



STATE OF NORTH CAROLINA

RESULTS OF STATEWIDE FINANCIAL AUDIT PROCEDURES AT THE NORTH CAROLINA DEPARTMENT OF CORRECTION

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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April 6, 2005

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 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 North Carolina Department of Correction included the following:

State of North Carolina's Financial Statements

None

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

Billed Central Service Costs

Our audit procedures at the North Carolina Department of Correction were less in scope than would be necessary to report on the financial statements that relate solely to the Department 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 Department related to the federal financial assistance programs that may require disclosure in the aforementioned reports. This finding is included in the finding and recommendation 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.

Leslie W. Merritt, Jr.

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

AUDIT FINDING AND RECOMMENDATION

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. The finding was also reported in the prior year.

FUNDS TRANSFERRED WITHOUT EQUITABLE DISTRIBUTION TO THE FEDERAL GOVERNMENT

The Correction Enterprises Division of the Department of Correction transferred from its profits \$500,000 to the State's General Fund to support appropriations and \$280,311 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 these transfers do not represent allowable costs of the Correction Enterprises Division and no adjustment was made to the amount billed the Federal government. Questioned costs are likely in excess of \$10,000 for the Highway Planning and Construction program that made purchases exceeding \$1.1 million from Correction Enterprises.

OMB Circular A-87 states that billing rates used to charge Federal awards shall be based on the estimated costs of providing the services. A comparison of the revenue generated by each billed service will be made at least annually and an adjustment will be made for the difference between the revenue and the allowable costs. Adjustments for charges to federal awards can be made through (1) cash refunds, (2) credit to the amounts charged to individual programs, and (3) adjustments to future billing rates.

Recommendation: The Department should make contact with the federal government to seek disposition of the issue of the \$780,311 that was transferred out and was not for allowable cost of the Correction Enterprises Division.

Agency's Response: The Department of Correction was complying with fund transfer requirements which were mandated by the N. C. Legislature through general statutes and budget bills. In addition, our Department has obtained a management decision letter from the U.S. Highway Department for a similar type audit finding in the prior year which says we do not owe them a refund and we did not violate OMB Circular A-133. We will however, discuss with the appropriate federal agency and the N. C. Legislature, the proper course of action to address the current FY04 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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Mr. Theodis Beck	Secretary, North Carolina Department of Correction

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April 11, 2005

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