



# STATE OF NORTH CAROLINA

**RESULTS OF**

**STATEWIDE FINANCIAL AUDIT PROCEDURES AT THE**

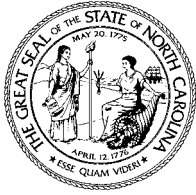
**OFFICE OF THE STATE CONTROLLER**

**FOR THE YEAR ENDED JUNE 30, 2004**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**



STATE OF NORTH CAROLINA  
Office of the State Auditor

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State Auditor

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February 23, 2005

The Honorable Michael F. Easley, Governor  
Members of the North Carolina General Assembly  
Mr. Robert L. Powell, State Controller  
Office of the State Controller

We have completed certain audit procedures at the Office of the State Controller related to the State of North Carolina reporting entity as presented in the *Comprehensive Annual Financial Report (CAFR)* and *Single Audit Report* for the year ended June 30, 2004. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

In the *CAFR*, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor presents the results of tests of internal control and compliance with laws, regulations, contracts and grants applicable to the State's financial statements and to its federal financial assistance programs. Our 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 the Single Audit Act as applicable. Our audit scope at the Office of the State Controller included the following:

State of North Carolina's Financial Statements

- General Fund Revenues Financial Reporting Unit
- Internal Control Over Statewide Financial Reporting
- Preparation of the *Comprehensive Annual Financial Report*

State of North Carolina's Administration of Federal Financial Assistance Programs

- Jobs and Growth Tax Relief Reconciliation Act – Temporary State Fiscal Relief Program
- Compliance with the Federal Cash Management Improvement Act
- Preparation of the Schedule of Expenditures of Federal Awards

Our audit procedures at the Office of the State Controller were less in scope than would be necessary to report on the financial statements that relate solely to the Office of the State Controller or its administration of federal programs. Therefore, we do not express such conclusions.

The results of our audit procedures yielded an audit finding and recommendation for the Office of the State Controller related to the State's federal financial assistance programs that may require disclosure in the aforementioned reports. The finding is included in the findings and recommendations section contained herein. Our recommendation for improvement and management's response follow the finding. *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 "Leslie W. Merritt, Jr." in a cursive script.

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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

The following finding and recommendation was identified during the current audit and discusses a condition that represents a significant deficiency in internal control and/or noncompliance with laws, regulations, contracts or grants.

#### FEDERAL INTEREST LIABILITY COMPUTED INCORRECTLY

The Office of the State Controller calculated an interest liability to the federal government incorrectly. Had our audit not detected the error, the State could have overpaid interest by approximately \$590,000.

Pursuant to the Cash Management Improvement Act and the State's agreement with the U.S. Department of the Treasury, the State must refund the amount of interest earned on federal grant money. The spreadsheet used to calculate the interest liability contained a formula error for the Medicaid program, which resulted in a calculated liability of approximately \$3 million rather than the actual liability amount of approximately \$2.4 million. The error was identified by our audit after the Office of the State Controller had submitted the interest liability report to the federal government electronically, but before the signed hard copy of the report was submitted. Consequently, the Office of the State Controller was able to correct the spreadsheet before paying the incorrect amount.

*Recommendation:* The Office of the State Controller should improve controls over spreadsheet formula changes to prevent future errors.

*Agency Response:* Corrective action has been taken. The Office of the State Controller has developed a standardized template for the monthly CMIA worksheets. The templates are available on the Office of the State Controller website. Each agency will be required to use the standardized templates. The templates will have password protection on all columns requiring calculations. For the 2004 fiscal year, the calculation error was detected and all reports have been submitted correctly to the US Treasury.

# 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 Richard H. Moore  
The Honorable Roy A. Cooper, III  
Mr. David T. McCoy  
Mr. Robert L. Powell

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Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller

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Director, Fiscal Research Division

March 2, 2005

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