



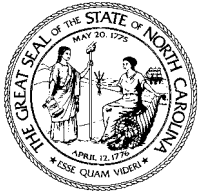
# STATE OF NORTH CAROLINA

**AUDIT RESULTS FROM**  
**CAFR AND SINGLE AUDIT PROCEDURES**  
**DEPARTMENT OF STATE TREASURER**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**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>

March 18, 2003

The Honorable Michael F. Easley, Governor  
Members of the North Carolina General Assembly  
The Honorable Richard H. Moore, State Treasurer

We have completed certain audit procedures at the Department of State Treasurer related to the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*, for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

The results of these procedures, as described below, yielded audit findings and recommendations for the Department related to the State's financial statements and the State's federal financial assistance programs which may require 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.

The finding contained herein discusses a deficiency in internal control over the execution of retirement contribution refunds by the Teachers' and State Employees' Retirement System and the Local Government Employees' Retirement System. Our tests of refunds revealed that adequate documentation was not maintained to support the review and approval of these transactions.

Additional findings and recommendations related to the audit of the Investment Pool are provided in a separately issued report titled "The Investment Pool of the North Carolina Department of State Treasurer."

The accounts and operations of the Department of State Treasurer 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 State Treasurer as we considered necessary:

Funds for the *Comprehensive Annual Financial Report*:

***Investment Pool***

State Treasurer's Investment Pool

Investment Trust Fund

***General Long Term Debt***

State Bonded Debt

***Pension Funds***

Teachers' and State Employees' Retirement System

Local Government Employees' Retirement System

Federal Programs for the *Single Audit Report*:

***Local Government Commission Monitoring***

***Central Service Costs***

The individual funds and federal programs subjected to audit at the Department of State Treasurer are substantially less in scope than would be necessary to report on the 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,



Ralph Campbell, Jr.  
State Auditor

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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*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. EXECUTION OF RETIREMENT CONTRIBUTION REFUND CONTROLS NOT ADEQUATELY DOCUMENTED

The Department does not consistently maintain documentation that a second analyst has reviewed a member's request for a refund of his/her retirement contribution before the transaction is approved for payment. In addition, documentation is not maintained of the Department's verification that the refund payroll file contains only, and all, approved requests. Without such documentation for periodic review, the Department increases the risk that these controls may not be operating as intended.

*Recommendation:* The Retirement Benefits Division should maintain documents that support the procedures performed to ensure that the individual refund transactions have been reviewed and that the payroll file was verified.

*Agency's Response:* We have reviewed the audit finding and agree with your recommendation. The Retirement Division now has a procedure in place, for individual refund transactions, to ensure that documentation exist for each refund to substantiate that these transactions are reviewed twice and the payroll file is verified before approval for payment.

2. INVESTMENT POOL FINDINGS

Additional findings and recommendations related to the audit of the Investment Pool are provided in a separately issued report. A complete copy of the audit report for the Investment Pool of the North Carolina Department of State Treasurer is available on our web site at [www.ncauditor.net](http://www.ncauditor.net). The report can be found under Audit Reports/Financial.

## **DISTRIBUTION OF AUDIT REPORT**

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In accordance with General Statutes 147-64.5 and 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 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. J. Michael Barham	Deputy Treasurer, Financial Operations Department of State Treasurer

### **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 Keever M. Clark	Representative E. Nelson Cole
Senator Daniel G. Clodfelter	Representative James W. Crawford, Jr.
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Senator James Forrester	Representative W. Pete Cunningham
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Senator Kay R. Hagan	Representative R. Phillip Haire
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Senator Stephen M. Metcalf	Representative Drew P. Saunders
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Senator Larry Shaw	Representative Joe P. Tolson
Senator R. C. Soles, Jr.	Representative Thomas E. Wright
Senator David F. Weinstein	Representative Douglas Y. Yongue

### **Other Legislative Officials**

Senator Anthony E. Rand	Majority Leader of the N. C. Senate
Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
Representative N. Leo Daughtry	Minority Leader of the N. C. House of Representatives
Representative Joe Hackney	N. C. House Speaker Pro-Tem
Mr. James D. Johnson	Director, Fiscal Research Division

April 2, 2003

## ORDERING INFORMATION

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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