



STATE OF NORTH CAROLINA

AUDIT RESULTS FROM

CAFR AND SINGLE AUDIT PROCEDURES

**NORTH CAROLINA TEACHERS' AND STATE EMPLOYEES'
COMPREHENSIVE MAJOR MEDICAL PLAN**

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

May 1, 2002

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Mr. Jack Walker, Executive Administrator
North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan

We have completed certain audit procedures at the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan 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 Plan related to the State's general-purpose financial statements and the State's federal financial assistance programs that required disclosure in the aforementioned reports. The findings are included in the findings and recommendations section contained herein. Our recommendations for improvement and management's response follow each finding.

The North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan had significant weaknesses over information systems general controls and failed to obtain a required debarment certification.

The accounts and operations of the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan 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 program of the State were subjected to audit procedures at the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan:

Funds for the *Comprehensive Annual Financial Report*:

Proprietary Component Unit: Teachers' and State Employees' Comprehensive Major Medical Plan

Enterprise Fund: Major Medical Plan – Child Health Insurance Program

Federal Program for the *Single Audit Report*:

State Children's Insurance Fund

The individual funds and federal programs subjected to audit at the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan are substantially less in scope than would be necessary to report on the general-purpose financial statements that relate solely to the Plan or the administration of federal programs by the Plan. 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. SIGNIFICANT WEAKNESSES OVER INFORMATION SYSTEMS GENERAL CONTROLS

We noted weaknesses in computer systems access controls:

- Two former employees of the Agency continued to have operator IDs allowing them access to the North Carolina Accounting System (NCAS). One of the employees left the Agency in December 1999 and the other left in 1998.
- One user had more access to NCAS functions than was necessary for her job. Another user had access to NCAS but did not need any access for her job.

Unwarranted access and unauthorized use can compromise the integrity and confidentiality of financial data.

Recommendation: The Agency's security administrator should be notified whenever an employee terminates. The Agency should monitor and periodically review general controls over the access level provided to employees. Access should be limited to employees on a need-to-use basis and should be promptly removed from individuals who leave the Agency. We noted that before the completion of our audit fieldwork the Agency had deleted the access rights for the two separated employees.

Agency Response: As noted in the recommendation, access for the two separated employees has been deleted. In addition, access for another user has been restricted to just the functions needed and access for the user who does not need access has been deleted.

The Agency's security administrator will be notified whenever employees terminate and will also monitor and periodically review general controls over the access level provided to employees.

2. REQUIRED DEBARMENT CERTIFICATION WAS NOT OBTAINED

The Agency did not obtain the debarment and suspension certification for the one contract that required it. Failure to secure the required certification increases the risk that the Agency may contract with or provide funds to a debarred company, individual or subrecipient.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

The federal government may prohibit individuals or organizations convicted of fraud or found in violation of government contracts or federal laws from contracting for or receiving awards from federal funds. Forty-five CFR 76.510(b) requires contractors receiving individual awards of \$100,000 or more to certify that the organization and its principals are not suspended or debarred.

Recommendation: The Agency should obtain the required debarment certification for its contractors as part of the standard procurement process.

Agency Response: The required debarment certification has been obtained.

DISTRIBUTION OF AUDIT RESULTS

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. Jack Walker	Executive Administrator
	North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Martha B. Alexander
Senator Frank W. Ballance, Jr.	Representative Flossie Boyd-McIntyre
Senator Charles Carter	Representative E. Nelson Cole
Senator Daniel G. Clodfelter	Representative James W. Crawford, Jr.
Senator Walter H. Dalton	Representative William T. Culpepper, III
Senator James Forrester	Representative W. Pete Cunningham
Senator Linda Garrou	Representative Beverly M. Earle
Senator Wilbur P. Gulley	Representative Ruth M. Easterling
Senator Kay R. Hagan	Representative Stanley H. Fox
Senator David W. Hoyle	Representative R. Phillip Haire
Senator Luther H. Jordan, Jr.	Representative Dewey L. Hill
Senator Ellie Kinnaird	Representative Mary L. Jarrell
Senator Howard N. Lee	Representative Maggie Jeffus
Senator Jeanne H. Lucas	Representative Larry T. Justus
Senator R. L. Martin	Representative Edd Nye
Senator William N. Martin	Representative Warren C. Oldham
Senator Stephen M. Metcalf	Representative William C. Owens, Jr.
Senator Fountain Odom	Representative E. David Redwine
Senator Aaron W. Plyler	Representative R. Eugene Rogers
Senator Eric M. Reeves	Representative Drew P. Saunders
Senator Dan Robinson	Representative Wilma M. Sherrill
Senator Larry Shaw	Representative Ronald L. Smith
Senator Robert G. Shaw	Representative Joe P. Tolson
Senator R. C. Soles, Jr.	Representative Gregg Thompson
Senator Ed N. Warren	Representative Russell E. Tucker
Senator David F. Weinstein	Representative Thomas E. Wright
Senator Allen H. Wellons	Representative Douglas Y. Yongue

DISTRIBUTION OF AUDIT RESULTS (CONCLUDED)

Other Legislative Officials

Representative Philip A. Baddour, Jr.
Senator Anthony E. Rand
Senator Patrick J. Ballantine
Representative N. Leo Daughtry
Representative Joe Hackney
Mr. James D. Johnson

Majority Leader of the N.C. House of Representatives
Majority Leader of the N.C. Senate
Minority Leader of the N.C. Senate
Minority Leader of the N.C. House of Representatives
N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

May 9, 2002

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647