

STATE OF NORTH CAROLINA

FINANCIAL RELATED AUDIT REPORT

DEPARTMENT OF JUSTICE

RALEIGH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 1999

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL RELATED AUDIT REPORT

DEPARTMENT OF JUSTICE

RALEIGH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 1999

THE HONORABLE MICHAEL F. EASLEY
ATTORNEY GENERAL

DENISE A. SESSOMS
CHIEF FISCAL OFFICER



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
**Office of the State
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AUDITOR'S TRANSMITTAL

The Honorable James B. Hunt, Jr., Governor
The General Assembly of North Carolina
The Honorable Michael F. Easley, Attorney General

This report presents the results of our financial related audit of the North Carolina Department of Justice (the Department) for the year ended June 30, 1999. In addition to our normal audit tests, we expanded our audit to include issues related to public service announcements. Our audit was made by authority of Article 5A of General Statute §147.

The accounts and operations of the Department are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal control and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the Department were subject to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statement that relates solely to the Department. The audit procedures were conducted in accordance with generally accepted auditing standards and the standards applicable to financial related audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States

The purpose of this report is to present the results of our audit. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the financial statement and supplementary information that relate solely to the Department.

Results - The financial statement presents fairly the amounts and disclosures made in accordance with the cash basis of accounting prescribed by the Office of State Budget and Management. The accompanying supplementary information presents information

AUDITOR'S TRANSMITTAL (CONCLUDED)

that is fairly stated in all material respects in relation to the basic financial statement taken as a whole. These matters are described in the Independent Auditor's Report on the Financial Statement.

- 2. Objective** - Present significant deficiencies in internal control which could adversely affect the Department's ability to record, process, summarize, and report financial data in the financial statement and present instances of noncompliance with laws, regulations, contracts, or grants.

Results - Our tests disclosed no material weaknesses in the internal control and no instances of noncompliance that require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

- 3. Objective** - Present test results and conclusions related to numerous allegations that have been made regarding public service announcements. The period audited was from July 1, 1998 through December 31, 1999.

Results - Our tests disclosed no significant weaknesses in management controls or significant instances of noncompliance that require disclosure herein under *Government Auditing Standards*. These matters are more fully discussed in the section of this report titled Audit Results and Conclusions Related to Public Service Announcements.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENT

The Honorable Michael F. Easley, Attorney General
North Carolina Department of Justice
Raleigh, North Carolina

We have audited the accompanying Combined Statement of Revenues, Expenditures, and Changes in Fund Balances of the North Carolina Department of Justice (the Department) for the year ended June 30, 1999. This financial statement is the responsibility of the Department's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statement was prepared on the cash basis of accounting as prescribed by the Office of State Budget and Management, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and changes in fund balances of the Department of Justice for the year ended June 30, 1999, on the basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the basic financial statement taken as a whole. The schedules are presented for purposes of additional analysis and are not a required part of the basic financial statement. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2000, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.



Ralph Campbell, Jr.
State Auditor

June 23, 2000

North Carolina Department of Justice
Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances
Cash Basis - All Fund Types
For the Fiscal Year Ended June 30, 1999

	Fund Types				
	General Fund Operating	Special Funds	Federal Funds	Capital Project Funds	Trust and Agency Funds
Revenues					
Grants	\$ 135,860	\$ 3,309,462	\$ 1,359,568	\$ 0	\$ 0
Investment Income		68,439			121,090
Sales, Services, & Rentals	2,116,273	366,489			
Fees, Licenses and Fines	3,895,025	2,855,449			771,781
Contribution & Donations		231,176			
Miscellaneous	187,452				
Intragovernmental Transactions	14,530,958	2,464,583		1,195,871	
Total Revenues	20,865,568	9,295,598	1,359,568	1,195,871	892,871
Expenditures					
Personal Services	62,357,123	560,251			
Purchased Services	12,373,398	2,336,194		168,078	
Supplies	2,623,103	444,990		133,946	
Property, Plant and Equipment	4,633,706	2,902,889		3,864,871	
Other Expenditure & Adjustments	5,976,256	921,076			779,366
Aid & Public Assistance	125,000				
Intragovernmental Transactions	3,496,060	1,429,481	1,395,856	1,766,346	86,997
Total Expenditures	91,584,646	8,594,881	1,395,856	5,933,241	866,363
Appropriations	70,719,078	0	0	0	0
Increase/(Decrease) in Fund Balance	0	700,717	(36,288)	(4,737,370)	26,508
Fund Balance - July 1, 1998	0	3,212,127	107,799	6,232,832	2,019,080
Fund Balance - June 30, 1999	\$ 0	\$ 3,912,844	\$ 71,511	\$ 1,495,462	\$ 2,045,588

The accompanying notes to the financial statement are an integral part of this statement.

NORTH CAROLINA DEPARTMENT OF JUSTICE
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 1999

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. The accompanying financial statement presents all budgetary fund types for which the Department is accountable. The Department is a constituent organizational unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.
- B. Basis of Presentation** - The financial activities of the Department are identified on the basis of fund types established by the Office of State Budget and Management. Each fund type is accounted for separately for the purpose of carrying on specific activities or attaining certain objectives in accordance with laws, rules and regulations.

The financial activities of the Department that are reported in the accompanying financial statement are identified in the following fund types:

- **General Fund** - To account for all financial transactions appropriated by the General Assembly from Tax and Non-Tax Revenue (non-transportation) and all financial transactions not properly accounted for in another fund.
- **Special Funds** - To account for the proceeds of specific revenue sources or finance specific activities as required by law or administration regulation.
- **Federal Funds** - To account for all monies received directly from federal sources, except certain federal purchase orders. Funds are first deposited to the federal fund code then transferred to the appropriate operating code.
- **Capital Project Funds** - To account for the receipt and disbursement of monies used for the acquisition of capital facilities.
- **Trust and Agency Funds** - To account for assets held by a governmental unit as trustees or agent for individuals, private organizations, and other governmental units.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- C. Basis of Accounting** - The accompanying financial statement is presented in accordance with the cash basis of accounting as prescribed by the Office of State Budget and Management. This comprehensive basis of accounting differs from generally accepted accounting principles because it recognizes revenues collected when received rather than when earned and it recognizes expenditures when paid rather than when incurred.
- D. Fees, Licenses, Fines** - Accounts for revenues from various sources including licensing, registration, and training fees for private investigators, security guards, and instructors of concealed weapons courses; court costs resulting from consumer protection litigation; concealed weapons permits; and SBI laboratory drug analysis in relation to court cases.
- E. Personal Services** - Accounts for salary cost such as officials and employees salaries, overtime pay, longevity pay, and fringe benefit costs such as social security, retirement, and workers' compensation.
- F. Purchased Services** - Accounts for cost such as legal, audit, food agreements, laboratory agreements, janitorial agreements, utility and energy, repairs, rent/leases, travel, communications, data processing, and system implementation/integration services.
- G. Intragovernmental Transactions** – Occur when (1) fines, penalties and forfeitures are transferred to the State Civil Penalty and Forfeiture Fund for the benefit of local school systems (Statewide Operating Transfers); (2) operating resources are transferred between fund types within the Department or between other departments (Agency Operating Transfers); (3) a fund receives payment from another fund for expenditures paid (Agency Reimbursements); (4) federal financial assistance is recognized as Revenue in operating funds (Agency Federal Funds Receipts) and as expenditures in Federal Funds (Agency Federal Funds Transfer); and (5) unexpended, appropriations are transferred from the prior year to the current year (Revenues – Agency Carryforward) and from the current year to the subsequent fiscal year (Expenditures - Agency Carryforward).
- H. Fund Balance** - Represents cash on deposit with the State Treasurer that is available to the Department on demand.

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

NOTE 2 - INTRAGOVERNMENTAL TRANSACTIONS

Intragovernmental transactions by fund type for the fiscal year ended June 30, 1999 are presented below:

	Revenues	Expenditures
General Fund – Operating:		
Agency Operating Transfers	\$ 100,998	\$ 1,268,298
Agency Reimbursements	8,209,443	
Agency Federal Funds Receipts	1,304,123	
Agency Carryforward	4,916,394	2,227,762
Total General Fund – Operating	\$ 14,530,958	\$ 3,496,060
 Special Funds:		
Statewide Operating Transfers	\$ 0	\$ 59,631
Agency Operating Transfers	2,372,734	1,369,850
Agency Reimbursements	116	
Agency Federal Funds Receipts	91,733	
Total Special Funds	\$ 2,464,583	\$ 1,429,481
 Federal Funds:		
Agency Federal Funds Transfer	\$ 0	\$ 1,395,856
 Capital Project Funds:		
Agency Operating Transfers	\$ 1,195,871	\$ 1,766,346
 Trust & Agency Funds:		
Agency Operating Transfers	\$ 0	\$ 86,997

***North Carolina Department of Justice
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances
Cash Basis - Special Funds
For the Fiscal Year Ended June 30, 1999***

Schedule 1

	Budget Code		
	23600 Justice Special	23606 Justice - Seized & Forfeit Assets	Total
Revenues			
Grants	\$ 3,309,462	\$ 0	\$ 3,309,462
Investment Income		68,439	68,439
Sales, Services, & Rentals	366,489		366,489
Fees, Licenses and Fines	1,943,459	911,990	2,855,449
Contribution & Donations	231,176		231,176
Intragovernmental Transactions	2,464,583		2,464,583
Total Revenues	<u>8,315,169</u>	<u>980,429</u>	<u>9,295,598</u>
Expenditures			
Personal Services	560,251		560,251
Purchased Services	2,336,194		2,336,194
Supplies	444,990		444,990
Property, Plant and Equipment	2,902,889		2,902,889
Other Expenditure & Adjustments	921,076		921,076
Intragovernmental Transactions	525,846	903,635	1,429,481
Total Expenditures	<u>7,691,246</u>	<u>903,635</u>	<u>8,594,881</u>
Increase in Fund Balance	623,923	76,794	700,717
Fund Balance - July 1, 1998	<u>2,323,492</u>	<u>888,635</u>	<u>3,212,127</u>
Fund Balance - June 30, 1999	<u>\$ 2,947,415</u>	<u>\$ 965,429</u>	<u>\$ 3,912,844</u>

***North Carolina Department of Justice
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances
Cash Basis - Capital Project Funds
For the Fiscal Year Ended June 30, 1999***

Schedule 2

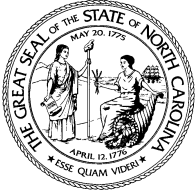
	Budget Code							Totals
	48915 Justice CI 1989	49215 Justice CI 1992	49315 Justice CI 1993	49415 Justice CI 1994	49515 Justice CI 1995	49615 Justice CI 1996	49715 Justice CI 1997	
Revenues								
Intragovernmental Transactions	\$ 0	\$ 40,818	\$ 490,866	\$ 0	\$ 4,849	\$ 60,180	\$ 599,158	\$ 1,195,871
Expenditures								
Purchased Services						168,078		168,078
Supplies			3,495			130,451		133,946
Property, Plant and Equipment		116,830	728,520		49,949	1,285,481	1,684,091	3,864,871
Intragovernmental Transactions	851,615	43,066	118,882	2,308	60,180	690,295		1,766,346
Total Expenditures	851,615	159,896	850,897	2,308	110,129	2,274,305	1,684,091	5,933,241
Increase/(Decrease) in Fund Balance	(851,615)	(119,078)	(360,031)	(2,308)	(105,280)	(2,214,125)	(1,084,933)	(4,737,370)
Fund Balance - July 1, 1998	851,615	119,078	368,145	2,308	122,019	2,802,054	1,967,613	6,232,832
Fund Balance - June 30, 1999	\$ 0	\$ 0	\$ 8,114	\$ 0	\$ 16,739	\$ 587,929	\$ 882,680	\$ 1,495,462

North Carolina Department of Justice
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances
Cash Basis - Trust and Agency Funds
For the Fiscal Year Ended June 30, 1999

Schedule 3

	Budget Code			Totals
	63600 Justice - Priv. Protect. Serv.	63602 Justice - Alarm Syst. Recovry.	63604 Justice - Sheriff Suppl. Pension	
Revenues				
Investment Income	\$ 19,127	\$ 11,672	\$ 90,291	\$ 121,090
Fees, Licenses and Fines	11,850	3,000	756,931	771,781
Total Revenues	<u>30,977</u>	<u>14,672</u>	<u>847,222</u>	<u>892,871</u>
Expenditures				
Other Expenditure & Adjustments		6,178	773,188	779,366
Intragovernmental Transactions			86,997	86,997
Total Expenditures	<u>0</u>	<u>6,178</u>	<u>860,185</u>	<u>866,363</u>
Increase/(Decrease) in Fund Balance	\$ 30,977	\$ 8,494	\$ (12,963)	\$ 26,508
Fund Balance - July 1, 1998	<u>\$ 304,962</u>	<u>\$ 188,636</u>	<u>\$ 1,525,482</u>	<u>\$ 2,019,080</u>
Fund Balance - June 30, 1999	<u>\$ 335,939</u>	<u>\$ 197,130</u>	<u>\$ 1,512,519</u>	<u>\$ 2,045,588</u>

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Michael F. Easley, Attorney General
North Carolina Department of Justice
Raleigh, North Carolina

We have audited the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances of the North Carolina Department of Justice (the Department) for the year ended June 30, 1999, and have issued our report thereon dated June 23, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the Department of Justice, Office of the Governor, Office of State Budget and Management, Office of the State Controller, and members of the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

June 23, 2000

AUDIT RESULTS AND CONCLUSIONS RELATED TO PUBLIC SERVICE ANNOUNCEMENTS

The Office of the State Auditor has received allegations and an audit request regarding public service announcements made by the Department of Justice (the Department). In response, the scope of our scheduled financial related audit of the Department was expanded to include the sources and uses of funds related to public service announcements (PSAs).

One of the divisions of the Department is the Consumer Protection Division. A function of that Division is to administer funds derived from consumer related court settlements. Funds collected are administered in accordance with the provisions of the consent judgments or agreements. The terms of consent judgments or agreements specify the purposes for which these funds are to be used by the Department, for example, legal costs incurred by the Department, restitution to affected consumers, the Public School Fund, consumer education, and law enforcement activities.

Funds received by the Department for legal costs incurred are deposited into the Department's General Fund operating account and reduce the outlay of expended State appropriations. Consent judgment or agreement funds designated for other purposes are deposited into a special revenue fund maintained by the Department and remain in the account until departmental expenditures occur.

During the period from July 1, 1998 through December 31, 1999, expenditures of \$485,664¹ were made for public service announcements. These expenditures were examined by us for compliance with State rules and regulations governing the disbursement of funds. Our tests disclosed no significant weaknesses in management controls or significant instances of noncompliance that require disclosure herein under *Government Auditing Standards*. Further detailed information about our audit results is organized around the following three questions.

1. Can the Department use monies received from consent judgments and agreements for public service announcements?

We received an allegation that the Department's use of these funds for PSAs violates Article IX, Section 7 of the North Carolina Constitution. Article IX, Section 7 provides:

“...the clear proceeds of all penalties and forfeitures and of all fines collected in the several counties for any breach of the penal laws of the State, shall belong to and remain in the several counties, and shall be faithfully appropriated and used exclusively for maintaining free public schools.”

¹ This represents the expenditures for PSAs during the period being audited, the fiscal year ending June 30, 1999, plus the following six months. The allegations discussed below allege that the Department has expended over \$1 million on PSAs beginning in 1993.

AUDIT RESULTS AND CONCLUSIONS RELATED TO PUBLIC SERVICE ANNOUNCEMENTS (CONTINUED)

A similar challenge to the Department's use of these funds was included in the case of Fuller v. Easley, 99 CvS 10879, Wake County Superior Court. On May 17, 2000, Resident Superior Court Judge Stafford Bullock dismissed the case and the plaintiff gave notice of appeal by mail on June 1, 2000. Nothing further has happened since the notice of appeal was filed on June 2, 2000.

Another State agency asked the Attorney General for advice about fines and penalties, and the Attorney General responded in an advisory opinion:

“The agency must distribute to the State Civil Penalty and Forfeiture Fund for the benefit of local school systems the clear proceeds of all monetary payments, collected as part of those enforcement activities, which are punitive in nature and intended to penalize the wrongdoer. In contrast, the proceeds of monetary payment which are remedial or equitable in nature, or which are not otherwise intended to punish the wrongdoer, must be applied to purposes consistent with the statute under which they were collected, and are not paid into the State Civil Penalty and Forfeiture Fund.”

Conclusion: As noted above, the Wake County Superior Court held that the Department's use of funds from consent judgments for PSAs did not violate the constitutional requirement that the clear proceeds of penalties be remitted to the local schools. The Department of Justice disburses funds received in accordance with the requirements provided in the consent judgments and agreements. Any funds that are identified by the judgment as penalties are disbursed to the State Civil Penalty and Forfeiture Fund. Most funds received are not penalties and are paid to the injured parties (restitution to affected consumers). However, when the injured parties are not specifically identified, the consent judgments usually require the funds to be used for the benefit of all consumers, such as public service announcements. Based on the results of our audit procedures, there was no evidence indicating that the Department had violated any of the terms specified in the consent judgments or agreements.

2. Did the Department comply with applicable restrictions on PSAs by declared candidates?

We received an allegation that the Department used PSAs for political purposes and that questioned how the PSAs were targeted. Requests have been received by us to determine if documented research exists to support targeted individuals most likely impacted by consumer issues.

The 1997 session of the N.C. General Assembly enacted law to restrict the use of State funds for advertising or public service announcements by declared candidates for the Council of State. This law codified in General Statute 163-278.16A provides:

“After December 31 prior to a general election in which a Council of State office will be on the ballot, no declared candidate for that Council of State office shall use or permit the use of State funds for any advertisement or public service announcement in a newspaper, on radio, or on television that contains that declared candidate's name,

AUDIT RESULTS AND CONCLUSIONS RELATED TO PUBLIC SERVICE ANNOUNCEMENTS (CONCLUDED)

picture, or voice, except in case of State or national emergency and only if the announcement is reasonably necessary to that candidate's official function."

Allegations that the Department's use of these funds for PSAs violated G.S. 163-278.16A were included in both Fuller v. Easley and a complaint filed with the State Board of Elections.

Conclusion: Both the Wake County Superior Court and the State Board of Elections have dismissed the complaints, in effect holding that for the November 7, 2000 general election G.S. 163-278.16A applies to expenditures after December 31, 1999. The public service announcements were made prior to this restricted period, and therefore not subject to the aforementioned statute.

The Department targeted the elderly, low and moderate income, and minority citizens in their PSA concerning predatory lending practices. The Department provided us with various news articles and independent studies that addressed the predatory lending practices. The documentation supported the need to target these particular groups. These articles identified unsophisticated consumers, and those with less than perfect credit, as victims of predatory lending practices. In our opinion the targeting of specific groups most likely impacted by predatory lending practices is cost effective. It avoids the circumstance where PSAs are viewed by a large number of people but not necessarily those most in need of such information.

3. Have proper procedures been used to purchase public service announcements?

Requests have been received by us to determine if the Department used proper procedures for the purchases of public service announcements.

Conclusion: The Department provided us with memorandums from the Department of Administration, Division of Purchase and Contract (P&C) which exempted each of the public service announcements from competitive bidding procedures. P&C waived the competitive bidding process because media markets do not lend themselves to the competitive process. The Department complied with the requirements of P&C regarding the purchases of PSAs.

SUMMARY

The Department's use of funds derived from consent judgments for PSAs is consistent with the provisions of the judgments and did not violate the existing legal requirements according to recent court decisions and regulatory rulings. Documentation exists to support targeted individuals and to justify the procedures used for the purchase of PSAs.

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AGENCY RESPONSE



State of North Carolina

MICHAEL F. EASLEY
ATTORNEY GENERAL

Department of Justice
P. O. Box 629
RALEIGH
27602-0629
June 26, 2000

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Fax: (919) 716-6750

The Honorable Ralph Campbell, Jr.
State Auditor
Office of the State Auditor
300 North Salisbury Street
Legislative Office Building
Raleigh, NC 27603-5903

Dear Mr. Campbell:

This is in response to the draft of the financial related audit of the Department of Justice for the year ended June 30, 1999.

We concur with the results of the financial related audit and with the results and conclusions related to the public service announcements.

The Department of Justice strives to manage its operations efficiently and in accordance with applicable laws and regulations, and always seeks ways to better serve the citizens of North Carolina.

With warmest regards, I remain

Very truly yours,

A handwritten signature in black ink, appearing to read "M. Easley".

Michael F. Easley

MFE\jp

DISTRIBUTION OF AUDIT REPORT

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.

EXECUTIVE BRANCH

The Honorable James B. Hunt, Jr.	Governor of North Carolina
The Honorable Dennis A. Wicker	Lieutenant Governor of North Carolina
The Honorable Harlan E. Boyles	State Treasurer
The Honorable Michael F. Easley	Attorney General
Mr. Marvin K. Dorman, Jr.	State Budget Officer
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June 29, 2000

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