

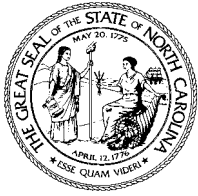
STATE OF NORTH CAROLINA

AUDIT RESULTS FROM
CAFR AND SINGLE AUDIT PROCEDURES
DEPARTMENT OF CORRECTION
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 3, 2003

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Mr. Theodis Beck, Secretary
Department of Correction

We have completed certain audit procedures at the Department of Correction 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 *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 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.

We noted internal control weaknesses in the Violent Offender Incarceration/Truth-in-Sentencing Program. These deficiencies pertained to federal drawdowns that were not made in compliance with regulations, and required debarment certifications that were not obtained.

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

Funds for the *Comprehensive Annual Financial Report*:

Capital Assets

Federal Programs for the *Single Audit Report*:

Violent Offender Incarceration/Truth-in-Sentencing Program CFDA: 16.586

Section II Costs

The individual funds and federal programs subjected to audit at the Department of Correction 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

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. FEDERAL FUNDS NOT DRAWN IN ACCORDANCE WITH STATE CASH MANAGEMENT PLAN

The Department did not have controls in place to ensure that Violent Offender Incarceration/Truth-in-Sentencing Program (VOI/TIS) (CFDA-16.586) grant drawdowns were made in compliance with the State's Cash Management Plan. Ten of thirty-nine drawdowns tested were not disbursed until four to eleven days after deposit of the federal draw. The date of disbursement for one drawdown could not be determined.

The State's Cash Management Plan states that "all federal fund draws should be timed so that the funds are on deposit with the State Treasurer no more than two business days prior to the disbursement."

Recommendation: The Department should strengthen internal controls to ensure that drawdowns are made in compliance with the State's Cash Management Plan.

Agency Response: We concur with the finding and recommendation. An Internal Memorandum was issued by the DOC Controller on February 27, 2003 to Federal Grant Accounting staff, requiring them to adhere to the State's Cash Management Plan regarding the disbursement of Federal funds within two (2) business days. The memorandum also requires proper record keeping of all federal grant fund draws for audit purposes.

2. REQUIRED DEBARMENT CERTIFICATIONS NOT OBTAINED

The Department did not obtain the required debarment certifications from the eleven contractors that received awards greater than \$100,000 in VOI/TIS grant funds. OMB Circular A-133 states that contractors receiving individual awards for \$100,000 or more must certify that the organization and its principals are not suspended or debarred.

Recommendation: The Department should implement procedures to ensure that all required certifications from contractors are obtained prior to executing contracts.

Agency Response: We concur with the finding and recommendation. The Department will require all contractors, prior to award of any contract involving Federal funds of \$100,000 or greater, to certify that neither its organization nor its principals have been suspended or debarred from award of contracts supported by Federal funds. Furthermore, the Department has conducted a suspension and debarment status review of

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

all open contracts and purchase orders, including the eleven contractors selected by the State Auditors in their review. These contracts and purchase orders have an awarded value of \$100,000 or greater, and are the ones in which the contractor would receive payments from VOI/TIS grant funds. This review was accomplished by cross-referencing all qualifying open contracts and purchase orders against the web-based List of Parties Excluded from Federal Procurement and Non-procurement Programs as compiled and maintained by the General Services Administration (GSA). None of these existing contractors are currently identified on this list.

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 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. Theodis Beck	Secretary, Department of Correction

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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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