

# STATE OF NORTH CAROLINA

**AUDIT RESULTS FROM**

**CAFR AND SINGLE AUDIT PROCEDURES**

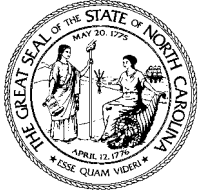
**DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES**

**FOR THE YEAR ENDED JUNE 30, 2003**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

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February 2, 2004

The Honorable Michael F. Easley, Governor  
Members of the North Carolina General Assembly  
Mr. William G. Ross, Secretary  
Department of Environment and Natural Resources

We have completed certain audit procedures at the Department of Environment and Natural Resources related to the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*, for the year ended June 30, 2003. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The results of these procedures, as described below, yielded audit findings and recommendations for the Department related to the State's financial statements and the State's federal financial assistance programs 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 that internal controls were not in place to ensure that terminated employees were denied access to the Department's information systems. We also noted control weaknesses that allowed separated employees to be overpaid.

The accounts and operations of the Department of Environment and Natural Resources 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 Environment and Natural Resources as we considered necessary:

Funds for the *Comprehensive Annual Financial Report*:

EPA Clean Water Revolving Loan Fund

EPA Drinking Water Revolving Loan Fund

Federal Programs for the *Single Audit Report*:

Capitalization Grants for State Revolving Funds

Capitalization Grants for Drinking Water State Revolving Funds

The individual funds and federal programs subjected to audit at the Department of Environment and Natural Resources 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**

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### **Matters Related to Financial Reporting or Federal Compliance Objectives**

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

1. ACCESS RIGHTS FOR SEPARATED EMPLOYEES NOT CANCELLED

Controls were not in place to ensure that terminated employees were denied access to the Department's mainframe. Improper access to computer systems can result in alteration, unauthorized use, or loss of information. Eight of fifty-nine separated employees tested were still listed on the mainframe user profile. Although the status was classified as "revoked" or "inactive" for these employees, access could easily be reinstated. The Department had no written policies and procedures that required its Divisions to notify the Information Systems Division when an employee separates so that they will be removed from the user profile. Good internal control would prescribe that access to computer systems be cancelled immediately upon an employee's separation.

*Recommendation:* The Department should adopt formal written policies and procedures for the termination of access rights to all information systems for separated employees. The Department should also review access privileges and delete any employees that have separated from the department.

*Agency's Response:* We agree with the audit finding.

The Department has written procedures for termination of access rights to all information systems for separated employees. Subsequent to your audit, our internal review determined that not all divisions have consistently followed these procedures. The Department has revised its procedures for separating employees to emphasize the importance of terminating access to information systems, and has communicated this to the appropriate staff. In addition, the Division of Human Resources will provide the Division of Information Technology Services (ITS) with a monthly list of separated employees to ensure that appropriate actions have been taken.

2. CONTROLS NOT IN PLACE TO PREVENT OVERPAYMENTS

Controls were not in place to ensure that separated employees were paid correctly for unused annual leave. Our test of eleven separated employees charged to the Capitalization Grants for Drinking Water State Revolving Fund revealed that two employees were overpaid. These employees were paid for the leave balance reported on the personnel action form that had been prepared prior to their last working day. In each

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

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case, the employee took leave during the last two weeks of his employment that was not reflected on this form. Procedures were not in place to compare the actual leave balances per the employee's final timesheet with the hours of leave that the employee was to be paid. Additional details of the errors are described below.

- One employee was overpaid a gross amount of \$707. This employee took thirty-two hours of leave after the personnel action form was prepared. The Department recouped the net pay of \$492 from the employee and the appropriate payroll adjustments were made.
- One employee was overpaid a gross amount of \$473. This employee took twenty-seven hours of leave that was not reflected on the personnel action form. In addition, this employee's sick leave balance was understated by 8 hours. The Department recouped the net pay of \$242 from the employee and the appropriate payroll adjustments were made. The error in the sick leave balance was referred to the State Retirement System.

In addition, another employee's final sick leave balance that was communicated to the State Retirement System was miscalculated by 1.64 days.

All recoupments and the referrals were made after inquiry during the course of our audit. We will not question any costs since the corrections were made prior to the end of the fiscal year and we do not expect other errors in the population to exceed \$10,000.

*Recommendation:* The Department should implement procedures to compare the leave balances on the final timesheet to the leave reported on the personnel action form before final payments are made.

*Agency's Response:* We agree with the audit finding.

The Department has procedures in place to prevent overpayments. The two overpayments were the result of one employee not following those procedures. Corrective action has already taken place within the Division of Environmental Health, and our operating manual relating to separation of employees has been revised to emphasize verification of leave balances. In addition, the DENR Internal Auditor will audit employee separations on a routine basis to ensure compliance with Department policies and procedures.

## **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
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. William G. Ross, Secretary	Department of Environment and Natural Resources

### **LEGISLATIVE BRANCH**

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### **Other Legislative Officials**

Mr. James D. Johnson	Director, Fiscal Research Division
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February 13, 2004

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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