIS IS NOT AN APPROPRIATE EXPENSE.
901	01/05/95	18.86	GRAND HYATT NEW YORK	UNDOCUMENTED PHONE CALLS	UNDOCUMENTED PHONE CALLS (NOTE: NO DOCUMENTATION ATTACHED TO REIMBURSEMENT WHICH WOULD HAVE ALLOWED APPROVING PARTY TO KNOW IF TELEPHONE CALLS WERE APPROPRIATE. THIS IS TRUE FOR ALL CALLS QUESTIONED.)	ALL CALLS ARE IDENTIFIED BY PHONE NUMBER ON HOTEL BILL.
DEMERS		57.76				
147	08/07/92	14.92	RUFUS EDMISTEN	TRAVEL TO ASHEVILLE	UNDOCUMENTED LONG DISTANCE PHONE CALLS	PHONE CALLS ARE IDENTIFIED BY PHONE NUMBER ON HOTEL BILL.
252	08/28/92	35.56	RUFUS EDMISTEN	TRAVEL TO PORTLAND, MAINE	UNDOCUMENTED LONG DISTANCE PHONE CALLS	
1355	05/12/93	7.88	RUFUS EDMISTEN	TRAVEL TO CHARLOTTE AND ASHEBORO	UNDOCUMENTED LONG DISTANCE PHONE CALLS	
220	08/19/93	108.20	RUFUS EDMISTEN	TRAVEL TO WILMINGTON	NO PURPOSE STATED	BUDGET MANUAL ALLOWS SECRETARY OF STATE TO AUTHORIZE AND APPROVE HIS TRAVEL.
226	08/19/93	49.81	RUFUS EDMISTEN	TRAVEL TO CLEVELAND, OHIO	UNDOCUMENTED PHONE CALLS	PHONE NUMBERS ARE IDENTIFIED BY ORIGIN AND DESTINATION. (AUDITOR NOTE: HOTEL BILL ONLY INDICATES PARTIAL NUMBER)
344	09/10/93	52.06	RUFUS EDMISTEN	TRAVEL TO GREENVILLE	NO PURPOSE STATED	BUDGET MANUAL ALLOWS SECRETARY OF STATE TO AUTHORIZE AND APPROVE HIS TRAVEL. THE PURPOSE WAS TO DO TV PRESENTATIONS IDENTIFIED BELOW. (AUDITOR NOTE: NO DOCUMENTATION)

TABLE 5 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
652	11/10/93	147.28	RUFUS EDMISTEN (CONTINUED)	TRAVEL TO WILMINGTON AND CHARLOTTE	VAGUE PURPOSE STATED ("MEETINGS")	BUDGET MANUAL ALLOWS SECRETARY OF STATE TO AUTHORIZE AND APPROVE HIS TRAVEL. WILMINGTON TRIP FOR SPEECH ON SECURITIES FRAUD AND INVESTOR AWARENESS TO ROTARY GROUP AND TV PRESENTATION ON WECT. CHARLOTTE TRIP IN RESPONSE TO INVITATION FOR OPENING CEREMONY FOR NEW BUSINESS. (AUDITOR NOTE: NO DOCUMENTATION)
828	12/23/93	125.92	RUFUS EDMISTEN	TRAVEL TO PINEHURST AND NEW YORK	CABS OF \$28.00 AND \$55.00 NO RECEIPTS, BREAKFAST \$42.92	SOME RECEIPTS AND NOTES ARE ATTACHED. (AUDITOR NOTE: THERE WERE NOT RECEIPTS FOR CABS QUESTIONED. BREAKFAST QUESTIONED BECAUSE OF AMOUNT.)
1059	02/11/94	289.99	RUFUS EDMISTEN	TRAVEL TO WASHINGTON, DC	EXCESSIVE HOTEL (\$289.99)	BUDGET MANUAL ALLOWS SECRETARY OF STATE TO AUTHORIZE AND APPROVE HIS TRAVEL. EXCESS HOTEL AUTHORIZED.
1457	05/04/94	63.40	RUFUS EDMISTEN	TRAVEL TO WILKESBORO	AUTHORIZATION NOT SIGNED, VAGUE PURPOSE ("OFFICIAL TRIP")	THIS OFFICIAL TRIP (BY INVITATION) WAS THE INSTALLATION OF THE NEW CHANCELLOR AT APPALACHIAN STATE UNIVERSITY. (AUDITOR NOTE: ALL DOCUMENTATION INDICATES TRAVEL TO WILKESBORO ONLY.)
391	09/21/94	42.00	RUFUS EDMISTEN	TRAVEL TO WILMINGTON	NO PURPOSE STATED	BUDGET MANUAL ALLOWS SECRETARY OF STATE TO AUTHORIZE AND APPROVE HIS TRAVEL. PURPOSE IS ECONOMIC DEVELOPMENT COMMISSION MEETING. (AUDITOR NOTE: INADEQUATE DOCUMENTATION)
561	10/19/94	30.70	RUFUS EDMISTEN	TRAVEL TO CHARLOTTE AND NORFOLK, VIRGINIA	PHONE CALLS UNDOCUMENTED	PHONE CALLS ARE LISTED ON HOTEL BILL.

TABLE 5 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
562	10/19/94	3.45	RUFUS EDMISTEN (CONTINUED)	TRAVEL TO WASHINGTON DC AND NEBRASKA	UNDOCUMENTED PHONE (\$3.45)	PHONE CALLS ARE IDENTIFIED BY PHONE NUMBER ON HOTEL BILL
844	12/16/94	92.62	RUFUS EDMISTEN	TRAVEL TO NEW YORK AND PINEHURST	UNDOCUMENTED PHONE	ALL CALLS ARE IDENTIFIED BY PHONE NUMBER ON HOTEL BILL.
844	12/16/94	1,423.85	RUFUS EDMISTEN	TRAVEL TO NEW YORK AND PINEHURST	EXCESSIVE HOTEL (\$300 AND 149.99/NIGHT)	BUDGET MANUAL ALLOWS SECRETARY OF STATE TO AUTHORIZE AND APPROVE HIS TRAVEL. EXCESS WAS AUTHORIZED.
1204	03/23/95	65.45	RUFUS EDMISTEN	TRAVEL TO MEXICO	CABS FROM AIRPORT (\$22.00) NO RECEIPT, UNDOCUMENTED PHONE CALLS (\$43.45)	BUDGET MANUAL ALLOWS SECRETARY OF STATE TO AUTHORIZE AND APPROVE HIS TRAVEL. ALL CABS ARE LISTED.
1532	06/14/95	191.89	RUFUS EDMISTEN	TRAVEL TO STATESVILLE AND ASHEVILLE	PURPOSE "REPRESENT STATE AT RACE"	BUDGET MANUAL ALLOWS SECRETARY OF STATE TO AUTHORIZE AND APPROVE HIS TRAVEL. EVENTS LISTED ON VOUCH # 1518.
EDMISTEN		2,744.98				
653	11/10/93	146.78	GARLAND GARRETT, III	TRAVEL-WILMINGTON, CHARLOTTE (10/27-10/30)	VAGUE PURPOSE ("MEETINGS"), AUTHORIZED AFTER THE FACT (NOTE: IT APPEARS HE WAS THE DRIVER FOR THE SECRETARY.)	APPROVAL FORM SUBMITTED ON 10/25 AND APPROVED ON 11/02. PURPOSE IS TO SUPPORT SECRETARY IN ACTIVITIES ON VOUCH #652. (AUDITOR NOTE: NO DOCUMENTATION)
766	12/08/93	72.44	GARLAND GARRETT, III	TRAVEL TO PINEHURST	NO HOTEL RECEIPTS (\$72.44)	
1402	04/22/94	61.00	GARLAND GARRETT, III	TRAVEL TO BOONE	ATTEND SWEARING IN OF CHANCELLOR-- NECESSARY? (NOTE: IT APPEARS HE WAS THE DRIVER)	HE WENT TO ASSIST THE SECRETARY.
1576	06/03/94	97.01	GARLAND GARRETT, III	TRAVEL TO ASHEVILLE AND FONTANTA	EXCESS HOTEL NOT APPROVED (NOTE: IT APPEARS HE WAS THE DRIVER FOR THE SECRETARY.)	EXCESS IS NOT MARKED BUT ACTUAL COST IS WITHIN ONE CENT OF AMOUNT PROJECTED.
GARRETT		377.23				

TABLE 5 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
783	12/28/92	12.95	EDWARD GILLESPIE	TRAVEL TO NEW YORK	UNDOCUMENTED PHONE CALLS	THE CALLS ARE IDENTIFIED BY PHONE NUMBER ON THE HOTEL BILL.
783	12/28/92	7.99	EDWARD GILLESPIE	TRAVEL TO NEW YORK	REC'D LUNCH PER DIEM AND ROOM SERVICE	LUNCH WAS NOT CLAIMED ON DATE OF ROOM SERVICE CHARGE (AUDITOR NOTE: LUNCH RATE WAS \$7.00 BUT RECEIVED \$14.99 FOR ROOM SERVICE)
377	09/15/94	12.75	EDWARD GILLESPIE	TRAVEL NC	UNDOCUMENTED PHONE CALLS	PHONE CALLS ARE LISTED AND LARGEST IS \$3.50.
377	09/15/94	14.00	EDWARD GILLESPIE	TRAVEL NC	IMPROPER DINNER CLAIMED (\$14.00)	DINNER IS NOT APPROPRIATE.
573	10/19/94	9.84	EDWARD GILLESPIE	UNDOCUMENTED TELEPHONE CALLS	UNDOCUMENTED TELEPHONE CALLS	PHONE CALLS ARE DOCUMENTED. (AUDITOR NOTE: HOTEL RECEIPT ONLY INDICATES PARTIAL NUMBER).
756	11/29/94	14.00	EDWARD GILLESPIE	TRAVEL NC	CLAIMED DINNER WHEN RETURNED BEFORE 8:00 PM (\$14.00)	
GILLESPIE		71.53				
250	08/28/92	45.61	TERESA GIVENS	TRAVEL TO PORTLAND, MAINE	UNDOCUMENTED PHONE CALLS	
GIVENS		45.61				
DEP 188	06/16/95	(219.47)	FORREST W GOLDSTON	REFUND OF EXP FOR REIMB FOR TRAVEL	REIMB NOT FILLED OUT AND NOT FILED IN TIME, SEE VOUCH # 11	NO TRAVEL VOUCHER.
11	07/06/94	2,000.00	FORREST W GOLDSTON	TRAVEL ADVANCE	TRAVEL ADVANCE NOT PAID BACK UNTIL JUNE 1995, SEE DEP #188	NO TRAVEL VOUCHER.
GOLDSTON		1,780.53				
1532	06/21/93	4.00	BEN LEWIS	PARKING CITATION	SHOULD NOT PAY FOR PARKING VIOLATIONS	PARKING TICKETS ARE CLEARLY NOT AN AUTHORIZED EXPENDITURE OF STATE FUNDS.
1609	06/29/93	4.00	BEN LEWIS	PARKING CITATION	SHOULD NOT PAY FOR PARKING VIOLATIONS	PARKING TICKETS ARE CLEARLY NOT AN AUTHORIZED EXPENDITURE OF STATE FUNDS.
1067	02/11/94	8.00	BEN LEWIS	PARKING CITATION	SHOULD NOT PAY FOR PARKING VIOLATIONS	PARKING TICKETS ARE CLEARLY NOT AN AUTHORIZED EXPENDITURE OF STATE FUNDS.

TABLE 5 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
489	10/07/94	96.14	BEN LEWIS (CONTINUED)	TRAVEL TO SOUTHERN PINES	EXCESS HOTEL NOT APPROVED	
489	10/07/94	50.86	BEN LEWIS	UNDOCUMENTED TELEPHONE CALLS	UNDOCUMENTED PHONE CALLS	
LEWIS		163.00				
223	08/25/92	11.00	JOHN T MASSEY, JR	TRAVEL WITHIN NC	REC'D DINNER ON COMMUTING TRIP	THIS IS NOT AN APPROPRIATE EXPENSE.
668	11/23/92	11.00	JOHN T MASSEY, JR	TRAVEL TO BEAUFORT	REC'D DINNER ON COMMUTING TRIP	THIS IS NOT AN APPROPRIATE EXPENSE.
MASSEY, J		22.00				
1529	06/09/95	73.46	DAVID S MASSEY	UNDOCUMENTED TELEPHONE CALLS	UNDOCUMENTED PHONE CALLS	CALLS ARE IDENTIFIED BY PHONE NUMBER ON HOTEL BILL.
MASSEY, D		73.46				
220	08/12/94	1,232.45	ROSEMARY MCBRYDE	TRAVEL MONTANA	EXCESS HOTEL NOT APPROVED, NECESSARY? NOT AN EMPLOYEE. (AUDITOR NOTE: APPROVAL FOR WAGNER ADDED EXCESS SUBSISTENCE, MCBRYDE'S AND OTHER ATTENDEES BLANKET FORMS DID NOT INDICATE EXCESS SUBSISTENCE).	THIS PERSON WAS ASKED TO GO AND ASSIST IN TIME-LIMITED COLLECTION AND COMPILING OF PROCEEDINGS REQUIRED FOR MEETINGS ON FINAL DAY OF CONFERENCE.
MCBRYDE		1,232.45				
759	12/17/92	21.00	GALEN NEWSOM	TRIP TO FAYETTEVILLE	AUTHORIZATION DOES NOT MENTION FAYETTEVILLE	
1011	02/18/93	259.00	FUGAZY TRAVEL	TRAVEL TO ORLANDO, FLA	FIREARM TRAINING-- (NOTE: FIREARM TRAINING AVAILABLE IN NC)	INSTRUCTION PRESENTED BY MANUFACTURER OF HANDGUN. THAT TRAINING IS NOT GENERALLY AVAILABLE IN NC.
140	07/29/93	10.00	GALEN NEWSOM	TRAVEL TO ATLANTA, GEORGIA	TIPS \$10.00 APPARENTLY CLAIMED FOR DINNERS	TIPS WERE PAID TO HOTEL BELLMEN. (AUDITOR NOTE: TIPS NOT ON DAYS CHECKING IN OR OUT OF HOTEL.)
140	07/29/93	3.42	GALEN NEWSOM	UNDOCUMENTED TELEPHONE CALLS	UNDOCUMENTED PHONE CALL	THE PHONE NUMBER IS ON THE HOTEL BILL.
304	09/02/93	52.06	GALEN NEWSOM	TRAVEL TO GREENVILLE	NO PURPOSE STATED (NOTE: IT APPEARS HE WAS THE DRIVER FOR THE SECRETARY.)	PURPOSE WAS TO SUPPORT SECRETARY IN TV PRESENTATIONS ON INVESTOR AND SECURITY FRAUD (WITN, WNCT, WCTI). (AUDITOR NOTE: NO DOCUMENTATION)

TABLE 5 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
372	09/16/93	12.00	GALEN NEWSOM (CONTINUED)	TRAVEL TO ATLANTA, GEORGIA	CLAIMED PER DIEM ON SEPT 12 ALTHOUGH RETURNED ON SEPT 11	EMPLOYEE DID NOT CLAIM THE MEALS. (AUDITOR NOTE: REIMBURSEMENT SHOWS MEALS ON SEPT 12) THIS WAS A CLERICAL ERROR WHICH OCCURRED AFTER THE EMPLOYEE SUBMITTED VOUCHER FOR PAYMENT.
372	09/16/93	6.61	GALEN NEWSOM	UNDOCUMENTED TELEPHONE CALL	UNDOCUMENTED PHONE CALL	CALLS ARE IDENTIFIED BY PHONE NUMBER ON HOTEL BILL.
488	10/14/93	27.00	GALEN NEWSOM	TRAVEL TO GREENSBORO	NO PURPOSE STATED	PURPOSE WAS TO MEET WITH DAVID THOMPSON REGARDING ACC COMPLIANCE WITH ATHLETE AGENT LAW. (AUDITOR NOTE: NO DOCUMENTATION)
793	12/10/93	21.85	GALEN NEWSOM	UNDOCUMENTED TELEPHONE CALLS	UNDOCUMENTED PHONE CALLS	CALLS ARE IDENTIFIED BY PHONE NUMBER ON HOTEL BILL.
1074	02/11/94	6.99	GALEN NEWSOM	UNDOCUMENTED TELEPHONE CALLS	\$16.77 REIMBURSED BUT ONLY \$9.78 DOCUMENTED	
113	07/22/94	74.23	GALEN NEWSOM	TRAVEL TO FAYETTEVILLE	AUTHORIZED AFTER THE FACT	HIS SUPERVISOR APPROVED IT BEFORE THE FACT. (AUDITOR NOTE: DIVISION HEAD APPROVAL STILL AFTER THE FACT)
282	08/24/94	15.35	GALEN NEWSOM	TRAVEL TO ASHEVILLE	REIMBURSED FOR DINNER PAID FOR DETECTIVE FROM AVERY COUNTY	EMPLOYEE BELIEVES IT IS PROPER TO PAY FOR MEAL OF ANOTHER IF IT IS A WORKING MEAL.
322	09/07/94	84.58	GALEN NEWSOM	TRAVEL TO GASTONIA	AUTHORIZED AFTER THE FACT	IT WAS REQUESTED BEFORE THE FACT. (AUDITOR NOTE: APPROVAL STILL AFTER THE FACT)
733	11/22/94	15.00	GALEN NEWSOM	TRAVEL TO ORLANDO, FLORIDA	EXCESS REGISTRATION NOT APPROVED (\$15.00)	
808	12/07/94	18.00	GALEN NEWSOM	TRAVEL TO NEW YORK	GAS (\$18.00) NO RECEIPT	LOST GAS RECEIPT NOTED ON VOUCHER.
867	12/19/94	36.00	GALEN NEWSOM	TRAVEL TO FAYETTEVILLE	NO PURPOSE STATED, NO AUTHORIZATION	
1281	04/06/95	23.69	GALEN NEWSOM	TRAVEL TO WASHINGTON, DC	CAMERA \$10.52, VELCRO FOR CAR \$3.17, CAR REPAIR \$10.00	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.

TABLE 5 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE	
1281	04/06/95	21.49	GALEN NEWSOM (CONTINUED)	TRAVEL TO WASHINGTON, DC	REIMBURSED FOR GAS \$20.00, AND CAR WASH \$1.49 (NOTE: CAR LOG/BILLING FROM DOA MOTOR FLEET NOT FOUND)		
1400	05/10/95	9.00	GALEN NEWSOM	TRAVEL TO HIGH POINT	REIMBURSED FOR GAS (CAR LOG/BILLING FROM DOA-MOTOR FLEET NOT FOUND)	EMPLOYEE RECALLS THIS WAS THE STATE CAR. (AUDITOR NOTE: NO DOCUMENTATION)	
1494	06/02/95	37.68	GALEN NEWSOM	TRAVEL TO ASHEVILLE, GREENVILLE, HIGH POINT	REIMB FOR GAS (CAR LOG/DOA MTR FLT BILL NOT FOUND) \$10.18, LUNCH-LAW ENF OFFCR \$15.00, LUNCH-ASST \$12.50 (NOTE: IT APPEARS HE WAS THE DRIVER FOR THE SECRETARY.)	EMPLOYEE RECALLS THIS WAS THE SECRETARY'S CAR. (AUDITOR NOTE: NO DOCUMENTATION)	
1518	06/07/95	178.11	GALEN NEWSOM	TRAVEL TO HIGH POINT, STATESVILLE, CHARLOTTE, ASHEVILLE	PURPOSE "TRAVEL WITH SECRETARY" (NOTE: IT APPEARS HE WAS THE DRIVER FOR THE SECRETARY.)	EVENTS: APPEARANCE AT SHAKESPEARE FESTIVAL, SPEECH TO WOODS FOUNDATION, RADIO INTERVIEW AT CHARLOTTE MOTOR SPEEDWAY, KEYNOTE ADDRESS TO IACA CONFERENCE. (AUDITOR NOTE: NO DOCUMENTATION)	
1561	06/16/95	491.00	FUGAZY TRAVEL	AIRFARE TO NEW YORK	AUTHORIZATION CHECKED AS DENIED, AIRFARE LARGER THAN FOR OTHER ATTENDEES	TRIP WAS APPROVED BUT WRONG BOX ACCIDENTALLY MARKED ON FORM.	
1610	06/30/95	50.00	GALEN NEWSOM	TRAVEL TO BOONE	PURPOSE "ATTEND EVENTS WITH SECRETARY" (NOTE: IT APPEARS HE WAS THE DRIVER FOR THE SECRETARY.)	PURPOSE WAS TO SPEAK AT BOYS STATE AND GO TO HORN IN THE WEST (BY INVITATION). (AUDITOR NOTE: NO DOCUMENTATION)	
NEWSOM		1,474.06					
TOTAL		10,915.75					

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

THE OFFICE DOES NOT HAVE A CENTRALIZED PURCHASE ORDER SYSTEM.

Our expenditure review disclosed that centralized purchasing procedures were not in place throughout the Office. We learned that the Office has an unwritten policy which was unclear as to the requirements for issuance of a purchase order. Employees routinely purchase supplies and equipment without receiving prior approval and without submitting purchase orders. Employees are reimbursed for these purchases through the travel reimbursement process rather than through proper purchasing channels. Also, there was no evidence that purchases of supplies and equipment were coordinated. This lack of coordination may lead to purchases of items for which the Office already maintains an inventory. The Chief Fiscal Officer does maintain a supply room from which all divisions are to request supplies.

In our opinion, the absence of a centralized purchasing process has led to the purchase and reimbursement of items that may not be necessary or job-related. As summarized in Table 6, page 50 (based on a judgmental sample), employees were reimbursed for items such as computer software, film, batteries, picture frames, calculators, and answering machines. The documentation supporting these purchases did not indicate the necessity of these items nor identify the business use. Since computer software and equipment purchases were not coordinated, the internal compatibility of the Office's computer system may be in doubt. (See Technology finding on page 30.)

RECOMMENDATION

We recommend the Office immediately implement a centralized purchasing process for all supplies and equipment. To strengthen internal controls, coordinate purchases, and potentially minimize costs, the Office should discontinue reimbursing employees directly for purchases of supplies and equipment. We further recommend that management designate individuals to perform the purchasing function, including maintaining inventories, coordinating purchases, and obtaining items through the purchase order process.

TABLE 6
OFFICE OF THE SECRETARY OF STATE
QUESTIONED COSTS-- OFFICE AND COMPUTER EQUIPMENT AND SUPPLIES FY 93-95

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
64	07/20/92	231.24	CELLULAR IMAGES, INC	LEASE PAYMENT ON CELLULAR PHONE?	FOR WHAT EMPLOYEE? APRIL-JUNE 1992, NECESSARY?	THE SECRETARY HAD THE PHONE
1325	05/05/93	77.08	CELLULAR IMAGES, INC.	LEASE PAYMENT ON CELLULAR PHONE	FOR WHAT EMPLOYEE? FOR WHAT MONTH? NECESSARY?	PORTABLE PHONE IS SHARED BY ADMINISTRATIVE DIVISION.
1404	05/26/93	367.63	CENDEL CELLULAR	CELLULAR PHONE CHARGES	FOR WHAT EMPLOYEES? NECESSARY? TELEPHONE: 919-614-8585	ASSIGNED TO SECRETARY.
1551	06/24/93	100.70	GALEN E NEWSOM	CELLULAR PHONE BATTERY	NO PRIOR APPROVAL OR PO (NOTE: NEWSOM DOES NOT HAVE A STATE CELLULAR PHONE ISSUED TO HIM.)	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
1008	02/03/94	77.08	CELLULAR IMAGES, INC	LEASE PAYMENT ON CELLULAR PHONE	FOR WHAT EMPLOYEE? FOR WHAT MONTH? NECESSARY?	PORTABLE PHONE IS SHARED BY ADMINISTRATIVE DIVISION.
807	12/07/94	11.53	BEN LEWIS	CELLULAR PHONE CHARGES	DOES EMPLOYEE NEED CELL PHONE FOR JOB DUTIES? (LEWIS DOES NOT HAVE A STATE CELLULAR PHONE ISSUED TO HIM.)	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS. EMPLOYEE CLAIMS HE NEEDS IT.
1208	03/23/95	6.32	BEN LEWIS	CELLULAR PHONE CHARGES	DOES EMPLOYEE NEED CELL PHONE FOR JOB DUTIES? (LEWIS DOES NOT HAVE A STATE CELLULAR PHONE ISSUED TO HIM.)	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS. EMPLOYEE CLAIMS HE NEEDS IT.
1374	05/03/95	45.05	HOWARD M CRUTCHFIELD	BATTERY FOR CELLULAR PHONE	NO PRIOR APPROVAL OR PO, NECESSARY? (NOTE: CRUTCHFIELD DOES NOT HAVE A STATE CELLULAR PHONE ISSUED TO HIM.)	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS. EMPLOYEE REPLACED A BAD BATTERY.
CELLULAR PHONES		916.63				
1532	06/21/93	26.45	BEN LEWIS	COMPUTER MANUAL	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
1609	06/29/93	136.00	BEN LEWIS	RAM UPGRADE	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
24	07/07/93	57.45	BEN LEWIS	SOFTWARE	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.

TABLE 6 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
203	08/12/93	10.57	HOWARD M CRUTCHFIELD	COMPUTER SURGE STRIP	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
240	08/19/93	36.00	BEN LEWIS	REIMB FOR COMPUTER RAM UPGRADE	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
397	09/27/93	63.58	BEN LEWIS	COMPUTER DATA TAPES	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
1063	02/11/94	42.28	BEN LEWIS	SOFTWARE	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
1067	02/11/94	49.75	BEN LEWIS	SOFTWARE	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
1640	06/15/94	103.25	BEN LEWIS	SOFTWARE	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
489	10/07/94	65.40	BEN LEWIS	INTERNET ACCESS FEES	WRONG OBJECT (3111) BUSINESS OR PERSONAL USE?	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS. EMPLOYEE SAYS IT IS BUSINESS.
672	11/14/94	500.00	DAVID C SMITH	REPAIR OF MACINTOSH COMPUTER	SERVICE AGREEMENT?	NO SERVICE AGREEMENT. SEVERE PROBLEMS WITH MAC SYSTEM; SEVEN CALLS MADE TO LOCATE SOMEONE TO RESOLVE THE PROBLEM. HE AGREED TO COME FOR ABOUT 30% OF NEXT LOWEST PRICE. (AUDITOR NOTE: NO DOCUMENTATION OF PRICE QUOTES)
807	12/07/94	24.58	BEN LEWIS	INTERNET ACCESS AND USAGE	BUSINESS OR PERSONAL USE?	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS. EMPLOYEE CLAIMS IT IS WORK-RELATED.
1209	03/23/95	30.89	BEN LEWIS	MICROSOFT ACCESS BOOKS	NO PRIOR APPROVAL OR PO, BUSINESS RELATED?	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
1208	03/23/95	137.58	BEN LEWIS	COMPUSERVE AND AMERICA ON-LINE, SOFTWARE	BUSINESS OR PERSONAL USE?	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS. EMPLOYEE CLAIMS IT IS WORK-RELATED.
COMPUTER CHARGES		1,283.78				

TABLE 6 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
1426	06/02/93	51.81	ELIZABETH T POWELL	CALCULATOR	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
1609	06/29/93	66.22	BEN LEWIS	AUTO KEYS AND ANSWERING MACHINE	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
203	08/12/93	18.69	HOWARD M CRUTCHFIELD	CAMCORDER MANUAL AND VSH TAPES	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
OFFICE EQUIPMENT		136.72				
1532	06/21/93	31.02	BEN LEWIS	FILM AND ZIPLOC BAGS	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
1078	02/18/94	62.92	RUFUS EDMISTEN	BATTERIES AND BLACK/WHITE TV	NO PO OR PRIOR APPROVAL	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
171	08/03/94	10.85	ELIZABETH T POWELL	INDEX TABS	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
223	08/12/94	55.75	SAM BASS CAMERA AND VIDEO	35 MM FILM AND PHOTO PRINTS	NO PRIOR APPROVAL OR PO, NECESSARY? BUSINESS RELATED?	
660	11/09/94	22.54	JONATHAN DEMERS	SUPPLIES FOR STATE FAIR DISPLAY	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
742	11/23/94	132.32	LISA F SMITH	REIMB FOR OFFICE SUPPLIES	NO PRIOR APPROVAL OR PO	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
1047	02/09/95	14.68	GALEN NEWSOM	35MM CAMERA	NO PO OR PRIOR APPROVAL	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
1055	02/13/95	136.88	SAM BASS CAMERA AND VIDEO	FILM	NO PRIOR APPROVAL OR PO, WHAT PURPOSE?	THE PURCHASE WAS NECESSARY. THE PROCESS WAS WEAK.

TABLE 6 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
1109	02/23/95	93.87	GALEN NEWSOM	FILM, CAMERA CLEAN AND REPAIR	NO PO OR PRIOR APPROVAL	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
1129	03/03/95	107.22	MCKINLEY H DOLLAR	ELECTRIC LABEL MAKER AND PICTURE FRAME	NO PRIOR APPROVAL OR PO, NECESSARY? BUSINESS RELATED?	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS.
1502	06/07/95	39.53	SAM BASS CAMERA AND VIDEO	PURCHASE OF PHOTO PRINTS	NO PRIOR APPROVAL OR PO, WHAT PURPOSE?	THIS PURCHASE WAS DONE ON A TRAVEL VOUCHER WHICH MINIMIZED THE APPROVAL PROCESS. PRINTS ARE OF STATE TROOPERS RECEIVING THEIR OATH FROM THE SECRETARY.
OFFICE SUPPLIES		707.58				
TOTAL		3,044.71				

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

THE OFFICE HAS MADE A NUMBER OF PURCHASES WHICH APPEAR TO BE UNNECESSARY FOR OPERATIONS.

An expenditure is considered reasonable and necessary if it is needed for the Office's operations in reasonable quantities in accordance with good business practices. Our sample included several purchases that we consider unreasonable and unnecessary. These questioned costs are summarized in Table 7, page 56. Among the items questioned are:

- Large quantities of ammunition purchased for practice and use by securities investigators.
- Lapel pins with the emblem of the Secretary of State purchased and given to employees and to the public at the North Carolina State Fair.

A specific concern relative to the purchase of ammunition is that the Office is supporting at least four different types of weapons for the Securities Investigators. This situation results from three of the four investigators carrying personal weapons in addition to the weapon assigned to them by the Office. Law enforcement officers are required to qualify with all weapons that they carry. Therefore, the State is paying for both the time and ammunition required for each Investigator to qualify with all his weapons, both Office supplied and personal. In our opinion, the Office should not be purchasing ammunition or any other supplies for personal weapons.

RECOMMENDATION

We recommend management reexamine its responsibilities as stewards of public funds and the public trust. Management should exercise thrift in expending state funds so that only reasonable and necessary items are purchased. All purchases should be requisitioned through the purchase order system and should clearly indicate the necessity and purpose of the purchase. Additionally, the Office should establish a standard as to the type weapon it will support for the Securities Investigators. The use and support of personal weapons should be stopped immediately.

THE OFFICE IS IN NON-COMPLIANCE WITH BUDGET REGULATIONS REGARDING THE USE OF CONTRACTUAL SERVICES.

Our sample of expenditures included documentation that the Office had obtained legal services from various firms during fiscal years 1992 through 1995. GS §147-17 requires the Governor to approve outside legal services for all state agencies. The documentation supporting payments to attorneys did not always indicate approval by the Governor. Also, there was a lack of documentation supporting the selection of firms and approval to sole source the services. Questioned contractual costs are summarized in Table 8, page 58.

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

We recommend management take immediate steps to comply with budget regulations regarding the use of contractual services. Management is required to obtain approval from the Governor before seeking outside legal services. Adequate documentation should be maintained to support all legal costs.

**TABLE 7
OFFICE OF THE SECRETARY OF STATE
QUESTIONED COSTS-- OTHER PURCHASES FY93-95**

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
650	11/18/92	663.56	ARRINGTON AMMUNITION CO	ROUNDS OF AMMO (34 BOXES) 500 ROUNDS OF 380 AUTOMATIC, 200 ROUNDS OF 25 CALIBER, 500 ROUNDS OF 9 MM, 500 ROUNDS OTHER	NECESSARY?	CERTIFIED LAW ENF REQUIRED TO ATTEND FIREARMS REQUALIFICATION TWO TIMES PER YEAR. TRAINING REQUIRES PRE- TRAINING PRACTICE AND IN-TRAINING QUALIFICATION. THE AGENCY MUST PROVIDE THE AMMUNITION.
1015	02/18/93	401.74	ARRINGTON AMMUNITION CO	1800 ROUNDS OF AMMO FOR SERVICE AND PRACTICE 1000 ROUNDS 380 AUTOMATIC, PRACTICE AMMO, 800 ROUNDS 380 AUTOMATIC SERVICE AMMO	NECESSARY?	CERTIFIED LAW ENF REQUIRED TO ATTEND FIREARMS REQUALIFICATION TWO TIMES PER YEAR. TRAINING REQUIRES PRE- TRAINING PRACTICE AND IN-TRAINING QUALIFICATION. THE AGENCY MUST PROVIDE THE AMMUNITION.
26	07/07/93	855.95	ARRINGTON POLICE DISTRIBUTORS	ROUNDS OF AMMO 1000 ROUNDS OF 380 AUTOMATIC, 1000 ROUNDS OF 38 CALIBER, 500 ROUNDS OF 9 MM, 250 ROUNDS OF 25 CALIBER, 500 ROUNDS OTHER	NECESSARY?	CERTIFIED LAW ENF REQUIRED TO ATTEND FIREARMS REQUALIFICATION TWO TIMES PER YEAR. TRAINING REQUIRES PRE- TRAINING PRACTICE AND IN-TRAINING QUALIFICATION. THE AGENCY MUST PROVIDE THE AMMUNITION.
1608	06/09/94	111.15	ARRINGTON POLICE DISTRIBUTORS	ROUNDS OF AMMO 300 ROUNDS OF 9 MM	NECESSARY?	CERTIFIED LAW ENF REQUIRED TO ATTEND FIREARMS REQUALIFICATION TWO TIMES PER YEAR. TRAINING REQUIRES PRE- TRAINING PRACTICE AND IN-TRAINING QUALIFICATION. THE AGENCY MUST PROVIDE THE AMMUNITION.
AMMUNITION		2,032.40				
453	10/04/93	914.49	TRIANGLE ADVERTISING	SECRETARY OF STATE EMBLEM PINS	IS THIS NECESSARY?	MISSING INVOICE.
572	10/26/93	913.68	TRIANGLE ADVERTISING	SECRETARY OF STATE EMBLEM PINS	IS THIS NECESSARY?	THEY ARE ACTUALLY PLASTIC STATE SEALS WITH SECRETARY OF STATE ON THE OUTSIDE. THEY ARE FOR THE MOST PART GIVEN TO SCHOOL GROUPS WHO VISIT THE CAPITOL AFTER THE SECRETARY HAS GIVEN A LECTURE ON THE STATE SEAL.

TABLE 7 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
289	08/24/94	927.48	TRIANGLE ADVERTISING	SECRETARY OF STATE EMBLEM PINS	IS THIS NECESSARY?	THEY ARE ACTUALLY PLASTIC STATE SEALS WITH SECRETARY OF STATE ON THE OUTSIDE. THEY ARE FOR THE MOST PART GIVEN TO SCHOOL GROUPS WHO VISIT THE CAPITOL AFTER THE SECRETARY HAS GIVEN A LECTURE ON THE STATE SEAL.
502	10/07/94	927.80	TRIANGLE ADVERTISING	SECRETARY OF STATE EMBLEM PINS	IS THIS NECESSARY?	THEY ARE ACTUALLY PLASTIC STATE SEALS WITH SECRETARY OF STATE ON THE OUTSIDE. THEY ARE FOR THE MOST PART GIVEN TO SCHOOL GROUPS WHO VISIT THE CAPITOL AFTER THE SECRETARY HAS GIVEN A LECTURE ON THE STATE SEAL.
1568	06/22/95	519.06	TRIANGLE ADVERTISING	SECRETARY OF STATE EMBLEM PINS	IS THIS NECESSARY?	THEY ARE ACTUALLY PLASTIC STATE SEALS WITH SECRETARY OF STATE ON THE OUTSIDE. THEY ARE FOR THE MOST PART GIVEN TO SCHOOL GROUPS WHO VISIT THE CAPITOL AFTER THE SECRETARY HAS GIVEN A LECTURE ON THE STATE SEAL.
LAPPEL PINS		4,202.51				
TOTAL		6,234.91				

TABLE 8
OFFICE OF THE SECRETARY OF STATE
QUESTIONED COSTS-- OTHER CONTRACTED SERVICES--FY 92-95

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
656	12/17/91	1,000.00	RONALD B. DONATI	CONDUCT INVESTOR EDUCATION SEMINARS	BID? SELECTION?	THIS WAS SOLE SOURCED BECAUSE MR. DONATI WAS TO OUR KNOWLEDGE THE ONLY PERSON WE COULD ACCESS WHO HAD THE SPECIFIC KNOWLEDGE AND EXPERTISE TO PREPARE AND PRESENT THE SEMINARS. (AUDITOR NOTE: NO SOLE SOURCE APPROVAL DOCUMENTATION)
1383	06/10/92	1,562.50	D. SCOTT BOWERS. JD.	LEGAL SERVICES	APPROVED BY GOV OR A/G? WHAT SERVICES?	THIS PERSON HAD EXCELLENT SKILLS IN MATERIALS PREPARATION. HE DID NOT FUNCTION AS A LAWYER. (AUDITOR NOTE: PERSON DRAFTED LEGAL DOCUMENTS PER INVOICE)
185	08/20/92	1,843.00	D. SCOTT BOWERS JD	LEGAL SERVICES	APPROVAL BY GOV OR A/G? BID? SELECTION PROCEDURES?	THIS WAS SOLE SOURCED BECAUSE OF HIS TECHNICAL EXPERTISE. HE DID NOT FUNCTION AS A LAWYER. (AUDITOR NOTE: NO DOCUMENTATION OF SOLE SOURCE APPROVAL)
TOTAL		4,405.50				

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

INVESTOR AWARENESS FUNDS HAVE BEEN SPENT INAPPROPRIATELY.

The Office manages an account funded by monies derived through consent orders resulting from negotiated settlements of investigations by the Office of the Secretary of State against individuals and brokerage firms. According to the terms of the consent orders, the monies paid to the Office of the Secretary of State are to be used to provide investor awareness, protection, and education in North Carolina. When settlements are received, the monies are deposited in an interest-bearing trust account. Monies are transferred from the trust account to the Office's general fund budget code as needed to reimburse expenditures for investor awareness activities. The cash balance in the trust fund at the end of a fiscal year does not revert to the State's General Fund but remains available for use by the Office.

As reflected by Table 3, page 13, a total of \$603,658.00 was deposited to the trust account during the two year period ending June 30, 1995. During the same period, \$511,233.59 was transferred to the Office's general fund to reimburse expenditures attributed to investor awareness, protection, and education. The Office refers to these activities collectively as its "Investor Awareness Program."

Table 9, page 62, presents a complete listing of the expenditures reimbursed from the "Investor Awareness" funds between July 1, 1993 and June 30, 1995. We examined each of these expenditures for compliance with state rules and regulations governing the disbursement of funds. Our examination revealed instances of non-compliance, with the most significant being the lack of using proper purchasing procedures to acquire television and radio advertising services. We noted that gross rating points within an advertising market was one of the primary factors in public service announcement placement. However, we did not observe that any research was done to consider targeting individuals most likely to be investors. Therefore, it is possible that the ads were viewed by a large number of people, but did not necessarily reach those individuals most in need of such information.

Specifically, we noted that:

- \$137,101.25 was expended for the production and placement of television public service announcements without using the competitive bidding process. Files at the Division of Purchase and Contract (P&C) reflect that notice of this purchase was not given by the Office until one week prior to final payment. The Office could not provide the auditors with a contract in support of this transaction. In fact, no documentation could be provided to show the basis upon which the company was selected to provide these services.
- \$50,000.00 was expended for the placement of radio public service announcements, and again the competitive bidding process was not used. The Office could not explain why proper purchasing procedures were not used even though P&C staff had discussed such procedures with the Office's Chief Fiscal Officer in March, 1994. A memorandum dated August 15, 1994, three days after the final payment was made, indicates that P&C was notified after the procurement process was completed. However, P&C does not have a copy of this memo or any other correspondence relating to this purchase in its files.

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

Further, we attempted to identify the specific connection between each of the expenditures listed in Table 9 and the purposes stated for the “Investor Awareness Program.” We found that some of the expenditures could be readily identified with activities or tasks directly related to investor awareness. However, a significant portion of the expenditures appeared to be nothing more than a supplement to the General Fund appropriations budgeted for operating the Office of the Secretary of State. These questioned costs, totaling \$178,577.55, are highlighted in yellow on Table 9, pages 62-68. Among the costs questioned are:

- \$27,374.76 - Salaries and fringe benefits for an attorney working in the Securities Division.
- \$25,906.02 - Travel and other costs relating to foreign and domestic trips for the Secretary and his employees, employees of other state agencies, and individuals not employed by the State.
- \$6,384.09 - Motor Fleet Management charges for cars assigned to investigators working in the Securities Division.
- \$5,615.79 - Costs relating to the renovation of office space occupied by the Securities Division.
- \$3,338.94 - Costs associated with research and copies of documents for some cases being investigated by the Securities Division.
- \$2,903.16 - Education expenses for two of the investigators and one attorney working in the Securities Division.
- \$282.49 - Ammunition purchases for the Securities investigators.
- \$102,583.59 - Costs associated with computers, software, and a local area network for use by Securities personnel, the Secretary, and administrators in other divisions within the Office.
- \$110.35- Cost of developing a tape and rent for a room in which an Athlete Agent conference was held.
- \$4,078.36 - Purchase of federal securities publications in compact disc format.

After discussing our concerns with the Office, management told us that it views this program from the investor protection and education perspective. Therefore, management maintains that a very limited application of the fund is not appropriate and that everyone in the Securities Division and most staff throughout the Office are involved in investor protection and education. However, based on our review of the expenditures, we find no evidence of a cohesive program governed by specific policies and procedures. Rather, it appears that the funds have been used to supplement appropriations instead of being used in a manner that more directly impacts the awareness of North Carolina investors. Therefore, it is our opinion that the Office has not utilized these funds appropriately.

Perhaps the most troubling aspect of the Investor Awareness Fund is the appearance created by the lack of controls. Under the consent orders negotiated by the Office of the Secretary of State, the individuals or companies under investigation settle the matter by agreeing to certain terms including making a donation in the Investor Awareness Fund. There is little limitation on how the Office uses the funds. As noted above the Office of the Secretary of State has used this fund for a variety of purposes, including trips to Japan, China, and the Virgin Islands. The lack of controls combined with the way the funds have been used create the appearance of a conflict of interest.

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

We recommend that the General Assembly review the existence of this fund and provide for controls over the usage of moneys so collected. Expenditures should be made in strict compliance with state purchasing and contracting regulations.

**TABLE 9
OFFICE OF THE SECRETARY OF STATE
INVESTOR AWARENESS PROGRAM-- COSTS CHARGED--FY94-95**

NOTE: AMOUNTS QUESTIONED ARE HIGHLIGHTED IN YELLOW IN THE TABLE.

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
N/A	93-94	1,091.99	N/A	BALANCE OF 92-93 COSTS REIMBURSED IN 93-94	NO COMMENT	
92-93 COSTS REIMBURSED		1,091.99				
POSITION 461	93-94	24,767.72	PERSONAL SERVICES	INVESTOR PROTECTION SPECIALIST POSITION	NO COMMENT	
		5,457.90	FRINGE BENEFITS			
POSITION 461	94-95	24,649.08	PERSONAL SERVICES	INVESTOR PROTECTION SPECIALIST POSITION	NO COMMENT	
		5,251.96	FRINGE BENEFITS			
POSITION 475	N/A	22,210.64	PERSONAL SERVICES	ATTORNEY I POSITION--DEBORAH J STOGNER, COST FROM 11/94--6/95	WHAT DUTIES RELATE TO INVESTOR AWARENESS?	HER WORK IS FOCUSED ON INVESTOR PROTECTION MATTERS SUCH AS CEASE AND DESIST ORDERS (THE HEART OF INVESTOR PROTECTION).
		5,164.12	FRINGE BENEFITS			
SALARIES AND BENEFITS		87,501.42				
584	10/27/93	6,662.86	RUFUS EDMISTEN	TRAVEL TO TOKYO AND OSAKA, JAPAN	HOW RELATED TO INVESTOR AWARENESS?	SECURITIES MEETINGS AND ISSUES WERE ON THE AGENDA.
700	11/19/93	1,932.26	RUFUS EDMISTEN	TRAVEL TO BEVERLY HILLS, CALIFORNIA	HOW RELATED TO INVESTOR AWARENESS?	THIS TRIP WAS RELATED TO THE SECRETARY'S POSITION ON THE FILM COMMISSION. IT WOULD BE MORE APPROPRIATELY CHARGED TO THE REGULAR TRAVEL BUDGET.
938	01/21/94	1,199.97	GARLAND GARRETT, III	TRAVEL TO ST THOMAS, VIRGIN ISLANDS NATIONAL ASSOCIATION OF SECRETARIES OF STATE CONFERENCE	NECESSARY TO ATTEND?	HE TRAVELED AS SUPPORT STAFF BECAUSE THE SECRETARY WAS RESPONSIBLE FOR CHAIRING THREE DIFFERENT MEETINGS AT THE NASS MEETING AND HE NEEDED ASSISTANCE.
1019	02/03/94	1,156.97	GILES CROWELL	TRAVEL TO ST THOMAS, VIRGIN ISLANDS NATIONAL ASSOCIATION OF SECRETARIES OF STATE CONFERENCE	NON-STATE EMPLOYEE	BUDGET MANUAL EXPRESSLY ALLOWS NON-STATE EMPLOYEES TO TRAVEL AT STATE EXPENSE. THIS PERSON WAS, UNTIL HIS DEATH, A VALUED ADVISOR ON MATTERS SUCH AS SECURITIES.

TABLE 9 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
1020	02/03/94	1,432.13	RUFUS EDMISTEN	TRAVEL TO ST THOMAS, VIRGIN ISLANDS NATIONAL ASSOCIATION OF SECRETARIES OF STATE CONFERENCE	HOW RELATED TO INVESTOR AWARENESS?	THE SECRETARY CHAIRS THE NASS SECURITIES COMMITTEE WHICH IS DIRECTLY RELATED TO THE INVESTOR PROTECTION FUNDS.
1340	04/13/94	464.10	RUFUS EDMISTEN	TRAVEL TO WASHINGTON, DC NATIONAL ASSOCIATION OF SECRETARIES OF STATE	HOW RELATED TO INVESTOR AWARENESS?	THE SECRETARY CHAIRS NASS SECURITIES COMMITTEE WHICH IS DIRECTLY RELATED TO THE INVESTOR PROTECTION FUNDS.
1404	04/22/94	429.70	RUFUS EDMISTEN	TRAVEL TO PINEHURST CURRENCY EFFECTS IN INTL INVESTMENT	HOW RELATED TO INVESTOR AWARENESS?	THE CURRENCY EFFECTS MEETING IS CLEARLY TIED TO MOST OF THE WORK OF THIS OFFICE.
1405	04/22/94	316.58	VIVIAN POWELL	TRAVEL TO PINEHURST CURRENCY EFFECTS IN INTL INVESTMENT	HOW RELATED TO INVESTOR AWARENESS? TRANSFERRED TO DEPARTMENT OF COMMERCE ON 3/21/94	SHE HELPED COORDINATE THE MEETING AND COMMERCE APPROVED HER ATTENDING TO HANDLE REGISTRATION.
1408	04/22/94	427.23	GALEN NEWSOM	TRAVEL TO WASHINGTON, DC NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION MEETING	HOW RELATED TO INVESTOR AWARENESS? NECESSARY FOR CHIEF INVESTIGATOR TO ATTEND	NAASA MERGES IA AND SECURITIES FUNCTIONS. THIS IS VALUABLE INFORMATION FOR SECURITIES INVESTIGATORS.
1409	04/22/94	437.60	RICHARD CARLTON	TRAVEL TO PINEHURST CURRENCY EFFECTS IN INTL INVESTMENT	HOW RELATED TO INVESTOR AWARENESS?	THE CURRENCY EFFECTS MEETING IS CLEARLY TIED TO MOST OF THE WORK OF THIS OFFICE.
1410	04/22/94	278.38	JULIA SNEE	TRAVEL TO PINEHURST CURRENCY EFFECTS IN INTL INVESTMENT	HOW RELATED TO INVESTOR AWARENESS? SALARY CHARGED TO FUND 1120-PUBLICATIONS	THIS EMPLOYEE HELPED COORDINATE THE MEETING AND PRODUCED ALL OF THE PRINTED MATERIALS. SHE ALSO WENT TO STAFF THE REGISTRATION DESK.
1440	04/28/94	395.30	HOWARD CRUTCHFIELD	TRAVEL TO PINEHURST CURRENCY EFFECTS IN INTL INVESTMENT	INVESTIGATOR, NECESSARY TO ATTEND?	THE CURRENCY EFFECTS MEETING IS CLEARLY TIED TO MOST OF THE WORK IN THIS OFFICE.
1441	04/28/94	282.88	EUGENE CELLA	TRAVEL TO WASHINGTON, DC NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION MEETING	HOW RELATED TO INVESTOR AWARENESS?	THIS EMPLOYEE IS THE DIVISION DIRECTOR. IT IS NECESSARY THAT HE ATTEND AND IT IS APPROPRIATE THAT IA PAY.
1499	05/11/94	900.00	NATL ASSOC OF SEC OF STATE	REGISTRATION FOR CROWELL, CARLTON, MCBRYDE, ELMORE, STANLEY, BONEY	NECESSARY FOR ALL TO ATTEND? WHY PAY FOR NON-EMPLOYEES (CROWELL, ELMORE, AND BONEY) \$150 PER PERSON, TRAVEL PAID FROM GENERAL FUND	IT WAS APPROPRIATE FOR ALL TO ATTEND. NASS IS A MAJOR ELEMENT IN THE SECURITIES/INVESTOR PROTECTION MIX. THE COST WAS SHARED.

TABLE 9 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
1611	06/09/94	627.00	HOWARD BONEY	TRAVEL TO WASHINGTON, DC NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION MEETING	DISTRICT ATTORNEY-NOT AN EMPLOYEE OF SECRETARY OF STATE	THIS IS THE DA WHO PROSECUTES OUR SECURITIES CASES (WHICH GENERATE IA INFORMATION AND INVESTOR PROTECTION FUNDS).
94	07/21/94	4,238.55	EUGENE CELLA	TRAVEL TO CHINA FOR TRIP "CONCERNING SECURITIES REGULATION IN CHINA"	HOW RELATED TO INVESTOR AWARENESS IN UNITED STATES?	THIS MEETING WAS FOCUSED ON SECURITIES AND IA ISSUES.
610	10/26/94	738.68	EUGENE CELLA	TRAVEL TO AND RETURN FROM SAN FRANCISCO	RELATED TO CHINA TRIP	THIS MEETING WAS FOCUSED ON SECURITIES AND IA ISSUES.
611	10/26/94	1,500.00	HAMMER AND COMPANY	REGISTRATION FEE-REENGINEERING CONFERENCE FOR RUFUS EDMISTEN	EXCESSIVE PROGRAM COSTS FOR ONE DAY SEMINAR? RELATION TO SEC OF STATE DUTIES?	THIS IS THE BEST REENGINEERING TRAINING IN THE NATION. SECURITIES (INCLUDING IA) WILL BENEFIT.
1088	02/17/95	1,093.41	GALEN NEWSOM	TRAVEL TO WASHINGTON, DC NATIONAL ASSOCIATION OF SECRETARIES OF STATE MEETING	RELATED TO INVESTOR AWARENESS?, REIMBURSED TIPS (\$15.00), FILM AND BATTERIES (\$57.76) WITH NO PO OR PRIOR APPROVAL	EXPENSES CLAIMED ON A TRAVEL VOUCHER.
1089	02/17/95	813.15	RICHARD CARLTON	TRAVEL TO WASHINGTON, DC NATIONAL ASSOCIATION OF SECRETARIES OF STATE MEETING	RELATED TO INVESTOR AWARENESS?	THE CHIEF DEPUTY IS FULLY INVOLVED WITH THE SECURITIES COMMITTEE OF NASS AND THAT COMMITTEE IS FOCUSED ON INVESTOR PROTECTION.
1351	04/28/95	<u>579.27</u>	HOWARD BONEY	TRAVEL TO WASHINGTON, DC NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION MEETING	DISTRICT ATTORNEY, NOT AN EMPLOYEE OF SECRETARY OF STATE	THIS IS THE DA WHO PROSECUTES OUR SECURITIES CASES (WHICH GENERATE IA INFORMATION AND INVESTOR PROTECTION FUNDS).
TRAVEL		25,906.02				
1025	02/03/94	1,101.84	DEPT OF ADMIN-MOTOR FLEET	USE OF STATE CARS BY SECURITIES INVESTIGATORS	HOW RELATED TO INVESTOR AWARENESS?	COST OF VEHICLES WHICH ARE OFTEN USED IN INVESTOR PROTECTION AND EDUCATION ACTIVITIES IS CHARGED TO THE FUND A FEW TIMES PER YEAR.
1192	03/08/94	1,180.66	DEPT OF ADMIN-MOTOR FLEET	USE OF STATE CARS BY SECURITIES INVESTIGATORS	HOW RELATED TO INVESTOR AWARENESS?	
1417	04/22/94	1,489.53	DEPT OF ADMIN-MOTOR FLEET	USE OF STATE CARS BY SECURITIES INVESTIGATORS	HOW RELATED TO INVESTOR AWARENESS?	

TABLE 9 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
1474	05/04/94	1,396.76	DEPT OF ADMIN-MOTOR FLEET	USE OF STATE CARS BY SECURITIES INVESTIGATORS	HOW RELATED TO INVESTOR AWARENESS?	SEE PRIOR PAGE FOR RESPONSE
54	07/07/94	1,215.30	DEPT OF ADMIN-MOTOR FLEET	USE OF STATE CARS BY SECURITIES INVESTIGATORS	HOW RELATED TO INVESTOR AWARENESS?	
STATE CARS		6,384.09				
1639	06/15/94	1,841.89	UNIVERSITY GRAPHICS	FINANCIAL CRIME SEMINAR BOOKS	NO COMMENT	
PRINTING		1,841.89				
1349	04/13/94	697.69	NC DEPT OF ADMINISTRATION	REPAIRS, PAINT, STORAGE FOR NOTARY DIVISION, SECURITIES DIVISION, CORPORATIONS DIVISION	HOW RELATED TO INVESTOR AWARENESS? WHY PAY FOR COMPLETE JOB?	THIS IS STORAGE SPACE FOR SECURITIES/INVESTOR PROTECTION AND DOES NOT SERVE NOTARIES OR CORPORATIONS.
1406	04/22/94	4,918.10	NC DEPT OF ADMINISTRATION	PARTITION CHANGES ON 1ST FLOOR SECURITIES DIVISION	HOW RELATED TO INVESTOR AWARENESS?	THE REORGANIZING OF SPACE CREATED ROOM TO CONSOLIDATE SECURITIES AND IA INTO THE SAME SPACE.
REPAIRS TO BUILDINGS		5,615.79				
874	12/21/94	2,733.50	CENTRAL CAROLINA BANK	RESEARCH TIME AND COPIES FOR AN INVESTIGATION	HOW RELATED TO INVESTOR AWARENESS?	CERTAIN BUSINESSES WERE BREAKING SECURITIES LAWS. WE NEEDED THE MATERIALS TO INVESTIGATE AND TO INFORM INVESTORS.
1046	02/09/95	0.44	US BANKRUPTCY COURT	COPIES FOR AN INVESTIGATION, PRO-RATA AMOUNT	HOW RELATED TO INVESTOR AWARENESS?	
1087	02/17/95	300.00	FIRST UNION NATIONAL BANK	RESEARCH OR SUMMONS EXPENSE FOR AN INVESTIGATION	RELATIONSHIP TO PROGRAM?	
1189	03/20/95	305.00	BROUSSARD POCHE LEWIS & BREAUK	COPIES FOR AN INVESTIGATION	RELATIONSHIP TO PROGRAM?	
REPRODUCTION RECEIPTS		3,338.94				
1088	02/18/94	20,000.00	TRIPPI MCMAHON SQUIER	ADVANCE FOR SHOOT AND POST-PRODUCTION FOR 3 COMMERCIALS	APPROVED BY PURCHASE AND CONTRACT (P & C)? DOES CONTRACT EXIST?	THE FIRM INITIATED THE PROJECT SO QUICKLY THAT THEY JUMPED AHEAD OF THE PROCESS.
1238	03/16/94	117,101.25	TRIPPI MCMAHON SQUIER	BALANCE OF PRODUCTION COSTS PLUS \$100,000.00 FOR PLACEMENT OF TV ADVERTISEMENTS	MISSING VOUCHER- UNSUPPORTED COSTS, APPROVED BY P & C? DOES CONTRACT EXIST?	THE FIRM INITIATED THE PROJECT SO QUICKLY THAT THEY JUMPED AHEAD OF THE PROCESS.

TABLE 9 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
169	08/03/94	40,000.00	CAPITOL RADIO NETWORK	PUBLIC SERVICE ANNOUNCEMENTS	APPROVED BY P & C? DOES CONTRACT EXIST?	P & C WAS AWARE. (AUDITOR NOTE: P & C HAS NO RECORD OF THESE TRANSACTIONS.)
235	08/12/94	10,000.00	CAPITOL RADIO NETWORK	PUBLIC SERVICE ANNOUNCEMENTS	APPROVED BY P & C? DOES CONTRACT EXIST?	
545	10/14/95	52.53	DEPARTMENT OF ADMINISTRATION	REPEAT TAPE OF PUBLIC SERVICE ANNOUNCEMENTS FOR USE AT STATE FAIR	NO COMMENT	
574	10/19/94	250.00	EXPRESS SIGNS	STATE FAIR LETTERED PANELS	WHAT WERE SIGNS USED FOR? RELATIONSHIP TO PROGRAM?	THE SIGNS WERE USED TO PROMOTE IA AT THE FAIR.
575	10/19/94	1,877.22	TRIANGLE ADVERTISING	BALL-POINT PENS WITH "1-800-688-4507" ENGRAVED ON THEM	NO COMMENT	
641	11/02/94	314.50	SOUTH EASTERN TYPOGRAPHY	STATE FAIR SIGNAGE	RELATED TO INVESTOR AWARENESS?	THE SIGNS WERE USED TO PROMOTE IA AT THE FAIR.
647	11/02/94	55,000.00	TRIPPI MCMAHON SQUIER	TV ADVERTISEMENTS	APPROVED BY P & C? DOES CONTRACT EXIST?	P & C WAS INVOLVED.
ADVERTISING		244,595.50				
1435	4/29/94	1,625.00	MEREDITH COLLEGE	LEGAL ASSISTANCE CLASS-BALLARD	NOT IN POSITION CHARGED TO PROGRAM? RELATION TO JOB? NO EDUC ASST FORM, EVIDENCE OF COMPLETION? NOT IN COMPLIANCE WITH BUDGET MANUAL, REQUIRED TO COMPLETE COURSE FIRST AND THEN REIMBURSE INDIVIDUAL	WE ASKED HER TO GO TO SCHOOL AND WE PAID FOR IT.
1436	04/28/94	720.93	FEDERAL LAW ENF TRAINING CENTER	COMPUTER EVIDENCE ANALYSIS TRAINING PROGRAM FOR BEN LEWIS	TRAINING FOR INVESTIGATOR?	A LARGE PART OF INVESTOR FRAUD IS ON COMPUTERS.
1437	04/28/94	557.23	FEDERAL LAW ENF TRAINING CENTER	FRAUD AND FINANCIAL INVESTIGATIONS TRAINING PROGRAM FOR HOWARD CRUTCHFIELD	TRAINING FOR INVESTIGATOR?	A LARGE PART OF INVESTOR FRAUD IS ON COMPUTERS.
EDUCATION AND TRAINING		2,903.16				
1521	5/18/94	282.49	ARRINGTON POLICE	AMMUNITION 1000 ROUNDS 380 AUTOMATIC, 75 ROUNDS OTHER	USE IN PROGRAM?	SECURITIES INVESTIGATORS ARE HIGHLY ACTIVE IN IA INFORMATION GATHERING. THE AMMUNITION IS REQUIRED FOR THEIR MANDATORY REQUALIFICATION.
AMMUNITION		282.49				

TABLE 9 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
1205	03/09/94	651.95	CREATIVE COMPUTERS	CARRYING CASE, NEC 3XP CD-ROM, NEC MAC INTERFACE	WHAT COMPUTER ADDED TO?	THE CD-ROM IS ASSIGNED TO THE PIO. OTHER ITEMS ARE ASSIGNED TO PUBLICATIONS.
1407	04/22/84	75.00	CREATIVE COMPUTERS	AUTO POWER ADAPTER	WHAT COMPUTER ADDED TO?	THIS COMPUTER IS IN PUBLICATIONS.
1579	06/03/94	24,851.52	DIGITAL EQUIPMENT COMPANY	12 COMPUTERS, FIXED ASSET #'S 1246-1249, 1251-1258 ON FAS BUT NUMBERS NOT ON COMPUTERS	SECURITIES PERSONAL COMPUTERS (11 ASSIGNED)-NO INDIVIDUAL ASSIGNED COMPUTER, 1 COMPUTER IN CONFERENCE ROOM-BACKUP TO LAN	THIS IS THE SECURITIES LAN HARDWARE. THE ENTIRE SECTION WAS PUT ON THE SAME SYSTEM. THEY WORK TOGETHER AND THEY CAN COMMUNICATE.
1612	06/09/94	1,955.70	DILAN	SYNOPTICS LATTIS HUB FOR USE BY LYNDA MILAM	MILAM'S SALARY CHARGED TO FUND 1240 (BUSINESS LICENSE INFO)	THIS MAY HAVE BEEN INCORRECTLY CODED.
1609	06/09/94	11,107.14	MEMOREX TELEX	FIXED ASSET # 1271 AND 1272--LAN SERVER AND LAN COUNTER	RELATIONSHIP TO PROGRAM?	THIS IS THE FILE SERVER FOR THE LAN.
1627	06/09/94	571.34	MEMOREX TELEX	COMPUTER PARTS-INTERNAL CD-ROMs AND CD-ROM INTERFACE KIT	RELATIONSHIP TO PROGRAM?	
663	11/09/94	15,707.08	ALPHANUMERIC SYSTEMS, INC	SOFTWARE FOR LAN SYSTEM	RELATIONSHIP TO PROGRAM?	THE LAN WILL NOT OPERATE WITHOUT IT.
		17,072.65	ALPHANUMERIC SYSTEMS, INC	INSTALLATION AND HARDWARE FOR LAN SYSTEM, FIXED ASSET # 1292-4, 1296-8	RELATIONSHIP TO PROGRAM?	THE LAN WILL NOT OPERATE WITHOUT IT.
1284	04/06/95	6,743.81	ASAP SOFTWARE EXPRESS	SOFTWARE UPGRADE	WHO DETERMINED SOFTWARE NECESSARY AND VENDOR?	REQUIRED TO BRING THE LAN TO STATE STANDARDS.
430	09/26/94	2,402.42	DIGITAL EQUIPMENT CORP	PERSONAL COMPUTER-FIXED ASSET #1283	RELATIONSHIP TO PROGRAM?	FOR IDA THOMLINSON WHO WORKS IN SECURITIES.
592	10/24/94	850.84	DATANET INC	COMPUTER AND MONITOR, FIXED ASSET #1299	RELATIONSHIP TO PROGRAM?	FOR JONATHAN DEMERS WHO WORKS IN SECURITIES.
642	11/02/94	2,112.76	DIGITAL EQUIPMENT CORP	WORKSTATION, FIXED ASSET #1301	RELATIONSHIP TO PROGRAM?	FOR EMILY BIRD WHO WORKS IN SECURITIES.
769	12/02/94	155.10	ALPHANUMERIC	NETWORK CARD	RELATIONSHIP TO PROGRAM?	
873	12/21/94	839.52	MEMOREX TELEX	COMPUTER MONITOR, FIXED ASSET #1303	RELATIONSHIP TO PROGRAM?	FOR BEN LEWIS WHO IS THE EXPERT ON USE OF COMPUTERS AND NETWORKS TO MISLEAD INVESTORS.
900	01/05/95	4,702.16	PRECISION MICRO RESEARCH	NOTEBOOK PC, FIXED ASSET #1304	RELATIONSHIP TO PROGRAM?	FOR BEN LEWIS WHO IS THE EXPERT ON USE OF COMPUTERS AND NETWORKS TO MISLEAD INVESTORS.

TABLE 9 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
988	01/27/95	7,261.00	DIGITAL EQUIPMENT CORP	3 PC COMPUTERS, FIXED ASSET #1305-7	ASSIGNED TO PERSONS WORKING IN CORPORATIONS DIVISION (DAVID MASSEY-1305, JOHN COLLAR-1306) AND THE SECRETARY(1307)	ALL THREE ARE INVOLVED IN SECURITIES/IA ISSUES.
1186	03/20/95	1,351.91	DILAN	MANAGED ETHERNET WORK GROUP CONNECTOR, FIXED ASSET #1308	RELATIONSHIP TO PROGRAM?	THIS CONNECTS THE PCs ON VOUCHER #988 TO THE NET.
1213	03/23/95	569.75	EGGHEAD SOFTWARE	CONNECTOR TO PC FROM LAN-ETHEREXPRESS PRO 10	RELATIONSHIP TO PROGRAM?	NEEDED TO ACCESS THE INTERNET.
1248	03/29/95	104.94	MISCO	INTEL ETHEREXP 16 TP, FIXED ASSET #999999	RELATIONSHIP TO PROGRAM?	NEEDED TO ACCESS THE INTERNET.
1390	05/06/95	3,497.00	DIGITAL EQUIPMENT CO	PC, FIXED ASSET #1309	GENE BRUTON-REGISTRATION SECTION, SECURITIES DIVISION, RELATIONSHIP TO PROGRAM?	THIS PUT GENE BRUTON ON THE LAN.
DATA PROCESSING SERVICES		102,583.59				
136	07/07/94	42.00	NC DEPT OF ADMINISTRATION	VHS DUB OF "B-15 HEARING-6/15/92"	RELATIONSHIP TO PROGRAM?	THIS IS A SECURITIES HEARING.
237	08/12/94	68.35	GALEN NEWSOM	RENT OF CONFERENCE ROOM	ATHLETE AGENT CONFERENCE, WHY PAID? RELATIONSHIP TO PROGRAM?	WE SPLIT THE COST OF THE MEETING WITH GEORGIA. IT WAS INCORRECTLY CODED.
OTHER SERVICES		110.35				
1349	04/28/95	4,078.36	CCH INCORPORATED	CD-ROM VERSIONS OF FEDERAL SECURITIES LAW REPORTER, BLUE SKY LAW REPORTER, SEC NO-ACTION LETTERS	WHERE USED? RELATIONSHIP TO PROGRAM?	THIS IS SECURITIES AND INVESTOR PROTECTION MATERIALS ON ROM.
OTHER FIXED CHARGES		4,078.36				
1077	02/15/95	25,000.00	NC COUNCIL ON ECONOMIC EDUCATION	GRANT TO ASSIST IN EDUCATING HIGH SCHOOL STUDENTS ABOUT INVESTMENTS	NO COMMENT	
GRANTS		25,000.00				
TOTAL COSTS		511,233.59				

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

PERSONNEL ISSUES

In order to audit compliance with State personnel regulations, we examined in detail a sample of 86 personnel files for employees of the Office during FY93-94 and FY94-95. The sample was determined judgmentally based on a review of OSP records obtained from the Personnel Management Information System (PMIS). Supporting documentation was reviewed to determine whether the appropriate management review and approval had occurred for personnel actions. We should note that all personnel transactions questioned have been approved by OSP. Overall, we are concerned that neither the Office nor OSP had documented exceptions to the established procedures. While we understand the need for flexibility in personnel matters, we strongly recommend that adequate documentation be kept for all actions. The findings from our review are discussed below.

THE OFFICE IS IN NON-COMPLIANCE WITH STATE HIRING PRACTICES.

Responses to the staff questionnaire, and interviews with staff, indicated that the Office did not adhere to standard hiring procedures. During interviews with staff, we learned that in a number of cases employees were hired without going through a formal interview process. Evidence in the personnel files that we reviewed indicated that some applications were completed after the position was filled. One employee reported that he was hired and had worked approximately one week before anyone else was “interviewed” for that position. He was told by management not to worry, that the interviews were being conducted simply to “comply with OSP regulations.” We also found evidence in the personnel files that employees were promised certain starting salaries prior to being hired which did not comply with the OSP starting salary for the position. A review of the procedures in use revealed that the Office is in non-compliance with OSP regulations regarding hiring as contained in Section 2 of the *Personnel Manual*. Specifically, we noted:

- two instances where there was no documentation that applicants were interviewed prior to the positions being filled;
- three instances when employees were hired at salaries higher than the starting salary for the position without adequate justification;
- one instance when verification of education for newly hired employee was sent out timely, but according to management, the discrepancy was not noted until the employee had been in the position for approximately one year; and
- two instances when discrepancies between verified education and information supplied on the application were not documented as resolved in the personnel files.

AUDITOR'S NOTE: *Shortly after the beginning of this audit, management began a process of revamping its hiring procedures. All applicants are now to be interviewed by a review committee which will rate the applicants and make hiring recommendations to senior management. We were unable to confirm whether these new procedures have actually been implemented since our sample did not include anyone hired after June 30, 1995.*

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

We recommend management take immediate steps to comply with all OSP regulations regarding hiring new employees. The steps management has already taken in revamping its hiring procedures appear to be a start in that direction. We strongly encourage management to adhere to the new procedures in order to ensure that the most qualified candidate will be hired for each position.

THE OFFICE FREQUENTLY USES TEMPORARY POSITIONS.

Our examination of personnel records revealed that since 1989 the Office has utilized a total of 56 temporary and/or part-time positions. Personnel records reveal that 69 different people were employed to fill the 56 temporary positions. The majority of these positions appear to have been filled by students who worked during the summer months and vacation/holiday periods. The standard practice of the Office has been to transfer temporary employees from position to position frequently. It is not uncommon for one temporary employee to be shown in 4 or 5 different positions during a three month span. According to interviews with the various section heads, the temporary employees shown in PMIS and on the organizational charts as working in their respective sections did not actually work in those sections.

While it is to the credit of the Office that temporary rather than permanent positions were created, the number and excessive movement indicate potential problems. Additionally, we were unable to determine in several cases what duties, if any, were assigned to the temporaries. PMIS records revealed a number of temporary positions which have been kept open for extended periods of time. In fact, we noted one temporary position which was shown as filled by the same person for the last three years. According to the Chief Fiscal Officer for the Office, this individual has not actually been on the payroll for at least the last two and one-half years. Another temporary employee was allowed to determine his own schedule. The person he was shown as reporting to did not know when he was working and did not have any input into the assignments given to this individual.

RECOMMENDATION

We recommend the Office curtail its use of temporary positions to those which are actually needed to handle short-term increases in workload. We further recommend that temporary positions be eliminated as soon as the need has passed. OSP should monitor the need for, and use of, temporary positions more closely, requiring documentation of the justification given.

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

THE OFFICE IS REQUIRING MORE ADVANCED EDUCATION AND EXPERIENCE REQUIREMENTS FOR EMPLOYMENT THAN NECESSARY.

OSP is charged with developing *job specifications* for each classification of position in State government. The job specification is composed of a generic description of the typical duties and responsibilities of the class, including the minimum education and experience requirements. Each agency then has the flexibility of developing specific *job descriptions* for authorized positions within the different classifications. The agency job description is composed of a specific description of the duties and responsibilities of the particular position, the daily activities associated with the specific job, and the qualifications necessary to perform these activities within the agency.

Based on our review of personnel files, the Office has developed position descriptions with more stringent, job-specific qualifications for employment than the OSP job specifications. However, it appears the Office does not often use this important evaluation tool in the determination of qualified personnel for available positions. The reason for the more stringent qualifications is unclear since applicants are not necessarily required to possess the stated qualifications. Calling for more education than required by OSP could have the effect of reducing the number of applicants.

Our analysis included a review of both the OSP job specifications and the Office's job descriptions for the positions. During our review, we identified twelve individuals who, at the time they were placed in their positions, *did not have the education and experience stated in the job description*. We are questioning the qualifications of these individuals based on the job descriptions since the description should be more pertinent to the specific duties to be performed. ***All actions (creation of positions, hiring of individuals, and salary increases) were approved by the Office of State Personnel.*** We learned in interviews with OSP management that they review employee qualifications against the *job specification* rather than the agency's job description. OSP personnel expressed concern over the possibility of legal actions resulting from the inconsistent application of the higher standards contained in the agency's job descriptions.

Specifically, we are questioning the initial qualifications of nine individuals included in our sub-sample of 56 (16.1%). Again, we are questioning why the Office considered these individuals qualified since the job descriptions required more education and/or experience than these individuals had at the time they were hired. (We understand that these individuals did meet the minimum job specifications as established by OSP.)

RECOMMENDATION

We recommend the Office request assistance from OSP in reviewing existing job descriptions to determine the necessary level of education and experience for each position. Once the minimum requirements are established, the Office should adhere to those standards in evaluating all applicants. OSP, in its oversight role, should

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

periodically review personnel actions to ensure that the Office is uniformly applying the established standards.

THE OFFICE IS IN NON-COMPLIANCE WITH GS §126-7 REQUIRING ANNUAL PERFORMANCE EVALUATIONS.

During our audit, we learned that the majority of staff have not received a performance evaluation within the last three years. (There were exceptions in the Business License Information Office where evaluations were completed for this past fiscal year.) However, the Office did submit the annual summary of performance evaluations for FY94-95 to OSP as required by legislation. We were unable to locate any performance evaluations in the personnel files which supported the annual summary. Further, our review of personnel actions shows that a number of staff have received promotions and/or considerable salary increases within the last three years even though performance evaluations were not completed.

RECOMMENDATION

We recommend the Office immediately take steps to comply with GS §126-7. Annual performance evaluations, utilizing criteria which are job-specific, should document performance for all employees. All supervisory level employees should be trained to administer the performance evaluations. Employees should know what specific duties and responsibilities are assigned to them. Part of the evaluation process should be developing procedures to assist employees who are not performing at the desired level. If the employee cannot perform at the desired level, then OSP procedures should be followed for removing the employee from the position. Top management should be responsible for monitoring all performance evaluations to make sure the process is effectively administered. The annual evaluation summary report submitted to OSP should be completed only after all evaluations have been completed.

PERSONNEL RECORDS WERE INCOMPLETE AND IN NON-COMPLIANCE WITH OSP REGULATIONS.

As part of our audit, we reviewed 86 personnel files in detail. OSP regulations regarding maintenance of Personnel Records and Reports is contained in Section 11.1 of the *Personnel Manual*. Our review revealed non-compliance with this regulation, specifically:

- one instance where the file was missing documentation,
- fifty-six instances where no performance evaluations were in the files after June 30, 1992,
- one instance where a file did not contain an application,
- four instances where files contained unsigned and undated applications, and
- twenty-four instances where files did not contain I-9 forms or for which the I-9 form was incomplete. (An I-9 form shows verification of US citizenship.)

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

We recommend the Office immediately take steps to make sure all personnel files are in compliance with OSP regulations and contain relevant records for each individual. The personnel file should properly contain an application for all positions held, copies of all personnel actions along with any explanations or justifications for the action, copies of all performance appraisals, copies of any disciplinary actions, copies of any meritorious duty citations, and other relevant documents.

THE SECRETARY OF STATE'S OFFICE CLAIMED ADDITIONAL JOB DUTIES WERE BEING PERFORMED IN ORDER TO SECURE SALARY INCREASES FOR CERTAIN EMPLOYEES.

During our audit, we had questions concerning the amount of salary increases for certain employees in the Secretary of State's Office. These employees had received more than a 5%* per grade salary increases for promotions, although the *Personnel Manual* states that an employee may receive **up to a 5% increase per grade**. Documentation in the personnel files stated, as the justification for the increases, that the employees had been given additional duties. However, after interviewing the employees, we determined the additional duties claimed in revised job descriptions were not being performed.

**AUDITOR'S NOTE: OSP personnel reported to us that they have the flexibility to grant up to a 10% salary increase for a one grade promotion. This flexibility was explained as desirable to recognize additional job duties and maintain equity with former policies that allowed more than a 5% pay raise for a one pay grade promotion. OSP does not have any formal policy or guidelines documenting this flexibility. We recommend the OSP clearly and formally communicate the conditions under which exceptions to the standard policy are authorized.*

RECOMMENDATION

We recommend the Secretary of State's Office request salary adjustments based on the actual duties assigned to the employee. We recommend OSP immediately review the files of Secretary of State personnel who have received salary adjustments based on the assumption of additional duties. Further, we recommend that OSP update its formal policies and procedures for salary adjustments to include all of the salary increase options available to agencies. We further recommend these procedures be communicated to each state agency.

"SPECIAL ENTRY RATE" SALARY INCREASES WERE AWARDED THAT DEVIATED FROM INCREASES ESTABLISHED BY OSP.

We examined salary increases for persons included in our sample of personnel records for the Office of the Secretary of State. We noted three instances where "special entry rate*" increases were granted to attorneys in the Office. Each of the three was granted a

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

5% increase. Two of the three positions were identified on the approved list issued by OSP. The third position was not included in those approved for increases. We requested clarification from OSP as to why these increases were approved. OSP personnel stated that no written documentation was prepared at the time of the increases.

**AUDITOR'S NOTE: A "special entry rate" increase is one approved by the Personnel Commission for classes of positions for which higher salaries are needed to attract and retain qualified personnel.*

For the position not included on the official list, OSP explains that the Chief Deputy's position description states that he is "General Counsel" for the Office and Secretary Edmisten. As such, OSP determined that he was entitled to the special entry rate increase approved for attorneys even though his position was not included on the official list. (We have discussed the appearance of overlap in duties and confusion with the general counsel function on page 91.) Since no documentation exists explaining why an exception was granted, we cannot determine what increase, if any, the Chief Deputy should have received.

The remaining two positions were granted more than the maximum allowable adjustment specified in the OSP memorandum. Again, OSP had no written documentation on file to explain why these two positions were granted more than the specified maximum. We were told by OSP that since the Attorney General's Office gave raises greater than 5% to some of its attorneys, it was deemed fair to grant up to 5% increases to other agency attorneys when it was requested by the employing agency. OSP supplied us with a hand written note on the bottom of the January 11, 1994, memo stating that if any agency requested it, the special entry rate for attorneys could be up to 5%.

The actions described above were not fully documented by either the Secretary of State's Office or OSP. Therefore, we question a total of \$7,153.50 in salary increases received by these individuals from February, 1994, through August, 1995.

RECOMMENDATION

We recommend that management fully document all personnel actions. We further recommend that OSP document any exceptions from written guidelines and established procedures at the time the exception is granted. When salary increases are available to a class of employees across state government, this information should be clearly communicated to all agencies by OSP. Exceptions should not be granted in such cases for only those agencies that request it.

THE OFFICE'S TIME KEEPING SYSTEM IS NOT UNIFORM AND MAY NOT BE AN ACCURATE REFLECTION OF TIME WORKED, LEAVE TAKEN, OR SALARY EARNED.

During our audit, we noted several versions of time sheets/leave reports. The Office has a time sheet which is used to record time for temporary employees and is also used for recording overtime. The second type of "time sheet" was actually a monthly leave report

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

whereby the employee recorded only leave taken and not the actual time worked. Only one division, Securities, has attempted to standardize the recording of compensatory time by developing a Monthly Time/Leave Report which allows the employee to record annual leave, sick leave, and compensatory leave on one form.

OSP regulations require that all leave be accounted for appropriately. Specific problems noted in our sample were:

- three instances in which the employee's time sheet (leave record) had not been signed by his supervisor;
- two instances where employees earned vacation and sick leave although they were not eligible to earn this leave;
- six instances where unused sick leave was not correctly recorded on the PD-105 at the time of separation;
- five instances where overtime worked was recorded as a total for the week rather than as hours worked per day;
- three instances where the documentation to support the payroll transmittal was incorrectly computed;
- four instances where the calculation for gross pay was incorrectly computed;
- two employees who started work before the effective date on the Personal Action Form (PD-105);
- one employee who was not removed from the payroll at the time of separation resulting in payment of unearned salary (which was refunded to the Office by the employee); and
- four instances where mathematical calculation errors of leave earned or taken had not been corrected. (Although, these math errors affected the employees' leave balances, the time sheets had been signed by the employees' supervisor approving the report.)

OSP regulations state it is the responsibility of the individual employee and the supervisor to assure that time is properly recorded.

RECOMMENDATION

We recommend management examine time recording procedures currently in use. In our opinion, a standard time recording format should be developed and implemented. The format should allow for identification of hours worked, projects/investigations worked on (as applicable), and leave hours taken by type. Also, the format should include a statement to be signed by both the employee and supervisor which indicates that time worked and leave taken is true and accurate.

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

THE OFFICE HAS NOT COMPLIED WITH ITS OWN OR OSP REQUIREMENTS REGARDING COMPENSATORY TIME.

Section 7 of the *Personnel Manual* contains provisions for meeting the requirements of the Fair Labor Standards Act (FLSA). The FLSA delineates the level of employees who must be granted compensatory time or must be paid overtime for time worked over 40 hours a week. The FLSA also allows management to decide whether to grant compensatory time to executive, administrative, and professional level employees and requires the development of a system for accurately documenting such time earned and taken.

During our review of monthly time/leave reports, we noted several employees who recorded earned compensatory time. The Office does not have a centralized system for recording compensatory time earned or taken. (We noted several versions of time sheets/leave reports during our review.) According to the Office's Compensatory Leave Policy, each division head is responsible for maintaining accurate records of compensatory leave earned or taken.

Specific concerns noted during our reviews were:

- one instance where compensatory time was recorded as earned but there was no supervisory approval;
- one instance where there was no indication compensatory time shown as earned was taken at a later time, but it was not forwarded to the following month; and
- eight instances where there was no documentation to support beginning compensatory leave balances.

We also noted several instances of non-compliance with the Office's internal compensatory leave policy. These areas of non-compliance included:

- one instance where an employee exceeding the maximum of 24 hours of compensatory leave which may be taken per week;
- one instance where an employee carried over compensatory leave from December 31 to January 1; and
- two instances where the employee failed to take compensatory leave within the next full pay period from the date the overtime was performed.

In our opinion, the controls over recording and reviewing compensatory time are not strong enough to prevent these and other problems from developing.

RECOMMENDATION

We recommend management develop a formal compensatory time policy which complies with the requirements of the FLSA. The policy should clearly identify which employees, if any, may participate in the compensatory leave program. Additionally, the policy should clearly define the circumstances under which compensatory leave may be

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

earned, how and when it is to be approved, and how it is to be accounted for. Management should also institute a standard system of accurately accounting for compensatory leave earned and taken. The procedures for earning, recording, and taking compensatory time should be fully communicated to all employees.

OUR REVIEW OF PAYROLL DATA REVEALED UNSUPPORTED OVERTIME PAYMENTS.

As part of our audit, we reviewed overtime payrolls and supporting time sheets for FY93-94 and FY94-95. We noted five instances where employees were paid overtime, totaling \$493.74, for hours which should have been a part of their normal work day. Table 10, page 77, shows details for the overpayments. Monthly leave records did not show these employees taking any leave for those days, and there was no indication they were traveling on those days. Further, we noted eighteen overtime payments totaling \$6,870.43 for which the supporting time sheets were missing. The payroll technician stated they were originally attached to the premium payroll but were not attached when she started making copies of the time sheets for the audit. Therefore, we are questioning overtime payments totaling \$7,364.17 since the Office cannot supply supporting documentation.

RECOMMENDATION

We recommend management more closely monitor overtime worked and determine if there is an actual need for this overtime. Further, we recommend Payroll closely review the time sheets to ensure hours charged as overtime were not a part of an employee's normal work day and to ensure all supporting documentation is properly attached to the payrolls. Table 10 summarizes the amounts of overtime we are recommending be repaid by the employees.

Date of Payroll	Name	Amount	Description
1/14/94	Garland B. Garrett, III	\$120.36	Paid 4 hrs. overtime - Hrs. were part of normal work day. No leave or travel shown on this day
7/15/94	Garland B. Garrett, III	\$57.33	Paid 3 hrs. overtime - Hrs. were part of normal work day. No leave or travel shown on this day
1/14/94	Lisa F. Smith	\$77.55	Paid 4 hrs. overtime - Hrs. were part of normal work day. No leave or travel shown on this day.
10/14/94	Lisa F. Smith	\$119.25	Paid 7.5 hrs. overtime. Hrs. were part of normal work day. No leave or travel shown on this day.
11/15/94	Lisa F. Smith	\$119.25	Paid 7.5 hrs. overtime. Hrs. were part of normal work day. No leave or travel shown on this day
TOTAL		\$493.74	

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

THE OFFICE IS IN NON-COMPLIANCE WITH OSP REGULATIONS REGARDING REIMBURSEMENT FOR EMPLOYEE EDUCATION AND TRAINING.

Our review of expenditures included a number of reimbursements to employees for education and training expenses. OSP regulations specify that in order to be reimbursed for any courses or training, the course . . . “*must serve to develop the employee’s knowledge, skills and abilities directly related to [the employee’s] current classification.*” The regulation contains specifics on eligibility of employees, providers of courses, and types of courses. (*State Personnel Manual, Section 10, page 8*)

Table 11, page 80, contains data on reimbursed courses which, in our opinion, are unrelated to the employees’ current positions. Many of the courses for which employees were reimbursed were courses required for degree programs which did not appear to be directly related to the employees’ jobs. There is no documentation contained in the personnel files or attached to the reimbursements which indicate otherwise. While we support higher education and believe that education is an important factor in productive employees, it appears that the Office has been subsidizing employee education without regard for OSP regulations.

Further, the Office has been reimbursing employees for textbooks and other fees associated with courses. OSP regulations specifically prohibit agencies from reimbursing the employee for any education costs other than defined “academic costs”. (“Academic costs” are . . . “*charges assessed by an eligible source to every person enrolling for the course, to include tuition, fees and course/lab fees.*”) The regulation further states . . . “*reimbursement shall not be authorized for transportation costs, graduation fees, examination fees, textbooks and supplies.*” The only exception to this regulation is for courses which the agency requires the employee to take in order to maintain the job. We found no documentation in the personnel files or attached to the reimbursements which indicated that the Office was requiring any of these employees to take these courses.

Lastly, we also found a reimbursement for texts to a former temporary employee (Michael Gillespie) who is the son of a current employee (Ed Gillespie)*. OSP regulations say . . . “*Full-time or part-time employees who have a permanent appointment are eligible for the Education Assistance Program.*” Our examination indicated that Michael Gillespie was employed with the Office at the time he took the course as a temporary clerk in the Corporations Division. We found no evidence that he was under consideration for any full-time position in the Office. We were unable to find any documentation as to why the Office paid for these expenses since the course did not relate to his temporary job. (Additionally, the cost of the texts was reimbursed from the "office supplies" object code, not the "employee education and training" object code.)

***AUDITOR’S NOTE: Ed Gillespie, the father, reimbursed the Office in full for these costs on August 14, 1995, just prior to the start of this audit.**

PROCEDURAL FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

We recommend the Office immediately take steps to comply with OSP regulations regarding reimbursement for employee education and training expenses. Further, we recommend management seek reimbursement from the employees for the amounts identified in Table 11, totaling \$11,749.69, for courses which did not meet the requirements as outlined in the OSP policies and procedures.

**TABLE 11
OFFICE OF THE SECRETARY OF STATE
QUESTIONED COSTS-- EMPLOYEE EDUCATION AND TRAINING--FY 93-95**

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
580	11/04/92	1,110.00	NC STATE UNIVERSITY	COMPUTER COURSE FOR EDWARDS, TEW	PC REPAIR COURSE \$550.00 PER PERSON FOR TWO DAYS EXCESSIVE?	THIS WAS A SIPS COURSE WHICH WAS RECOMMENDED FOR OUR SPECIFIC NEEDS BY SIPS. (AUDITOR NOTE: IF SIPS COURSE, WHY IS CHECK TO NCSU? DOCUMENTATION ONLY STATES THAT COURSE OFFERED AT SIPS LOCATION.)
926	01/29/93	180.00	NC STATE UNIVERSITY	?	MISSING VOUCHER, UNSUPPORTED COSTS	VOUCHER MISSING.
MISC		1,290.00				
1016	02/03/94	120.89	DEBORAH SUSAN BALLARD	TRAINING MATERIALS	NO ED ASST FORM, PROPER TO PAY FOR SUPPLIES?	THE AGENCY HAS ASKED THE EMPLOYEE TO COMPLETE THE TRAINING. THEREFORE WE HAVE AN OBLIGATION TO PROVIDE THE MATERIALS. (AUDITOR NOTE: NO DOCUMENTATION REQUIRING COURSE)
1016	02/03/94	385.00	DEBORAH SUSAN BALLARD	CLASS TRAINING	COURSE COMPLETED?	THE TRAINING WAS COMPLETED. (AUDITOR NOTE: NO DOCUMENTATION)
1580	06/03/94	101.07	DEBORAH SUSAN BALLARD	TRAINING MATERIALS	NO EDUC ASST FORM, COURSE COMPLETED? RELATION TO JOB?	WE ASKED HER TO ATTEND THE TRAINING AND GAIN KNOWLEDGE AND SKILLS. THEREFORE, WE PAY THE COSTS. (AUDITOR NOTE: NO DOCUMENTATION REQUIRING COURSE)
95	07/21/94	1,240.00	MEREDITH COLLEGE	LEGAL ASSISTANCE PROGRAM	NO EDUC ASST FORM, COURSE COMPLETED?	WE ASKED HER TO ATTEND THE TRAINING AND GAIN THE KNOWLEDGE AND SKILLS. THEREFORE, WE PAY THE COSTS. (AUDITOR NOTE: NO DOCUMENTATION REQUIRING COURSE)
576	10/19/94	69.17	DEBORAH SUSAN BALLARD	KOERSELMAN CLA REVIEW MANUAL	PAYING FOR TEXTBOOKS-IS COURSE REQUIRED?	WE ASKED HER TO ATTEND AND GAIN KNOWLEDGE AND SKILLS. THEREFORE, WE PAY THE COSTS. (AUDITOR NOTE: NO DOCUMENTATION REQUIRING COURSE)
576	10/19/94	225.00	DEBORAH SUSAN BALLARD	LEGAL ASSISTANTS EXAM FEE	NO EDUC ASST FORM , PAYING EXAM FEE	WE ASKED HER TO ATTEND AND GAIN KNOWLEDGE AND SKILLS. THEREFORE, WE PAY THE COSTS. (AUDITOR NOTE: NO DOCUMENTATION REQUIRING COURSE)
BALLARD		2,141.13				

TABLE 11 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
1385	05/21/93	334.10	CATHERINE H. CARR	CORPORATE CRIME	RELATION TO JOB?	EMPLOYEE WORKS IN CORPORATIONS DIVISION AND CORP LAW, CORP STRUCTURE, AND CORP CRIME COMPONENTS OF COURSE ARE DIRECTLY RELATED TO JOB. (AUDITOR NOTE: EMPLOYEE IS ADMINISTRATIVE ASSISTANT)
848	01/04/94	460.00	CATHERINE H. CARR	NATURE OF CRIME	RELATION TO JOB? HOW WAS AMOUNT DETERMINED? COURSE COMPLETED?	INSTRUCTION DIRECTLY RELATES TO HER JOB BECAUSE OF POTENTIAL FOR FALSIFIED DOCUMENTS IN HER SECTION. (AUDITOR NOTE: EMPLOYEE IS ADMINISTRATIVE ASSISTANT) TWO COURSES INCLUDED AND REIMBURSEMENT LIMITED TO \$230 PER COURSE.
CARR		794.10				
111	07/22/94	239.00	JUDY B. CHAPMAN	COMPUTER SCIENCE	COURSE DURING WORK HOURS, REIMB EXCEEDS RECEIPT	INVOICE PACKAGE INCLUDES INFO THAT \$25.00 COMPUTER LAB FEE IS REQUIRED. (AUDITOR NOTE: RECEIPT FROM SCHOOL DOES NOT INDICATE PAYMENT OF FEE). WE SENT HER TO THE COURSE.
CHAPMAN		239.00				
885	01/10/94	250.20	JOHN C CURRY	MEDICAL EXAM "TRAINING EXPENSE"	WHY PAY FOR HEALTH EXAM? IS EMPLOYEE'S INSURANCE BILLED? WHY NOT WORK COMP?	WE REQUIRED THAT HE ATTEND THE SCHOOL AND FULL MEDICAL SCREENING IS A PREREQUISITE. (AUDITOR NOTE: NO DOCUMENTATION REQUIRING CLASS, EXAM FOR CHEST X-RAY NOT PHYSICAL EXAM)
919	01/12/94	127.00	JOHN C CURRY	MEDICAL EXAM "TRAINING EXPENSE"	WHY PAY FOR HEALTH EXAM? IS EMPLOYEE'S INSURANCE BILLED? WHY NOT WORK COMP?	WE REQUIRED THAT HE ATTEND THE SCHOOL AND FULL MEDICAL SCREENING IS A PREREQUISITE. (AUDITOR NOTE: NO DOCUMENTATION REQUIRING CLASS, EXAM FOR LUMBAR SPINE NOT REGULAR EXAM)
932	01/14/94	137.80	JOHN C CURRY	CLOTHING "TRAINING EXPENSE" NOTE: CLOTHING PURCHASED WERE NOT UNIFORMS, BUT TEE SHIRTS, GOLF SHIRTS, SWEAT SHIRTS, SWEAT PANTS, RUNNING SHORTS, & CAP.	PAYING FOR CLOTHES FOR COURSE? IS COURSE REQUIRED BY AGENCY?	WE REQUIRED THE EMPLOYEE TO ATTEND THE COURSE. THE CLOTHING (UNIFORMS) IS REQUIRED BY THE SCHOOL. (AUDITOR NOTE: NO DOCUMENTATION REQUIRING COURSE)

TABLE 11 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
949	01/21/94	146.25	JOHN C CURRY	CLOTHING "TRAINING EXPENSE" NOTE: ITEMS PURCHASED WERE LEVI SPORTS WEAR & SHOES.	PAYING FOR CLOTHES FOR COURSE? IS COURSE REQUIRED BY AGENCY?	THE ITEMS ARE NOT CLEARLY IDENTIFIED.
1319	04/08/94	81.00	JOHN C CURRY	MEDICAL EXAM "TRAINING EXPENSE"	WHY PAY FOR HEALTH EXAM? IS EMPLOYEE'S INSURANCE BILLED? WHY NOT WORK COMP?	WE REQUIRED THAT HE ATTEND THE SCHOOL AND FULL MEDICAL SCREENING IS A PREREQUISITE. (AUDITOR NOTE: NO DOCUMENTATION REQUIRING COURSE, EXAM IS X-RAY FOR BROKEN RIB)
1319	04/08/94	63.60	JOHN C CURRY	LAW ENFORCEMENT CLASS BOOKS	IS COURSE REQUIRED BY AGENCY? IS OFFICE SUPPLIES (OBJ 2600) CORRECT?	THE AGENCY REQUIRED THE COURSE. THEREFORE, THE AGENCY PAID FOR THE BOOKS. (AUDITOR NOTE: NO DOCUMENTATION REQUIRING COURSE)
CURRY		805.85				
87	07/19/93	200.46	HORRACE D. FARRAR	INTRO PUBLIC ADMINISTRATION	RELATION TO JOB? COURSE DURING WORK HOURS	INSTRUCTION DIRECTLY RELATED TO JOB AS A SUPERVISOR IN THE CORPORATIONS DIVISION. (AUDITOR NOTE: EMPLOYEE IS CLERICAL SUPERVISOR) THIS IS A SUMMER SCHOOL COURSE NOT OFFERED AT NIGHT.
264	08/27/93	200.46	HORRACE D. FARRAR	COMP AND RHETORIC (ENGLISH)	RELATION TO JOB? COURSE DURING WORK HOURS	INSTRUCTION IN WRITING IS DIRECTLY RELATED TO EMPLOYEE'S JOB. AS A SUPERVISOR, HE IS REQUIRED TO WRITE. (AUDITOR NOTE: EMPLOYEE IS CLERICAL SUPERVISOR)
978	01/26/94	203.00	HORRACE D. FARRAR	STATE AND LOCAL GOVERNMENT	RELATION TO JOB ? COURSE DURING WORK HOURS	INSTRUCTION IS FULLY JOB-RELATED. (AUDITOR NOTE: EMPLOYEE IS CLERICAL SUPERVISOR)
FARRAR		603.92				
880	01/10/94	396.50	GARLAND B. GARRETT III	POLI SCI 202 POLI SCI 241	RELATION TO JOB? COURSE DURING WORK HOURS	INSTRUCTION IS FULLY JOB-RELATED (AUDITOR NOTE: EMPLOYEE IS CLERK) AND NOT OFFERED AT NIGHT.
1613	06/09/94	237.90	GARLAND B. GARRETT III	POLI SCI 471	EDUC ASST APPROVAL AFTER FACT? RELATION TO JOB? APPROVAL BY CORRECT PERSON?	THE FORM WAS COMPLETED IN ONE DAY. APPROVAL BY CHIEF DEPUTY. (AUDITOR NOTE: EMPLOYEE IS CLERK)
889	01/04/95	455.00	GARLAND B. GARRETT III	SOC. 301 AND ANT. 252	RELATION TO JOB? APPROVAL BY CORRECT PERSON?	THIS INFORMATION WILL BETTER PREPARE HIM TO WORK IN THIS ENVIRONMENT. (AUDITOR NOTE: EMPLOYEE IS CLERK) APPROVAL WAS BY CHIEF DEPUTY.
GARRETT		1,089.40				

TABLE 11 (CON'T)

SEC OF STATE VOUCH #	DATE	AMOUNT	PAYEE	DESCRIPTION	COMMENTS	SECRETARY OF STATE RESPONSE
1540	06/14/95	262.99	COLLEGE BOOKSTORE OF AMERICA	BLET BOOKS BOUGHT BY GILLESPIE	IS COURSE REQUIRED? NO PO OR PRIOR APPROVAL	EXPENDITURE NOT APPROPRIATE. REIMBURSEMENT REQUESTED AND RECEIVED SOME MONTHS AGO.
GILLESPIE		262.99				
739	12/03/93	454.00	GALEN E. NEWSOM	THESIS-ON MASTERS DEGREE	LACK OF DOCUMENTATION, OTHER COSTS, COURSE PASSED/COMPLETED?	THIS WAS RESEARCH IN CRIMINAL JUSTICE AND IT IS DIRECTLY RELATED TO THE JOB. WE HAVE THE TRANSCRIPT WHICH SHOWS THAT THE COURSE WAS PASSED. (AUDITOR NOTE: NO DOCUMENTATION) TUITION IS THE ONLY COST REIMBURSED.
NEWSOM		454.00				
1517	05/18/94	237.90	KEVIN SMITH	POLICE IN SOCIETY COURSE	RELATION TO JOB?	INSTRUCTION IS RELATED TO HIS WORK. (AUDITOR NOTE: EMPLOYEE IS CLERK)
SMITH		237.90				
80	07/21/94	1,750.00	WANG LABORATORIES INC	VSM COURSE	DUPLICATE PAYMENT (COURSE 7/25-7/290)	
340	09/12/94	1,475.00	WANG LABORATORIES INC	VSM COURSE	DUPLICATE OF SEC VOUCH #80 (COURSE 7/25)	
WIDENER		3,225.00				
63	07/14/94	237.90	CHRISTY S. YATES	SPAN 201	RELATION TO JOB?	AS THE OFFICE RECEPTIONIST, SHE WAS SEEING NUMBERS OF SPANISH-SPEAKING PEOPLE AND WE ELECTED TO HAVE HER TAKE A SPANISH COURSE TO BRUSH UP ON HER ABILITY TO COMMUNICATE.
343	09/14/94	41.75	CHRISTY S. YATES	ECONOMICS 102-MACRO ECONOMICS	REIMBURSED FEES, RELATION TO JOB?	THIS LEARNING IS CLEARLY RELATED TO HER JOB (AUDITOR NOTE: EMPLOYEE IS RECEPTIONIST) . A \$2.00 FEE WAS INCLUDED ON THE BILL.
814	12/12/94	41.75	CHRISTY S. YATES	MICRO ECONOMICS	RELATION TO JOB? REIMBURSED FEES	THIS LEARNING IS DIRECTLY RELATED TO HER WORK. (AUDITOR NOTE: EMPLOYEE IS RECEPTIONIST) A \$2.00 FEE IS INCLUDED.
969	01/25/95	285.00	CHRISTY S. YATES	WESTERN CIVILIZATION II	RELATION TO JOB?	SHE DEALS WITH MATTERS EVERY DAY THAT ARE LESS CONFUSING AS A RESULT OF THIS INSTRUCTION. (AUDITOR NOTE: EMPLOYEE IS RECEPTIONIST)
YATES		606.40				
TOTAL		11,749.69				

PROPOSED ORGANIZATIONAL CHANGES

The objectives of our review were, in part, to determine the current organizational structure and staffing levels and identify the functions and responsibilities of the various sections. In order to assess the current structure, we conducted in-depth interviews with staff at all levels of the Office, analyzed personnel and payroll records, examined the internal policies and procedures, and examined workload indicator data supplied by management.

ANALYSES OF PERSONNEL AND PAYROLL DATA

As stated on page 11, there were 126 total positions shown in the Office as of August 23, 1995, through the Personnel Management Information System (PMIS) maintained by the Office of State Personnel (OSP). However, the legislature abolished five of those positions in July, 1995, for which the paperwork had not been processed. Our analysis included all 126 positions.

TABLE 12 OFFICE OF THE SECRETARY OF STATE BREAKDOWN OF POSITIONS				
	PERMANENT		TEMPORARY	
	FULL-TIME	PART-TIME	FULL-TIME	PART-TIME
Positions	120	1	3	2
Employees	105	3	6	0

SECTION	PERMANENT	PLUS TEMPORARY	LESS VACANT	TOTAL AVAILABLE
Administration	17	2	0	19
Publications	4	1	0	5
Corporations	37	2	2	37
UCC	12	0	1	11
Securities	26	0	4	22
Business License	13	1	0	14
Notaries	5	0	0	5
Land Records	6	0	5	1
TOTALS	120	6	12	114

PMIS records show the breakdown in Table 12, with 12 positions vacant at the time of the audit. Total budgeted salaries for the 126 positions are \$3,385,083. Per PMIS records, management has deployed the positions as shown in the table on the right.

TABLE 13 OFFICE OF THE SECRETARY OF STATE --ANALYSIS OF CHANGES IN TOTAL POSITIONS--					
YEAR	BEGINNING BALANCE	POSITIONS ADDED	POSITIONS DELETED	ENDING BALANCE	PERCENT CHANGE
1/1/89	85	13	4	94	10.6%
90	94	2	0	96	2.13%
91	96	13	1	108	12.50%
92	108	9	2	115	6.48%
93	115	11	3	123	6.96%
94	123	4	2	125	1.63%
8/23/95	125	1	0*	126*	0.80%
5					
TOTALS		53	12		

48.24% INCREASE FROM 1989 TO 1995; 41=NET NUMBER OF POSITIONS ADDED

*The legislature deleted 5 positions in the last session. As of 8/23/95, the paperwork abolishing these positions had not been processed through the Office of State Personnel.
Source: Office of State Personnel Records

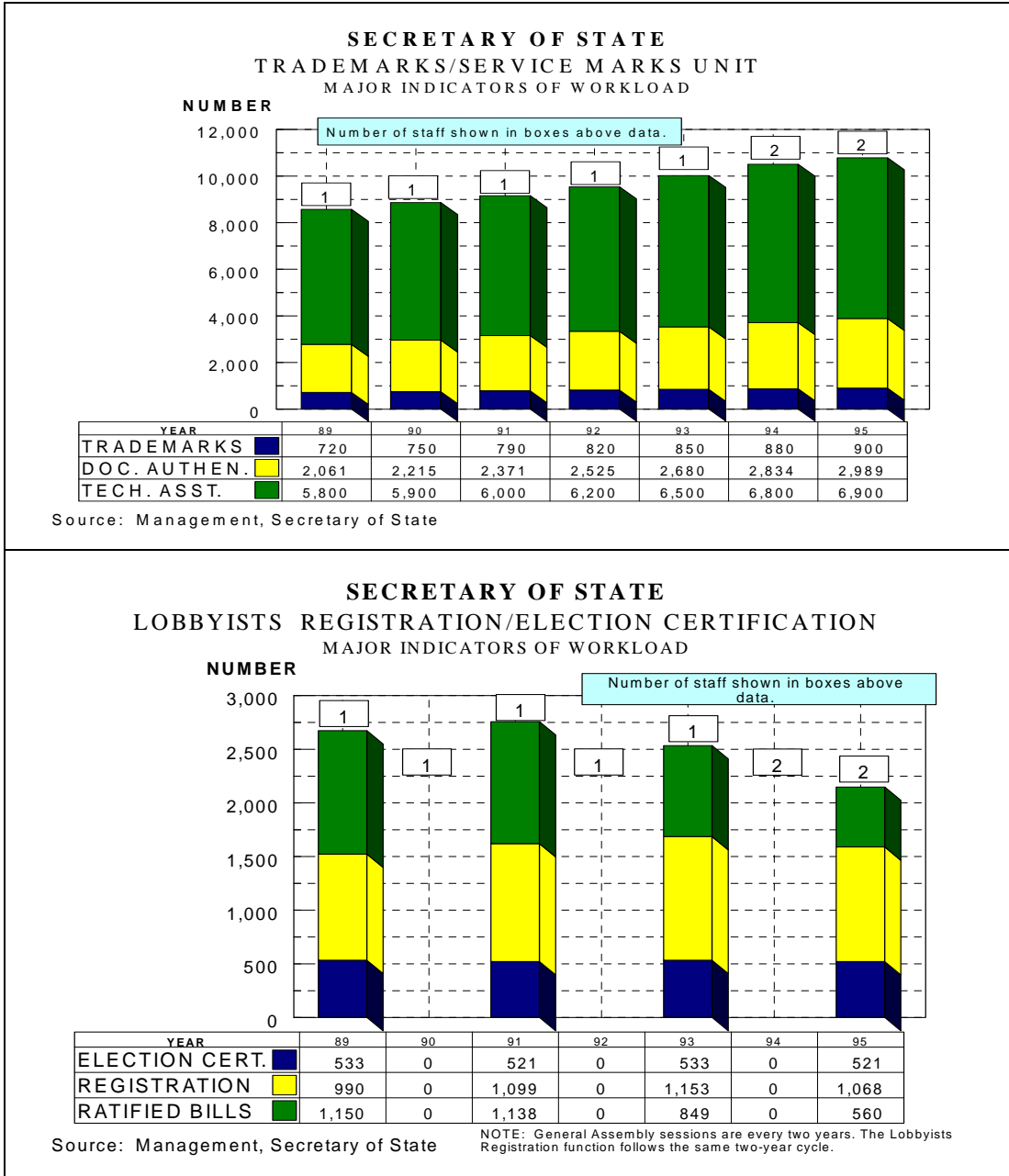
A total of three staff members are assigned to the budget/personnel functions and have responsibility for these operational areas. Table 13 at the left shows the growth in the total number of positions from January, 1989, to August, 1995. The data includes temporary and part-time positions.

PROPOSED ORGANIZATIONAL CHANGES (CONTINUED)

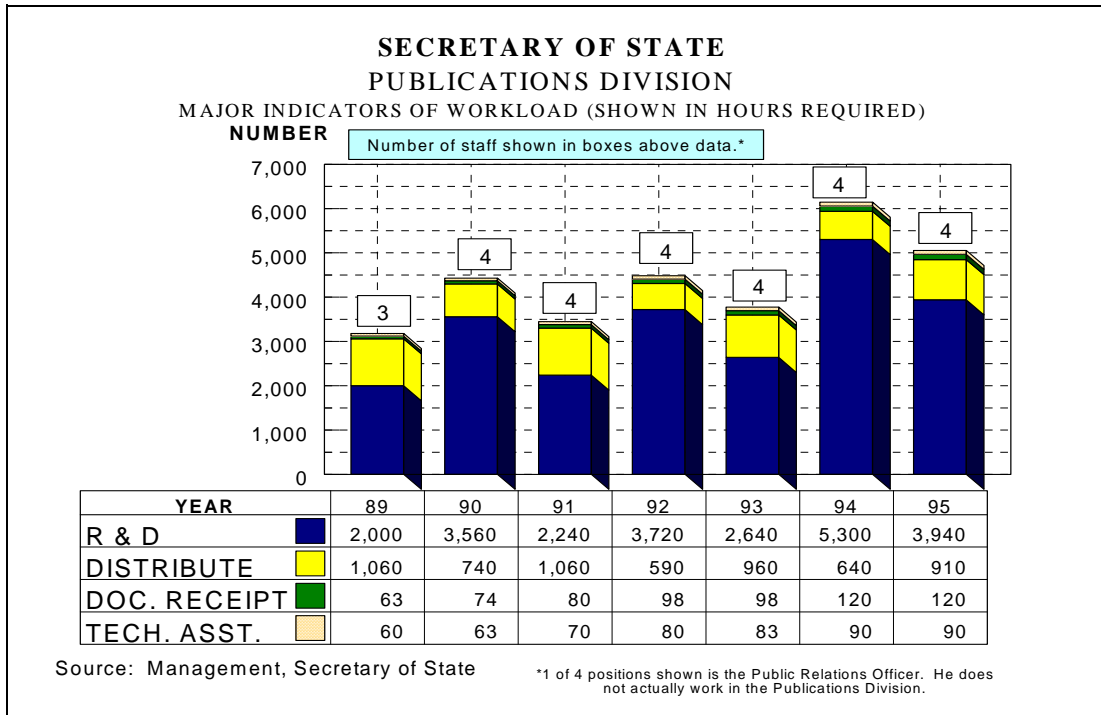
REVIEW OF WORKLOAD INDICATOR DATA

The following pages contain graphs of the major workload indicators for each division or distinct unit as identified by management. Management noted that these charts are representative of the major measures of workload but are not comprehensive. While we reviewed this data, we did not perform a detailed analysis of the data. We have grouped graphs within each operational area as shown on the organizational chart on page 10. Below each graph, we have discussed any other significant activities not graphed.

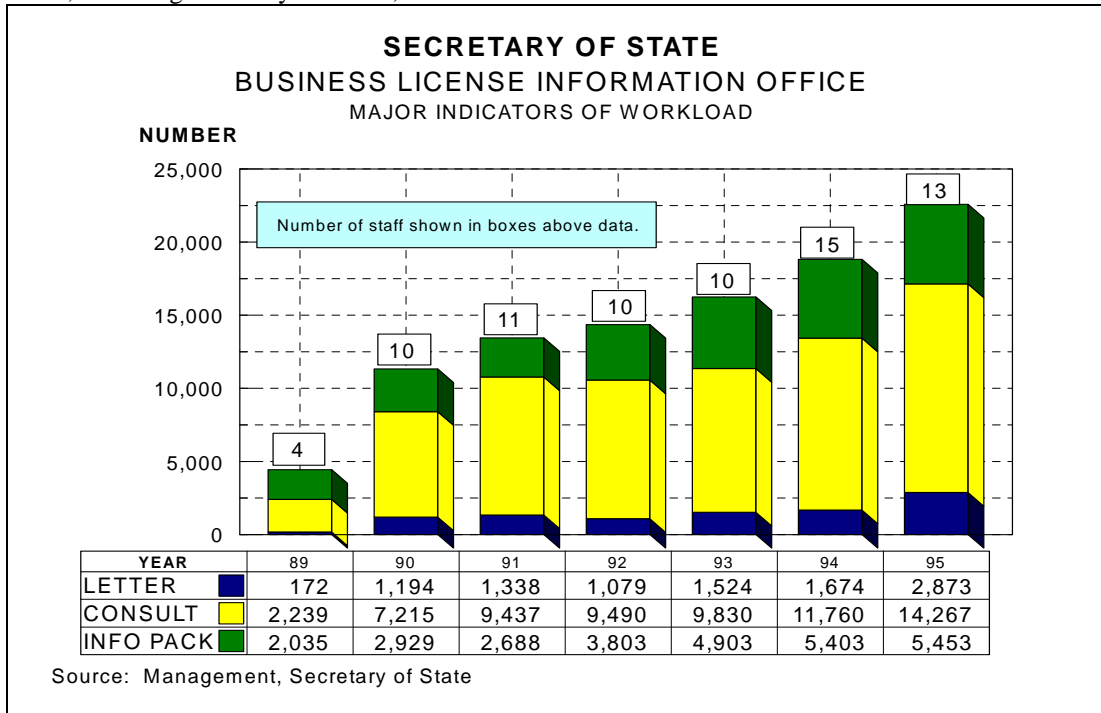
ADMINISTRATIVE AREA--EXHIBIT 4



PROPOSED ORGANIZATIONAL CHANGES (CONTINUED)



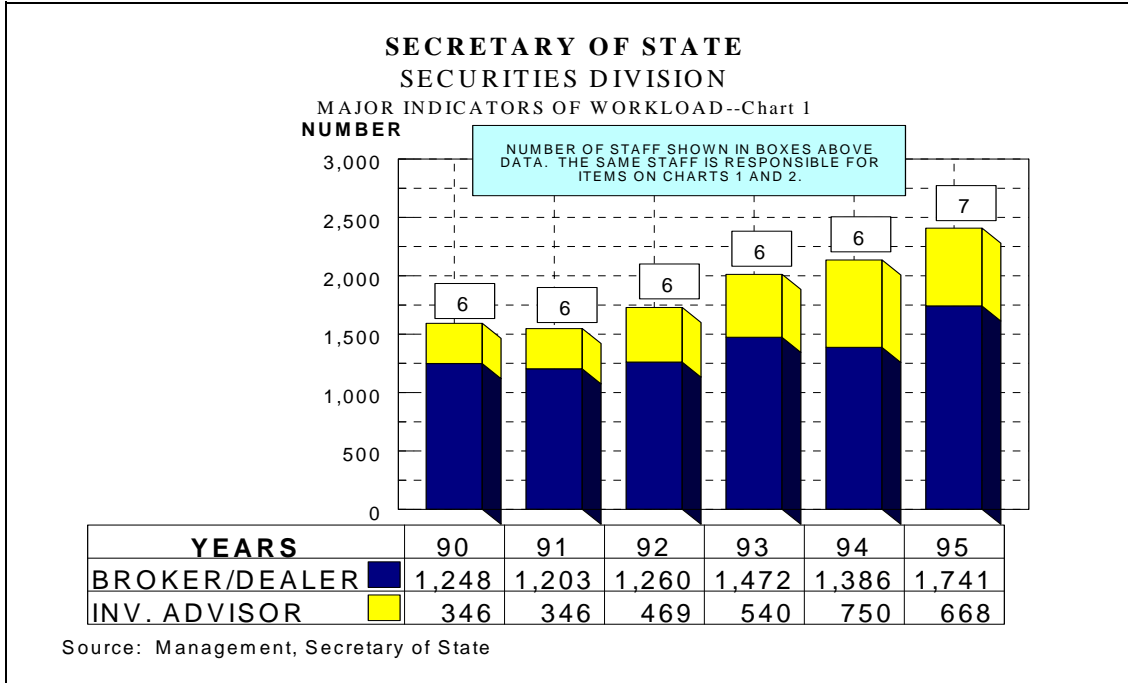
The Publications Division is responsible for the research, development, and distribution of the legislative directory, the North Carolina Manual, session laws, legislative journals, and receipt and filing of various documents. This Division is also responsible for distribution of candidate lists, certification of election results, recording of county abstracts, and distribution of executive orders.



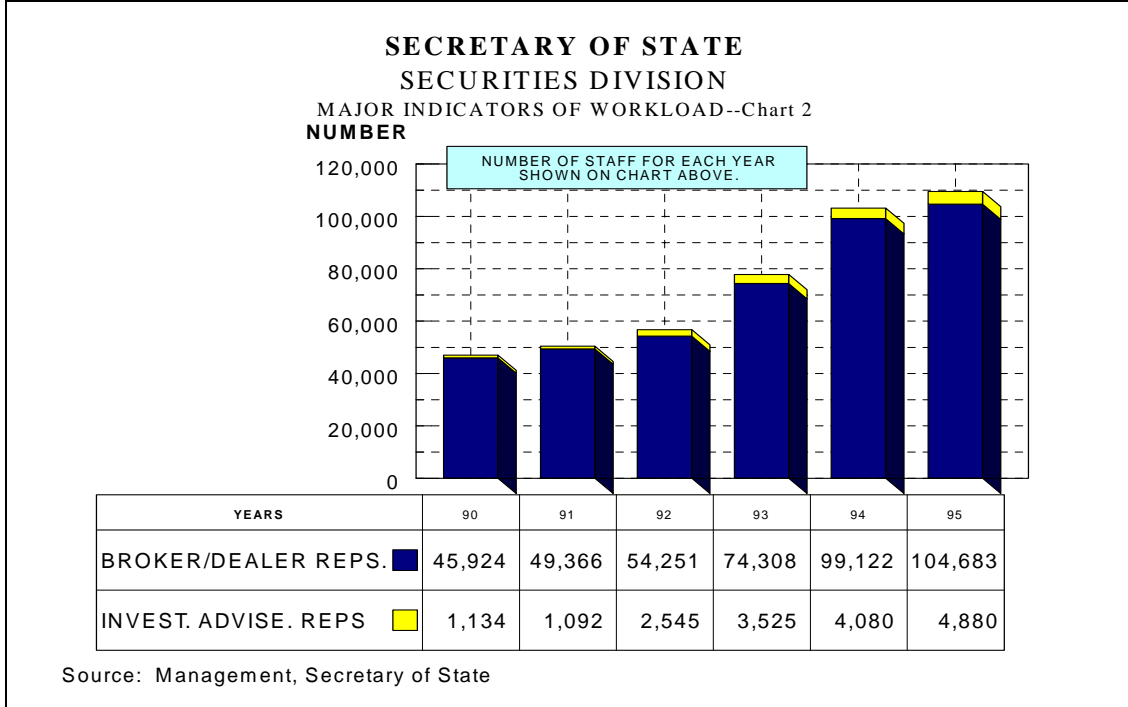
Staff in the Business License Division also respond to telephone requests for assistance.

PROPOSED ORGANIZATIONAL CHANGES (CONTINUED)

SECURITIES DIVISION--EXHIBIT 5

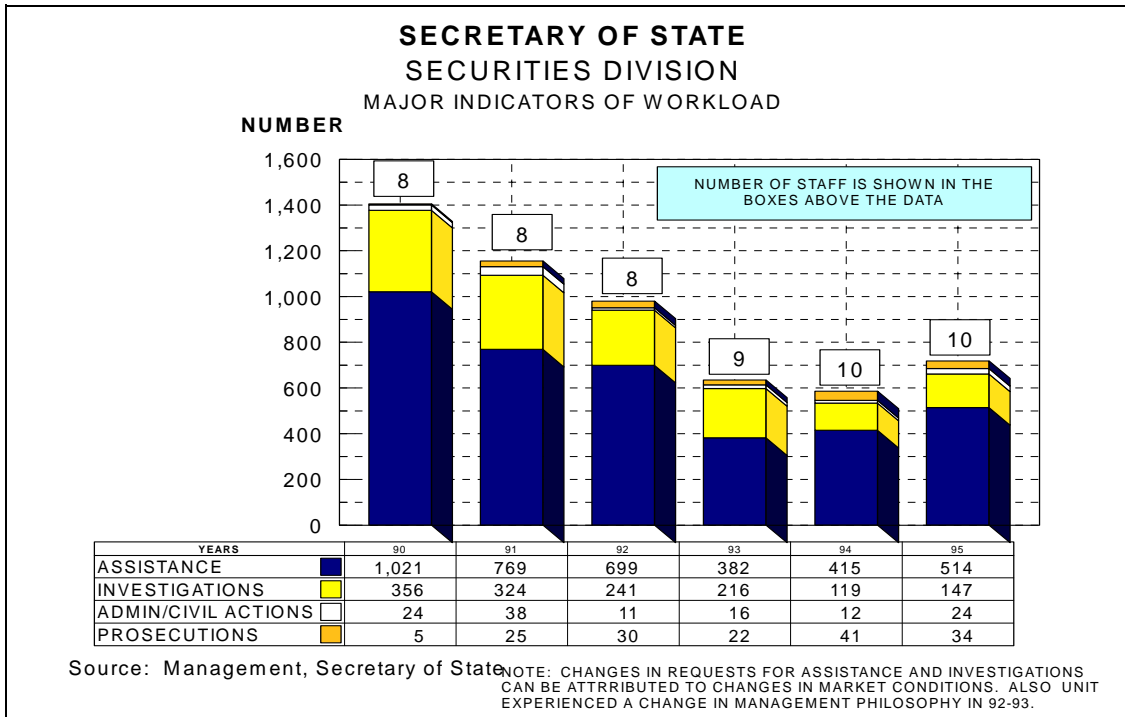


Staff in this section of the Securities Division are also charged with certifying businesses which qualify for the investment tax credit, registering membership campgrounds, and receiving notice of securities offerings.



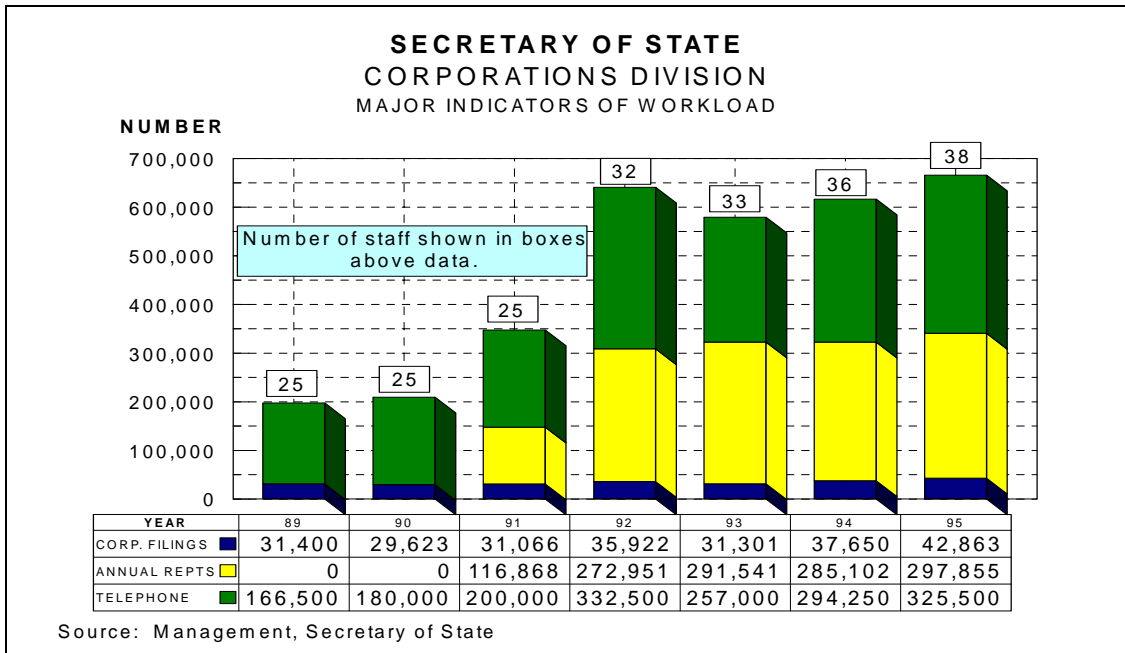
Further duties include registration of business opportunities and registration of loan brokers.

PROPOSED ORGANIZATIONAL CHANGES (CONTINUED)



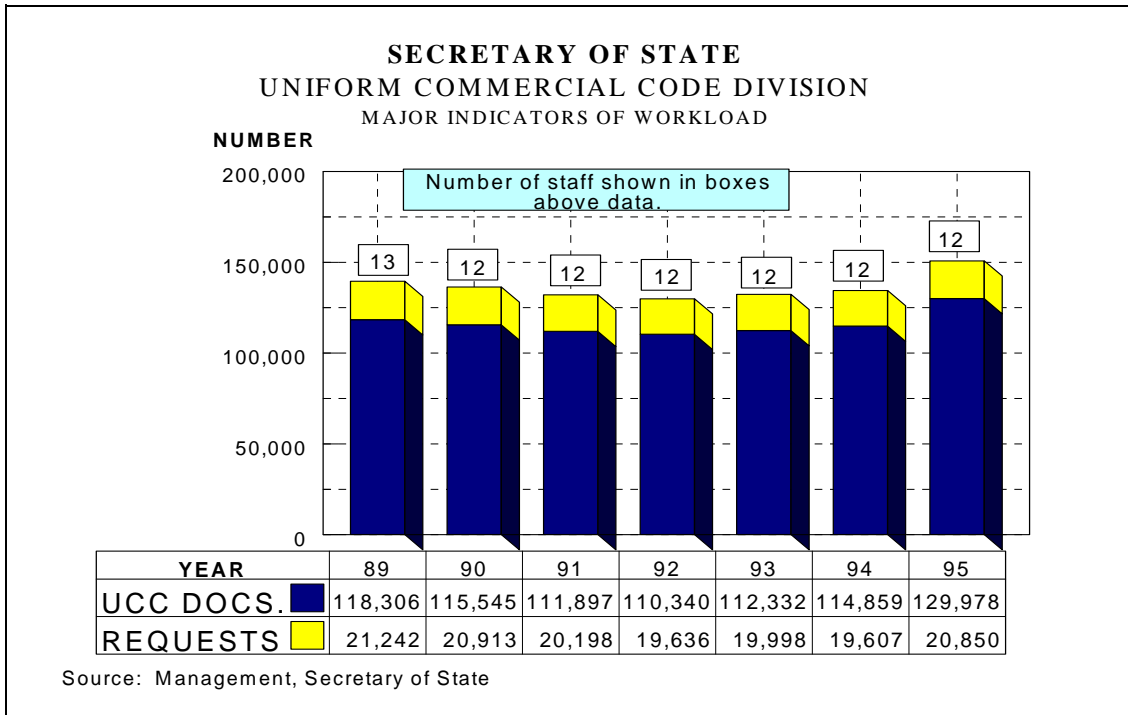
Staff in the Enforcement section of the Securities Division have responsibility for investigating securities and commodities complaints, registering sports agents, providing investor awareness information, investigating notary fraud, and have recently been assigned the responsibility of investigating counterfeit trademarks.

CORPORATE ACTIVITIES AREA--EXHIBIT 6

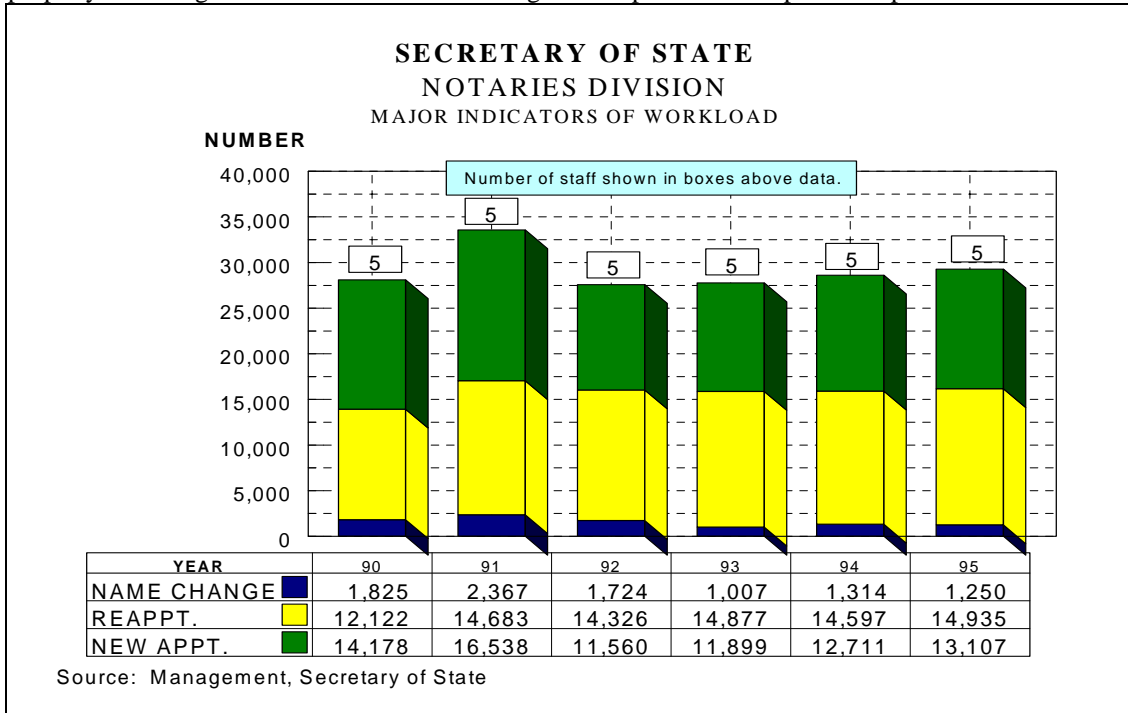


Corporate filings include articles of incorporation, certificates of merger, and limited partnership agreements. Articles of incorporation could be for community trusts, banks, business development corporations, cooperative associations, savings and loan associations, mutual savings banks, professional corporations, limited liability corporations, and insurance companies.

PROPOSED ORGANIZATIONAL CHANGES (CONTINUED)



The UCC staff handle filings of financing statements showing liens against commercial and/or agricultural property and filing federal tax lien information against corporations and partnerships.



In addition to new appointments, re-appointments, and name changes for notary publics, the staff in this section are responsible for conducting an educational program for notaries and for certifying notary public instructors at the community colleges.

PROPOSED ORGANIZATIONAL CHANGES (CONTINUED)

The last section within the corporate activities area is that of Land Records Management. Staff were responsible for developing and distributing grants to all 100 counties for the modernization of indexing and land records systems at the local level. This program was ended by the 1995 General Assembly. Additionally, staff were responsible for certifying property mappers and conducting indexing workshops. Staff is also available for consultation with local registers of deeds. As of June 30, 1995, staffing in this section was reduced to 2 positions and the grant program was discontinued.

In general, there has been an upward trend in the workload of the various sections. However, there are some exceptions:

- Lobbyists registrations show a downward trend, but FY95 is the first year of this biennium. The trend may reverse in the second year of the biennium.
- The pattern for the publications division has fluctuated, but overall has remained relatively steady. However, conclusions are more difficult to draw on this data since it represents hours required rather than actual instances, as do the other graphs.
- There has been a significant decrease in the number of investigations in the securities area. See the discussion below.

Based on our analyses, we believe there is an opportunity to restructure the organization to improve its efficiency and responsiveness to the public.

THE NUMBER OF INVESTIGATIONS PERFORMED BY THE SECURITIES DIVISION HAS DECREASED SIGNIFICANTLY.

The number of criminal investigations performed by the Securities Division has decreased from 356 in 1990 to 147 in 1994. Some of this difference can be attributed to the manner in which cases were accounted for in 1990 as compared to in 1994. Still the decrease in the number of actual investigations performed is dramatic. In discussions with the Deputy Securities Administrator, he attributed the decrease to a number of factors including the use of investigators for tasks other than those for which they were hired. (See discussion on pages 14-15.) Although the Deputy is concerned about using his staff in this manner, he has little influence in changing the situation. The Deputy is by-passed by his Chief Investigator when driving assignments for the Secretary are made. These assignments are made solely by the Chief Investigator who deals directly with the investigators and the Secretary. The Chief Investigator's supervisor and the Deputy Securities Administrator frequently will not know the whereabouts or assignments of the Chief Investigator and/or members of the investigative staff.

RECOMMENDATION

We recommend that Securities staff be allowed to perform the duties for which they were hired. We also recommend that the Chief Investigator adhere to the formal chain of command. Division

PROPOSED ORGANIZATIONAL CHANGES (CONTINUED)

management needs to more closely monitor investigations as to viability and status.

THE CURRENT ORGANIZATIONAL CHART DOES NOT ACCURATELY REFLECT THE FUNCTIONAL LINES OF AUTHORITY.

Our evaluation of the current structure focused on input from employees, observations, and review of the workload data. In our opinion, the current structure creates barriers to effective decision making and contributes to poor communication throughout the organization. Through interviews with staff in each section, we determined that the reporting lines of authority as shown on the organizational chart are not necessarily the functional reporting lines. We should note that management reported to us that the structure had only recently changed. However, we found that the problem was long standing, that the recent organizational changes were superficial, and that the recent changes had not been effective in improving the situation.

In fact, we found evidence that top management encouraged employees to ignore reporting lines of authority and to come directly to top management with problems. For example, a clerk position shown in the Securities Division does not actually do any work in that division. His supervisor, as shown on the organizational chart, did not know where he was or even if he was at work during a three week period at the time of the audit. In order to find this employee, we had to ask the Secretary's administrative assistant where he was. This situation and others like it negatively affect the ability of section/division level managers to effectively manage daily operations. In several areas, we noted evidence that top management actually were making the daily staff assignments. (See discussion on pages 14-19.)

RECOMMENDATION

We recommend that top management reevaluate its role and concentrate on establishing and implementing the broad policy decisions for the Office. Staff resources should be organized in a manner which allows the attainment of the policies and goals established by management. Sectional and divisional level managers should understand these policies and goals and should be held accountable for attaining them. Staff assigned to a section should actually work in that section. Top management should support the daily operational decisions of its managers and should not encourage employees to ignore established reporting lines of authority.

THERE ARE A NUMBER OF POSITIONS WHICH MAY DUPLICATE DUTIES.

Our review of the job descriptions for positions selected for our personnel review revealed seven positions in which job duties appear to be duplicated. The job description for the Chief Deputy II indicated that he has numerous duties and responsibilities

PROPOSED ORGANIZATIONAL CHANGES (CONTINUED)

assigned to him. The duties and responsibilities specified in his job description include the following:

- 1) Authorized, by statute, to perform all duties of the Secretary of State when called upon to do so including:
 - serve as member of a number of boards and commissions including the Council of State,
 - administer oaths to any state official,
 - sign all executed orders and proclamations,
 - serve as securities administrator,
 - perform all other statutory duties;
- 2) Serves as chief legal counsel to the Office:
 - responsible for advising and representing the Secretary of State on all legal matters,
 - serves as legal advisor on matters relating to corporate takeovers,
 - directly supervises three or more staff attorneys,
 - responsible for coordinating all departmental litigation;
- 3) Performs all administrative functions of the Office including:
 - chief personnel officer:
 - ⇒ responsible for making all major hiring & firing decisions within the Office,
 - ⇒ sets all agency personnel policy,
 - ⇒ responsible for completing performance appraisals on all staff members,
 - ⇒ coordinates all EEOC activities within the Office;
 - chief purchasing officer:
 - ⇒ responsible for all expenditures within the Office;
 - responsible for the entire agency budget:
 - ⇒ ensure that all divisions are adequately funded,
 - ⇒ ensure that all monies are accounted for and spent in a fiscally responsible manner;
 - sets office policy and makes sure it is implemented throughout the Office;
- 4) Responsible for coordinating all legislative activities with the General Assembly and other governmental agencies including:
 - supervising and directing all members of the Office having contact with the General Assembly,
 - drafting, presenting and lobbying for all bills related to the agency;
- 5) Responsible for creating, assigning and supervising all special projects within the Office.

Our review of the Office's job descriptions for the two Business Officer III positions, Business Officer II position, Executive Assistant position, Agency Legal Specialist III position, and Deputy Securities Administrator position indicated they are assigned many of the same duties which are assigned to the Chief Deputy. During interviews with these individuals, they confirmed the performance of the duties and responsibilities as contained in their respective job descriptions.

While we agree that ultimately the Chief Deputy is responsible for the performance of all the duties described in his job description, the description states that he personally performs these duties.

PROPOSED ORGANIZATIONAL CHANGES (CONTINUED)

RECOMMENDATION

We recommend management and OSP critically review the duties, responsibilities, and salaries assigned to the above positions in order to determine the actual duties performed by each employee. A further assessment, in our opinion, should be made to determine the extent to which duties are duplicated and which positions are actually needed. As discussed below, we are recommending the elimination of apparently duplicated positions.

RESTRUCTURING OF STAFF RESOURCES SHOULD ENHANCE PERFORMANCE.

Our examination of the organizational structure revealed excessive layers of management in some sections, fragmentation of authority and responsibility for some functions, unnecessary positions, individuals working out of position, individuals who do not possess the minimum qualifications for their positions (see pages 69-83 for discussion of non-compliance to personnel policies), and areas where too many duties were assigned to one individual. Specifically, the Chief Financial Officer also has the responsibilities of the budget officer and the personnel officer. Additionally, the Administrative Assistant in the budget/personnel office is responsible for all payroll and personnel matters. Situations such as these result in improper segregation of duties and could allow internal controls to be circumvented for operational convenience or to perpetrate and conceal errors or irregularities.

Traditionally, the Office of the Secretary of State has been charged with recording, registering, and storing all official documents for the State. This is a critically important task and has historically been the primary focus and emphasis of the Office. As mentioned in the background information, some of the recent increase in staffing levels has resulted from additional responsibilities being added to the Office. We are concerned about these additional duties from two perspectives.

Our main concern is that some of the recently added duties are not related to the primary focus of the Office. Examples are: responsibility for the State Boxing Commission, the registration and investigation of athlete agents, the registration and inspection of membership campgrounds, the registration of securities, and investigation of securities complaints. Our concern is that the addition of unrelated functions detract from the ability to perform traditional functions with limited resources.

Additionally, we question the efficiency of conducting some of the recently assigned duties. In the past few years, several law enforcement duties have been added to the Office (i.e., securities fraud investigations, investigations of counterfeit trademarks, investigations of notary fraud, and investigations of athlete agents). In order to perform those functions, the Office has four sworn law enforcement officers. There are significant expenses incurred in supporting law enforcement officers in terms of training

PROPOSED ORGANIZATIONAL CHANGES (CONTINUED)

and certification requirements. In our opinion, other state agencies which have a larger complement of officers could provide such law enforcement tasks more efficiently and could provide considerably more support for these investigatory functions.

We should note that while we have not found gross overstaffing in any area of the Office, we are recommending the realignment of several functions. Table 14, page 95, contains a summary of the positional changes we are recommending. Our proposed organization and staffing is based on the best information available at the time of the audit. A factor which should directly affect the level of staffing needed is the increased use of technology for processing filings. (A more detailed discussion of the status of technology in the Office is contained on pages 30-32.) We have identified a number of functions which we feel should be relocated to other agencies where the functions “better fit” the primary function of the agency. We have also identified 53 positions which we feel can be eliminated and/or the duties redefined to fit the proposed organizational structure, as well as areas where we feel staffing is inadequate. We have excluded from our recommendation the identification of employees to fill positions in the new organizational structure. This function should properly be performed by management. The net fiscal impact, projected in Table 14, is our best estimate if all changes recommended were implemented immediately.

RECOMMENDATION

Exhibit 7, page 96, contains our proposed organizational structure. We have not conducted any detailed review of the missions and goals of other agencies in relation to the functions identified. Therefore, we recommend that the General Assembly have the General Government Committee and/or the State Government Reorganization and Privatization Study Committee review the functions identified in Table 14 which are presently assigned to the Secretary of State’s Office to determine if another state agency would have a more compatible mission for providing the services. The General Assembly should then modify existing legislation to more properly locate these functions.

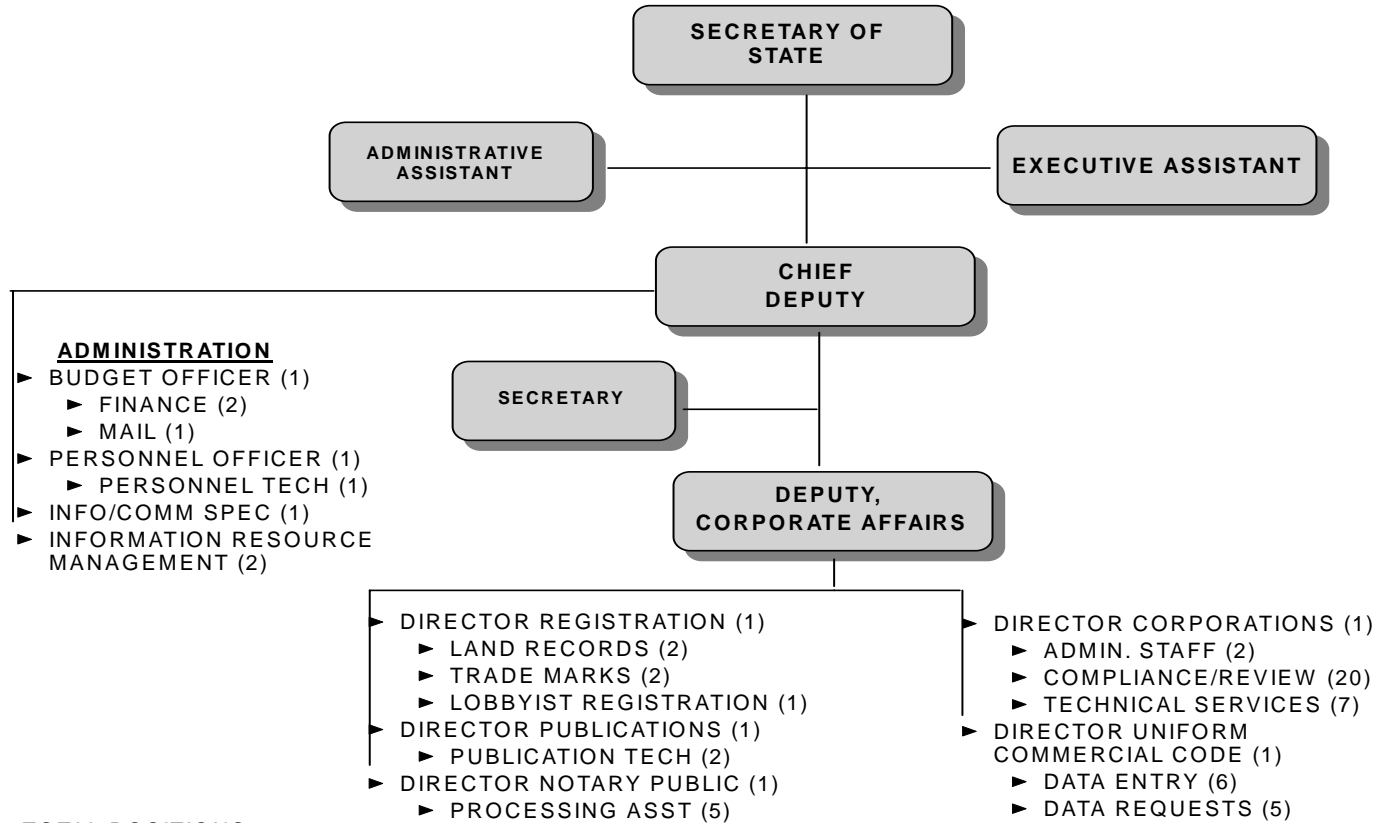
Additionally, we recommend organizing the Office into two major areas: corporate activities and general administration. We propose a deputy, reporting to the chief deputy, head the corporate activities area. Administrative functions would report to the Chief Deputy. Other changes are directed at more appropriately locating functions as outlined in Table 14.

PROPOSED ORGANIZATIONAL CHANGES (CONTINUED)

TABLE 14			
SUMMARY OF PROPOSED ORGANIZATIONAL CHANGES			
Action	Current Position	New Position/Location	Estimated Salary Effect
Internal	Comp. Sup. Tech I	Info. Resource Mgmt/Administration	-0-
Reassignments:	App. Anal. Prog.	Info. Resource Mgmt/Administration	-0-
	Finance/Personnel (4 positions)	Budget & Payroll/Administration (4)	--0-
	Info/Comm Spec III	Info/Comm Spec III/Administration	-0-
	Processing Asst. III	Notaries/Registration	-0-
Classification Changes:	Business Officer III	Deputy I	-0-
Position Deletions:	Business Officer III		50,268
	Corp: Adm. Sec. II		25,743
	Corp: Process. Asst. III		17,457
	Lobbyist Reg: Process Asst IV		16,606
	Business License: Asst. Dir		32,548
	Business License: Consultant (2 positions)		55,626
	Securities: Clerk III		21,153
	Securities: Clerk V		28,111
	Securities: Adm. Asst. II-IA		25,513
Additions:	Personnel Officer	Personnel\Administration	(35,000)
	Personnel Technician	Personnel\Administration	(20,000)
	Director of Registration	Registration\Corporate Affairs	(30,000)
Function Reassignment:	Boxing Commission (0 at present)	Department of Commerce	-0-
	Securities Registration (8 positions)	Department of Commerce	233,427
	Registration/Investigation Athlete Agents	Department of Commerce	22,695
	Adm. Membership Camping Act	Department of Commerce	-0-
	Registration Qualified Business Investments)	Department of Revenue	39,101
	Securities Fraud Investigations/ Counterfeit Trademarks Investigations/ Notary Fraud Investigations (8 positions)	Attorney General	263,434
	Corporations: Annual Report Unit (6 positions)	Department of Revenue	130,646
	Business License Information Office (10 positions)	Department of Commerce or Department of Revenue	271,234
		TOTAL	\$1,148,562
		Add Benefits @ 43%	493,882
		TOTAL ESTIMATED POSITIVE IMPACT FROM ORGANIZATIONAL CHANGES	\$1,642,444

EXHIBIT 7

OFFICE OF THE SECRETARY OF STATE PROPOSED ORGANIZATIONAL STRUCTURE



- ADMINISTRATION**
- ▶ BUDGET OFFICER (1)
 - ▶ FINANCE (2)
 - ▶ MAIL (1)
 - ▶ PERSONNEL OFFICER (1)
 - ▶ PERSONNEL TECH (1)
 - ▶ INFO/COMM SPEC (1)
 - ▶ INFORMATION RESOURCE MANAGEMENT (2)

- ▶ DIRECTOR REGISTRATION (1)
 - ▶ LAND RECORDS (2)
 - ▶ TRADE MARKS (2)
 - ▶ LOBBYIST REGISTRATION (1)
- ▶ DIRECTOR PUBLICATIONS (1)
 - ▶ PUBLICATION TECH (2)
- ▶ DIRECTOR NOTARY PUBLIC (1)
 - ▶ PROCESSING ASST (5)

- ▶ DIRECTOR CORPORATIONS (1)
 - ▶ ADMIN. STAFF (2)
 - ▶ COMPLIANCE/REVIEW (20)
 - ▶ TECHNICAL SERVICES (7)
- ▶ DIRECTOR UNIFORM COMMERCIAL CODE (1)
 - ▶ DATA ENTRY (6)
 - ▶ DATA REQUESTS (5)

TOTAL POSITIONS: 72
Includes temporary positions

STATEMENT OF ESTIMATED FISCAL IMPACT

TABLE 15
STATEMENT OF ESTIMATED FISCAL IMPACT

QUESTIONED COSTS:

Fraud, Waste, and Abuse:

Cost of Drivers for Secretary (average annual salaries plus benefits computed at 43%) pg. 14-15	\$ 42,848.50	
Cost to Alter Ms. McBryde's Kitchen Cabinet (3 hours for 2 employees) pg. 19	127.47	
Salary and Benefits for Rosemary McBryde while at Department of Commerce: 1/19/95 through 7/31/95 pg. 20-22	21,916.17	
Secretary's Atlanta Trip: May 12-13, 1995 pg. 22-23	673.00	
Personal Contributions for Secretary Made through Galen Newsom (cash) pg. 23	600.00	
Executive Protection School Costs pg. 24-25	2,291.63	
Misuse of Telephones pg. 25-26	3,988.00	
Business Advisory Council Trips to New York: pg. 26		
1993	2,356.51	
1994	4,042.10	
Subtotal		\$ 78,843.38

Operations:

Education Costs--App. Anal. Programmer pg. 31	\$ 1,100.00	
Reliance on SIPS pg. 31	77,000.00	
Transfer of Special Revenue Fund Balance pg. 38	4,367.52	
Travel Reimbursements pg. 41-48	10,915.75	
Office/Computer Equipment and Supplies pg. 50-53	3,044.71	
Other Purchases pg. 57	6,234.91	
Contractual Services pg. 58	4,405.50	
Investor Awareness Fund pg. 62-68	178,577.55	
Questionable Salary Increases pg. 73-74	7,153.50	
Unsupported Overtime Payments pg. 77	7,364.17	
Employee Education/Training pg. 80-83	11,749.69	
Subtotal		\$ 311,913.30

TOTAL QUESTIONED COSTS **\$ 390,756.68**

TECHNOLOGY NEEDS: PG. 32

Telephone System	\$ 50,000.00	
Imaging System	942,458.00	

TOTAL TECHNOLOGY NEEDS (Note #1) **\$ 992,458.00**

STAFFING CHANGES: PG. 95

Add: 3 positions	\$ (85,000.00)	
Delete: 10 positions	273,025.00	
Benefits @ 43%	80,851.00	

TOTAL STAFFING CHANGES **\$ 268,876.00**

STAFFING TRANSFERS: PG. 95

Reassign Functions to other State Agencies	\$ 960,537.00	
Benefits @ 43%	413,031.00	

TOTAL STAFFING TRANSFERS (Note #2) **\$1,373,568.00**

NOTE #1: Technology needs may vary according to the extent functions are reassigned to other state agencies.
NOTE #2: Staffing transfer costs should not be viewed as savings. Also, we have not quantified operating costs (i.e., supplies, travel, furniture, and equipment) related to these positions.

APPENDICES

APPENDICES

Appendix		Page
A	Summary of Responses to Employee Questionnaire	99
B	Financial Statements: FY93-94 and FY94-95	104
C	Secretary of State's Response to the Audit	

APPENDICES (CONTINUED)

APPENDIX A

OFFICE OF THE SECRETARY OF STATE --SUMMARY OF RESPONSES TO EMPLOYEE QUESTIONNAIRE--

As part of the audit, we mailed opinion questionnaires to all employees, as identified by the Office's Personnel Officer. The surveys were designed to identify the strengths and weaknesses, as perceived by staff, of the Office's operations and to evaluate the effectiveness of the current organizational structure. In reviewing the results, the reader should be aware of the atmosphere at the time of the audit. Just prior to the beginning of the audit, there had been several negative news reports relative to personnel practices in the Office. The reader should also keep in mind that individual employee responses may be directed to the immediate supervisor or senior management or both. We were unable to distinguish unless the respondent so indicated.

Responses were compiled and analyzed for each major section of the organization, as identified by management. We then totalled all responses and have included the summary data on the following pages. The response rates for each of the various sections were as follows:

Section	Number Mailed	Number Responding	Percent Responding
Senior Management and Administration	18	16	88.9%
Business License	13	11	84.6%
Publications	4	1	25.0%
Securities	22	14	63.6%
Corporations	34	22	64.7%
UCC	11	5	45.5%
Notary	5	4	80.0%
Land Records	2	0	--
Unidentified	0	3	--
TOTALS	109	76	69.7%

The questionnaire was designed to allow statistical compilation and computation of responses. Additionally, respondents were given the opportunity to comment on all questions. Throughout the responses, common concerns raised by all levels of staff focused on poor communications, perceived inequities in treatment of personnel, and the lack of technology to efficiently perform functions.

We wish to thank the many respondents who supplied extensive and thoughtful comments on all questions.

APPENDICES (CONTINUED)

APPENDIX A

OVERALL SUMMARY
ALL DIVISIONS
109 QUESTIONNAIRES MAILED
76 TOTAL RESPONSES
RESPONSE RATE = 69.7%

OFFICE OF THE STATE AUDITOR PERFORMANCE AUDIT OF THE OFFICE OF THE SECRETARY OF STATE STAFF QUESTIONNAIRE

PURPOSE: The Office of the State Auditor is conducting a performance audit of the Office of the Secretary of State. This questionnaire will help the auditors identify the strengths and weaknesses of the Office's operations. It will also give you the opportunity to offer suggestions for improvements. **Individual responses will remain strictly confidential.** Only summary data will be included in the public report. Please complete and return in the enclosed envelope by **Monday, August 28, 1995.**

Please CHECK your responses. If you need additional space for your responses to any question, please continue on the back of the page and cross-reference to the question number.

1. In which division do you work? (IF YOUR DIVISION IS NOT LISTED, PLEASE CHECK "OTHER" AND WRITE IN THE NAME.) **76 RESPONSES**

1. Senior Management	5	6.6%	6. Corporations Division	22	28.9%
2. Administration Division	11	14.5%	7. UCC Division	5	6.6%
3. Business Licenses Info	11	14.5%	8. Notary Public Division	4	5.3%
4. Publications Division	1	1.3%	9. Land Records Division	0	0.0%
5. Securities Division	14	18.4%	10. Other _____(PLEASE LIST)	3	3.9%

2. Indicate the type of job you have: **70 RESPONSES**

1. Senior Management	5	7.1%	4. Technical	4	5.7%
2. Director/Supervisor	10	14.3%	5. Clerical/Support	28	40.0%
3. Professional/Specialist	23	32.9%	6. Other _____(PLEASE LIST)	0	0.0%

3. How long have you been in your current position? **72 RESPONSES**

1. Less than 1 year	11	15.3%	4. 11 to 15 years	2	2.8%
2. 1 to 5 years	39	54.1%	5. 16 to 20 years	0	0.0%
3. 6 to 10 years	18	25.0%	6. More than 20 years	2	2.8%

4. Under the current organizational structure, communications **among** staff members are: **76 RESPONSES**

1. Excellent	2. Good	3. Fair	4. Poor	5. Don't Know
12	16	26	21	1
15.8%	21.1%	34.2%	27.6%	1.3%

5. Under the current organizational structure, communications with the public and other governmental agencies are: **76 RESPONSES**

1. Excellent	2. Good	3. Fair	4. Poor	5. Don't Know
21	29	16	7	3
27.6%	38.2%	21.1%	9.2%	3.9%

6. Do you understand the missions and operations of the Office of the Secretary of State and how you fit in? **75 RESPONSES**

1. Yes	2. No
69	6
92.0%	8.0%

7. Utilization of my skills by management is: **75 RESPONSES**

1. Excellent	2. Good	3. Fair	4. Poor	5. Don't Know
16	30	20	9	0
21.3%	40.0%	26.7%	12.0%	0.0%

8. Has any specific technical training been provided to you in relation to your duties? If no, what type training would enhance your job performance? IF YES, PLEASE ANSWER QUESTION #9. **75 RESPONSES**

1. Yes	2. No
47	28
62.7%	37.3%

Most frequent request was for job specific training, especially when hired.

APPENDICES (CONTINUED)

APPENDIX A

9. Training provided has been: **59 RESPONSES**

1. Excellent	2. Good	3. Fair	4. Poor	5. Don't Know
9 15.2%	29 49.2%	15 25.4%	5 8.5%	1 1.7%

10. How would you characterize staff motivation? **75 RESPONSES**

1. Excellent	2. Good	3. Fair	4. Poor	5. Don't Know
6 8.0%	12 16.0%	19 25.3%	38 50.7%	0 0.0%

While there were a few comments that the low motivation and morale were related to the recent negative publicity, the majority of the respondents indicated that these were on-going problems. Most respondents spoke to issues surrounding low pay and perceived preferential treatment for certain employees.

11. How would you characterize staff morale? **75 RESPONSES**

1. Excellent	2. Good	3. Fair	4. Poor	5. Don't Know
2 2.7%	14 18.7%	16 21.3%	43 57.3%	0 0.0%

12. Space and facilities for the Office are: **76 RESPONSES**

1. Excellent	2. Good	3. Fair	4. Poor	5. Don't Know
3 3.9%	10 13.2%	25 32.9%	38 50.0%	0 0.0%

13. Support equipment for the staff is: **72 RESPONSES**

1. Adequate	2. Inadequate (IF INADEQUATE, LIST NEEDS)
44 61.1%	28 38.9%

Most frequent requests were for new copiers and more computers.

14. Are you normally able to complete your duties within the 40 hour work week? IF NO, PLEASE ANSWER QUESTION #15. **75 RESPONSES**

1. Yes	2. No
57 76.0%	18 24.0%

15. How are hours worked in excess of 40 per week handled? **56 RESPONSES**

1. Paid overtime	2. Receive compensatory time	3. Other (PLEASE EXPLAIN)
9 16.1%	44 78.6%	3 5.3%

16. Are there other jobs that overlap or duplicate your job? IF YES, PLEASE DESCRIBE. **74 RESPONSES**

1. Yes	2. No	3. Don't Know
9 12.2%	58 78.3%	7 9.5%

17. Are you aware of any work delays or impediments to your job performance? IF YES, PLEASE DESCRIBE AND OFFER YOUR SOLUTIONS. **65 RESPONSES**

1. Yes	2. No	3. Don't Know
38 58.5%	26 40.0%	1 1.5%

Work delays identified ranged from inadequate equipment and computer programs to individual positions which were unable to handle the work loads.

18. Do you have an internal policies and procedures manual available to you? If no, what areas need to have policies and procedures developed? **71 RESPONSES**

1. Yes	2. No	3. Don't Know
52 73.2%	12 16.9%	7 9.9%

APPENDICES (CONTINUED)

APPENDIX A

19. Please indicate the State policies and procedures manuals to which management has provided you access.

- | | |
|--|------------------------------|
| 1. Budget Manual | 4. Cash Management Manual |
| <input checked="" type="checkbox"/> 2. Personnel Manual | 5. Fixed Assets Manual |
| 3. Purchasing Manual | 6. Other _____ (PLEASE LIST) |

The majority of respondents indicated that they were aware of the internal personnel manual issued by the Secretary of State's Office. Only a few staff were aware of other state-level manuals.

20. Is the Office effectively managing its available resources (facilities, personnel, funding, etc.)? IF NO, PLEASE EXPLAIN.

75 RESPONSES

- | | | |
|-----------------|-----------------|-----------------|
| 1. Yes | 2. No | 3. Don't Know |
| 25 33.3% | 38 50.7% | 12 16.0% |

Most negative responses related to perceived unfair treatment of personnel.

21. What are the greatest strengths of the Office? (GIVE EXAMPLES, DETAILS)

- Staff who work to assist the public.
- Knowledgeable staff.

22. What areas continue to need the most improvement? (GIVE EXAMPLES, DETAILS)

- More equitable treatment of personnel.
- Better communications from management down.
- Uniform enforcement of policies and procedures (mostly personnel related).
- Make hiring decisions based upon qualifications and not political connections.

23. Do you believe the current organizational structure is meeting the needs of the public? IF NO, WHY NOT? **73 RESPONSES**

- | | | |
|-----------------|-----------------|-----------------|
| 1. Yes | 2. No | 3. Don't Know |
| 45 61.6% | 14 19.2% | 14 19.2% |

Most respondents felt that the Office is meeting the needs of the public despite antiquated equipment and computer programs.

24. What organizational changes would you make in your work area? WHY?

Responses ranged from changes for specific positions and/or persons to movement of functions to better align them.

If you wish to advise the auditors of some issue that has not been addressed, please list on the reverse side. If you would like to talk to the auditors, please provide your name, the telephone number where you would like us to contact you, and the best time to reach you. **This questionnaire and any further communications we have with you will be kept strictly confidential.**

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APPENDICES (CONTINUED)

APPENDIX B

STATEMENT OF MONTHLY BUDGET REPORTS (BD701s)

DESCRIPTION	PAGE
General Fund-13200-Summary by Object FY93-94	105
General Fund-13200-Summary by Object FY94-95	108
Special Revenue Fund-23200-Summary by Object FY93-94	111
Special Revenue Fund-23200-Summary by Object FY94-95	111
Revenue Fund-19952-Summary by Object FY93-94	112
Revenue Fund-19953-Summary by Object FY93-94	112
Revenue Fund-19956-Summary by Object FY93-94	113
Revenue Fund-19975-Summary by Object FY93-94	114
Revenue Fund-19952-Summary by Object FY94-95	115
Trust and Agency Fund-63200-Summary by Object FY93-94	116
Trust and Agency Fund-63200-Summary by Object FY94-95	117

**North Carolina Department of the Secretary of State
Statement of Monthly Budget Report (BD701)
General Fund - 13200
Summary by Objects
For the Period Ended June 30, 1994**

OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
EXPENDITURES-BUDGET AND ACTUAL						
1110	SALARY- SECRETARY OF STATE	84,377.00	84,377.00	84,376.39	0.61	0.61
1210	SPA REGULAR SALARIES	3,150,888.00	3,105,067.00	3,018,604.34	132,283.66	86,462.66
1212	SPA REGULAR SALARIES-REC	70,146.00	26,774.00	24,809.67	45,336.33	1,964.33
1221	SPA WAGES - OVERTIME	8,000.00	19,567.00	12,525.07	(4,525.07)	7,041.93
1270	LONGEVITY	33,156.00	35,574.00	34,337.00	(1,181.00)	1,237.00
1410	SALARIES & WAGES-TEMPORARY	18,801.00	34,279.00	26,940.82	(8,139.82)	7,338.18
1550	UNEMPLOYMENT COMPENSATION	0.00	1,166.00	0.00	0.00	1,166.00
1552	UNEMPLOYMENT COMPENSATION-REC	0.00	2,429.00	2,428.80	(2,428.80)	0.20
1560	WORKMEN'S COMPENSATION BENEFITS	0.00	4,978.00	4,977.44	(4,977.44)	0.56
1586	EDUCATIONAL REIMBURSEMENT	0.00	294.00	0.00	0.00	294.00
1810	SOCIAL SECURITY CONTRIBUTIONS	248,535.00	245,168.00	235,240.13	13,294.87	9,927.87
1812	SOCIAL SECURITY CONTRIBUTIONS-REC	5,367.00	2,235.00	1,449.81	3,917.19	785.19
1820	RETIREMENT CONTRIBUTION	347,369.00	346,054.00	329,556.30	17,812.70	16,497.70
1822	RETIREMENT CONTRIBUTION-REC	7,667.00	3,192.00	2,076.47	5,590.53	1,115.53
1830	HOSPITAL CONTRIBUTION	198,930.00	198,127.00	188,992.20	9,937.80	9,134.80
1832	HOSPITAL CONTRIBUTION-REC	5,208.00	1,737.00	1,301.40	3,906.60	435.60
1880	LEO RETIREMENT CONTRIBUTION	16,591.00	17,541.00	17,446.66	(855.66)	94.34
1930	MEDICAL FEES	0.00	459.00	458.20	(458.20)	0.80
1992	OTHER CONTRACTED PERSONAL	0.00	31,120.00	29,963.79	(29,963.79)	1,156.21
1XXX	PERSONAL SERVICES	4,195,035.00	4,160,138.00	4,015,484.49	179,550.51	144,653.51
2100	HOUSEHOLD & CLEANING SUPPLIES	0.00	285.00	284.05	(284.05)	0.95
2200	FOOD PRODUCTS	0.00	1,027.00	1,014.83	(1,014.83)	12.17
2600	OFFICE SUPPLIES & MATERIALS	43,259.00	53,161.00	53,143.02	(9,884.02)	17.98
2900	OTHER SUPPLY & MATERIALS	5,900.00	5,700.00	5,143.88	756.12	556.12
2XXX	SUPPLIES & MATERIALS	49,159.00	60,173.00	59,585.78	(10,426.78)	587.22

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APPENDIX B

OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
EXPENDITURES-BUDGET AND ACTUAL						
3100	TRAVEL	93,214.00	90,641.00	86,649.61	6,564.39	3,991.39
3200	COMMUNICATION	257,440.00	256,667.00	254,053.60	3,386.40	2,613.40
3300	UTILITIES	0.00	1,100.00	958.55	(958.55)	141.45
3400	PRINTING & BINDING	147,959.00	68,187.00	55,967.29	91,991.71	12,219.71
3500	REPAIRS & MAINTENANCE	6,226.00	18,878.00	18,520.48	(12,294.48)	357.52
3600	FREIGHT EXPRESS DELIVERY	531.00	0.00	0.00	531.00	0.00
3700	ADVERTISING	207,101.00	167,978.00	137,558.90	69,542.10	30,419.10
3800	DATA PROCESSING SERVICE	575,252.00	421,785.00	416,720.17	158,531.83	5,064.83
3900	OTHER SERVICES	22,941.00	37,463.00	35,329.81	(12,388.81)	2,133.19
3XXX	CURRENT OBLIGATIONS	1,310,664.00	1,062,699.00	1,005,758.41	304,905.59	56,940.59
4100	RENTAL OF REAL PROPERTY	19,425.00	20,446.00	20,445.75	(1,020.75)	0.25
4300	RENT OF OTHER EQUIPMENT	914.00	1,168.00	1,166.55	(252.55)	1.45
4400	SERVICE & MAINTENANCE CONTRACTS	36,056.00	39,671.00	39,669.28	(3,613.28)	1.72
4500	INSURANCE AND BONDING	526.00	648.00	648.00	(122.00)	0.00
4900	OTHER FIXED CHARGES	23,482.00	25,720.00	25,410.52	(1,928.52)	309.48
4XXX	FIXED CHARGES & OTHER EXPENSES	80,403.00	87,653.00	87,340.10	(6,937.10)	312.90
5100	OFFICE FURNITURE & EQUIPMENT	42,665.00	60,891.00	58,213.05	(15,548.05)	2,677.95
5200	DATA PROCESSING EQUIPMENT	32,760.00	127,829.00	115,427.92	(82,667.92)	12,401.08
5XXX	CAPITAL OUTLAY	75,425.00	188,720.00	173,640.97	(98,215.97)	15,079.03
	TOTAL AGENCY TRANSFER AUTHORIZED	1,515,651.00	1,399,245.00	1,326,325.26	189,325.74	72,919.74
6124	LAND RECORDS MGT-GRANTS	348,916.00	486,633.00	476,651.13	(127,735.13)	9,981.87
6XXX	GRANTS, STATE AID, SUBSIDIES	348,916.00	486,633.00	476,651.13	(127,735.13)	9,981.87
8190	TRANSFER TO 1994-95FY	0.00	303,821.00	303,821.00	(303,821.00)	0.00
8310	RES-MASTER APPLICATION	17,668.00	17,668.00	0.00	17,668.00	17,668.00
8510	IMPREST CASH FUNDS	0.00	200.00	200.00	(200.00)	0.00
8XXX	TRANSFER, NON-OPERATING	17,668.00	321,689.00	304,021.00	(286,353.00)	17,668.00
	TOTAL NON-SALARY ITEMS	1,882,235.00	2,207,567.00	2,106,997.39	(224,762.39)	100,569.61
	EXPENDITURES	6,077,270.00	6,367,705.00	6,122,481.88	(45,211.88)	245,223.12

OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
EXPENDITURES-BUDGET AND ACTUAL						
0480	PRIOR FISCAL YEAR TRANSFER	0.00	300,577.00	300,577.00	(300,577.00)	0.00
0482	TRANSFER FROM CODE 63200	351,224.00	293,882.00	239,294.60	111,929.40	54,587.40
0483	TRANSFER FROM 63200 TO ANTI-FRAUD	0.00	0.00	1,091.99	(1,091.99)	(1,091.99)
0490	IMPRESS CASH	0.00	200.00	200.00	(200.00)	0.00
0502	SALES TAX	0.00	0.00	78.32	(78.32)	(78.32)
0503	COPIER FEES	1,000.00	4,500.00	5,607.20	(4,607.20)	(1,107.20)
0520	SALE OF N C MANUAL	2,000.00	2,000.00	1,786.47	213.53	213.53
0521	SALE OF COUNTY OFFICIALS DIRECTORY	5,500.00	17,600.00	17,730.97	(12,230.97)	(130.97)
0523	SESSION LAWS HOUSE & SENATE	0.00	0.00	0.00	0.00	0.00
0524	GENERAL ELECTION ABSTRACTS	0.00	0.00	140.55	(140.55)	(140.55)
0540	SALE OF SECURITIES LAWS	50.00	50.00	197.20	(147.20)	(147.20)
0560	SALE OF BUSINESS LICENSE DIRECTORY	100.00	100.00	77.00	23.00	23.00
0570	SALE OF NOTARY LAWS	4,000.00	4,000.00	1,582.10	2,417.90	2,417.90
0590	SALE OF MICROFILM	13,000.00	14,500.00	18,860.75	(5,860.75)	(4,360.75)
0591	SALE OF DATA PROCESS INFORMATION	8,500.00	8,500.00	9,470.00	(970.00)	(970.00)
0595	DATA TAPE SALES	51,000.00	69,400.00	81,009.00	(30,009.00)	(11,609.00)
0750	FINES - MUTUAL FUND	0.00	3,500.00	4,650.00	(4,650.00)	(1,150.00)
0751	FINES - OTHER	0.00	6,000.00	6,000.00	(6,000.00)	0.00
0760	CAMPGROUND REGISTRATION	0.00	2,000.00	3,750.00	(3,750.00)	(1,750.00)
0901	SALE OF EQUIPMENT	0.00	0.00	1,117.34	(1,117.34)	(1,117.34)
0910	CLEARING ACCOUNTS	0.00	0.00	68,070.20	(68,070.20)	(68,070.20)
0919	CLEARING ACCOUNTS	0.00	0.00	(68,304.72)	68,304.72	68,304.72
0999	NOTARY WORKSHOP REGISTRATION FEE	0.00	0.00	1,612.00	(1,612.00)	(1,612.00)
	REVENUES	436,374.00	726,809.00	694,597.97	(258,223.97)	32,211.03
	APPROPRIATION	5,640,896.00	5,640,896.00	5,427,883.91	213,012.09	213,012.09

**North Carolina Department of the Secretary of State
Statement of Monthly Budget Report (BD701)
General Fund - 13200
Summary by Objects
For the Period Ended June 30, 1995**

OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
<u>EXPENDITURES-BUDGET AND ACTUAL</u>						
1110	SALARY- SECRETARY OF STATE	87,000.00	87,000.00	87,000.00	0.00	0.00
1210	SPA REGULAR SALARIES	3,112,379.00	3,091,179.00	3,035,636.84	76,742.16	55,542.16
1212	SPA REGULAR SALARIES-REC	100,383.00	100,383.00	46,859.72	53,523.28	53,523.28
1221	SPA WAGES - OVERTIME	8,000.00	4,142.00	1,060.39	6,939.61	3,081.61
1270	LONGEVITY	36,260.00	38,806.00	36,711.00	(451.00)	2,095.00
1410	SALARIES & WAGES-TEMPORARY	6,801.00	20,901.00	18,651.36	(11,850.36)	2,249.64
1550	UNEMPLOYMENT COMPENSATION	0.00	1,662.00	1,661.87	(1,661.87)	0.13
1560	WORKMEN'S COMPENSATION BENEFITS	0.00	1,823.00	1,818.13	(1,818.13)	4.87
1810	SOCIAL SECURITY CONTRIBUTIONS	246,155.00	243,960.00	235,704.40	10,450.60	8,255.60
1812	SOCIAL SECURITY CONTRIBUTIONS-REC	8,043.00	8,043.00	3,469.45	4,573.55	4,573.55
1820	RETIREMENT CONTRIBUTION	343,889.00	342,207.00	329,993.14	13,895.86	12,213.86
1822	RETIREMENT CONTRIBUTION-REC	11,500.00	11,500.00	4,777.63	6,722.37	6,722.37
1830	HOSPITAL CONTRIBUTION	204,848.00	202,077.00	196,077.60	8,770.40	5,999.40
1832	HOSPITAL CONTRIBUTION-REC	6,798.00	6,798.00	2,169.00	4,629.00	4,629.00
1880	LEO RETIREMENT CONTRIBUTION	15,182.00	16,813.00	16,803.95	(1,621.95)	9.05
1992	OTHER CONTRACTED PERSONAL	0.00	9,954.00	9,891.93	(9,891.93)	62.07
1XXX	PERSONAL SERVICES	4,187,238.00	4,187,248.00	4,028,286.41	158,951.59	158,961.59
2200	FOOD PRODUCTS	0.00	622.00	621.67	(621.67)	0.33
2600	OFFICE SUPPLIES & MATERIALS	44,059.00	51,868.00	50,045.34	(5,986.34)	1,822.66
2900	OTHER SUPPLY & MATERIALS	5,900.00	3,050.00	2,494.83	3,405.17	555.17
2XXX	SUPPLIES & MATERIALS	49,959.00	55,540.00	53,161.84	(3,202.84)	2,378.16
3100	TRAVEL	97,503.00	121,368.00	104,508.96	(7,005.96)	16,859.04
3200	COMMUNICATION	270,914.00	351,038.00	344,133.11	(73,219.11)	6,904.89
3300	UTILITIES	0.00	174.00	173.53	(173.53)	0.47
3400	PRINTING & BINDING	99,959.00	183,410.00	179,460.70	(79,501.70)	3,949.30

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APPENDIX B

OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
EXPENDITURES-BUDGET AND ACTUAL						
3500	REPAIRS & MAINTENANCE	6,226.00	9,266.00	9,071.53	(2,845.53)	194.47
3600	FREIGHT EXPRESS DELIVERY	531.00	0.00	0.00	531.00	0.00
3700	ADVERTISING	160,000.00	110,231.00	107,145.23	52,854.77	3,085.77
3800	DATA PROCESSING SERVICE	366,875.00	439,348.00	435,062.34	(68,187.34)	4,285.66
3900	OTHER SERVICES	17,456.00	21,402.00	17,835.28	(379.28)	3,566.72
3XXX	CURRENT OBLIGATIONS	1,019,464.00	1,236,237.00	1,197,390.68	(177,926.68)	38,846.32
4100	RENTAL OF REAL PROPERTY	28,225.00	22,625.00	20,769.85	7,455.15	1,855.15
4300	RENT OF OTHER EQUIPMENT	914.00	3,376.00	3,360.54	(2,446.54)	15.46
4400	SERVICE & MAINTENANCE CONTRACTS	36,056.00	38,958.00	38,916.80	(2,860.80)	41.20
4500	INSURANCE AND BONDING	526.00	649.00	648.00	(122.00)	1.00
4900	OTHER FIXED CHARGES	21,482.00	30,434.00	29,584.57	(8,102.57)	849.43
4XXX	FIXED CHARGES & OTHER EXPENSES	87,203.00	96,042.00	93,279.76	(6,076.76)	2,762.24
5100	OFFICE FURNITURE & EQUIPMENT	23,590.00	22,882.00	21,281.15	2,308.85	1,600.85
5200	DATA PROCESSING EQUIPMENT	0.00	91,028.00	82,613.24	(82,613.24)	8,414.76
5XXX	CAPITAL OUTLAY	23,590.00	113,910.00	103,894.39	(80,304.39)	10,015.61
TOTAL AGENCY TRANSFER AUTHORIZED		1,180,216.00	1,501,729.00	1,447,726.67	(267,510.67)	54,002.33
6124	LAND RECORDS MGT-GRANTS	349,935.00	332,063.00	327,229.26	22,705.74	4,833.74
6592	OTHER EDUCATIONAL GRANTS-REC	25,000.00	25,000.00	25,000.00	0.00	0.00
6XXX	GRANTS, STATE AID, SUBSI	374,935.00	357,063.00	352,229.26	22,705.74	4,833.74
8190	TRANSFER TO 1988-89FY	0.00	56,170.00	56,170.00	(56,170.00)	0.00
8510	IMPREST CASH FUNDS	0.00	200.00	200.00	(200.00)	0.00
8XXX	TRANSFER, NON-OPERATING	0.00	56,370.00	56,370.00	(56,370.00)	0.00
TOTAL NON-SALARY ITEMS		1,555,151.00	1,915,162.00	1,856,325.93	(301,174.93)	58,836.07
EXPENDITURES		5,742,389.00	6,102,410.00	5,884,612.34	(142,223.34)	217,797.66

OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
EXPENDITURES-BUDGET AND ACTUAL						
0480	PRIOR FISCAL YEAR TRANSFER	0.00	303,821.00	303,821.00	(303,821.00)	0.00
0482	TRANSFER FROM CODE 63200	378,235.00	378,235.00	270,847.00	107,388.00	107,388.00
0490	IMPREST CASH	0.00	200.00	200.00	(200.00)	0.00
0502	SALES TAX	0.00	0.00	8.29	(8.29)	(8.29)
0503	COPIER FEES	1,000.00	1,000.00	2,725.50	(1,725.50)	(1,725.50)
0520	SALE OF N C MANUAL	700.00	2,200.00	2,820.69	(2,120.69)	(620.69)
0521	SALE OF COUNTY OFFICIALS DIRECTORY	5,500.00	10,000.00	15,474.80	(9,974.80)	(5,474.80)
0523	SESSION LAWS HOUSE & SENATE	0.00	0.00	0.00	0.00	0.00
0524	GENERAL ELECTION ABSTRACTS	0.00	0.00	179.73	(179.73)	(179.73)
0540	SALE OF SECURITIES LAWS	50.00	50.00	72.90	(22.90)	(22.90)
0560	SALE OF BUSINESS LICENSE DIRECTORY	100.00	100.00	113.16	(13.16)	(13.16)
0570	SALE OF NOTARY LAWS	4,000.00	4,000.00	809.96	3,190.04	3,190.04
0590	SALE OF MICROFILM	13,000.00	13,000.00	17,248.10	(4,248.10)	(4,248.10)
0591	SALE OF DATA PROCESS INFORMATION	8,500.00	10,400.00	15,846.00	(7,346.00)	(5,446.00)
0595	DATA TAPE SALES	51,000.00	63,100.00	65,959.50	(14,959.50)	(2,859.50)
0750	FINES - MUTUAL FUND	0.00	35,000.00	41,780.00	(41,780.00)	(6,780.00)
0751	FINES - OTHER	0.00	0.00	750.00	(750.00)	(750.00)
0760	CAMPGROUND REGISTRATION	0.00	0.00	5,930.00	(5,930.00)	(5,930.00)
0901	SALE OF EQUIPMENT	0.00	0.00	0.00	0.00	0.00
0910	CLEARING ACCOUNTS	0.00	0.00	(1,543.84)	1,543.84	1,543.84
0940	REIMBURSEMENT DISABILITY INCOME BENEFITS	0.00	0.00	2,017.95	(2,017.95)	(2,017.95)
0999	NOTARY WORKSHOP REGISTRATION FEE	0.00	1,000.00	1,000.00	(1,000.00)	0.00
	REVENUES	462,085.00	822,106.00	746,060.74	(283,975.74)	76,045.26
	APPROPRIATION	5,280,304.00	5,280,304.00	5,138,551.60	141,752.40	141,752.40

**North Carolina Department of the Secretary of State
Statement of Monthly Budget Report (BD701)
Special Revenue Fund - 23200
Summary by Objects
For the Period Ended June 30, 1994**

OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
	CASH ANALYSIS					
	BEGINNING BALANCE			4,367.52		
	CASH RECEIPTS			0.00		
	CASH DISBURSEMENT			0.00		
	GENERAL JOURNAL ADJUSTM			0.00		
	ENDING BALANCE			4,367.52		

**Special Revenue Fund - 23200
Summary by Objects
For the Period Ended June 30, 1995**

OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
	CASH ANALYSIS					
	BEGINNING BALANCE			4,367.52		
	CASH RECEIPTS			0.00		
	CASH DISBURSEMENT			0.00		
	GENERAL JOURNAL ADJUSTM			0.00		
	ENDING BALANCE			4,367.52		

**North Carolina Department of the Secretary of State
Statement of Monthly Budget Report (BD701)
Revenue Fund - 19952
Summary by Objects
For the Period Ended June 30, 1994**

OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
<u>REVENUES - ESTIMATED AND ACTUAL</u>						
0701	CERTIFIED & NON-CERTIFIED COPIES	0.00	0.00	(100.00)	100.00	100.00
0702	CORPORATE TAX FEES FOREIGN	0.00	0.00	2,803,050.81	(2,803,050.81)	(2,803,050.81)
0703	CORPORATION TAX	0.00	0.00	975,660.00	(975,660.00)	(975,660.00)
0707	TRADEMARKS	0.00	0.00	28,151.00	(28,151.00)	(28,151.00)
0708	LAND GRANTS	0.00	0.00	457.75	(457.75)	(457.75)
0709	SESSION LAWS	0.00	0.00	444.98	(444.98)	(444.98)
0719	LOBBYIST REGISTRATION	0.00	0.00	15,765.25	(15,765.25)	(15,765.25)
0740	APPLICATION FEE	0.00	0.00	3,580.00	(3,580.00)	(3,580.00)
0990	MISCELLANEOUS	0.00	0.00	27,386.75	(27,386.75)	(27,386.75)
	REVENUES	0.00	0.00	3,854,396.54	(3,854,396.54)	(3,854,396.54)
	APPROPRIATION	0.00	0.00	(3,854,396.54)	3,854,396.54	3,854,396.54

**Revenue Fund - 19953
Summary by Objects
For the Period Ended June 30, 1994**

OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
<u>REVENUES - ESTIMATED AND ACTUAL</u>						
0710	NOTARY FEES	0.00	0.00	680,704.25	(680,704.25)	(680,704.25)
0711	NOTARY CERTIFICATIONS	0.00	0.00	2,934.55	(2,934.55)	(2,934.55)
0712	NOTARY LIST	0.00	0.00	2,002.25	(2,002.25)	(2,002.25)
	REVENUES	0.00	0.00	685,641.05	(685,641.05)	(685,641.05)
	APPROPRIATION	0.00	0.00	(685,641.05)	685,641.05	685,641.05

**North Carolina Department of the Secretary of State
Statement of Monthly Budget Report (BD701)
Revenue Fund - 19956
Summary by Objects
For the Period Ended June 30, 1994**

OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
<u>REVENUES - ESTIMATED AND ACTUAL</u>						
0702	ATHLETE AGENT REGISTRATION FEE	0.00	0.00	7,280.00	(7,280.00)	(7,280.00)
0703	INVESTMENT ADVISOR- REGISTRATION FEES	0.00	0.00	129,500.00	(129,500.00)	(129,500.00)
0704	INTERPRETATION ADVISOR REPRESENTATIVE-REGISTRATION FEES	0.00	0.00	193,670.00	(193,670.00)	(193,670.00)
0705	INTERPRETATION OPINION FEES	0.00	0.00	7,500.00	(7,500.00)	(7,500.00)
0713	SECURITIES DEALER RENEWAL FEES	0.00	0.00	320.00	(320.00)	(320.00)
0714	SECURITIES FILING	0.00	0.00	108,834.60	(108,834.60)	(108,834.60)
0715	SECURITIES REGISTRATION	0.00	0.00	644,377.94	(644,377.94)	(644,377.94)
0716	EXEMPTION REQUEST	0.00	0.00	36,700.00	(36,700.00)	(36,700.00)
0717	BUSINESS OPPORTUN FILING FEE	0.00	0.00	1,590.00	(1,590.00)	(1,590.00)
0719	REDEEMABLE SECURITIES RENEWAL	0.00	0.00	163,453.11	(163,453.11)	(163,453.11)
0720	INVESTMENT TAX CREDIT REGISTRATION	0.00	0.00	5,900.00	(5,900.00)	(5,900.00)
0721	INVESTMENT TAX CREDIT RENEWALS	0.00	0.00	5,800.00	(5,800.00)	(5,800.00)
0723	SECURITIES DEALER REGISTRATION	0.00	0.00	4,443,005.00	(4,443,005.00)	(4,443,005.00)
0990	MISCELLANEOUS	0.00	0.00	957.50	(957.50)	(957.50)
	REVENUES	0.00	0.00	5,748,888.15	(5,748,888.15)	(5,748,888.15)
	APPROPRIATION	0.00	0.00	(5,748,888.15)	5,748,888.15	5,748,888.15

**North Carolina Department of the Secretary of State
Statement of Monthly Budget Report (BD701)
Revenue Fund - 19975
Summary by Objects
For the Period Ended June 30, 1994**

OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
<u>REVENUES - ESTIMATED AND ACTUAL</u>						
0715	FEES, LICENSES AND FINES	0.00	0.00	(16.00)	16.00	16.00
0716	UCC FILING FEES	0.00	0.00	656,209.00	(656,209.00)	(656,209.00)
0717	UCC INFORMATION & COPIES	0.00	0.00	243,745.34	(243,745.34)	(243,745.34)
0718	TAX LIENS-MISCELLANEOUS	0.00	0.00	17,063.00	(17,063.00)	(17,063.00)
	REVENUES	0.00	0.00	917,001.34	(917,001.34)	(917,001.34)
	APPROPRIATION	0.00	0.00	(917,001.34)	917,001.34	917,001.34

**North Carolina Department of the Secretary of State
Statement of Monthly Budget Report (BD701)
Revenue Fund - 19952
Summary by Objects
For the Period Ended June 30, 1995**

OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
<u>REVENUES - ESTIMATED AND ACTUAL</u>						
0702	ATHLETE AGENT REGISTRATION FEE	0.00	0.00	35,534.00	(35,534.00)	(35,534.00)
0703	INVESTMENT ADVISER-REGISTRATION FEES	0.00	0.00	185,295.00	(185,295.00)	(185,295.00)
0704	INTERPRETATION ADVISER REPRESENTATIVE REGISTRATION FEES	0.00	0.00	233,664.25	(233,664.25)	(233,664.25)
0705	INTERPRETAT OPINION FEES	0.00	0.00	7,050.00	(7,050.00)	(7,050.00)
0707	TRADEMARKS	0.00	0.00	32,890.00	(32,890.00)	(32,890.00)
0709	SESSION LAWS	0.00	0.00	2,848.86	(2,848.86)	(2,848.86)
0710	NOTARY FEES	0.00	0.00	749,101.75	(749,101.75)	(749,101.75)
0711	NOTARY CERTIFICATIONS	0.00	0.00	3,120.95	(3,120.95)	(3,120.95)
0712	NOTARY LIST	0.00	0.00	8,525.25	(8,525.25)	(8,525.25)
0714	SALE OF BUSINESS LICENSE DIRECTORY	0.00	0.00	110,279.00	(110,279.00)	(110,279.00)
0715	SALE OF NOTARY LAWS	0.00	0.00	539,603.99	(539,603.99)	(539,603.99)
0716	SALE OF MICROFILM	0.00	0.00	30,675.00	(30,675.00)	(30,675.00)
0717	SALE OF DATA PROCESS INFORMATION	0.00	0.00	1,580.50	(1,580.50)	(1,580.50)
0718	TAX LIENS-MISCELLANEOUS	0.00	0.00	17,635.00	(17,635.00)	(17,635.00)
0719	REDEEMABLE SECURITIES REGISTRATIONS	0.00	0.00	206,050.01	(206,050.01)	(206,050.01)
0720	INVESTMENT TAX CREDIT REGISTRATION	0.00	0.00	5,900.00	(5,900.00)	(5,900.00)
0721	INVESTMENT TAX CREDIT RENEWAL	0.00	0.00	7,150.00	(7,150.00)	(7,150.00)
0723	SECURITIES DEALER REGISTRATION	0.00	0.00	4,712,230.00	(4,712,230.00)	(4,712,230.00)
0724	LOBBYIST REGISTRATION	0.00	0.00	79,679.65	(79,679.65)	(79,679.65)
0725	CORPORATE TAX FEE	0.00	0.00	3,317,902.87	(3,317,902.87)	(3,317,902.87)
0726	ANNUAL REPORTS	0.00	0.00	1,669,025.50	(1,669,025.50)	(1,669,025.50)
0727	UCC FILING FEES	0.00	0.00	704,418.50	(704,418.50)	(704,418.50)
0728	UCC INFORMATION & COPIES	0.00	0.00	235,139.30	(235,139.30)	(235,139.30)
0740	APPLICATION FEE	0.00	0.00	180.00	(180.00)	(180.00)
0990	MISCELLANEOUS	0.00	0.00	31,305.75	(31,305.75)	(31,305.75)
	REVENUES	0.00	0.00	12,926,785.13	(12,926,785.13)	(12,926,785.13)
	APPROPRIATION	0.00	0.00	(12,926,785.13)	12,926,785.13	12,926,785.13

**North Carolina Department of the Secretary of State
Statement of Monthly Budget Report (BD701)
Trust and Agency Fund - 63200
Summary by Objects
For the Period Ended June 30, 1994**

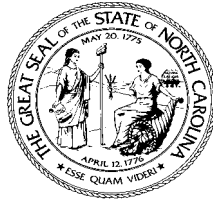
OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
<u>EXPENDITURES-BUDGET AND ACTUAL</u>						
8101	TRANSFER TO CODE 13200	405,128.00	294,974.00	240,386.59	164,741.41	54,587.41
8501	REIMBURSEMENT-INVESTORS	1,205,643.00	0.00	0.00	1,205,643.00	0.00
8XXX	TRANSFER, NON-OPERATING	1,610,771.00	294,974.00	240,386.59	1,370,384.41	54,587.41
	TOTAL NON-SALARY ITEMS	1,610,771.00	294,974.00	240,386.59	1,370,384.41	54,587.41
	EXPENDITURES	1,610,771.00	294,974.00	240,386.59	1,370,384.41	54,587.41
<u>REVENUES - ESTIMATED AND ACTUAL</u>						
0893	DONATION-PRUDENTIAL SECURITIES INC.	0.00	0.00	500,000.00	(500,000.00)	(500,000.00)
0899	DONATION-DREXEL BURNHAM	0.00	0.00	20,000.00	(20,000.00)	(20,000.00)
0921	INTEREST INCOME	16,143.00	409.00	17,333.27	(1,190.27)	(16,924.27)
0991	INVESTOR ESCROW ACCRUED RECEIPTS	1,189,500.00	0.00	0.00	1,189,500.00	0.00
	REVENUES	1,205,643.00	409.00	537,333.27	668,309.73	(536,924.27)
	REVENUES - EXPENDITURES	(405,128.00)	(294,565.00)	296,946.68	(702,074.68)	(591,511.68)
CASH ANALYSIS						
	BEGINNING BALANCE			50,730.48		
	CASH RECEIPTS			548,598.27		
	CASH DISBURSEMENT			(251,651.59)		
	GENERAL JOURNAL ADJUSTM			0.00		
	ENDING BALANCE			347,677.16		

**North Carolina Department of the Secretary of State
Statement of Monthly Budget Report (BD701)
Trust and Agency Fund - 63200
Summary by Objects
For the Period Ended June 30, 1995**

OBJECTS	DESCRIPTION	BUDGET		ACTUAL	UNEXPENDED/UNREALIZED	
		CERTIFIED	AUTHORIZED		CERTIFIED	AUTHORIZED
8101	TRANSFER TO CODE 13200	400,235.00	400,235.00	270,847.00	129,388.00	129,388.00
8XXX	TRANSFER, NON-OPERATING	400,235.00	400,235.00	270,847.00	129,388.00	129,388.00
	TOTAL NON-SALARY ITEMS	400,235.00	400,235.00	270,847.00	129,388.00	129,388.00
	EXPENDITURES	400,235.00	400,235.00	270,847.00	129,388.00	129,388.00
<u>REVENUES - ESTIMATED AND ACTUAL</u>						
0890	DONATION - ABT SOUTHERN MASTER TRUST	0.00	0.00	15,000.00	(15,000.00)	(15,000.00)
0891	DONATIONS - LESS \$10,000	0.00	0.00	27,500.00	(27,500.00)	(27,500.00)
0892	DONATION - STEPHENS INC	10,000.00	10,000.00	10,000.00	0.00	0.00
0900	MISCELLANEOUS	0.00	0.00	0.00	0.00	0.00
0901	SALE OF EQUIPMENT	0.00	0.00	0.00	0.00	0.00
0921	INTEREST INCOME	12,000.00	12,000.00	13,824.52	(1,824.52)	(1,824.52)
	REVENUES	22,000.00	22,000.00	66,324.52	(44,324.52)	(44,324.52)
	REVENUES - EXPENDITURES	(378,235.00)	(378,235.00)	(204,522.48)	(173,712.52)	(173,712.52)
CASH ANALYSIS						
	BEGINNING BALANCE			347,677.16		
	CASH RECEIPTS			66,324.52		
	CASH DISBURSEMENT			(270,847.00)		
	GENERAL JOURNAL ADJUSTM			0.00		
	ENDING BALANCE			143,154.68		

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APPENDIX B



State of North Carolina
Department of the Secretary of State

RUFUS L. EDMISTEN
SECRETARY OF STATE

December 11, 1995

The Honorable Ralph Campbell, Jr.
State Auditor
300 North Salisbury Street
Raleigh, North Carolina 27603

Dear Mr. Auditor:

I am in receipt of the draft audit that your staff has conducted on the Office of the Secretary of State. Thank you for providing me a working copy and the opportunity to review your findings and offer the attached response.

It is believed by many that this is the most comprehensive, intense, and detailed audit that the State Auditor has ever conducted. I appreciate the relentless thoroughness that your staff exhibited in pursuit of their task. You can be sure that they left no stone unturned.

As you well know, I agree with some of your findings and recommendations, and I disagree with others. Many of your findings appear common to most state audits; therefore, they are not altogether unexpected. Other findings are harsh, but somewhat on target, and I accept full responsibility for those deviations from the norm. Some of your findings rely on recollections of memory which are contradicted by the recollections of others. A few findings seem to have missed the point. The focus of this response is directed at both taking appropriate action to achieve full compliance with state guidelines and offering additional information.

Unfortunately, the many examples of good work and success within the Department of the Secretary of State remain unmentioned in the audit. Given that your mission is to identify areas and issues which raise questions or concerns, I realize that your audit process has little, if any, interest in reporting the positive aspects of any office.

The Honorable Ralph Campbell,
Jr.
December 11, 1995
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Your audit did acknowledge that the Department of the Secretary of State does, indeed, meet its legislative mandate, which is articulated and defined by over 200 different laws. This Office fully provides all mandated services and functions to our citizens, the business community, and elected officials. That commitment to service was supported by your confidential questionnaire which confirmed that my office does have a knowledgeable staff which does assist the public and does meet its needs.

I worry that the audit may damage the credibility of this office in the eyes of state officials, office customers, and citizens. My greatest concern is that the audit will cast a shadow of doubt on the many wonderful, dedicated, skilled staff who give the taxpayers more than their money's worth every day. They are good and honorable people who have earned my appreciation, admiration, and respect.

I am committed to making the Office of the Secretary of State a model of proactive and efficient service to our citizens and the business community. This audit will assist in our effort.

Respectfully,

/s/ Rufus L. Edmisten

Rufus L. Edmisten

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OPENING STATEMENT

Preparatory to reviewing the Auditor's report on the organization and function of the Office of the Secretary of State, it is appropriate to define the role of this Office in the context of state government.

Duties of the Office are, in comparison to other states, by no means widespread and diverse. All of the duties are directly related to the mission of the Office. That mission is, first, to provide the clerical, administrative, ministerial function of receiving, filing, compiling, authenticating, recording, and publishing; and, second, to provide the oversight and controlling function of registering, regulating, and enforcing.

It is, and has always been in the best interest of this state to combine both the centralized filing office and the independent regulatory agency. North Carolina, like most states, has elected to house these functions in the office of the Secretary of State.

This Office is structured in similar fashion to offices of secretaries of state in other states. Most states have one chief deputy; some have two. Most states have two or more deputy secretaries of state; some have as many as five. The number of division directors ranges from three to twelve. We have one chief deputy, two deputies, and eight directors.

This Office performs essentially the same duties as our counterparts in other states. There are no unusual, unique, or extraordinary facets to the office. It provides no duties which are questionable, inappropriate, or misplaced.

Our duties include: Corporate filings, Uniform Commercial Code, Notaries, Publications, Legislative filings, Authentications, Certifications, Business Licensing, Securities, Lobbyist Registrations, Registration of Sports Agents, Land Records, Trade Marks, and Election-related certifications and publications.

Other duties which are performed by many secretaries of state are: Administrative Codes and Registers, Extradition Orders, Bonding of State Officials, State Archives, and Regulation of Charitable Solicitations.

Additional duties which are performed by some secretaries of state are: Division of Motor Vehicles, Management of State Library, Caretaker of State Capitol, Audit of State Agencies, and Regulation of Bingo.

NORTH CAROLINA DEPARTMENT OF THE SECRETARY OF STATE
PAGE 2**AUDIT SECTION: BACKGROUND INFORMATION**

This Office, with its small staff, has served the state well. In the first full year of the Edmisten administration (the year ending June 30, 1990) the Office operated on a budget of \$3.36 million, returned a gross revenue of \$7.22 million, and earned the state a net profit of \$3.86 million. In the year ending June 30, 1995, the Office operated on a budget of \$5.88 million, returned a gross revenue of \$12.93 million, and earned the state a net profit of \$7.05 million. In that first full year (6/30/90), profit was 115% of budget. In the past year (6/30/95) profit was 120% of budget.

Not only is net profit growing, but it is growing faster than expenses. Furthermore, the public and business community are even better served by such progressive and innovative features as: master business licensing, reductions in time required for corporate filings, implementing the nation's most attractive corporations and business entities laws, cutting red tape to enable small business to raise capital, and strengthening lobbyist registration.

AUDIT SECTION: SPECIAL REVIEW

This response to the 14 recommendations will not debate the Auditor's findings. It will briefly offer additional information and indicate actions which have been taken.

Response to first recommendation: Use of employees.

As a matter of policy, "driver" will not be a function of Office personnel. In situations where others, in addition to the Secretary, should attend a job-related event, that attendance will be assigned by a deputy secretary of state, in consultation with the appropriate division head.

Response to second recommendation: Drivers.

"Driver" will not be a function of Office personnel. If others also attend an event, it will be done in compliance with the provisions described above. Furthermore, the Office has adopted an even more rigid and highly structured compensatory time policy (in late November, 1995) which renders the questionable earning of compensatory time impossible.

Response to third recommendation: State-Owned Vehicles.

The Secretary turned in his assigned vehicle and license plates, and paid the state the sum of \$500 to resolve the question of vehicle use. He firmly believes that his travel was within the

NORTH CAROLINA DEPARTMENT OF THE SECRETARY OF STATE
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scope of his statewide elected position as an elected official every hour of every day of the year.

Response to fourth recommendation: Vehicle Log Discrepancies.

A policy which requires each driver to record vehicle use and service concurrent with the event is in place. The Office has determined that the reported discrepancies were a function of clerical ineffectiveness, and are unrelated to use of the vehicle. The employee completed the vehicle log at the end of the month, and he used a calendar of invitations instead of completing the log each day by either relying on the actual itinerary or upon personal knowledge. This is a case of poor judgment and not intended to mislead.

Response to fifth recommendation: Transporting Non-Employees.

The car has been turned in. Therefore, questioned use is eliminated.

Response to sixth recommendation: Chief Investigator Vehicle.

Travel records have been reviewed and discussed with the employee, and inappropriate travel has been reimbursed. Appropriate disciplinary measures have been taken for all inappropriate actions. All travel is more strictly monitored under a revised travel policy.

Response to seventh recommendation: Non-State Work.

The Secretary did not and will not ask any state employee to perform personal errands during state time. Any state employee who chose to do non-state work and claim the time for pay purposes was in violation of policy, rules, and common sense. Those employees have been asked to review their work records and make the necessary corrections to appropriately reflect their behavior. The Secretary will not permit any personal work at any time that may give the perception of impropriety.

Response to eighth recommendation: Hiring Procedures

In July 1995, the Secretary directed the staff to work with the Office of State Personnel to design and implement a model recruitment and selection system.

The new Office personnel recruitment and selection policy and procedure is developed, and it fully guarantees that all recruitment, selection, and employment is in strict compliance with Office of State Personnel guidelines.

Response to ninth recommendation: Atlanta.

An appropriate business purpose existed for the trip.

Response to tenth recommendation: Contribution.

The Secretary did not receive money from Mr. DeMers. He did receive two \$50 contributions, which he reluctantly accepted and donated to charity. In retrospect, it would have been wise to have refused the small amount that was unexpectedly contributed by the other two individuals. The supervisor has been admonished to never discuss any form of contribution.

Response to eleventh recommendation: Complaints.

A formal process to appropriately record and respond to complaints is in place. The employee has been officially warned again.

Response to twelfth recommendation: Training.

Employees are encouraged to secure education and training which improves their ability to perform their job. We agree with the recommendation that the State Patrol course was a better choice. However, the patrol does not advertise its course, and we were unaware of it.

Response to thirteenth recommendation: Telephone.

An aggressive telephone use management program is in place.

All staff have been reminded of state regulations, all telephone records have been examined, and, as warranted, explanations and reimbursements have been requested.

The two employees believed to have made nearly all of the calls identified in the August 1994, management letter both terminated their employment protesting that the calls

were not personal.

The Auditor recommended that this Office examine the calls that he questioned. We did, and most of them were clearly business calls. Reimbursement has been requested for the non-business calls.

Response to fourteenth recommendation: New York.

The Secretary, who is the securities administrator for the state, used this trip to attend meetings with securities regulators, bond raters, and investment officials, which is clearly appropriate, necessary, and consistent with Office mandates. On one occasion, the state prosecutor who tries many of the securities fraud cases, attended the meetings.

The meetings with the bond rating agencies, which rate the credit worthiness of the state, are both valuable to North Carolina and compatible with the Secretary's role as a member of the Local Government Commission.

AUDIT SECTION: PROCEDURAL FINDINGS AND RECOMMENDATIONS

The Auditor conducted a highly comprehensive, thorough, and professional examination of this very important area of operation. We have already adopted many of their recommendations and other actions are under review.

General Comments

The Auditor concludes his General Comments by stating that this Office does generally meet its legislative mandate. We meet the requirements of more than 200 legislatively mandated functions and services that define the mission of the Office, and we do it in a positive fashion.

A great source of confusion during the audit process was that, on numerous occasions, two or three different auditors wished to examine the same documents at the same time. Local media were often in competition for access to those same files at the same time, thus adding even more confusion. This repetitive and heavy demand for records resulted in some files being temporarily misfiled or out of place.

In 1989, the Secretary assumed leadership of this service-oriented office. In the last seven years the sheer volume of that service, the number of requests for service, the number of legislatively mandated functions, the speed of service, and the quantity of documents certified and filed have soared.

In that same time, gross revenues to the state have jumped more than 70 percent

NORTH CAROLINA DEPARTMENT OF THE SECRETARY OF STATE
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with a modest 40 percent increase in staff positions.

This Office receives daily comments from the public that this is the only office in state government that seems glad to hear from them and eager to serve. We are pleased to note that the Auditor's confidential survey showed that most of the staff believed that the Office is meeting the needs of the public. The survey also showed that the Office had a knowledgeable staff, and that the staff worked to assist the public.

During two terms in this Office, we have been fortunate to work cooperatively with two progressive and supportive administrations in the pursuit of our mission. Furthermore, the excellent guidance, advice, and technical assistance that have characterized our interactions with the Office of State Personnel and the State Budget Office have been invaluable. We continue to work closely with these entities to make this Office even more responsive and productive.

As we reviewed and addressed each aspect of the audit, we became aware of the need to move even further. This audit report will guide our progress.

ADMINISTRATION

Planning

At the auditor's recommendation, short-term plans have been developed and filed for each division. They will be reviewed and updated at six-month intervals.

Policies and Procedures

We have taken steps to update and expand specific policies and procedures for the Office personnel manual. The first step toward improving the manual was to call other state agencies and request to use their manual as a guide. The only office that had one was the Auditor. Theirs serves as a model for improving ours.

Each division of the Office has prepared specific procedures to guide their work.

Communications

Prior to the audit, we had already recognized the need to address lines of communication,

NORTH CAROLINA DEPARTMENT OF THE SECRETARY OF STATE
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authority, and responsibility, and initiated action. The reengineering and restructuring that was accomplished in late summer and the work that is ongoing with the Office of State Personnel will effectively address and correct the situation. We must keep in mind the fact that the survey addressed the old system.

Technology

We agree with the audit finding of a lack of comprehensive implementation and application of technology, and appreciate the Auditor's support for additional technology. Prior efforts to remedy this situation have not survived the legislative budget process.

CASH MANAGEMENT AND INTERNAL CONTROL

Cash Management Issues

We agree with the Auditor that technical and clerical inconsistencies are unacceptable. Reallocation and assignment of present resources will be implemented to address the situation. We are working with the State Controller to establish the needed controls.

The crush of the added work load created by more positions, doubled budget and doubled net revenue, plus a misunderstanding of the positive results of the limited 1994 financial audit, led to a false sense of confidence. This audit offered a more thorough review which identified details that were unattended by the very small staff who handle financial and personnel matters.

The Auditor found problems with the cash management plan and various financial procedures. This Office fully desires and intends to comply with all plans, rules, laws, and procedures. We are working to address the Auditor's recommendations.

Although they have given great effort, the financial and personnel operations of the Office are stretched to the extreme. In 1990, personnel matters for 94 positions, budget expenditures of \$3.36 million, and gross receipts of \$7.22 million were handled by the same small staff that handled personnel matters for 121 positions, budget expenditures of \$5.88 million, and gross receipts of \$12.93 million in 1995. Their sheer volume of work has nearly doubled, and, we have requested the needed personnel from the legislature without success.

Travel

All travel identified by the Auditor has been carefully reviewed. Questions about travel fall

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into several different categories. Much of the questioned travel seems to focus on minor paperwork items (as is reflected in Audit Table 5). Some of the questioned situations appear out of compliance, and those individuals have been asked to reimburse the questioned costs. Some of the questioned travel is both appropriate and documented. In some situations the Auditor seems to desire more documentation than is required by applicable state policies and procedures.

Purchase

This Office has developed and implemented a comprehensive centralized purchasing policy and procedure. The new policy and procedure will virtually eliminate the potential for questioned costs. The costs that were questioned by the Auditor were presented to the identified employees for explanation. Employees were asked to reimburse those costs that were not adequately explained.

Investor Protection and Education

This program will benefit from added structure and policies to define goals and objectives which govern the expenditure of funds in compliance with state purchasing and contracting regulations.

The Auditor questioned all expenditures of the Investor Protection and Education fund. We call the program by the short name, "Investor Awareness," and the Auditor seems to believe that expenditure of funds should be limited to "awareness." We disagree.

This program was originally established by Secretary of State Thad Eure and has continued in this administration. The fund is a product of multi-state settlement agreements of (mostly) national securities fraud cases. Given the highly unpredictable, unscheduled, and infrequent flow of settlement funds, planning and budgeting are almost impossible. However, the constant focus is to achieve the best benefit for investors and potential investors.

History shows that prevention and education are more effective than investigation and arrest, because lost investment funds are seldom, if ever, recovered. Therefore, the emphasis is on knowledge, technology, and awareness. We believe that travel which is directly related to securities regulation clearly falls within the purview of settlement agreement language.

Personnel

This Office has worked closely with the Office of State Personnel to develop and implement a structured, formal, non-political, objective employee recruitment and selection process

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which ensures that all SPA positions will be filled in full compliance with state policy, and that the best candidates will be recruited, selected, and hired. This process is working well.

Work is ongoing with the Office of State Personnel to identify and resolve questions, overlaps, and omissions in job assignments. All employees have participated in the formal work evaluation process, and written evaluations which resulted from that process are on file.

Furthermore, the Office is in the process of receiving additional training from the Office of State Personnel to develop and fully implement the state adopted Performance Management System. A single, unified time sheet is in use by the entire Office, and compensatory time is also reported on the same sheet.

Compensatory time is managed by a comprehensive new policy and procedure.

The Office of State Personnel and this Office have processed all salary upgrades and promotions in a professional and responsible manner. We continue to trust, depend on, and appreciate the excellent professional expertise, support, and guidance of the Office of State Personnel.

Education Reimbursement, Training Reimbursement

Budget limitations prompted this Office to discontinue the Educational Assistance Program last budget year.

The Auditor stated that, "the Office is in non-compliance with Office of State Personnel regulations regarding reimbursement for employee education and training."

We believe the Auditor incorrectly assumed that all learning activity is included under the Educational Assistance Program, and that Office of State Personnel regulations address both education and training.

Office of State Personnel regulations do address the Educational Assistance Program, which is a specific program for academic courses. However, Budget Manual regulations address training. Nearly half of the questioned costs are training events.

We believe this Office has appropriately provided both education and training within the frameworks established by the Office of State Personnel and the Office of State Budget and Management.

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AUDIT SECTION: ORGANIZATIONAL PROPOSALS

The Auditor reached a number of conclusions and offered their recommendations for reorganization. Our response is based on our knowledge of the history, scope, and rationale on the organization and structure of offices of secretaries of state.

Workload Data

The major measures of Office workload portray a stable and, for the most part, growing productivity. This is added evidence of effective performance of the legislative mandate.

Two work areas displayed in the work load indicator charts exhibit a natural deviation from the routine annual progression. The Lobbyist Registration Section operates on two-year cycles in order to register and report lobbyists on pace with the legislative biennial cycle, which is also the cycle for lobbyists. Therefore, each bar on that chart should represent the two-year cycle.

The Publications Division routinely operates on even year and odd year cycles. Even years always include more charted measures, because they represent a greater portion of research and development for the *North Carolina Manual*. If one looks at the odd years, it is clear that they show a constant upward trend. The even years show that same constant upward trend.

Organizational Structure

We agree that we put serving the citizens ahead of organizational details, and we need to catch up.

The current organizational structure was implemented in good faith concurrent with the initiation of this audit. Data and feedback upon which to judge its effectiveness does not yet exist. Therefore, we believe that the revised organizational structure must be given a fair chance to work instead of declaring it dead on arrival.

As was discussed in the opening paragraphs of this response, the duties and functions of this Office are virtually the same as in all other offices of secretaries of state, and they are appropriately housed. Relocating these functions to other agencies will escalate the potential for conflict of interest. To begin the process of fragmenting them will damage the continuity of service without any reduction of cost, because it will cost at least as much to provide fragmented services as it does to provide consolidated services.

We take particular exception to action to bifurcate securities duties, because the

several duties are connected, related, and dependent on each other. Segregating the duties will effectively diminish the quality of securities regulation in North Carolina.

We agree with the recommendation that the State Government Reorganization and Privatization Study Committee review this Office. We believe that the August, 1995, reorganization will have begun to show positive results by that time. We also believe in the wisdom of the existing organization and duties of this Office. We strongly disagree with the notion that the state is better served by disassembling this Office.

CONCLUSION

When one looks at the complete record, the Office of the Secretary of State has been an efficient, effective tool for the citizens of North Carolina. Even as the Legislature has added assigned duties to the Office - bringing the list to more than 200 - each function has been carried out in an expert manner by fewer than 120 dedicated employees.

As stated in our response to the audit, staff efforts in the most recent year have provided the General Fund with more than \$13 million on a budget of less than \$6 million. We have continued to cut red tape and speed responses to the thousands of requests our Office receives.

These facts define an operation which far exceeds its legislative mandate.

While we do not agree with all of the audit findings, we recognize that no office is perfect. Most of the Auditor's findings were well taken, and we have dealt with them in a swift manner. We did not postpone action while awaiting the completion of the audit report.

Prior to receiving the report, we implemented a new personnel policy. We instituted more aggressive rules regarding telephone use. We changed office policies on the use of state vehicles.

We have also thoroughly reviewed organizational and procedural recommendations. In response, we have adopted short-term plans for each division. Furthermore, we have assembled new manuals and handbooks that clearly state our mission and the methods whereby we plan to accomplish it.

Over the next several months, we will continue to study the audit recommendations with an eye toward additional improvements.

We acknowledge and appreciate the many hours of hard work and thoughtful attention that the Auditor's staff devoted to their task. We believe that hard work will help this Office continue its progress in addressing the needs of the citizens of North Carolina.

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In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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December 14, 1995

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General Statute §143-170.1 requires disclosure of printing costs for public documents of which 200 copies are printed. This office originally printed 600 copies of this report at a total cost of \$1,218.00. An additional 200 copies have been printed at a cost of \$406.00 or \$2.03 per copy.