

STATE OF NORTH CAROLINA

PERFORMANCE AUDIT

**NORTH CAROLINA DEPARTMENT OF
TRANSPORTATION**

FERRY DIVISION

JULY 2011

OFFICE OF THE STATE AUDITOR

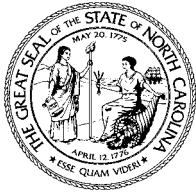
BETH A. WOOD, CPA

STATE AUDITOR

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State Auditor

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July 7, 2011

The Honorable Beverly Perdue, Governor
Members of the North Carolina General Assembly
Eugene A. Conti, Jr., Secretary, North Carolina Department of Transportation

Ladies and Gentlemen:

We are pleased to submit this performance audit titled *North Carolina Department of Transportation Ferry Division*. The audit objectives were to review claims of mismanagement in certain Ferry Division activities, determine and report on the legitimacy of the concerns, and make recommendations to improve Ferry Division operations. Purported mismanagement included the employment of relatives, excessive overtime, payroll time entry, purchasing, and budget oversight. Secretary Conti reviewed a draft copy of this report. His written comments are included in the appendix.

The Office of the State Auditor initiated this audit upon the request of the Department of Transportation (Department). The Department performed an internal review of Ferry Division operations after the former Ferry Division Director made claims of mismanagement. The Department requested the assistance of the Office of the State Auditor to establish an appropriate level of independence and objectivity in a review of these concerns.

We wish to express our appreciation to the staff of the Department of Transportation for the courtesy, cooperation, and assistance provided us during the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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SUMMARY

PURPOSE

This audit report evaluates claims of mismanagement in the Department of Transportation (Department) Ferry Division specific to the employment of relatives, excessive overtime, payroll time entry, purchasing, and budget oversight and makes recommendations so department management can take appropriate corrective action.

RESULTS

The former Ferry Division Director reported violations of state and department policies regarding the employment of relatives. The audit confirmed violations of this policy.

- The Ferry Division did not always comply with department policy for the employment of relatives. A review of 59 employees found 13 instances (22%) of employees working under or with a relative at the same location or shift. Six of the 59 employees (10%) did not disclose on their application that they had relatives working in the Ferry Division.

The former Ferry Division Director claimed employees worked extensive overtime to increase their pay. While overtime exists, the audit did not confirm this concern.

- The majority of overtime in the Ferry Division (71%) is because work schedules for ferryboat workers have a built-in overtime component. During the fiscal year ending June 30, 2010, the additional cost of the *scheduled* overtime was \$930,000. With an average salary of \$23,000, this equates to approximately 40 additional employees.
- *Unscheduled* overtime occurred, but it was less common. Between January 1, 2008, and October 1, 2010, the Ferry Division incurred 84,403 hours, or approximately \$1.4 million, of approved, unscheduled overtime representing 29% of all overtime hours. A contributing factor to the additional overtime was a rule change in the 2009 US Coast Guard Manning and Vessel Inspection Requirements.

The former Ferry Division Director reported that employees perform time sheet approval and payroll processing for relatives. The audit did not confirm this concern.

- Time sheets tested did not show any evidence of a relative approving an employee's time sheet. The Ferry Division's process for employee time sheet approval and payroll processing has controls in place to keep employees from performing these functions for relatives; however, this process can be improved.

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The former Ferry Division Director reported questionable spending by Ferry Division managers. The audit did not confirm this concern.

- Ferry Division purchases appeared to be reasonable expenses for Ferry Division operations and generally complied with department purchasing policies. Purchases made with credit cards appeared to be reasonable business expenses; however, nine of 25 (36%) lacked required approval documentation.

The former Ferry Division Director reported that there was no detailed budget by location to assist with managing operations against budgeted amounts. The audit confirms this concern.

- The Ferry Division has a legally approved, annual line-item budget that is part of the Department of Transportation's overall budget. However, the Ferry Division kept the budget at the division level and did not allocate the budget to the various operational locations. As of July 1, 2010, the Ferry Division directed staff to allocate and manage budgets by location.

RECOMMENDATIONS

To avoid the employment of relatives that result in violation of state and department policies, the Ferry Division should:

- Revise and resend its Employment of Relatives policy to all employees noting that no relatives should work on the same boat or on the same shift or have any overlapping supervision. The Ferry Division should require that all employees sign this policy and retain it in the division's personnel files.
- Create a listing of all employees and document relative relationships within the Ferry Division. The listing should be monitored and updated monthly. In situations where an employee is in violation of the revised policy, one of the employees should be required to change their location, shift, boat, or job.
- Include in its application package its Employment of Relatives policy and a form for all potential new hires to list all relatives working in the Ferry Division. The Ferry Division should consider a more aggressive recruiting process for new hires. This may be beneficial for finding qualified applicants and reduce the number of relatives working in the Ferry Division.

To minimize scheduled and unscheduled overtime, the Ferry Division should:

- Consider a three-and-a-half-day on and a three-and-a-half-day off work schedule for its ferryboat crews to minimize scheduled overtime.
- Create a "floating pool" of temporary employees to reduce overtime at each operating location. This pool would consist of workers available to fill in when an employee is sick, on vacation, during busy season, etc. These employees would be called first rather than permanent employees who may have already worked a shift and would then earn overtime.

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- Review ferry schedules to determine ways to operate the ferries more efficiently and reduce or eliminate overtime.

To reduce the risk of employee work time being approved by a relative, the Ferry Division should:

- Centralize the time entry process limiting the number of personnel who can enter and approve time. Having one time entry employee at the Manns Harbor and Morehead City locations, with one backup employee at each location, would reduce the number of employees with access to time entry from 10 to four.
- Regularly review computer access rights to the payroll system to verify that access for time entry corresponds to the employee's job function and the employee is denied time entry for any relative.

To reduce the risk of questionable spending, the Ferry Division should:

- Follow department policy and obtain three or more quotes when purchasing items costing more than \$2,500. Written quotes should be obtained when the purchase amount exceeds \$5,000.
- Attach purchase request forms to all applicable purchasing packages and scan them into the department's accounting system.
- Maintain a listing of all new inventory items entered into the department's accounting system. This will isolate the purchase of any out-of-the-ordinary items. The director or assistant director can review this report to identify any purchases that appear unnecessary. The Ferry Division should conduct monthly spot checks on various inventory items.
- Remove the ability for warehouse employees that receive inventory shipments to adjust existing inventory levels in the computer system. The Ferry Division should implement a review process where the purchasing agent signs off on the quantities received for each shipment.
- Review credit card purchase activity monthly and ensure that required documentation is in place. Individuals that do not follow credit card purchase procedures should have their cards revoked.
- Consider replacing all credit cards with the state procurement card (P-Card) to standardize and simplify credit card purchases.

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To enable better management of operations, the Ferry Division should:

- Continue with its newly adopted practice of developing a budget by operating location and consolidate these budgets into a single division budget.
- Empower operations managers at each location to be responsible for managing their operations according to the budget. Managers should compare actual results to the budget on a monthly basis and document actions taken to ensure actual results are within the budget.

AGENCY'S RESPONSE

The Agency's response is included in the appendix.

INTRODUCTION

BACKGROUND

North Carolina General Statute §136-82 assigns responsibility for maintaining the state's ferries to the North Carolina Department of Transportation (Department). The Department's Ferry Division operates seven routes in the North Carolina coastal region. Ferry service is available year-round for pedestrians, cyclists, and vehicle passengers, with trips varying in length from 20 minutes between Cherry Branch and Minnessott Beach to 2 hours and 15 minutes between Swan Quarter and Ocracoke.

The Ferry Division has 21 ferries and employs over 400 workers. The fleet is based at Morehead City with maintenance and repairs on all the vessels completed by ferry personnel at Manns Harbor. In addition to the ferries, the Ferry Division has a dredge, barges, and other support vessels. The Ferry Division reports over 1.1 million vehicles and more than 2.5 million passengers transported annually across five separate bodies of water – the Currituck and Pamlico sounds and the Cape Fear, Neuse, and Pamlico rivers.

The former Ferry Division Director expressed concerns of mismanagement within the Ferry Division after his termination in June 2010. Specifically, the former Director reported mismanagement related to the employment of relatives, excessive overtime, payroll time entry, purchasing, and budget oversight. The Department concluded preliminary reviews of the claims in October 2010. The Department then requested the assistance of the Office of the State Auditor in order to establish an appropriate level of independence and objectivity in a review of these concerns.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to review claims of mismanagement in certain Ferry Division activities, determine and report on the legitimacy of the concerns, and make recommendations to improve Ferry Division operations. Purported mismanagement included the employment of relatives, excessive overtime, payroll time entry, purchasing, and budget oversight.

The audit scope included a review of Ferry Division policies, procedures, and activities between September 1, 2007, and October 1, 2010.

To achieve our audit objectives, we gained an understanding of operational areas by interviewing staff and reviewing policies and procedures.

To determine the validity of claims related to the employment of relatives, we tested the hiring practices and decisions of the Ferry Division to ensure compliance with state and department policies.

To determine the validity of claims related to excessive overtime, we performed an analysis showing the total overtime used by location and the total unscheduled overtime. We examined employee work schedules, ferry schedules, and federal requirements to operate ferries.

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To determine the validity of claims related to payroll time entry, we reviewed time sheets for accuracy of data entry and looked for situations of staff entering and approving a relative's time sheets.

To determine the validity of claims related to questionable purchases, we traced purchases to requests for quotes and supporting documentation. We also traced inventory items to the accounting system, agreed pertinent details (quantity received, unit price, etc.), and determined if items received were properly authorized. We also determined if the purchases and inventory items on hand were reasonable based on the description.

To determine the validity of claims related to internal control for credit card purchases, we reviewed the credit card purchasing process and purchases made by the Ferry Division with credit cards. We traced the purchases per the monthly vendor statement to supporting documentation and determined if the purchases were a reasonable business expense based on the description.

To determine the validity of claims of inappropriate budget oversight, we interviewed department staff and reviewed available budget documents.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or lack of compliance.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted this audit under the authority vested in the Office of the State Auditor of North Carolina by *North Carolina General Statute* 147.64.

FINDINGS AND RECOMMENDATIONS

1. Employment of Relatives

The former Ferry Division Director claimed violations of state and Department of Transportation (Department) policies regarding the employment of relatives. The audit confirmed violations of this policy.

The Ferry Division did not always comply with state and department policy for the employment of relatives. State and department policy states that no employee can supervise or have employment influence over another family member. Even more restrictive, department policy specifies that members of an immediate or extended family¹ shall not be employed within the same working unit or environment that would allow or require them to come in contact with each other. The intent of the policy is to prevent workplace problems that could arise when relatives work together.

A review of 59 employees hired between September 2007 and May 2010 found 13 instances (22%) of employees working indirectly under or with a relative at the same location or shift. Six of the 59 (10%) employees did not disclose relatives working in the Ferry Division on their employment application.

Policy violations included two temporary employees hired on April 17, 2010 at the Manns Harbor Shipyard where a relative served as an administrative assistant. This presented the opportunity for the administrative assistant to enter hours worked for a relative. Another policy violation involved the operations manager at Cedar Island and three relatives working at the same location. Two of these employees disclosed their relationships appropriately on their employment application.

A review of employee personnel files revealed six instances of job applicants not identifying relatives on their applications. For example, a general utility worker hired to work at the Cedar Island location on May 15, 2010, is a relative of another ferry crewmember who has worked at that location since September 2002. This relationship was not disclosed on the employee's application. In another example, a temporary employee hired on May 15, 2010, to work at the Ocracoke location has 11 relatives working in the Ferry Division, including one at the Ocracoke location. However, the employee only disclosed one relative on the employment application.

Applicants may not list all relatives working in the Ferry Division because the box on the application to list relatives is small and applicants may not have the same definition of relatives that the Department uses in its policy.

The Department reports that it addressed all the employment of relative policy violations identified in the audit.

¹ Immediate family includes spouse, parent, child, sibling, grandparent, great grandparent (all include biological, adoptive, step, half, and in-law relationships) and dependents living in the household. Extended family includes aunts, uncles, nieces, nephews, and first cousins (all include biological, adoptive, step, half, and in-law relationships).

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Recommendation: The Ferry Division should revise and resend its Employment of Relatives policy to all employees noting that no relatives should work on the same boat or on the same shift or have any overlapping supervision. The Ferry Division should require that all employees sign this policy and retain it in the division's personnel files.

The Ferry Division should create a listing of all employees and document relative relationships within the Division. The listing should be monitored and updated monthly. In situations where an employee is in violation of the revised policy, one of the employees should be required to change their location, shift, boat, or job.

The Ferry Division's application package should include its Employment of Relatives policy and a form for all potential new hires to list all relatives working in the Ferry Division. The Ferry Division should consider a more aggressive recruiting process for new hires. This may be beneficial for finding qualified applicants and reduce the number of relatives working in the Ferry Division.

2. Overtime

The former Ferry Division Director claimed employees reported extensive overtime to increase their pay. While overtime exists, the audit did not confirm this concern.

The majority (71%) of overtime hours in the Ferry Division is because work schedules for ferryboat workers have a built-in overtime component. Over a two-week pay period, employees work four 12-hour days during one week and three 12-hour days during the other week. That gives workers 40 hours at the regular pay rate and eight hours overtime for the first week and 36 hours at the regular pay rate for the second week. During the fiscal year ending June 30, 2010, the additional cost² of the scheduled overtime was \$930,000. With an average salary of \$23,000, this equates to approximately 40 additional ferry workers.

Unscheduled overtime occurred, but it was not as common as scheduled overtime. Between January 1, 2008, and October 1, 2010, (2 years 9 months) the Ferry Division incurred 84,403 hours of unscheduled overtime, representing 29% of all overtime hours incurred during the period. Though approved by the appropriate supervisor, there was approximately \$1.4 million³ of unscheduled overtime during the period.

A contributing factor to the additional overtime was a rule change in the 2009 US Coast Guard Manning and Vessel Inspection Requirements mandating an increase in personnel to operate the Ferry Division's boats. Boats normally operated by five workers increased to six workers as required by the US Coast Guard. Other boats went from five to seven workers or four to six workers. The Ferry Division did not immediately have the number of people available to fill these extra jobs therefore contributing to the additional overtime.

² Overtime is paid at time and a half time (i.e. 1.5 times the regular pay rate).

³ 84,403 hours x \$11 per hour x 1.5 (time and a half) = \$1,392,650 (excludes the cost of benefits).

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The North Carolina State Personnel Manual is the primary source and policy for the Ferry Division regarding hours worked and overtime compensation. The policy states employees who work hours in excess of 40 within a week, who are not exempt from the U.S. Fair Labor Standards Act, shall receive payment at the rate of time and one-half in the form of monetary compensation or time off. The policy also states that it is the agency's responsibility to administer overtime pay in the best interest of the State. Each agency head is responsible for the manner in which overtime is authorized, however, it is important to control unauthorized overtime.

Recommendation: The Ferry Division should consider a three-and-a-half-day on and a three-and-a-half-day off work schedule for its ferryboat crews to minimize scheduled overtime.

The Ferry Division should create a "floating pool" of temporary employees to reduce overtime at each operating location. This pool would consist of workers available to fill in when an employee is sick, on vacation, during busy season, etc. These employees would be called first rather than employees who may have already worked a shift.

The Ferry Division should review ferry schedules to determine ways to operate the ferries more efficiently and reduce or eliminate overtime.

3. Time Sheet Approval

The former Ferry Division Director claimed that employees perform time sheet approval and payroll processing for relatives. The audit did not confirm this concern, however the process for entering time worked could be improved.

Auditors reviewed 63 time entry selections that included overtime hours from January 2008 to October 2010. None of the time sheets tested showed evidence of a relative approving an employee's time sheet. However, three time sheets (4.8%) were not available and four time sheets (6.3%) appeared to have questionable approvals. These questionable approvals include:

- Signatures where the preparer's and approver's signatures were identical, implying that one person performed both tasks, or
- The approver's signature appeared to vary significantly from another approved time sheet implying that the approver did not sign both time sheets but someone else did in their absence.

The risk of time sheet approval and processing by a relative is realistic given the significant number of relatives working within the Ferry Division. The Ferry Division's process for employee time sheet approval and payroll processing has controls in place to keep employees from performing these functions for relatives. However, the Ferry Division could improve the time entry process by centralizing time entry and limiting personnel who can enter and approve time.

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Computer access rights show that nine Ferry Division employees at four locations had access to enter time in the department's payroll system. Allowing a larger than necessary number of employees rights to enter time increases the risk for fraud or collusion. Limiting the time entry responsibility to one primary and one back-up person at only two locations would reduce the number of people who could enter time from ten to four.

Recommendation: The Ferry Division should centralize the time entry process limiting the number of personnel who can enter and approve time. Having one time entry employee at the Manns Harbor and Morehead City locations, with one backup employee at each location, would reduce the number of employees with access to time entry from ten to four.

The Ferry Division should regularly review computer access rights to the payroll system to verify that access for time entry corresponds to the employee's job function and the employee is denied time entry for any relative.

4. Spending

The former Ferry Division Director claimed questionable spending by Ferry Division managers. The audit did not confirm this concern.

Ferry Division purchases appeared to be reasonable business expenses for Ferry Division operations and generally complied with Department of Transportation (Department) purchasing policies, though there were exceptions where supporting documentation was missing. Purchases made with credit cards also appeared reasonable for Ferry Division operations, but again lacked some supporting documentation.

Ferry Division purchasing policies and procedures require certain documentation to support the purchases. There were two instances out of 71 regular purchases reviewed (3%) where there were no requests for quotes or supporting documentation. In the first instance, supporting documentation for \$6,010 worth of surveying services did not include three quotes as required by state and department policy. The second purchase, totaling \$489, lacked a purchase request form indicating who requested, approved, and authorized the purchase.

Purchases to stock Ferry Division inventory items were properly authorized and reasonable in light of Ferry Division operations. All 49 purchases reviewed (100%) appeared reasonable and had proper approval. Nevertheless, management could improve controls by flagging items purchased for the first time for management review and eliminating the ability for warehouse employees receiving shipments to adjust existing inventory levels.

The Ferry Division's documentation for credit card purchases lacks consistency. Auditors reviewed seven months of credit card statements for two major suppliers. The total of purchases made on these cards was \$4,507 and \$6,333 respectively.

Purchases made on one credit card appeared to be reasonable business expenses for the Ferry Division's operations. Credit card statements prior to October 2008 did not have

FINDINGS AND RECOMMENDATIONS

purchase request forms attached (a new requirement as of October 2008); however, there was alternative documentation consisting of receipts and payment authorization signatures.

Purchases made on the other credit card appeared to be reasonable business expenses for the Ferry Division's operations; however, documentation for purchases was inconsistent. For example, the May 2010 statement did not have purchase approval request forms attached for four of five purchases (80%) nor did it have a receipt for one purchase (20%). The December 2008 statement also lacked purchase request forms for five of the eight purchases (62.5%).

Credit cards are an effective way to make emergency and small purchases. At the same time, credit cards increase the risk of unauthorized purchases and purchases for personal use. Credit card purchases should have supporting documentation that indicates who purchased the items and the items purchased. Credit card activity should be monitored and reconciled monthly by an independent person.

Ferry Division management reports that they implemented a policy on October 28, 2010, that states all purchases, including credit cards, require purchasing agent approval for purchases up to \$1,000 and assistant director approval for purchases above \$1,000.

Recommendation: The Ferry Division should follow department policy and obtain three or more quotes when purchasing items costing more than \$2,500. Written quotes should be obtained when the purchase amount exceeds \$5,000.

The Ferry Division should attach purchase request forms to all applicable purchasing packages and scan them into the department's accounting system.

The Ferry Division should maintain a listing of all new inventory items entered into the department's accounting system. This will isolate the purchase of any out-of-the-ordinary items. The director or assistant director can review this report to identify any purchases that appear unnecessary. In addition, the Ferry Division should conduct monthly spot checks on various inventory items.

The Ferry Division should remove the ability for warehouse employees that receive inventory shipments to adjust existing inventory levels in the computer system. The Ferry Division should implement a review process where the purchasing agent signs off on the quantities received for each shipment.

Managers should review credit card purchase activity monthly and ensure that required documentation is in place. Individuals that do not follow credit card purchase procedures should have their cards revoked.

The Ferry Division should consider replacing all credit cards entirely with the state procurement card (P-Card) to standardize and simplify credit card purchases.

FINDINGS AND RECOMMENDATIONS

5. Budget by Location

The former Ferry Division Director claimed that there was no detailed budget by location to assist with managing operations against budgeted amounts. The audit confirms this concern.

The Ferry Division has a legally approved, annual line-item budget that is part of the Department of Transportation's overall budget. However, the Ferry Division kept the budget at the division level and did not allocate the budget to the various operational locations. Budget monitoring activities consisted of comparing current year actual results to prior year results at the division level and did not compare actual results to budgeted amounts.

Managers should evaluate financial performance relative to the adopted budget. Regular monitoring of budgetary performance provides an early warning of potential problems and gives decision makers time to consider corrective actions if major deviations in budget-to-actual results become evident. Managing the budget by location is essential in demonstrating operational accountability.

Because local managers did not have a budget for their location, they did not have the information needed to manage their operations to budgeted amounts.

As of July 1, 2010, the assistant directors implemented a process of creating budgets by location and asked the operation managers at those locations to create a budget. The consolidated budget now serves as the foundation for the budget of the Ferry Division. Currently, location managers review actual expenditures and revenue monthly and take appropriate action.

Recommendation: The Ferry Division should continue with its newly adopted practice of developing a budget by operating location and consolidate these budgets into a single division budget. Operations managers at each location should be responsible for managing their operations according to the budget. Managers should compare actual results to the budget on a monthly basis and document actions taken to ensure actual results are within the budget.

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STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION

BEVERLY EAVES PERDUE
GOVERNOR

EUGENE A. CONTI, JR.
SECRETARY

July 1, 2011

Beth A Wood, CPA, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Ms. Wood:

In accordance with your letter dated June 15, 2011, I am responding to the audit findings noted in the Performance Audit titled Department of Transportation Ferry Division. Attached you will find a written response and the corrective action plan for each audit finding.

Please contact Ellis Powell at 919-733-2520 if you have any questions or concerns.

Sincerely,

A handwritten signature in cursive script that reads "Eugene A. Conti, Jr.".

Eugene A. Conti, Jr.

cc: Jim Trogdon, PE, Chief Operating Officer, NCDOT
Ellis Powell, PE, Chief of Staff, NCDOT
Eric Boyette, Inspector General, NCDOT OIG
Bill Styres, OSA

Attachments

Agency Response

1. Employment of Relatives

We concur with the recommendations for this item. The Ferry Division is located in eastern North Carolina. Most of the facilities are located in rural areas with a limited pool of qualified and available workforce. The findings of the audit indicate violations to the North Carolina Department of Transportation policy regarding the employment of relatives. However the North Carolina Department of Transportation policy is more restrictive than the Office of State Personnel policy regarding the employment of relatives.

In order to remedy the present violations and to eliminate the occurrence of future violations, the North Carolina Department of Transportation has implemented changes. The Department has created a Relative Statement Form and has reviewed the form with all current employees. The form requires the employees to identify any relatives working in the Ferry Division and certify, under penalty of dismissal, the accuracy of the information. The implementation of this process has resulted in reassignment of a few existing employees to ensure compliance with the North Carolina Department of Transportation employment of relative policy.

The Ferry Division management and the Human Resources Division remain actively involved in coordinating at a high level to ensure that all new hires and/or personnel changes in the Division are closely monitored to avoid policy conflicts. The Human Resources Division has also implemented several measures to provide better internal reviews and controls. The Human Resources Division monitors all relatives that are being hired by reviewing all of the Ferry Division hiring packages to ensure the most qualified applicant is being hired and reports any relative issues to the Chief Operating Officer for DOT. The Human Resources Division has provided training to the Ferry Division supervisors and managers in Employment of Relatives, Merit Based Hiring, Family Medical Leave, and overview of Human Resources operations. This training will continue for new supervisors and managers.

The North Carolina Department of Transportation will routinely audit the Ferry Division on compliance with these policies. The process will be audited by the Deputy Secretary for Transit on an annual cycle and by the Office of Inspector General on a random cycle not to exceed 5 years.

The North Carolina Department of Transportation is confident the actions taken as described above along with the future audits described will ensure compliance with the policy regarding the employment of relatives.

2. Overtime

We concur with evaluating the ferry schedules on a continuous basis and will choose the most cost effective solution for the Department. While the audit did not confirm any wrong doing related to overtime, the North Carolina Department of Transportation continues to review concepts to provide quality service efficiently. The Department will evaluate the recommended employee schedule adjustment and will also investigate establishing a “floating pool” of temporary employees.

3. Time Sheet Approval

We concur the audit did not confirm any wrong doing related to time sheet approval. However, the Department has taken steps to strengthen the process by centralizing the time sheet entry and approval process at Manns Harbor and Morehead City. The Division currently has five employees and one supervisor with Time Entry roles and all five overseeing this process do not have any relatives working in the Ferry Division. This process and the access rights to the payroll systems will also be reviewed periodically by the Assistant Ferry Directors for each of their respective areas on a random cycle not to exceed four months.

4. Spending

We concur with the recommendations for this item. While the audit did not confirm any finding of wrong doing, the Ferry Division is adjusting practices to enhance this process. The Ferry Division will seek no less than three quotes for all purchases over \$2,500. Instances with less than three quotes will require a recommended written justification be submitted by the Assistant Ferry Directors for each of their respective areas to the Deputy Secretary for Transit and or Chief Operating Officer (COO) for consideration and approval prior to purchases being made.

Additionally, the Ferry Division is pursuing eliminating existing credit card purchases and establishing a P-card Program. The use of P-cards is scheduled to be in effect no later than September 1, 2011.

The purchasing process for the Ferry Division will be audited by the Deputy Secretary for Transit on an annual cycle and by the Office of Inspector General on a random cycle not to exceed 5 years.

5. Budget by Location

We concur with the recommendations for this item. The audit confirmed the Ferry Division budget, which was previously maintained and managed on an annual budget. The former Director of the Ferry Division managed the budget centrally for all locations. To further enhance the budget and expenditure management, the Ferry Division has recently adjusted the budget management practice, which complies with the audit recommendation. The Ferry Division has created specific budget breakdowns for each Assistant Ferry Director's respective area. All Ferry Managers compare expenditures to the budget on a monthly basis through the SAP fiscal accounting system. The Department is certain this new practice will enhance fiscal management.

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