

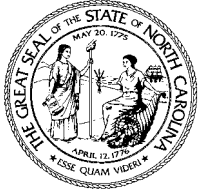
STATE OF NORTH CAROLINA

**RESULTS OF
STATEWIDE FINANCIAL AUDIT PROCEDURES AT THE
OFFICE OF INFORMATION TECHNOLOGY SERVICES
FOR THE YEAR ENDED JUNE 30, 2004**

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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November 4, 2004

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Mr. George Bakolia, State Chief Information Officer
Office of Information Technology Services

We have completed certain audit procedures at the Office of Information Technology Services 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 also 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 Information Technology Services included the following:

State of North Carolina's Financial Statements

None

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

Central Service Costs Billed to Federal Programs

Our audit procedures at the Office of Information Technology Services were less in scope than would be necessary to report on the financial statements that relate solely to the Office of Information Technology Services 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 Information Technology Services related to the State's federal financial assistance programs that may require disclosure in the aforementioned reports. The finding noted above

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 "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 discusses conditions that represent noncompliance with laws, regulations, contracts or grants.

1. ERROR IN FEDERAL REFUNDS ALLOCATION

The Office of Information Technology Services made an error in allocating the amount of internal service fund billings to be refunded to state agencies. The error generally resulted in a nominal difference between the amount that each agency should have received and the amount actually received. However, the refund paid to the Department of Health and Human Services – Division of Social Services was \$21,000 less than it should have been. Based on service usage, this likely would have resulted in the Child Support Enforcement Program being charged at least \$10,000 more than was allowable.

As a result of our audit, the Office of Information Technology Services took corrective measures to ensure that no federal program was overcharged. Consequently, no costs are questioned. Additional refund checks were sent to agencies that were originally under-refunded. Agencies that were over-refunded were given the option of returning a portion of the refund or having the correction made through subsequent billings and refunds. Because the total refund paid to the Department of Health and Human Services was more than it should have been, the Office of Information Technology Services sent a letter to the Department informing management of the corrected amounts for each division within the Department and instructing them to reallocate the original refund so that no programs would be overcharged.

In accordance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, the Office of Information Technology Services annually computes the amount of excess working capital reserves on hand and reimburses the federal share to state agencies. The agencies then credit individual federal programs for each program's share of the refund. The Office issues separate federal refunds for telecommunications services and computing services. The allocation error occurred because the Office inadvertently applied the telecommunications participation percentage to computing services and the computing services participation percentage to telecommunications services.

Recommendation: The Office of Information Technology Services has already resolved the amount of costs that would have been questioned. We recommend that the Office carefully review future refund calculations to ensure clerical accuracy.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Agency Response: The Office of Information Technology Services (OITS) has reviewed and concurs to the audit finding given as the result of the Single Audit of the State's federal financial assistance programs for the year ended June 30, 2004.

The Budget, Cost Analysis and Reporting Section (BCAR) of the OITS has taken corrective action as recommended by the Office of the State Auditor. The OITS has developed written procedures for the Yearly Refund Process, which will be implemented immediately. The BCAR Section has extended its review process, and has allowed additional processing time in preparation of the yearly refunds.

DISTRIBUTION OF AUDIT RESULTS

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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Office of Information Technology Services

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Director, Fiscal Research Division

November 19, 2004

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