



# **STATE OF NORTH CAROLINA**

**DEPARTMENT OF TRANSPORTATION**

**STATEWIDE FINANCIAL STATEMENT AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2012**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**DEPARTMENT OF TRANSPORTATION**

**STATEWIDE FINANCIAL STATEMENT AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2012**

**ADMINISTRATIVE OFFICERS**

**EUGENE A. CONTI, JR., SECRETARY**

**MARK L. FOSTER, CHIEF FINANCIAL OFFICER**



**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly Eaves Perdue, Governor  
Members of the North Carolina General Assembly  
Mr. Eugene A. Conti, Jr., Secretary  
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, 2012. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*. We conducted the 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.

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 State Auditor expresses an opinion on the State's financial statements in the *Comprehensive Annual Financial Report* published by the North Carolina Office of State Controller.

The audit finding in this 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 will be 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 black ink 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**

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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, 2012. 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

The Department's management is responsible for establishing and maintaining effective 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 combination of deficiencies, in internal control such that there is a reasonable possibility that

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
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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 Eugene A. Conti, Jr., 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 3, 2012

## AUDIT FINDINGS AND RESPONSES

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### **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 employees' time entry is complete and accurate. The time validation report (ZCAPS) is used to check for completeness by identifying any employee whose time has not been entered for the pay period. The payroll batch 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 time was entered correctly in the payroll system. The Department's procedures require that a copy of both reports should be printed, initialed, dated, and retained along with original timesheets.

In our sample of 60 employees, we noted the following:

- Four instances where the time validation reports were not initialed.
- Two instances where the time validation reports were not printed, initialed, and retained along with the original timesheets at the end of the pay period.
- One instance where the payroll batch report was not initialed or dated to confirm that the accuracy of the time entry was verified.

This finding has been reported for four consecutive years.

*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:* The business areas identified in the audit finding were contacted to discuss the specific issues noted in the audit. Proper internal controls were discussed.

The Office of Inspector General will conduct a review of time entry practices during FY13.

Fiscal staff will send monthly e-mail reminders to employees with time entry roles in SAP to reinforce the steps that must be followed.

The audit finding and corrective action plan will be sent to all senior management levels to request their assistance in communicating the importance of following appropriate internal controls. We will also ask management to require time entry staff to take the on-line Payroll Practice course this year.

## **AUDIT FINDINGS AND RESPONSES (CONCLUDED)**

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We are continuing efforts to transition business units, where practical, to user based time entry with electronic approval of time. We are also investigating more efficient ways to capture time for crew activities.

## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://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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This audit required 2084 audit hours at an approximate cost of \$150,048. The cost represents 0.01% of the \$1.5 billion of Highway and Highway Trust Fund's total assets subjected to audit, 0.004% of the \$3.9 billion of Highway and Highway Trust Fund's total expenses subjected to audit, and 0.0003% of the \$45 billion of Capital Assets subjected to audit.