



# STATE OF NORTH CAROLINA

## OFFICE OF STATE CONTROLLER FINANCIAL RELATED AUDIT

JUNE 2012

## OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

**OFFICE OF STATE CONTROLLER**

**FINANCIAL RELATED AUDIT**

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**DAVID T. MCCOY, STATE CONTROLLER**



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**AUDITOR'S TRANSMITTAL**

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June 25, 2012

The Honorable Beverly Eaves Perdue, Governor  
The General Assembly of North Carolina  
David T. McCoy, State Controller  
Office of State Controller

This report presents the results of our financial related audit at the Office of 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 performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The results of our audit disclosed an internal control deficiency that is considered reportable under *Government Auditing Standards*. This matter is described in the Audit Findings and Recommendations 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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# **BACKGROUND, GENERAL OBJECTIVES, AND METHODOLOGY**

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## **BACKGROUND**

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at the Office of State Controller. 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.

## **GENERAL OBJECTIVES**

The general objective of this financial related audit was to identify improvements are needed in internal control over select fiscal matters.

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. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

## **METHODOLOGY**

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 provide evidence about our audit objectives. 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 professional auditing standards. As discussed in the standards, 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 audit in accordance with generally accepted government auditing standards applicable to performance audits. 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.

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## **SCOPE, SPECIFIC OBJECTIVES, AND RESULTS**

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### **SCOPE AND SPECIFIC OBJECTIVES**

Our audit scope covered the period of July 1, 2011 through December 31, 2011. During our audit, we considered internal control related to the following control objectives:

*Statewide Accounts Receivable Program* – As required by state law, the State Controller has implemented a Statewide Accounts Receivable Program. This program was established to ensure accounts receivable is reported consistently across the State of North Carolina and reasonable collection efforts are made. State law directs the State Controller to adopt statewide policies and procedures to govern the management, collection, and write-off of accounts receivable. In addition the State Controller is to examine the state agencies' policies and procedures to determine if they are consistent with statewide policies and procedures.

One responsibility of the Statewide Accounting Division is to oversee this program. We examined the division's procedures for monitoring state agencies' accounts receivable policies and procedures and related collection efforts. The Statewide Accounts Receivable Program reported over \$5.5 billion in current and past due receivables for state agencies and universities at December 31, 2011.

*Contracts* – The State Controller may contract with vendors as necessary to meet the demands of the office. Depending on the contract type and the staff expertise, various divisions within the Office of State Controller participate in establishing and monitoring such contracts. While the State Controller may also provide assistance with statewide contracts, we focused on the contracts established for the Office of State Controller's use. We examined the State Controller's procedures for ensuring contracts were established in accordance with state rules and ensuring contract terms were reasonable and in the interest of the State. Although the contractual value was \$14.1 million, the State Controller had only \$3 million in contract expenditures from July 1, 2011 through December 31, 2011.

### **RESULTS**

The results of our audit disclosed an internal control deficiency that is considered reportable under *Government Auditing Standards*. This matter is described in the Audit Findings and Recommendations section of this report.



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## AUDIT FINDINGS AND RESPONSES

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### PROCEDURES FOR MONITORING STATE AGENCIES' ACCOUNTS RECEIVABLE PROGRAM COULD BE IMPROVED

The Office of State Controller's procedures for overseeing each agency's accounts receivable program could be strengthened by periodically comparing agency policies and procedures to the statewide policy and previously approved policies. Such a procedure would help ensure proper management and collection of accounts receivable by state agencies.

As part of monitoring the State's accounts receivable collection efforts, state law requires the Office of the State Controller to examine state agencies' accounts receivable policies and procedures to ensure they are consistent with statewide policies and procedures. Since 2008, the State Controller has relied on a combination of two yearly certifications from each agency stating that any policy revisions have been submitted to the State Controller for approval and that agency management is responsible for complying with applicable statutes.

However, these certifications are not verified by the State Controller. Without some periodic review, significant policy revisions could be made that result in the agency no longer complying with state requirements.

We reviewed nine different agencies' cash management plans (which contain the accounts receivable policies and procedures) and noted the following:

- Two agencies were operating under significantly revised cash management plans without the knowledge or approval of the State Controller.
- One agency did not have a cash management plan in place. Office of State Controller staff were under the impression that the cash management plan for this agency was included within a related parent entity's plan; however, this turned out not to be the case. Staff ultimately concluded that the component agency should have submitted a plan to the State Controller for review and approval.
- The Office of State Controller apparently granted exceptions to three agencies that allowed the agencies to omit policies for write-offs and/or debt setoff from their overall accounts receivable policy. However, the Office has not maintained documentation to support the rationale for or approval of these exceptions. We determined that two of the agencies actually have the policies but have not documented them in their cash management plan. For the third agency, we were unable to identify any write-off or debt setoff policies and procedures.

*Recommendation:* The Office of the State Controller should periodically review agency cash management plans to ensure that significant revisions have been subjected to review and approval. In addition, staff should maintain documentation to support decisions when they allow agencies to deviate from standard requirements. Without such documentation, the basis for the decisions could be forgotten or lost should staff leave the agency.

## **AUDIT FINDINGS AND RESPONSES (CONCLUDED)**

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*Agency Response:* The Office of the State Controller concurs with the finding that procedures for monitoring State Agencies' Accounts Receivable Program could be improved. The Office will review current procedures relating to the review of agency cash management plans and implement revisions as necessary.

## ORDERING INFORMATION

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