



STATE OF NORTH CAROLINA

OFFICE OF INFORMATION TECHNOLOGY SERVICES STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

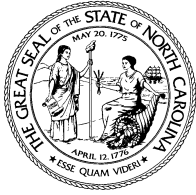
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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
Members of the North Carolina General Assembly
Mr. Gerald L. Fralick, 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 *Single Audit Report* for the year ended June 30, 2010. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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 major federal programs. Our audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Our audit objective was to render an opinion on the State of North Carolina's, and not the Office of Information Technology Services', administration of major federal programs. However, the report included herein is in relation to our audit scope at the Office of Information Technology Services and not to the State of North Carolina as a whole.

The audit finding referenced in the report is also evaluated to determine the 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* or the OMB Circular A-133, 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 COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mr. Gerald L. Fralick
and Management of the Office of Information Technology Services

Compliance

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major programs for the year ended June 30, 2010, we have performed audit procedures at the Office of Information Technology Services. Our report on the State of North Carolina's compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133 is included in the State's *Single Audit Report*. Our federal compliance audit scope at the Office of Information Technology Services included the following:

- Billed Central Service Costs

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Office of Information Technology Services' compliance with those requirements.

The results of our audit procedures at the Office of Information Technology Services disclosed no instances of noncompliance that are required to be reported in accordance with OMB Circular A-133.

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance 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 compliance 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 compliance 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 compliance, as defined above.

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, State Chief Information Officer Fralick, others within the entity, the Governor, the General Assembly,

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
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IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

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

March 11, 2011

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AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

CONTROL DEFICIENCIES NOTED FOR EXPENDITURES CHARGED TO COMPUTING SERVICES FUND

The Office of Information Technology Services (ITS) did not have controls in place to ensure that all costs charged to the computing services cost pool were reasonable and necessary to its operations. Charging unallowable costs to the computing services cost pool increases the rate charged to customers, some of whom pay for the charges with federal funds.

In a sample of 40 items charged to the computing services fund, we noted three invoices with improper charges totaling \$426. Specifically, ITS paid for:

- Local telephone services for retired employees.
- Inactive pagers.
- Local telephone services for current employees who were not assigned to the computing services area.

OMB Circular A-87 requires costs to be necessary and reasonable for the proper and efficient administration of the federal program to be allowable. Also, costs must benefit the federal program, or in this case, the cost pool in order to be allowable.

Federal Award Information: The finding affects the computing services cost pool. Many of the State's federal programs are impacted, including the Child Support Enforcement Program.

Recommendation: The Office of Information Technology Services should enhance the effectiveness of its internal controls designed to ensure that only allowable costs are charged to the computing services cost pool.

Agency Response: We agree that the errors found are accurate and we have taken corrective action to delete those items that should be disconnected and are no longer in use. The items were all related to phone lines and pagers. As part of our ongoing process improvement work we are implementing the following actions that all address this finding. Two of the actions are already fully implemented and the third action will be implemented by May 2011.

ACTION 1:

ITS has implemented an employee on boarding and off boarding process that was designed and deployed to help us improve our business operational processes around the movement of employees within the ITS Agency and those who join and leave the agency. This new process was deployed in February 2010. Please find below a list of the three sub-processes and the numbers of tasks that are part of each sub-process. We are using our IT ticketing system to help us kickoff this process and to manage completion of each and every task within the process. We also have a quality control (QA) process in place to inspect our

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

completeness of this process. The QA process sends reports to the administrators on a weekly basis that shows the task status of their tickets to ensure they continue to drive resolution to each task. In addition, we are holding quarterly meeting to insure we complete all tasks in a timely manner.

On board and off board process has 3 sub-processes:

1. New employee on boarding sub-process
 - a. Sub-process has 21 tasks
2. Employee move process
 - b. Sub-process has 21 tasks
3. Employee exit process
 - c. Sub-process has 20 tasks

Anticipated Completion Date: Action to implement the new employee on boarding/off boarding process was completed in February 2010.

ACTION 2:

ITS has been performing internal audits and reviews of phone bills that has been focused on our customers. We recently expanded the focus of this team to include the auditing of the ITS internal phone bills. This increased focus on internal audit and review of phone bills has already started to yield results within ITS as well. As we discover items that need to be corrected we are seeking to change or modify processes to reduce the reoccurrence of these items going forward. The audit team is producing a monthly report for review with management that includes potential recommendations for process and procedure changes.

Anticipated Completion Date: Action to implement the new internal audit and phone bill review process was completed in December 2010.

ACTION 3:

Several of the phone lines noted are in the data center and have been used to connect to data center equipment and provide communications facilities to this equipment for maintenance, problem management and other service and support items that the specific vendors may well use to support their product in the state data center. As a corrective action, we are modifying our decommissioning process within the data centers that will check to verify if communications ports and equipment is attached to the device being decommissioned. If there is, a step will be added to the decommissioning process to disconnect these communications facilities so that we will not continue to be charged for communication services we no longer need.

Anticipated Completion Date: May 2011.

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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