



# **STATE OF NORTH CAROLINA**

**OFFICE OF THE STATE CONTROLLER**

**FISCAL CONTROL AUDIT**

**OFFICE OF THE STATE AUDITOR**

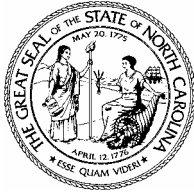
**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

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**FISCAL CONTROL AUDIT**

**ROBERT L. POWELL,  
STATE CONTROLLER**



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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Mr. Robert L. Powell, State Controller

This report presents the results of our fiscal control audit of the Office of the State Controller. 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 no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*.

*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.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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## BACKGROUND INFORMATION

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The Office of the State Controller's statutory responsibilities include the following:

- Provide a uniform state accounting system for all state agencies;
- Prescribe and supervise accounting system changes to maintain internal control;
- Oversee disbursements made by state agencies;
- Operate a central payroll system;
- Maintain records of appropriations, allotments, expenditures and revenues;
- Perform reconciliations with accounts kept by the State Treasurer;
- Develop and implement a state cash management policy;
- Prepare periodic financial reports, including the *Comprehensive Annual Financial Report*.

The Office has three divisions: Administration, Financial Systems and Statewide Accounting. The Administrative Division carries out the general business operations of the Office, the central payroll function for state agencies and various special projects. The Financial Systems Division oversees and supports the North Carolina Accounting System. Finally, the Statewide Accounting Division monitors central financial compliance requirements, performs accounting research, maintains accounting policies, provides accounting assistance to state agencies and prepares financial reports.

For the fiscal year ended June 30, 2005, the Office of State Controller reported approximately \$11 million in total expenditures. Of the total expenditures, 69% were for personal services and benefits, including contracted services, and 14% were for data processing services. Operations are primarily financed by state appropriations and operating transfers.

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## **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS**

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### **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 Office of the State Controller.

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 covered the period July 1, 2005, through February 28, 2006, and focused on internal control to ensure compliance with state personnel and purchasing regulations. In regards to personnel regulations, we considered internal control related to:

*Personal Services* – The Office of State Controller reported approximately \$3.6 million in personal service costs during our audit period. We examined internal control designed to ensure that the Office was in compliance with state requirements for recruiting and hiring, salary administration, and accounting for employee leave.

Our audit of internal control designed to ensure compliance with purchasing regulations focused on the Office of State Controller's initiative to replace the State's human resources/payroll infrastructure. Through a statewide collaborative effort, the goal of the human resource/payroll initiative is to develop a fully automated human resources and payroll system to support the needs of state government. The initiative is comprised of three phases: requirements planning, procurement, and implementation. The project was in the procurement phase during our audit period, which involved acquiring software, hardware and training needed for implementation. Specifically, our objectives included:

## **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)**

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*Contracted Personal Services* – The Office of State Controller reported approximately \$657,000 in contracted personal service costs during our audit period. These expenditures were primarily related to contracts with information technology staff, hired to assist with the design and implementation of the new statewide human resources system. We examined internal control designed to ensure that contracts were in compliance with state purchase and contract regulations.

*Capital Outlay for server software* – These expenditures were primarily related to the new statewide human resources/payroll system. The Department reported server software purchases of approximately \$10.9 million during our audit period. We examined internal control designed to ensure purchases were in compliance with state purchase and contract regulations.

### **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 no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*.



## **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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