

STATE OF NORTH CAROLINA

DEPARTMENT OF ADMINISTRATION

FISCAL CONTROL AUDIT

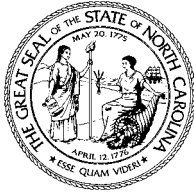
OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

DEPARTMENT OF ADMINISTRATION

FISCAL CONTROL AUDIT



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AUDITOR'S TRANSMITTAL

August 19, 2009

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Britt Cobb, Secretary

This report presents the results of our fiscal control audit at the Department of Administration. 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

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 Administration. 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 of July 1, 2008 through December 31, 2008 and included selected internal controls in the following organizational units:

Office of Fiscal Management

This unit is responsible for all the accounting related functions of the Department, including budgeting. This unit accounts for the financial transactions and issues financial reports covering the Department's operations.

State Parking

This unit directs and administers the state government parking system. This includes allocating leasable State parking spaces to individual state agencies as well as collecting and processing parking fees at visitor parking facilities within the state government complex.

Human Resources Management

This unit provides a range of personnel administrative services and related support to all divisions within the Department.

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

Cash Receipts – The Department's Office of Fiscal Management is responsible for processing and depositing various cash receipts. In relation to these, the Department reported approximately \$7.4 million in revenues for our audit period. We examined internal controls designed to ensure cash received is deposited in accordance with applicable state laws and policies.

Personal Services – This account includes the Department's payroll costs for permanent and temporary employees. The Department reported approximately \$26.5 million in personal service costs for our audit period. We examined internal controls designed to ensure the Department properly accounts for and reports these expenditures.

Leave Balances – The Department is responsible for maintaining current and accurate leave records. These leave records are used to record the Department's accrued leave liability at fiscal year-end. We examined internal controls designed to ensure proper approval of time and leave reporting and ensure leave balances are maintained in accordance with state policy.

State Employee Leased Parking – For our audit period, the Department reported approximately \$510 thousand in revenues for parking spaces leased to state employees. We examined internal controls designed to ensure parking for state employees is being allocated in accordance with the Department's policy.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

Visitor Parking Receipts – For our audit period, the Department reported approximately \$321 thousand in revenues from visitor parking lots. We examined internal controls designed to ascertain all receipts from visitor parking lots in the state government complex are being properly collected and safeguarded.

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

1. INSUFFICIENT CONTROLS OVER PAYROLL AND LEAVE

The Department of Administration does not have adequate controls in place over its payroll and time reporting processes. During our audit we noted the following deficiencies in internal control:

- a. The Department performs no periodic monitoring or review of the established user access levels to ensure employees are granted appropriate access in the payroll system or to ensure access is properly removed for terminated employees. As a result, unauthorized access to the system could occur and not be detected for an extended period of time.
- b. Due to the type of system access that was granted, one employee in the human resources division could create, process, and approve all additions, deletions and changes to personnel data in the payroll system. In addition, there was no review of the information that was entered into the payroll system by the human resources staff. As a result, there is an increased risk that fictitious employees could be added to the payroll or errors could occur and not be detected.
- c. The Department does not review the monthly preliminary payroll reports produced by the payroll system to ensure changes entered are appropriate or to ensure that the monthly payroll amount is accurate before the final payroll run is executed. As a result, there is an increased risk that errors could occur and not be detected.
- d. The Department does not have adequate monitoring procedures in place to ensure employees' timesheets are reviewed and approved by their supervisors in a timely manner. The state payroll system pays salaried employees their full monthly pay rate unless their timesheet indicates otherwise. Supervisory personnel are responsible for reviewing and approving timesheets to ensure work and leave hours have been properly entered. We identified 112 employees out of approximately 800 salaried employees that had entered time as early as January 2008, and their time had not been approved as of May 2009. We also identified employees who were paid but had not entered the full amount of hours worked. As a result, the Department is at risk of paying employees incorrectly and having inaccurate employee leave records.
- e. The Department does not have adequate monitoring procedures in place to ensure employees' leave records are accurate. The Department has delegated the responsibility for ensuring the accuracy of employee leave balances to certain personnel within each division. However, management did not establish standard guidelines for how this verification should be performed, nor have they monitored to ensure some level of review is actually being done. We found that some divisions within the Department have performed reviews to ensure employee leave balances in the payroll system are accurate, but some have not. The Department is at risk of having inaccurate leave records, which increases the risk of employees taking, and being paid for, leave they have not earned.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Recommendation: The Department should strengthen its internal controls to ensure system access rights are appropriate and recorded payroll costs and leave records are accurate.

Agency Response: Working within the parameters set by the BEACON system, Human Resources Management (HRM) and the Office of Fiscal Management (Fiscal) will begin a monthly auditing process to monitor payroll/position transactions. Additional and more specific responses to the audit findings are attached.

2. DEPOSITS NOT IN COMPLIANCE WITH STATE REQUIREMENTS

The Department of Administration did not deposit funds received within one business day as required by *North Carolina General Statute 147-77* and the state cash management plan. In addition to not complying with state law and policy, this practice also increases the risk that moneys will be lost or misappropriated, as well as reduces the State's potential investment earnings.

The Department's procedures require certain processing steps to be performed prior to the receipts being deposited with the State Treasurer. This results in delays and causes the Department to exceed the daily deposit requirements. During our tests of 25 daily deposits, we found 33 checks, totaling \$64,338, that were deposited from two to 17 days after receipt. Of these, 21 checks were deposited two to three days after receipt, 11 checks were deposited from four to seven days after receipt, and one check was deposited 17 days after receipt.

Recommendation: The Department should implement procedures to ensure that all receipts are deposited on a daily basis in accordance with state law and the state cash management plan.

Agency Response: Since receiving the Auditor's recommendation, the Office is now using Budget Code 24100, Fund 2000 for deposit of any funds that cannot be identified for correct coding or funds that were mistakenly sent to the Office. These funds are to be deposited within one business day and are then transferred out of this fund as soon as the correct coding or appropriate Department is identified. All receipts belonging to the Department of Administration are now being deposited on a daily basis in accordance with the state law and the state cash management plan.

3. DEFICIENCIES IN CONTROLS OVER VISITOR PARKING COLLECTIONS

The State Parking Division within the Department of Administration does not have adequate controls over the cash collected at the visitor parking lots. As a result, there is an increased risk that moneys collected could be lost or misappropriated without detection.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

During our audit, we noted the following:

- The division does not reconcile or assess the reasonableness of the number of visitor parking tickets issued to the total number of tickets processed by parking attendants. Tickets are sequentially numbered and each parking lot has a computer that counts the number of tickets issued each day. However, the division's monitoring procedures focus on the tickets the parking attendant processes through the parking system when the ticket is presented for payment. We noted the parking attendant has the ability to collect the cash and open the exit gate without processing the ticket through the parking system. The division's current monitoring procedures would not detect a discrepancy if neither the cash nor ticket were submitted for deposit and recording. As a result, the parking attendants have the ability to misappropriate cash without detection, resulting in lost revenues for the State.
- After the parking attendants submit their day's receipts to the division, a clerk in the State Parking Division is responsible for counting the moneys received, reconciling the moneys received to the daily parking activity report from each parking lot, and preparing a reconciliation report, which also serves as the cash receipts log. There is no review of the clerk's work or the reconciliation report. Because the clerk has access to the assets, the parking activity report and prepares the reconciliation without a review, the clerk could potentially misappropriate these assets and it could go undetected.

Recommendation: The Department should strengthen internal controls over the cash collection process to ensure the security of assets and collection of income.

Agency Response: During the course of and as a result of this audit, the State Parking Office has revised its procedures to ensure that the parking clerk does not have access to the register tapes and no longer performs the daily account reconciliation. Those functions are now handled by Operations Supervisor who is assisted by the Parking Administrator. Moreover, visitor lot parking gates and computer systems are in the process of being upgraded with software systems that enable centralized programming and monitoring. Although the audit did not identify that funds have actually been lost due to the current system or accounting procedures, the issue raised by the audit can be addressed with these upgrades. In addition, credit and debit cards can be accepted, reducing the amount of cash attendants handle.

4. REALLOCATION OF STATE-OWNED PARKING SPACES NEEDS IMPROVEMENT

The State Parking Division within the Department of Administration has not been consistently allocating State-owned parking spaces to State agencies as set forth in the written policies adopted by the Secretary of Administration. This has resulted in parking spaces remaining vacant and parking spaces being allocated inequitably among state agencies.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

North Carolina General Statute 143-340 requires the Secretary of Administration to adopt reasonable rules and regulations with respect to parking of automobiles on all public grounds and to enforce those rules and regulations. The Department has adopted an internal policy, *Rules and Regulations Governing State-Owned Parking Facilities*, for this purpose.

During our audit, we found that the division is not consistently adhering to its parking allocation and assignment policies and practices, as noted in the following:

- According to the Department's policy, parking spaces will be allocated to departments of state government on a prorated basis according to the number of employees assigned to work in the downtown government complex. The Department's established practice has been to update the allocation every two years and use the information to assess a state agency's need when reassigning spaces. However, the allocation has only been partially updated since 2006, and during our audit period it was not being used by State Parking Division staff when reassigning spaces.
- The Department's policy is to reassign parking spaces that remain vacant for more than two months to another state agency based on need. However, we noted two months in our audit period where there was no evidence that this review and reallocation procedure had been performed. In addition, we examined the December 2008 vacancy report and identified 43 spaces that had been vacant for three to 15 months, which indicates that in previous months spaces had not been properly reallocated. The division later completed its review of the December 2008 report and made reassignments; however, we noted that 18 spaces that had been vacant for more than two months were still not reallocated.
- Based on our review of the division's documentation, unassigned parking spaces were held for agencies or were moved to agencies that already had vacant spaces without proper justification and documentation as required by the Department's policies.
- As of May 2009, the division had 18 spaces that were not assigned to any state agency. Based on inquiries at several agencies, we estimate that there are at least 400 employees working in the downtown government complex that are on waiting lists for a state parking space, so every available space should be assigned to an agency.

State Parking Division staff pointed out that lot closures due to construction have created an extra challenge in the assignment of parking spaces. Consequently, the Division has justifiably made finding alternate parking for dislocated individuals its top priority. Nonetheless, it was not necessary to suspend all other policies and practices for this purpose.

Recommendation: The Department should enhance internal controls to ensure compliance with its own policies for allocating parking spaces among state agencies. If

AUDIT FINDINGS AND RESPONSES (CONTINUED)

current policies are deemed to be ineffective or incomplete, the Department should make the necessary revisions.

Agency Response: As has been relayed, since February 2006, approximately 1,172 parking spaces have been lost due to the Green Square and Blount Street developments. Of that total, more than 500 parking spaces were closed between February 2006 and December 2008. As these closures occurred at different times between February 2006 and December 2008, the State Parking Office could not accurately update its allocation formula due to the ongoing disruption in the overall parking inventory. However, in December 2008, parking coordinators were asked to provide updated employment data for their departments to update the allocation formula. Now that the affected employees have been relocated, the State Parking Office has returned to its normal operating procedures and is conducting a thorough review of policies and procedures for parking allocations and assignments and reviewing newer parking management software that will provide more flexibility and accuracy in tracking space reallocations and assignments.

Notwithstanding, there are two findings that do need clarification:

- 1) For those departments and agencies that are eligible to maintain their spaces in their inventory, they are responsible for the parking fee until the space is assigned; and
- 2) Parking assignment and waitlist policies are set and maintained by individual departments and agencies; thus, there are variations in how and when departments assign parking to employees working in the downtown Raleigh complex.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Attachment: Additional and more specific responses to audit finding 1

- a) Each employee's access to the BEACON system is limited by specific parameters built into the system. BEACON provides internal checks and balances to automatically monitor what employees can see or process, such as display only or maintain (add or change) data. Access to the BEACON system is assigned to the position according to specific roles, such as Personnel Contact, Budget Officer, and HR Administrator. The Department assigned these roles to a specific number of positions; i.e., one or two positions per division (outside of HRM and Fiscal) with only the larger divisions having two positions with access. The role has limited and specific access assigned. Upon the position becoming vacant, the position's role remains the same. While the position is vacant, no one has access to that position's BEACON authority. When a new employee is assigned to the position, a number of steps must be completed before the new employee has access to maintain data. Please note: data maintaining is split between personnel action processes, time administration processes, organizational management processes, and payroll processes. BEACON requires all employees to complete multiple training courses within each area before a request can be made to provide access to the data needed in the job. The training requests are managed internally by the Training Manager and new or additional access requests are managed by the HR Data Owner/Security Liaison within Human Resources Management.
- b) Due to this finding, Department of Administration HRM and Fiscal have agreed that Departmental Budget Officers and the HRM Assistant Director will run the "Actions By Month" report to audit actions processed by HR staff on a monthly basis during the BEACON payroll correction run.
- c) The Actions Report and various Payroll/Budget Reports (i.e., ZFIR) will be reviewed monthly during the BEACON payroll corrections run and will eliminate the deficiency described in this finding.
- d) The BEACON system is designed to pay employees regardless of time entry. It is the Personnel Contact's responsibility in combination with supervisors to monitor and ensure that time is properly entered and approved. In addition, the Agency Time Administrator serves as an additional back-up for time approval and troubleshooting based on proper documentation signed by both the employee and the supervisor. Upon receipt of this audit finding, a new monitoring process was established. Personnel Contacts will now run weekly time error reports to continuously monitor employee time entry and supervisor approval processes. The Agency Time Administrator will run monthly time error reports during BEACON payroll corrections run to provide an additional layer of monitoring.

Addressing the specific finding of 112 employees with time unapproved for extended periods of time, the Agency Time Administrator ran reports identifying these employees. Upon further review, the error consisted of both "rejected" and unapproved time entry by employees. The Agency Time Administrator worked with

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Personnel Contacts to correct these errors and the project has an expected completion date of August 31, 2009.

- e) The BEACON system is programmed to credit leave earned on a monthly basis only after the employee has worked more than half the scheduled work days each month. Generally, if time entry is approved and monitored on a regular basis, leave balances will also be maintained as a result.

As a result of this finding, HR staff has scheduled meetings with each of the Personnel Contacts to access their skills with BEACON leave administration tools, processes, and reports. After the assessment, the HR staff provides one-on-one education and training with respect to various BEACON tools to monitor leave balances on a monthly basis.

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ORDERING INFORMATION

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