

STATE OF NORTH CAROLINA

DEPARTMENT OF TRANSPORTATION

STATEWIDE FINANCIAL STATEMENT AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

DEPARTMENT OF TRANSPORTATION

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
Members of the North Carolina General Assembly
Eugene A. Conti, Jr., Secretary
Department of Transportation

We have completed certain audit procedures at the Department of Transportation 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, 2011. 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. Our audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

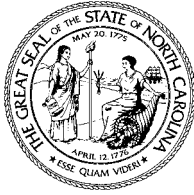
Our audit objective was to render an opinion on the State of North Carolina's financial statements and not the Department's financial statements. However, the report included herein is in relation to our audit scope at the Department and not to the State of North Carolina as a whole.

The audit finding referenced in the report is evaluated to determine its impact on the State's internal control and the State's compliance with rules, regulations, contracts and grants. If determined necessary in accordance with *Government Auditing Standards*, the finding is reported in the State's *Single Audit 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.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Mr. Eugene A. Conti Jr., Secretary
and Management of the Department of Transportation

As part of our audit of the State of North Carolina's financial statements, we have audited selected elements of the Department of Transportation's financial statements, as of and for the year ended June 30, 2011. Our report on the State of North Carolina's financial statements is included in the State's *Comprehensive Annual Financial Report*. Our financial statement audit scope at the Department of Transportation included the following:

- Special Revenue - Highway Fund
- Special Revenue - Highway Trust Fund
- Capital Assets Used In Governmental Activities

The audit results described below are in relation to our audit scope at the Department and not to the State of North Carolina as a whole.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the State's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or

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combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

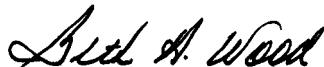
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we consider the deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over financial reporting, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's response to the finding identified in our audit is included in the Audit Findings and Responses section of this report. We did not audit the response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Secretary Conti, others within the entity, the Governor, the General Assembly and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

December 8, 2011

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

PAYROLL TIME ENTRIES NOT VERIFIED

The Department's control procedures to ensure the accuracy of payroll time entries are not being followed. As a result, there is an increased risk of improper payroll payments.

Reports are produced from the payroll system to ensure that the time entered in the payroll system is complete and accurate. One report (ZCAPS) is used to check for completeness by identifying any employee whose time has not been entered for the pay period. The Department's policy states that a copy of this report should be printed, initialed, dated, and retained.

In our sample of 60 employees, we noted the following related to this report:

- Twenty-nine instances where the time validation report was not initialed to confirm that all employees' time had been entered.
- Two instances where the payroll reports were not printed, initialed, dated, or retained.

Another report (ZHPAY) is run after all employees' time has been entered in the payroll system. The Department's policy requires the hours on this report to be agreed to each employee's timesheet to ensure that each employee's time was entered correctly in the payroll system. The policy also states that a copy of this report should be printed, initialed, dated, and retained along with original timesheets.

In our sample of 60 employees, we noted the following related to this report:

- Six instances where the payroll reports were not initialed or dated to confirm that the accuracy of time entry was checked.
- Ten instances where the payroll reports were not dated to confirm when the accuracy of the time entry was verified.
- One instance where the payroll report was not approved in a timely manner. The report was approved on June 14, 2011 for the pay period ending October 15, 2010.
- One instance where the timesheet showed an employee had worked 40 hours but the time entered in the system was 43 hours, thereby allowing the employee to receive three hours of compensatory time for hours not worked.

Aspects of this finding have been reported for three consecutive years.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Recommendation: The Department should ensure that policies and procedures regarding time entry and approval are followed to ensure that time entered into the payroll system is properly verified.

Agency Response: DOT's Office of Inspector General will conduct an internal review of time entry processes prior to the end of the fiscal year.

The business areas identified in the audit finding were contacted to discuss the specific issues noted in the audit. They discussed the proper internal controls that must be followed.

DOT has developed an on-line course that all time keepers and paymasters will be asked to take each year. This tool will provide an effective reminder of the controls that must be followed.

Fiscal staff will send quarterly e-mail reminders to time entry and paymasters to reinforce the steps that should be followed.

The audit finding and corrective action plan will be sent to all senior management levels to ask for their assistance in communicating the importance of following appropriate internal controls.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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