



STATE OF NORTH CAROLINA

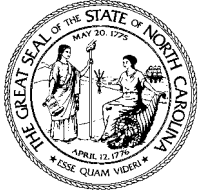
AUDIT RESULTS FROM
CAFR AND SINGLE AUDIT PROCEDURES
NORTH CAROLINA DEPARTMENT OF CORRECTION

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR



Ralph Campbell, Jr.
State Auditor

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April 20, 2004

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

We have completed certain audit procedures at the North Carolina 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, 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 an audit finding and recommendation for the Department related to the State's federal financial assistance programs that required disclosure in the aforementioned reports. Specifically, the Correction Enterprises Division transferred funds to the State's General Fund and the Crime Victims Fund without refunding to the federal government its share of the amount transferred. The finding is described more fully in the findings and recommendations section contained herein. Our recommendation for improvement and management's response follow the finding.

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

Funds for the *Comprehensive Annual Financial Report*:

None

Federal Programs for the *Single Audit Report*:

Billed Central Service Costs

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

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following finding and recommendation was identified during the current audit and describes a condition that represents noncompliance with laws, regulations, contracts, or grants.

FUNDS TRANSFERRED WITHOUT EQUITABLE DISTRIBUTION TO THE FEDERAL GOVERNMENT

The Correction Enterprises Division of the Department of Correction transferred from its profits \$2,500,000 to the State's General Fund to support appropriations and \$226,404 to the Department of Crime Control and Public Safety for the Crime Victims Fund. While the transfers were authorized by various legislative requirements, the transfers are questioned because federal programs failed to receive a refund for their equitable share. Questioned costs are likely in excess of \$10,000 for the Highway Planning and Construction Program which made purchases exceeding \$750,000 from Correction Enterprise.

OMB Circular A-133 requires that refunds are to be made to the Federal Government for its share of any amounts transferred or borrowed from internal service, central service, pension, insurance, or other similar activities or funds for purposes other than to meet the operating liabilities, including interest on debt, of the fund.

Recommendation: The Department should make contact with the federal government to seek disposition of the issue of the \$2,726,404 that was transferred out for purposes other than to meet the operating liabilities of the fund.

Agency Response: The Department of Correction (DOC) was complying with fund transfer requirements which were mandated by the N.C. Legislature through General Statutes and Budget Bills. The DOC will discuss with the appropriate federal agency and N.C. Legislature, the proper course of action to address the audit finding related to transfers out of Correction Enterprises to the State's General Fund and to the Crime Victim's Compensation Fund.

DISTRIBUTION OF AUDIT REPORT

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 Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. Theodis Beck	Secretary, North Carolina Department of Correction

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Mr. James D. Johnson	Director, Fiscal Research Division
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April 29, 2004

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