



STATE OF NORTH CAROLINA

**FISCAL CONTROL AUDIT REPORT ON
DEPARTMENT OF JUSTICE
RALEIGH, NORTH CAROLINA**

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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THE HONORABLE ROY A. COOPER, III ATTORNEY GENERAL



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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
The Honorable Roy A. Cooper, III, Attorney General

This report presents the results of our fiscal control audit of the Department of Justice. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The objective of a fiscal control audit is to gather and evaluate evidence about internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Recommendations section of this report.

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.

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BACKGROUND INFORMATION

State law established the Department of Justice under the supervision and direction of the Attorney General. The duties of the Attorney General include representing state agencies in legal matters, providing legal opinions to public officials, instituting court proceedings in matters of public interest and handling criminal appeals from state trial courts. The Department of Justice also provides services to citizens through education about consumer fraud and the criminal justice system.

In addition to providing legal services, the Department of Justice also provides support to law enforcement agencies in North Carolina. The Department's State Bureau of Investigation assists local law enforcement in the identification of criminals, the scientific analysis of evidence, and the investigation and preparation of evidence to be used in court. The Department also provides training and oversees standards for certain local law enforcement officers.

In the fiscal year ended June 30, 2004, the Department spent approximately \$81 million in the general fund and \$16 million in its special revenue funds. The majority of these expenditures were for personnel costs. Other significant expenditures included state grants and tort claims. The primary sources of funds for the Department were general fund appropriations of nearly \$72 million and fees, licenses and fines of approximately \$22 million.

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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes* and in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have conducted a fiscal control audit at the Department of Justice.

The objective of a fiscal control audit is to gather and evaluate evidence about internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources. Our audit does not provide a basis for issuing an opinion on internal control, and consequently, we have not issued such an opinion.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

SCOPE

Our audit scope included selected internal controls in the following organizational units:

Financial Services – This organizational unit is responsible for the general accounting functions of the Department. The unit accounts for transactions and issues financial reports covering all Department operations.

Consumer Protection Division – This Division acts to protect the public from unlawful business practices. The Consumer Protection Division most often takes action pursuant to State and federal laws against businesses that repeatedly deceive consumers and intervenes in instances in which the rights of many consumers are at stake. The Consumer Protection Division collects payments for consumer litigation settlements and administers the distribution of the settlements.

During our audit, we considered internal control related to the following accounts and control objectives:

Vendor Fees – These are the fees the Department charges local law enforcement agencies for access to the Division of Criminal Intelligence - Police Information Network. Our audit covered vendor fees collected during the period July 1, 2004, through March 31, 2005, which amounted to approximately \$2 million. We examined internal control designed to ensure that the Department properly accounts for and reports these revenues.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

Grants, State Aid and Subsidies – The expenditures considered in our audit were distributions of consumer litigation settlements paid to not-for-profit organizations during the fiscal year ended June 30, 2004, which totaled approximately \$8 million. We examined the internal control designed to ensure that the Department properly accounted for and reported the transactions and complied with State law governing grants to not-for-profit organizations. Among other things, the law requires state agencies to report grants made in the previous year to the Office of the State Auditor and to monitor grants to ensure that moneys are used by recipients for the intended purpose.

METHODOLOGY

To accomplish our audit objectives, we gained an understanding of internal control, performed tests of control effectiveness, and/or performed direct tests of the accounts and transactions as we considered necessary in the circumstances. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records and examining documentation supporting recorded transactions and balances.

RESULTS

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Recommendations section of this report.

AUDIT FINDINGS AND RECOMMENDATIONS

1. GRANT EXPENDITURES NOT PROPERLY CLASSIFIED

The Department did not properly classify grant expenditures in its financial records. As a result, grant expenditure amounts cannot be readily determined by users of the financial statements or general ledger.

North Carolina General Statute 143-6.1 requires state agencies to report to the State Auditor the amount of grants paid to nongovernmental organizations each year. The Department reported its grant expenditures to the Office of the State Auditor, but the report was not supported by the underlying accounting records.

For the fiscal year ended June 30, 2004, the Department recorded approximately \$8 million of grant payments as “other expenses.” These payments were made from litigation settlements that were required to be distributed by the Attorney General. After initially deciding to record the payments as other expenses, the Department later determined that the payments should be classified as grants. However, the accounting records were not adjusted to reflect the correct classification.

Recommendation: The Department should ensure that its accounting records properly reflect the nature of its expenditures.

Department’s Response: The Department concurs that it should use more specific and less generic classifications of expenditures. The more specific grant related expenditure classifications recommended by the State Auditor will be utilized by the Department.

2. INADEQUATE PROCEDURES TO ENSURE EMPLOYEE PERFORMANCE APPRAISALS PREPARED

The Department does not ensure that all employees receive annual performance appraisals in accordance with Office of State Personnel policy. Periodic communication to employees about job responsibilities and work performance demonstrates management’s commitment to excellence and helps ensure that organizational goals are met.

We reviewed 13 personnel files and found 10 that did not contain a current performance appraisal. Although performance appraisals are required annually, the Department does not follow up to ensure that appraisal documents are completed and turned in to the personnel office. Department personnel indicated that even if formal performance appraisals were not prepared, informal performance discussions were held with employees.

State agency responsibilities regarding employee performance appraisals are described in Section 10 of the State Personnel Manual. These responsibilities include completing written performance appraisals annually that are kept on file for three years.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Recommendation: The Department should implement procedures to ensure that performance appraisals are performed and documented in accordance with Office of State Personnel policy.

Department's Response: The Department will improve upon its procedures to ensure that the performance appraisal process follows a more consistent format and approach that better complies with Office of State Personnel Policy. The personnel files noted in the Audit Findings did contain overall rating grades and varying types of performance review documentation, which demonstrate the Department's intent to comply with the spirit and intent of the performance review process. However, future documentation will be improved to ensure a more uniform and consistent format and approach.

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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Director, Fiscal Research Division

June 29, 2005

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