



**Ralph Campbell, Jr.**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.osa.state.nc.us>

October 16, 2000

Mr. Harry E. Payne, Jr., Commissioner  
North Carolina Department of Labor  
4 West Edenton Street  
Raleigh, NC 27601-1092

Dear Commissioner Payne:

At the request of the Department of Labor's Chief Deputy Commissioner, we have completed a special review of the possible misuse of cash receipts in the Education, Training and Technical Assistance Bureau (ETTA) of the Occupational Safety and Health Division. The following is a summary of our findings and recommendations based on our examination of relevant records and interviews with current and former Department of Labor (DOL) employees.

Between November 10, 1997 and June 21, 2000, ETTA employees issued manual receipts totaling \$2,902.89 for cash received in payment for DOL publications. On June 21, 2000, \$304.63 was forwarded to the DOL budget office for deposit into the bank. According to DOL budget office records, there were no other transmittals of cash between November 10, 1997 and June 21, 2000. Thus, \$2,598.26 was apparently received by ETTA but never forwarded to the DOL budget office for deposit. In addition, the figure of \$2,902.89 may not reflect the true cash sales during the specified time period because 15 manual receipts are missing from receipt books and receipts may not have been written for all cash transactions.

During the time period specified above, one ETTA employee had primary responsibility for maintaining records of sales activity and maintaining custody of all cash and checks received. This same employee was also responsible for preparing daily transmittal sheets for all cash and checks related to the sale of publications. It appears that checks received by ETTA were eventually transmitted to the budget office for deposit. In an interview with us, the ETTA employee responsible for maintaining custody of checks and cash could not explain why checks were transmitted to the budget office for deposit, but not cash.

Several ETTA employees indicated in interviews with us that the cash box was not consistently secured prior to ETTA's relocation from the Chapanoke Road facility to the



Old Revenue Building in January 1999. However, since ETTA's relocation to the Old Revenue Building, the combination locked cash box has been secured in a locked file cabinet drawer at the workstation of the employee responsible for its custody. In a written statement, the employee responsible for custody of cash stated that she reported cash shortages from the cash box to at least three of her supervisors during the past three years. Yet, in separate interviews with us, all of the supervisors maintain that cash shortages were never reported to them.

As noted above, it appears checks received by ETTA were eventually transmitted to the DOL budget office for deposit. However, based on our inquiries of DOL budget office personnel and our review of deposit records, there has been a consistent and habitual pattern of untimely transmittals of receipts from ETTA to the DOL budget office. The delays in transmitting the receipt of checks to the DOL budget office and the absence of cash transmittals between November 1997 and June 2000 are violations of North Carolina General Statute § 147-77 that states in part:

*All funds belonging to the State of North Carolina, in the hands of any head of any department of the State which collects revenue for the State in any form whatsoever, and every institution, agency, officer, employee, or representative of the State or any agency, department, division, or commission thereof...shall daily deposit the same in some bank, or trust company, selected or designated by the State Treasurer, in the name of the State Treasurer...whenever as much as two hundred fifty dollars (\$250.00) has been collected and received.*

In addition to the statutory requirement for the daily deposit of cash receipts, management is responsible for establishing and maintaining internal control procedures that will provide reasonable assurance that cash receipts are properly safeguarded and accounted for. These internal control procedures include establishing adequate safeguards over access to cash receipts, assigning different people the responsibilities of recording transactions and maintaining custody of assets, and performing independent reconciliations and comparisons of assets with recorded accountability.

Therefore, we recommend that the Department of Labor develop internal procedures to ensure compliance with North Carolina General Statute § 147-77. Additionally, we recommend the following procedural changes to strengthen internal control over all receipts related to the sale of DOL publications.

- ◆ The monthly summary of "walk-in" sales activity should distinguish payments by cash from payments by check. This monthly summary should be reconciled with daily transmittals to the budget office by someone other than the person receiving checks and cash.

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- ◆ The responsibilities of recording publication sales, maintaining custody of checks and cash, and preparing daily transmittal sheets should be assigned to different employees.
- ◆ All checks should be restrictively endorsed at the point of receipt.
- ◆ A perpetual inventory of all publications should be maintained and reconciled with recorded sales activity periodically. A periodic inventory should be taken occasionally to ensure the accuracy of the perpetual inventory. The use of a perpetual inventory will also facilitate the efficient reordering of publications.

General Statute § 147-64.6(c)(12) requires the State Auditor to provide the Governor, the Attorney General, and other appropriate officials with written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee. In accordance with this mandate, and our standard operating practice, we will provide copies of this management letter to the Governor, the Attorney General, the Director of the State Bureau of Investigation, and other appropriate officials.

We are presenting these findings for your review and written response. The purpose of the response is to allow you the opportunity to outline any corrective actions taken or planned. We request the delivery of your written response by October 23, 2000.

If you have any questions or wish to discuss this matter further, please contact us. We appreciate the cooperation received from your staff during our review.

Sincerely,  
Ralph Campbell, Jr., CFE  
State Auditor



RCjr:dk

**Management letters and responses receive the same distribution as audit reports.**



Harry E. Payne, Jr.  
Commissioner

4 West Edenton Street  
Raleigh, NC 27601-1092

October 20, 2000

Mr. Ralph Campbell, Jr.  
State Auditor  
2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601

Dear Mr. Campbell:

Thank you for your October 16 letter regarding the recent special review into the possible misuse of cash receipts in the Education, Training and Technical Assistance Bureau (ETTA) of the Occupational Safety and Health Division. Your staff was very helpful in providing recommended procedural changes to strengthen our internal controls as it relates to the collection of revenue with the sale of publications.

This agency has always tried to comply with GS 147-77 regarding daily deposits and please be assured that the revenue collected from the sale of the OSH publications will be monitored to make certain deposits continue to be made on a daily basis. Regarding the recommendations noted in your letter, the following changes will be made effective November 1, 2000 to strengthen internal controls in this area:

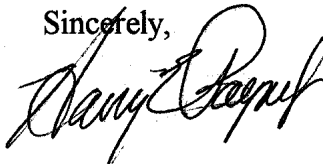
1. Cash sales ended June 20, 2000. As noted in your findings, the **final** cash deposited for OSH publications was made on June 21, 2000 totaling \$304.63. All future "walk-in" sales will be either by check or credit card. Checks will be restrictively endorsed upon receipt and a daily transmittal will be prepared and submitted to the budget office. The monthly summary of transmittals (check, credit card, or deposits made directly by the budget office) will be reconciled by the supervisor in ETTA who oversees the sale/distribution of these publications on a month end basis.
2. Duties will be assigned to specific personnel within the bureau as follows:
  - a) Mail will be opened by a processing assistant, all checks received will be endorsed and totaled.
  - b) Checks (along with adding machine tape) will be given to another processing assistant to prepare the daily transmittal (making sure the amount received is the amount reported on the transmittal) and submit to the budget office.

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- c) The supervisor will maintain copies of all transmittals submitted to the budget office (along with credit card sales and checks received directly by the budget office) on a monthly basis. She will reconcile the total deposited (per budget reports) to the total per transmittals.
3. A perpetual inventory will be maintained and reconciled to the sales activity on a quarterly basis (beginning with the quarter ending December 31, 2000). A physical inventory will be done quarterly as well and the supervisor will reconcile the perpetual inventory and physical inventory to ensure the bureau has adequate supplies of publications.
4. Again, as noted in item 1, all checks will be restrictively endorsed at the point of receipt.

We, too, appreciate the cooperation received from your staff during the review. Thank you for your assistance in this matter and please do not hesitate to contact me if you have further questions.

Sincerely,



Harry E. Payne, Jr.

Cc: Harold Megredy      Becky Brown  
Bob Andrews          Les Kafel  
Tom Harris             Shirley Coley