



# STATE OF NORTH CAROLINA

DEPARTMENT OF JUSTICE  
FISCAL CONTROL AUDIT

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

**DEPARTMENT OF JUSTICE**

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**AUDITOR'S TRANSMITTAL**

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June 19, 2009

The Honorable Beverly E. Perdue, 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 at 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 performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of a fiscal control audit is to identify improvements needed in 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 Responses 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.

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

Beth A. Wood, CPA  
State Auditor

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## OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

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### OBJECTIVES, SCOPE, AND METHODOLOGY

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a fiscal control audit at the Department of Justice. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

The objective of a fiscal control audit is to identify improvements needed in 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 rendering 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.

To accomplish our audit objectives, we gained an understanding of internal control over matters described below and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that may reveal significant deficiencies in internal control. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As discussed in the framework, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONTINUED)

Our audit scope covered the period July 1, 2008 through December 31, 2008 and included selected internal controls in the following organizational units:

### General Administration Division

The General Administration Division assists the Attorney General in all aspects of management of the Department, including policy and planning development, providing support in budgetary, personnel and purchasing activities for the department, and by providing adequate facilities and resources necessary for employees to do their job. The General Administration Division provides high level and operational management and oversight of all department divisions, programs and activities.

### Legal Services Division

This division provides legal representation in federal and state trial and appellate courts as well as administrative tribunals for all state departments, agencies, institutions, commissions, bureaus, or other organized entities of the state. This division also provides legal counsel on a daily basis to these same state entities as well as to local governments, law enforcement agencies, and the members of the General Assembly. Lastly, this division provides consumer protection services to all North Carolina citizens.

### Law Enforcement Services Division – State Bureau of Investigations (SBI)

The SBI operates within the jurisdiction established in Chapter 114 of the *North Carolina General Statutes* to investigate crimes, perform laboratory analysis of forensic evidence, and develop and operate comprehensive computerized databases in order to assist state, local and federal law enforcement agencies in solving crimes. The Bureau also provides awareness of crime trends and crime prevention techniques through educational programs and tracks statewide crime activity and statistics.

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

*Capitalized Equipment and Motor Vehicles* – These are equipment items and motor vehicles with an initial cost of \$5,000 or more and an estimated useful life of more than two years. At December 31, 2008, the Department reported a total capitalized equipment and motor vehicles balance of \$38,089,115.52. We examined internal control designed to ensure that the Department properly accounts for and safeguards these assets.

*Legal Services* – These are expenses incurred for contracted professional services with external legal counsel possessing expertise that cannot be provided by the current staff. This account also includes expenses for expert witness fees. The Department reported legal services expenses of \$3,011,986.45 during our audit period. We examined internal control designed to ensure that the Department properly accounts for the expenditures and that purchases are reasonable and are deemed satisfactory before payments are made.

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

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*Capital Outlay for Custody and Security Equipment* – These expenditures are made by the Law Enforcement Services Division to acquire custody and security equipment such as firearms and protective uniform equipment. The Department reported custody and security purchases of \$851,880.38 during our audit period. We examined internal control designed to ensure that the Department properly accounts for the expenditures, purchases are made in compliance with State purchase and contract regulations and the assets are properly safeguarded.

*Capital Outlay for Other Data Processing Equipment* – These expenditures are made by the Information Technology Services Department within the General Administration Division to acquire other data processing equipment such as personal computers, laptops, servers and other networking equipment. The Department reported other data processing purchases of \$271,229.33 during our audit period. We examined internal control designed to ensure that the Department properly accounts for the expenditures, purchases are made in compliance with State information technology procurement guidelines and the assets are properly safeguarded.

*Capital Outlay for Aircraft* – These expenditures are made by the Law Enforcement Services Division to maintain aircraft such as engine and mechanical parts. The Department reported aircraft purchases of \$100,389.80 during our audit period. We examined internal control designed to ensure that the Department properly accounts for the expenditures, purchases are made in compliance with State purchase and contract regulations and the assets are properly safeguarded.

*Personal Services* - These expenditures are made by the Department for services rendered by permanent and temporary employees occupying authorized non-teaching, administrative, research or other positions both subject to and exempt from the State Personnel Act and to law enforcement officers who have the power of arrest. Payments to full time and part time permanent and temporary employees for compensation in excess of a standard workweek are also included in this expenditure account. The Department reported personal services expenses of \$37,402,133.30 during our audit period. We examined internal control designed to ensure that the Department properly accounts for the expenditures and is in compliance with the State Personnel Manual.

### **RESULTS**

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards. These items are described in the Audit Findings and Responses section of this report.

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## AUDIT FINDINGS AND RESPONSES

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### 1. LACK OF RECONCILIATION PROCEDURES FOR CAPITAL ASSETS

The Department of Justice (DOJ) does not have procedures in place to ensure that the internal capital asset system is periodically reconciled to the North Carolina Accounting System. This increases the risk that a financial reporting error could occur and not be detected in a timely manner. The North Carolina Accounting System capital assets balance was significantly greater than the North Carolina Department of Justice internal capital assets balance at December 31, 2008.

*Recommendation:* The Department should implement adequate procedures to ensure complete and accurate reporting of capital assets.

*Agency Response:* The Department concurs with the recommendation of the State Auditor's Office. We investigated the reporting difference between the internal department system and the North Carolina Accounting System. The variance your team discovered was created because of computer system technical errors. These technical and software problems have been resolved and both systems are now in balance. The DOJ internal system came online in October 2008, and any difference between the two systems would have been resolved during our fiscal year-end closing procedures. However, we will ensure that more frequent periodic reconciliations occur in the future.

### 2. LACK OF INDEPENDENT REVIEW OF TIME ENTERED BY TIME ADMINISTRATORS

The Department of Justice does not have procedures in place to ensure that the data entry of manual timesheets into the BEACON payroll system is accurate. This increases the risk that incorrect or fraudulent payments could be made to employees and not be detected. During the audit, we noted that time administrators have access rights within the BEACON payroll system that allow them the ability to enter and approve the data entry of time worked and leave taken without independent review.

*Recommendation:* The Department should strengthen control procedures to ensure that the data entry of time worked and leave taken entered by time administrators are accurate.

*Agency Response:* The internal control finding and recommendation cited by your office highlights a key BEACON system internal control weakness. DOJ, like all state agencies, changed internal business processes because the new BEACON payroll and timekeeping systems were integrated into a single connected system, rather than two separate systems. Before BEACON, time worked and leave balances recorded by employees and approved by their supervisors had to then be reviewed and entered by central department payroll staff into the central payroll system. These separate and segregated procedures provided stronger internal controls when compared to current BEACON integrated time and payroll systems. However, DOJ staff will continue to work with Office of State Controller staff to secure more consistent standardized reports and system functional improvements to improve the accuracy and independent reviews of timekeeper data entry procedures.

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## **ORDERING INFORMATION**

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