



STATE OF NORTH CAROLINA

AUDIT RESULTS FROM
CAFR AND SINGLE AUDIT PROCEDURES
DEPARTMENT OF ADMINISTRATION
FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR



Ralph Campbell, Jr.
State Auditor

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March 18, 2002

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Ms. Gwynn T. Swinson, Secretary
Department of Administration

We have completed certain audit procedures at the Department of Administration related to the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*, for the year ended June 30, 2001. Our audit was made by authority of Article 5A of *North Carolina General Statute § 147*.

The results of these procedures, as described below, yielded audit findings and recommendations for the Department related to the State's general-purpose financial statements which required disclosure in the aforementioned reports. The findings noted above are included in the findings and recommendations section contained herein. Our recommendations for improvement and management's response follow each finding.

We noted several internal control weaknesses and instances of noncompliance with State regulations. These deficiencies pertained to noncompliance with State statutes regarding cash management. We found that delinquent letters for accounts receivable were not sent out and that billings were not paid timely. We also found that a physical inventory was not conducted and that reconciliations were not completed for fixed assets.

The accounts and operations of the Department of Administration are an integral part of the State's reporting entity represented in the *CAFR* and the *Single Audit Report*. In the *CAFR*, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the results of tests 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. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget Circular A-133.

As part of the work necessary for issuance of the *CAFR* and the *Single Audit Report*, the following individual funds and federal programs of the State were subjected to audit procedures at the Department of Administration, as we considered necessary:

Funds for the *Comprehensive Annual Financial Report*:

Capital Projects

General Fixed Assets

Internal Service Fund

Federal Programs for the *Single Audit Report*:

Section II Costs

The individual funds and federal programs subjected to audit at the Department of Administration are substantially less in scope than would be necessary to report on the general-purpose financial statements that relate solely to the Department or the administration of federal programs by the Department. Therefore, we do not express such conclusions.

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.

Respectfully submitted,

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

Current Year Findings and Recommendations - The following findings and recommendations were identified during the current audit and represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

1. REQUIRED ANNUAL MOTOR FLEET MANAGEMENT FIXED ASSET INVENTORY NOT CONDUCTED

Motor Fleet Management failed to complete and turn in the physical inventory of fixed assets due in December 2000 to the Department's Fiscal Management Office. The Office of the State Controller's Fixed Asset Policy requires a physical inventory. This policy states that a physical inventory of capitalized and inventoried fixed assets is taken to verify that assets recorded in the Fixed Asset System are physically located.

Recommendation: We recommend that the Department of Administration closely monitor the annual physical inventories and ensure they are completed as required by the Office of the State Controller.

Agency's Response: The Department will closely monitor the annual physical inventories and ensure that they are completed as required by the Office of the State Controller. We have received Motor Fleet Management's physical inventory of fixed assets for the period ending June 30, 2001 and due December 2001.

2. ACCOUNTS RECEIVABLE DELINQUENT NOTICES WERE NOT SENT OUT TO CUSTOMERS WITH PAST DUE ACCOUNTS

The Department had not sent out any delinquent notices to customers with past due accounts. We tested thirty-one receivables due from State agencies and universities. Six of these receivables were past due and over \$500.00. Of these six, one was 61-90 days past due and five were over 91 days past due.

G.S. 147-86.11 states that "moneys due to a State agency by another governmental agency or by private persons shall be promptly billed, collected and deposited; unpaid billings due to a State agency shall be turned over to the Attorney General for collection no more than 90 days after the due date of the billings, except that a State agency need not turn over to the Attorney General unpaid billings of less than five hundred dollars (\$500.00)".

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Recommendation: The Department should make efforts to collect past due accounts. Past-due letters should be mailed and if necessary unpaid billings should be turned over to the Office of the Attorney General.

Agency's Response: The Department will make every effort to collect past due accounts. Delinquent notices will be mailed to all customers once accounts are 30 days past due. Outstanding invoices to state agencies in excess of \$500 will be turned over to the Attorney General for collection not more than 90 days after the due date. We understand fully the potential impact that delinquent accounts can have on the State's cash flow. All accounts with Motor Fleet Management are from state agencies and universities that were attempting to manage cash flow internally within their own agencies causing some of the delinquent payments.

3. INVOICES NOT PAID TIMELY

The Department did not consistently follow prescribed procedures when processing cash disbursements and did not adequately enforce procedures related to compliance with the State's cash management law. In our sample of seventy-nine disbursements, we noted the following deficiencies:

- Forty-one invoices were paid from two days to seven months after their due dates.
- Twenty-two invoices were paid from three to twenty-three days before their due dates.

According to the *State's Cash Management Manual and G.S. 147-86.11*, billings to the State for goods received or services rendered shall be paid neither early nor late but on the discount date or the due date to the extent practicable.

Recommendation: The Department should strengthen management oversight to ensure that disbursements are processed in compliance with the State's cash management laws.

Agency's Response: The Department has provided adequate documentation regarding this item.

4. FIXED ASSETS SYSTEM RECORDS DO NOT AGREE TO THE STATE PROPERTY OFFICE RECORDS FOR LAND AND BUILDINGS

The financial statement balances for land and buildings differ significantly between the Fixed Asset System on the North Carolina Accounting System and the State Property Office records. Per the Office of the State Controller's Building Policy, "beginning July 1, 1996, each agency should reconcile their records annually with the State Property Office to ensure that all buildings have been correctly reported."

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

For Buildings, there was approximately a \$102,000,000 unreconciled difference between State Property and the Fixed Asset System. For Land, there was about a \$7,000,000 unreconciled difference between the two systems.

Recommendation: The Department should strengthen management oversight to ensure that fixed asset reconciliations are completed according to OSC policy and that reconciling items are satisfactorily explained.

Agency's Response: The Department will strengthen management oversight to ensure that fixed asset reconciliations are completed according to the Office of the State Controller's policy, including a satisfactory explanation of the reconciled items.

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.

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Ms. Gwynn T. Swinson	Secretary, Department of Administration

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N. C. House Speaker Pro-Tem
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April 15, 2002

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