



# STATE OF NORTH CAROLINA

## FISCAL CONTROL AUDIT REPORT ON HEALTH AND WELLNESS TRUST FUND RALEIGH, NORTH CAROLINA

FOR THE PERIOD JULY 1, 2000 THROUGH JANUARY 31, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FISCAL CONTROL AUDIT REPORT ON  
HEALTH AND WELLNESS TRUST FUND**

**RALEIGH, NORTH CAROLINA**

**FOR THE PERIOD JULY 1, 2000 THROUGH JANUARY 31, 2002**

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## AUDITOR'S TRANSMITTAL

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Commission Members, Health and Wellness Trust Fund  
James Davis, Executive Director

This report presents the results of our fiscal control audit of the Health and Wellness Trust Fund for the period July 1, 2000 through January 31, 2002. Our work was performed by authority of Article 5A of G.S. §147 and was conducted in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The objective of the audit was to gather and evaluate evidence about selected internal control policies and procedures designed to ensure reliable financial accounting and reporting and compliance with finance-related laws, regulations, and contract provisions.

The results of our tests disclosed no significant weaknesses in internal control or significant instances of noncompliance or abuse which require disclosure under *Government Auditing Standards*.

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.

A handwritten signature in black ink that reads 'Ralph Campbell, Jr.'.

Ralph Campbell, Jr.  
State Auditor

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## BACKGROUND INFORMATION

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In 1998 a Master Settlement Agreement (MSA) was entered into between the nation's largest tobacco companies and forty-six other states, including North Carolina. The agreement settles claims of the states for damages arising from the use of the tobacco products of the companies. Under the MSA, the tobacco companies are required to adhere to a variety of marketing, advertising, lobbying, and youth access restrictions, support smoking cessations and prevention programs, and provide payments to the states in perpetuity. The amount that North Carolina will receive from this settlement remains uncertain, but the projections are that the State will receive approximately \$4.6 billion through the year 2025.

In 2000, the State enacted legislation that created the Health and Wellness Trust Fund. The Fund will receive 25% of the tobacco settlement funds or approximately \$1.15 billion through 2025. The Fund was established to develop and administer a comprehensive plan to finance grants, programs and initiatives to improve the health and wellness of the people of North Carolina. The legislation requires that one half of the funds received by the Fund be set-aside in a reserve account as a permanent endowment. The other half plus any investment earnings are available for current initiatives and, under General Statute 147-86.30(e), can be used for any of the following purposes:

- Address the health needs of vulnerable and underserved populations in North Carolina;
- Fund programs and initiatives that include research, education, prevention, and treatment of health problems in North Carolina and increase the capacity of communities to respond to public health needs;
- Develop a comprehensive, community-based plan with goals and objectives to improve the health and wellness of the people with priority on preventing, reducing, and remedying the health effects of tobacco use and with an emphasis on reducing youth tobacco use.

As established by the General Statute 147-86.32 the fund is administered by the 18 member Health and Wellness Trust Fund Commission. Members, who are appointed by the Governor, President Pro Tempore of the Senate, and the Speaker of the House of Representatives, represent a wide background of health care experience from across the State. The Commission elected Lieutenant Governor Beverly M. Perdue to serve as Chair.

In May 2001, the Commission voted to develop a three-year work plan to address focus areas that will be the primary initiatives of the Health and Wellness Trust Fund. The current focus areas identified are: (1) Prescription Drugs for Seniors, (2) Teen Smoking Prevention and Cessation, and (3) Research, Education and Prevention.

In December 2001, the Commission voted to provide a prescription drug program for approximately 100,000 senior citizens in North Carolina. This program, called, *Carolina CARXES*, was enacted into legislation by the General Assembly during the 2001 Session. The program covers all seniors, 65 and over, in North Carolina with income between 0% and

## **BACKGROUND INFORMATION (CONCLUDED)**

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200% of the federal poverty level without any prescription drug coverage. Further, the Commission is evaluating proposals to address the challenge of creating a statewide initiative to curb teen smoking in North Carolina.

In April 2002 and by executive order, Governor Mike Easley redirected approximately \$32 million in payments due to the Fund. The intended use of the seized funds is to balance the State's Budget at June 30, 2002.

Since its inception, three contract employees have provided services to the Fund. As required by the General Statutes, the Department of State Treasurer has served as custodian and investor of the Fund's assets, as well as accounted for all financial transactions of the Fund. Through contractual relationships between the Commission and the Department of Justice, attorneys at the Attorney General's Office have managed all legal matters of the Fund. In April 2002, the Commission hired an executive director to help administer and coordinate the work of the Fund. The director is currently establishing the organizational infrastructure and processes necessary to manage the Commission's responsibilities as a grants-making body, including the creation of temporary rules as required by statute.

# OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

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## OBJECTIVES

As authorized by Article 5A of G.S. §147 and in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have conducted a fiscal control audit on the Health and Wellness Trust Fund. The objective of the audit was to gather and evaluate evidence about selected internal control policies and procedures designed to ensure reliable financial accounting and reporting and compliance with finance-related laws, regulations, and contract provisions for the period July 1, 2000 through January 31, 2002.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

## SCOPE

Our audit scope included selected internal controls in the following areas:

### General

*Control Environment* - The control environment consists of the actions, policies, and procedures that reflect the overall attitude of top management about control and its importance to the entity. The control environment sets the tone of the organization, influencing the control consciousness of its employees. The Fund's administration is in the initial stages of developing its organizational structure, policies and procedures.

### Financial Accounting and Reporting

*Cash and Cash Receipts Cycle* - An entity's cash and cash receipts cycle generally consists of the activities associated with the receipt of the cash, custody of cash, and investment of the cash. The Fund's financial statement accounts impacted by this cycle include cash, transfers in (Health and Wellness settlement funds), accrued investment income, and investment earnings.

*Expenditure Cycle* - An entity's expenditure cycle generally consists of the activities associated with disbursing cash. The Fund's financial statement accounts impacted by this cycle include cash, purchased services, general office supplies, and other expenses.

## **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)**

### Finance-related Compliance

*Cash Management and Investments* - Laws, regulations, and/or contracts commonly set limits on authorized deposits and investments. The State Treasurer is the custodian of the Fund. Investment earnings credited to the assets of the Fund shall become part of the Fund and any balance remaining in the Fund at the end of any fiscal year is available for the next succeeding fiscal year.

*Procurement* - Laws, regulations, and/or contracts commonly prescribe purchasing procedures for certain types of transactions and specified dollar thresholds. The Health and Wellness Trust Fund Commission exercises its powers independently, but generally applies the provisions of the *State Purchasing Manual*.

*Special Provisions* - Laws, regulations, and/or contracts commonly impose specific requirements on particular entities or activities. For example, the statute requires the Commission to establish a Fund Reserve where fifty percent of each annual payment is deposited and not available for expenditure. While the corpus cannot be expended, any investment earnings on the reserved funds may be expended.

### **METHODOLOGY**

To accomplish our audit objective, we gained an understanding of internal control, performed tests of control effectiveness, and performed corroborating direct tests of the accounting records, reports, and/or compliance, as we considered necessary in the circumstances. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Our procedures were more limited than would be necessary to give an opinion on internal control, and accordingly, we do not express such an opinion.

### **RESULTS**

The results of our tests disclosed no significant weaknesses in internal control or significant instances of noncompliance or abuse that require disclosure under *Government Auditing Standards*.

The purpose of this report is to provide management and oversight organizations recommendations needed to improve internal control over financial accounting and reporting and compliance with finance-related laws, regulations, and contract provisions. Consequently, reporting on accomplishments in areas that appear to be functioning properly is beyond the scope of this audit.



## **DISTRIBUTION OF AUDIT REPORT**

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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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Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. James Davis	Executive Director, The Health and Wellness Trust Fund

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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

June 25, 2002

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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