



STATE OF NORTH CAROLINA
Office of the State Auditor

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

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April 24, 2007

State Treasurer Richard Moore
North Carolina Department of State Treasurer
Albemarle Building
325 N. Salisbury Street
Raleigh, North Carolina 27603-1385

Dear Treasurer Moore:

The Office of the State Auditor received a tip that ten local government retiree beneficiaries had been overpaid. As a result, we initiated a strategic review to determine the magnitude of the overpayment. We have completed our strategic review of Local Government Retirees. The results of our review, along with recommendations for corrective action, are contained in this management letter. The review was conducted pursuant to North Carolina General Statute §147-64.6(c)(16) rather than as a financial audit.

To conduct this strategic review, we performed the following procedures:

- We selected a sample of 50 Law Enforcement Officer Retirees within the Local Government Retirement System to test the retirement option selection forms on file to the monthly payment history. This sample included the ten retiree beneficiaries who were overpaid;
- We also performed an additional statistical random sample of 95 Local Government Retirees to test the accuracy of the option selection process by each retiree. The population for this sample was all retirees who were not in the Teachers and State Employees Retirement System. Our statistical sample was performed with a confidence level of 95%, an upper error limit of 5%, and an expected error rate of 1%; and
- Interviewed appropriate agency staff.

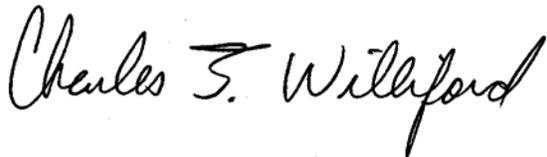
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Management letters and responses receive the same distribution as audit reports.

State Treasurer Richard Moore
April 5, 2007
Page 2

Please contact me if you have any questions about these audit findings and recommendations. We express our sincere appreciation to you and your staff for the cooperation extended to us during our strategic review.

Sincerely,

LESLIE W. MERRITT, JR., CPA, CFP
STATE AUDITOR

A handwritten signature in black ink that reads "Charles T. Williford". The signature is written in a cursive style with a large, prominent initial 'C'.

Charles T. Williford, CPA.CITP, CISA, CFE, CPM
Director of Information Systems Audits

LMjr/CTW/TG:mfd

AUDIT FINDINGS AND RECOMMENDATIONS

AUDIT FINDING 1: OVERPAYMENT OF RETIREMENT BENEFITS

We selected a sample of fifty Law Enforcement Officer Retirees within the Local Government Retirement System (including the ten retiree beneficiaries who were overpaid) to test the retirement option selection forms on file to the monthly payment history. Forty sample retirement option forms agreed to the detail payment history without error. The ten retiree beneficiaries who were overpaid were already in repayment status at the time we did our test sampling. These retiree beneficiary overpayments were discovered in December 2005 when the State Treasurer converted to a new retirement system. The payments to these retiree beneficiaries were stopped in March 2006. These retiree beneficiaries were not set up in the accounts receivable system until December 2006, followed by letters dated January 19, 2007 describing the required repayment process. The total overpayments to the ten retiree beneficiaries total \$1,372,219.32. As of March 14, 2007 \$6,844.00 of the overpayments has been repaid. Seven of the ten retiree beneficiaries were notified by letter concerning required repayments over a period of sixty months while three retiree beneficiaries were issued letters accepting nominal repayments of \$25 to \$100 per month. Below is a list of individual amounts owed.

Retiree Beneficiary #	Overpayment Amount
Retiree Beneficiary # 1	\$ 295,740.54
Retiree Beneficiary # 2	\$ 247,731.08
Retiree Beneficiary # 3	\$ 119,334.52
Retiree Beneficiary # 4	\$ 120,110.25
Retiree Beneficiary # 5	\$ 51,027.92
Retiree Beneficiary # 6	\$ 75,283.60
Retiree Beneficiary # 7	\$ 91,474.62
Retiree Beneficiary # 8	\$ 160,388.89
Retiree Beneficiary # 9	\$ 147,110.46
Retiree Beneficiary # 10	\$ 64,017.44
Total Overpayment	\$1,372,219.32

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

We also performed an additional statistical random sample of 95 Local Government Retirees to test the accuracy of the option selection process by each retiree. The population for this sample was all retirees who were not in the Teachers and State Employees Retirement System. Our statistical sample was performed with a confidence level of 95%, an upper error limit of 5%, and an expected error rate of 1%. The sample results disclosed no errors in the 95 additional sample items that we examined.

Recommendation: The Department of State Treasurer should take appropriate timely measures to resolve past overpayment errors.

Auditee's Response: See attached letter.

Auditor's Note: As noted above, we examined a sample of Local Government Retirees and did not audit these retirees 100%. As a result, we cannot conclude that the Local Government Retirees are 100% error free even though we found no errors in the 95 retirees we examined in our statistical sample.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

RICHARD H. MOORE
STATE TREASURER



MICHAEL WILLIAMSON
DEPUTY TREASURER

April 17, 2007

The Honorable Leslie W. Merritt, Jr.
State Auditor of North Carolina
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Auditor Merritt:

I appreciate your efforts as we work together to build a stronger and more efficient government.

Thank you for performing an audit of our Local Governmental Employees' Retirement System Retiree records. We are pleased that you found 100% accuracy in the option selection process. We are continuously auditing our records to ensure accuracy and we are pleased that you found our system to be free of errors.

Because we continuously audit our 700,000 records, we discovered in December 2005 the overpayment to ten beneficiaries (nine widows and one son) of deceased law enforcement officers. The coding error which caused the overpayment resulted from a transfer of administration of the program from the Auditor's Office to our office in 1978, and subsequent merger of the data to our system in the 1980's, wherein field codes did not align. Upon discovering the error, in compliance with the law, we discontinued payment of the ten benefits. Rather than simply mail each beneficiary a form letter, we felt it better to meet with each individual to discuss the overpayment in person. We have initiated efforts to recover the overpayments, consistent with our statutory mandate.

House Bill 689 was recently introduced to forgive these particular overpayments to law enforcement officer beneficiaries; the Department supports this bill.

I would like to express to you my appreciation for the professionalism shown by your audit staff. Should you have any additional questions or need additional information, please feel free to contact me.

Sincerely,

Michael Williamson
Director