



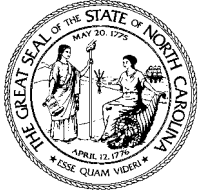
STATE OF NORTH CAROLINA

AUDIT RESULTS FROM
SINGLE AUDIT PROCEDURES
DEPARTMENT OF ADMINISTRATION
FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR



Ralph Campbell, Jr.
State Auditor

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February 25, 2003

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 *Single Audit Report*, for the year ended June 30, 2002. Our audit was made by authority of Article 5A of *North Carolina General Statute § 147*.

The results of these procedures, as described below, yielded an audit finding and recommendation for the Department related to the State's federal financial assistance programs which may require disclosure in the aforementioned reports. The finding noted above is included in the findings and recommendations section contained herein. Our recommendation for improvement and management's response follow this finding.

We found an instance of noncompliance with federal regulations where Motor Fleet Management transferred \$3.2 million to the General Fund to support State appropriations, without refunding to the federal government its share of the amount transferred.

The accounts and operations of the Department of Administration are an integral part of the State's reporting entity represented in the Single Audit Report. 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 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:

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 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 style.

Ralph Campbell, Jr.
State Auditor

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

Current Year Finding and Recommendation - The following finding and recommendation was identified during the current audit and represents significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

FUNDS TRANSFERRED WITHOUT EQUITABLE DISTRIBUTION TO THE FEDERAL GOVERNMENT

During fiscal year 2002 Motor Fleet Management, which is an Internal Service Fund in the State of North Carolina's Reporting Entity, transferred \$3.2 million to the State's General Fund to support appropriations. While the transfer was authorized by the General Assembly in Senate Bill 1005, Section 2.2.(e), the transfer is questioned because federal programs failed to receive a refund for their equitable share.

OMB Circular A-133 states that refunds are to be made to the Federal Government for its share of any amounts transferred or borrowed from internal service, central service, pension, insurance, or other similar activities or funds for purposes other than to meet the operating liabilities, including interest on debt, of the fund.

Recommendation: The State should make contact with the federal government to seek disposition of the issue of the \$3.2 million that was transferred out for purposes other than to meet the operating liabilities of the fund.

Agency Response: The Department of Administration through its cost plan negotiations conducted by an outside contractor will negotiate any disposition of the \$3.2 million transfer to the General Fund. This contractor has the responsibility for the preparation of the Department of Administration's Indirect Cost Plan and in seeking an approved rate from the Federal cognizant agency (DHHS).

DISTRIBUTION OF AUDIT RESULTS

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.

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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
Ms. Gwynn T. Swinson	Secretary, Department of Administration

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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

March 18, 2003

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