



STATE OF NORTH CAROLINA

AUDIT RESULTS FROM
CAFR AND SINGLE AUDIT PROCEDURES
DEPARTMENT OF REVENUE
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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November 1, 2002

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Mr. E. Norris Tolson, Secretary
Department of Revenue
Raleigh, North Carolina

We have completed certain audit procedures at the Department of Revenue 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 an audit finding and recommendation for the Department related to the State's financial statements 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.

The Department did not have adequate documentation or adequate control procedures to ensure that refunds of tax-paid motor fuels were proper.

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

Funds for the *Comprehensive Annual Financial Report*:

- General Fund Revenues Collected by the Department of Revenue
- Highway Fund Revenues Collected by the Department of Revenue
- Local Sales Tax Revenues Collected by the Department of Revenue

Federal Programs for the *Single Audit Report*:

None

The individual funds and federal programs subjected to audit at the Department of Revenue 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 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. REFUND CONTROL PROCEDURE NOT CONSISTENTLY PERFORMED

The Motor Fuels Tax Division did not consistently follow prescribed procedure when processing refunds of tax-paid motor fuels used for off-highway purposes. Consequently, there is an increased risk for inappropriate refunds.

In our sample of thirty-nine refunds, we noted that five refunds were made without proper documentation. Departmental procedure requires that a refund claim be supported by invoices that show the date of purchase, name and address of the seller, name and address of the purchaser, type of fuel, gallons purchased, prices per gallon, and total amount paid. Due to organizational changes and a lack of supervisory oversight, this procedure was not consistently followed.

Recommendation: The Department should follow prescribed procedures when processing refunds.

Agency Response: The Motor Fuels Tax Division will take the necessary steps to ensure that the established procedures, governing refunds on tax-paid motor fuels, are followed to reduce or eliminate the risk of inappropriate refunds.

DISTRIBUTION OF AUDIT RESULTS

In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this document 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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November 18, 2002

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