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Foundations must take care in mixing public, private funds for state operations, Auditor Leslie Merritt says

RALEIGH _ Private foundations that support state museums and other institutions play an important role in providing enhanced services to North Carolina citizens, but they must be careful in how they mix public and private funds and in creating situations that allow state rules to be circumvented, State Auditor Leslie Merritt said Monday.

An investigative audit of the North Carolina Museum of Art released last week questioned salary supplements paid to some state employees, including top managers of the museum, and whether the museum operates as a public or private group. Published reports Monday indicated that other state organizations may operate with similar supplements, at least for their top officials.

“We are not disputing the significant role that private foundations play in providing cultural and educational opportunities that the state might otherwise be unable to afford,” Merritt said. “But the actions of those foundations need to be as transparent as possible, and they must remember that they are dealing with public institutions that operate under a different set of accountability standards than the private sector.

“Above and beyond salary supplements, we have seen too many situations in which public officials managing public institutions used these foundations to do things they would not be allowed to do under state rules,” Merritt said. “Foundations must have proactive, engaged boards of directors who understand that supporting a public institution carries with it a requirement for public accountability. And those foundations must make sure the institution complies with the personnel, retirement and other rules that govern those public agencies.”

A front-page story in the News and Observer of Raleigh indicated that the North Carolina Symphony, the state zoo, aquariums and some other state museums also use supplements to increase the salaries of their directors. Supporters of the practice argue that the supplements are necessary to attract qualified employees who are in demand from other public and private employers.



“We certainly can understand the frustration these agencies face in trying to attract and retain skilled professionals under the state’s pay scale,” Merritt said. “It is an issue we face daily in trying to attract and retain accounting professionals here. But we cannot do an end run around the state’s pay system, and neither should others.”

The investigative audit of the Museum of Art was sparked by complaints to the State Auditor’s Hotline that some state employees, but not all, were being paid supplements by the museum’s foundation. Auditors found that there was no clear policy or procedure for approving and distributing salary supplements and that the operations of the museum and its foundation were so intertwined that it was virtually impossible to separate them.

The operations of other state institutions that supplement salaries have not been questioned, but could be audited if evidence indicated similar violations of state regulations, Merritt said.

