



STATE OF NORTH CAROLINA

NORTH CAROLINA DEPARTMENT OF CULTURAL RESOURCES

FISCAL CONTROL AUDIT

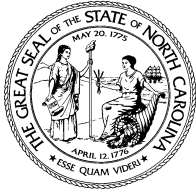
OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

NORTH CAROLINA DEPARTMENT OF CULTURAL RESOURCES

FISCAL CONTROL AUDIT



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AUDITOR'S TRANSMITTAL

September 18, 2009

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Linda A. Carlisle, Secretary
North Carolina Department of Cultural Resources

This report presents the results of our fiscal control audit at the North Carolina Department of Cultural Resources. 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 North Carolina Department of Cultural Resources. 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 January 31, 2009, and included selected internal controls in the following divisions:

Administration

Human Resources and the Business Office are in this division. Human Resources coordinates the services, programs, and activities for the Department. The Business Office performs the general accounting and financial reporting for the Department.

Archives and History

The North Carolina Museum of History is in this division. The Museum is charged with educating people about the past by collecting and preserving artifacts related to North Carolina. The artifacts are displayed on-site through exhibits and educational programs. The Museum is located in downtown Raleigh and offers free general admission; however, select exhibits carry an admission fee.

Arts and Culture

The North Carolina Museum of Art and the North Carolina Symphony are in this division.

The North Carolina Museum of Art's collection spans more than 5,000 years, including ancient Egyptian, Greek, and Roman artwork. The Museum is charged with conserving and restoring painting collections and paper artwork. The Museum is located in Raleigh and offers free admission to their permanent collection; however, there is a charge for special exhibitions and some programs, such as concerts, films, classes, and performances.

The North Carolina Symphony was founded in 1932 and has a total of 69 musicians. The Symphony performs more than 175 concerts annually and travels to over 30 counties in the State each year. Private funds account for 80% of its operating budget, with the remainder subsidized by a state supported grant.

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

Travel Reimbursements – These expenditures were made by the Department to reimburse costs incurred by employees traveling on official state business. Expenditures paid from the general fund during the period exceeded \$400,000. We examined internal controls designed to ensure that reimbursements were properly approved and reimbursed in accordance with the *North Carolina State Budget Manual*.

Capital Assets at the Museum of History and the Museum of Art – These assets have been acquired either through purchase or donation and have an initial cost or donated value of \$5,000 or more and an estimated useful life of more than one year. At January 31, 2009, the Department reported a total of \$36,885,885 in capitalized assets at both museums. We examined internal controls designed to ensure the Department properly reported and safeguarded these assets.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

Personal Services – These expenditures were made by the Department for services rendered by permanent and temporary employees. The Department reported expenditures totaling \$19,878,034 for personal services during our audit period. We examined internal controls designed to ensure that payroll changes were accurate.

Leave Balances – The Department is responsible for maintaining current and accurate leave records. These leave records were used to calculate final pay amounts of accrued vacation leave for terminating employees and 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 were maintained in accordance with state policy.

The North Carolina Symphony Grant – The North Carolina General Assembly appropriates funds to be passed through the Department to the North Carolina Symphony. Expenditures paid during our audit period totaled \$2,321,385. We examined internal controls designed to ensure that the Department monitored the Symphony's compliance with applicable statutory requirements.

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. COMPLIANCE WITH TRAVEL REIMBURSEMENT POLICIES NOT CONSISTENTLY DOCUMENTED

The Department did not consistently document that travel reimbursements paid to employees were in accordance with travel policies in the *North Carolina Budget Manual*. As a result, some employees may have been overpaid and some were underpaid.

We examined a sample of 60 travel reimbursements and identified \$1,147 in questionable payments, as well as actual underpayments totaling \$29. Payments were considered questionable if the documentation did not fully support the amount reimbursed. We noted documentation deficiencies in 24 of the 60 items examined, an error rate of 40%. Questionable payments were the result of the following:

- Departure times were not listed on reimbursement requests, and therefore, it was not clear which meals were reimbursable.
- Hotel reimbursement in excess of the standard rate was paid without evidence to support the need for excess reimbursement or advance authorization.
- Hotel reimbursement was not supported by receipts.
- Documentation was not provided to support the higher mileage rate allowed when a state vehicle was not available.

Underpayments were identified due to employees being reimbursed at the wrong rates or not being reimbursed for items for which they were entitled.

Recommendation: The Department should strengthen internal controls to ensure that sufficient documentation is obtained and evaluated to support the validity for travel reimbursements in accordance with applicable travel policies and regulations.

Department Response: The Department has reviewed its travel policy and made changes to the policy to clarify its guidelines. Management has emphasized to the entire department, the need for complete and adequate documentation of all travel.

2. DEFICIENCIES IN SAFEGUARDING AND REPORTING ASSETS FOR THE NORTH CAROLINA MUSEUM OF HISTORY

The Department has not implemented adequate internal control procedures to ensure that all artifacts at the Museum of History are safeguarded and properly valued in the financial statements. As a result, there is an increased risk that assets could be lost or misappropriated and the value of the assets inaccurately reported to the Office of State Controller. Our audit revealed the following:

- The Museum does not have adequate security over its artifacts records, which are stored in unlocked file cabinets. We also noted that the Department does not have

AUDIT FINDINGS AND RESPONSES (CONTINUED)

a formal process for controlling access to the database system used to manage its collections, which increases the risk of unauthorized alteration, use, or loss of data.

- Artifacts are maintained in a locked storage area, and keys to the storage area are maintained in a box that requires badge access. However, approximately thirty employees have badge access and can sign out keys to the storage area. Furthermore, there is no documentation to support that the sign-out sheet is monitored to ensure that only authorized individuals have accessed the storage area.
- Assets are not recorded in the accounting records in accordance with policies established by the Office of the State Controller, which state that “works of art, historical treasures, and similar assets should be capitalized at their historical cost or fair value at date of donation (estimated if necessary) whether they are held as individual items or in a collection.” The department has valued the assets at current fair market value, resulting in an overstated value of \$2.2 million at January 31, 2009.
- The Museum does not perform an annual inventory of its capitalized assets as required by policies established by the Office of the State Controller.

Recommendation: The Museum should implement procedures to ensure that its assets are properly safeguarded, monitored, and recorded accurately in the financial records.

Department Response: The Department has taken steps to ensure that all artifacts are properly valued in the financial statements. The Department has recently completed an annual inventory of all capitalized assets as required by the policies established by the Office of the State Controller. The Department has implemented additional controls to ensure artifacts and artifact records are secure.

3. DEFICIENCIES IN PERSONNEL AND PAYROLL PROCESSES

The Department has not established adequate internal control for the monthly payroll process and monitoring of employees' leave balances. As a result, the Department has not complied with state personnel policies, and there is an increased risk that there will be errors in the compensation paid to employees and in the related accounts on the financial statements. During our audit, we noted the following:

- In our examination of the payroll processing procedures, there was no evidence to support the Department's review of preliminary payroll reports prior to the final processing of payroll.
- The Department was unable to provide any evidence that employee leave balances had been monitored for accuracy during our audit period. Employees of the Department enter leave taken in the statewide payroll system each month; however, procedures were not in place to ensure the accuracy of those balances. The Department relies on the statewide payroll system to accurately calculate and carry forward leave balances without independent review.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Recommendation: The Department should improve its internal control over the personnel and payroll processes to address to deficiencies noted above.

Department Response: The Department has implemented new internal controls to ensure that staff changes are correctly reflected in the Beacon payroll system. The Department will continue to emphasize the need for supervisors and managers to closely monitor employee time and leave recording to ensure accuracy.

4. DEFICIENCIES IN ACCESS PROCEDURES FOR THE STATEWIDE PAYROLL SYSTEM

The Department does not have a formal process for granting access to the Statewide Payroll System. Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing unauthorized alteration, use, or loss of data.

Statewide Information Technology Standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights. Access rights are requested from the Office of the State Controller; however, once rights have been granted, the Department does not periodically review the validity of established rights.

Recommendation: The Department should enhance its procedures for documenting security access privileges for the Statewide Payroll System. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and that access rights are appropriate for the assigned job duties.

Department Response: The Department has implemented new internal controls to periodically monitor and review security access to the statewide payroll system, and review the appropriateness of access for assigned job duties.

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