



# STATE OF NORTH CAROLINA

**FISCAL CONTROL AUDIT REPORT ON**

**DEPARTMENT OF JUSTICE**

**RALEIGH, NORTH CAROLINA**

**FOR THE PERIOD JULY 1, 2002 THROUGH DECEMBER 31, 2002**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FISCAL CONTROL AUDIT REPORT ON**  
**DEPARTMENT OF JUSTICE**  
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**THE HONORABLE ROY A. COOPER, III**  
**ATTORNEY GENERAL**



Ralph Campbell, Jr.  
State Auditor

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## AUDITOR'S TRANSMITTAL

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
The Honorable Roy A. Cooper, III, Attorney General

This report presents the results of our fiscal control audit of the Department of Justice for the period July 1, 2002 through December 31, 2002. Our work was performed by authority of Article 5A of Chapter 147 of the General Statutes 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 audit disclosed significant weaknesses in internal control and instances of noncompliance that are described in the Audit Findings and Recommendations section of this report.

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." in a cursive style.

Ralph Campbell, Jr.  
State Auditor

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## **BACKGROUND INFORMATION**

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Chapter 114 of the North Carolina General Statutes created the Department of Justice under the supervision and direction of the Attorney General, as authorized by Article III, Sec. 7 of the Constitution of North Carolina. The duties of the Attorney General include: (1) defend all actions in the appellate division in which the State shall be interested, (2) represent all State departments, agencies, institutions, commissions and bureaus, (3) consult with and advise prosecutors in all matters pertaining to the duties of their office, (4) give his opinion upon all questions of law submitted to him by the General Assembly or any State officer, (5) to pay all moneys received for debts due or penalties to the State, and (6) intervene in proceedings before any courts, regulatory officers, agencies or bodies, either State or Federal, on behalf of the consuming public of the State.

The Department of Justice is made up of the Attorney General's Office and the State Bureau of Investigation. The Attorney General's Office represents all State departments, agencies and commissions, renders legal opinions, protects consumers and helps victims of crime. There are three divisions within the Attorney General's Office: Legal Services, Chief of Staff, and General Counsel. The State Bureau of Investigation assists local law enforcement in the identification of criminals, the scientific analysis of evidence, and the investigation and preparation of evidence to be used in court. The State Bureau of Investigation is made up of four divisions: Administrative Services, Support Services, Field Operations, and Crime Laboratory.

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# **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS**

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## **OBJECTIVES**

As authorized by Article 5A of Chapter 147 of the General Statutes 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 at the Department of Justice. 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, 2002 through December 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 Departmental operations and activities in the following areas:

- General Accounting – Capital Asset Cycle

A capitalized asset is an asset with a cost equal to or greater than \$5,000 and an expected useful life of two or more years. The Department's accounting records for capital assets are maintained in the fixed asset module in the

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

North Carolina Accounting System. This module is a product provided and supported by the North Carolina Office of the State Controller.

- **Consumer Protection Office**

The Consumer Protection Office acts to protect the public from unlawful business practices. The Consumer Protection Office most often takes action pursuant to State and federal laws against businesses that repeatedly deceive consumers and intervene in instances in which the rights of many consumers are at stake. The Consumer Protection Office collects payments for consumer litigation settlements and administration costs related to consumer litigation. The settlement amount is determined by a court decision.

- **Sheriffs' Pension Fund**

Under the provisions of Article 12H of Chapter 143 of the General Statutes, a pension fund was created to supplement local government retirement benefits for all county sheriffs who are retired from the Local Governmental Employees' Retirement System and meet the statutory eligibility requirements. The Sheriffs' Supplemental Pension Fund is administered by the Department of Justice. An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to statutory limits. Receipts collected by each county's Clerk of Superior Court under General Statute 7A-304(a)(3A), along with investment income, support the plan's benefits and administrative expenses.



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

- Law Enforcement Officers' Separation Allowance

The State provides a special separation allowance for sworn law enforcement officers under the provisions of Article 12D of Chapter 143 of the General Statutes. Each eligible officer is paid an annual separation allowance equal to .85% of the officer's most recent base rate of compensation for each year of creditable service. Funds for this allowance are supported by annual State appropriations.

- Environmental Development of Swine Waste Technologies

The Attorney General's Office entered into an agreement with Smithfield Foods, Inc. dated July 25, 2000, to develop environmentally superior technologies for the management of swine waste in North Carolina. On September 29, 2000, the Attorney General's Office entered into a similar agreement with Premium Standard Farms, Inc. The companies have made a financial commitment to be used to support the development and implementation of environmentally superior technologies and for environmental enhancement purposes. The Attorney General's Office approves invoices related to the development of technologies and environmental enhancements for payment.

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

The specific internal control categories audited included:

### Financial Accounting and Reporting

*Capital Asset Cycle* – An entity’s capital asset cycle generally consists of the activities associated with the acquisition, custody, and disposition of long-lived assets. Financial statement accounts typically impacted by the cycle include land, buildings, infrastructure, equipment, and art. Our audit of this cycle was limited to the Department’s internal control over equipment and motor vehicles.

*Revenue Cycle* - An entity’s revenue cycle generally consists of the activities associated with the receipt of cash and billing for amounts due from other parties. Financial statement accounts typically impacted by the cycle include cash, accounts receivable, sales and services, fees and fines, and transfers in. Our audit included the fees and fines collected by the Consumer Protection Office.

*Expenditure Cycle* - An entity’s expenditure cycle generally consists of the activities associated with disbursing cash for items other than payroll costs. Financial statement accounts typically impacted by this cycle include cash, supplies, services, capital outlay, claims and benefits, and transfers out. Our audit included the pension benefits paid to retired sheriffs and the separation allowance benefits paid to retired State Bureau of Investigation agents. We also audited disbursements made under third party agreements for the development of technologies and environmental enhancements for swine waste management.

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

### Finance-related Compliance

*Receivable Collection* - Laws, regulations, and/or contracts sometimes impose requirements on entities to exercise due diligence and execute specific procedures to collect amounts owed to the entity by outside parties. For example, amounts unpaid for a specified period may be required to be turned over to another entity for collection. Our audit was limited to the accounts receivable amount related to consumer litigation settlements. Payment plans are often set up for the collection of these settlements.

*Capital Assets* - Laws, regulations, and/or contracts commonly prescribe procedures for acquiring, safeguarding, and disposing of capital assets. Our audit was limited to equipment and motor vehicles.

*Eligibility* - Organizations and individuals must often meet specific criteria in order to be eligible for benefits in particular programs. For instance, an individual may be required to meet age and service year criteria to receive benefits. Our audit was limited to eligibility criteria for the Supplemental Sheriffs' Pension Fund and the Law Enforcement Officer's Separation Allowance.

### **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 compliance as we considered necessary in the circumstances.

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

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 audit disclosed weaknesses in internal control and instances of noncompliance that are described in the Audit Findings and Recommendations section of this report.

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 were functioning properly is beyond the scope of this audit.

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **Matters Related to Financial Accounting, Reporting, or Compliance**

*Current Year Findings and Recommendations* - The following findings and recommendations were identified during the current audit and represent significant deficiencies in internal control over financial accounting and reporting or compliance with finance-related laws, regulations, and contract provisions.

#### 1. PENSION PAYMENTS LACK ADEQUATE REVIEW

We noted the following errors during our examination of thirty-nine benefit payments of the Sheriffs' Supplemental Pension Fund:

- One pensioner's monthly benefit was calculated incorrectly due to a formula error in the benefit calculation spreadsheet. The pensioner was overpaid by \$1,473.12 for the 2002 calendar year.
- The incorrect number of service years was used to calculate a pensioner's benefit payment. The pensioner was underpaid by \$958.44 for the 2002 calendar year.

Pension benefit payments are manually calculated and the risk of errors increases when benefits are processed without adequate review.

*Recommendation:* The Department should establish procedures to ensure that the calculations of pension benefit payments are accurate and properly reviewed. In addition, the Department should take the necessary steps to correct the above pension benefit errors.

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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*Agency's Response:* The Department concurs that additional procedures should be established to ensure that payments are accurate and have proper review. The Department's Financial Services Section will review and verify the benefit amounts developed by the Sheriffs Standard Division prior to payments. The Department is correcting errors noted in the audit and has reviewed all payments for accuracy.

### 2. ALLOWANCE PAYMENTS LACK ADEQUATE REVIEW

We noted the following errors during our examination of thirty-nine Special Separation Allowance payments to retired State Bureau of Investigation (SBI) agents:

- The incorrect number of service years was used to calculate an agent's benefit payment. The agent has been underpaid \$36.54 monthly since he retired in March 1998.
- The incorrect salary amount was used in the allowance calculation for three agents. They have been underpaid \$2.50, \$13.06 and \$2.65 monthly since their retirement in August 2000, November 2001 and August 2000, respectively.

Benefit payments are manually calculated upon retirement. The risk of incorrect payment increases when benefits are processed without proper review.

*Recommendation:* The Department should establish procedures to ensure that the calculations of pension benefit payments are accurate and properly reviewed. In addition, the Department should take the necessary steps to correct the above separation allowance errors.

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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*Agency's Response:* The Department concurs that additional procedures should be established to ensure accurate and proper review. The Department's Financial Services Section will review the Special Separation Allowance payment amounts calculated by the Human Resources section prior to payment. The Department has corrected the \$2,615.76 in payment errors identified in the audit findings and has reviewed all separation allowance payments to ensure accuracy.

### 3. CAPITAL ASSETS NOT PROPERLY MANAGED

We noted the following internal control deficiencies regarding the accountability over capital assets:

- The Department did not perform an annual physical inventory of capital assets.
- Our examination of ten firearms purchased by retired SBI agents revealed that the firearms had not been removed from the fixed asset listing.
- Our examination of thirty-nine capital assets revealed that six items could not be located, one item was not properly tagged, two items had been sent to surplus without changing the location field on the capital asset listing, and a computer/storage unit was incorrectly identified on the capital asset listing. In addition, vehicle identification numbers maintained did not agree with the asset information on the capital asset system.

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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- Our examination of thirty-nine capital assets that had been indicated as sold or missing revealed that the location had not been changed for twenty-six missing items and two items sold had not been removed from the capital asset system.
  
- Adequate supporting documentation was not maintained on asset retirements. Three out of thirty-nine retirements examined did not have documentation to support the retirement. Documentation for the disposal of a car indicated a capital asset number that did not match the vehicle identification number or the make of the car. That same capital asset number was also used on another disposal.

The North Carolina Accounting System Information Guide sets forth the policies and procedures regarding capital asset additions, retirements, physical inventory and asset management. In the absence of appropriate controls over its use and custody, capital assets cannot be properly safeguarded or monitored.

*Recommendation:* The Department should comply with policies and procedures concerning capital asset additions, retirements, and physical inventory. The Department should also maintain appropriate records to assist in the management and control of capital assets.

*Agency's Response:* The Department concurs that internal procedures and accounting of fixed assets needs improvement. In 2002, fixed and capital asset inventories were conducted in field offices. A Department-wide firearms inventory was also completed. The Department maintains robust internal asset inventory systems to provide meaningful



## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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asset management. However, internal fixed and capital asset inventories must be interfaced and reconciled with the NCAS Fixed Asset System. The Department has accounted for all but three of the flagged items referenced in the State Auditor's audit and is continuing to seek reconciliation for those remaining information technology items, purchased in 1986, 1994 and 1995. In addition the Department is performing a Department-wide inventory and will better integrate its fixed asset data with the NCAS Fixed Asset system.

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## **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.

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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                      |
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| Mr. Robert L. Powell             | State Controller                      |

### **LEGISLATIVE BRANCH**

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| 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 | N. C. House of Representatives      |
| Mr. James D. Johnson           | Director, Fiscal Research Division  |

June 6, 2003

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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