



STATE OF NORTH CAROLINA

FOLLOW-UP REPORT ON FINDINGS FROM 2005 AUDIT REPORTS AND REVIEWS

FOR THE PERIOD JANUARY 1, 2005, THROUGH DECEMBER 31, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR



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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina

This report presents the results of our follow-up on audit reports and reviews conducted by the Office of the State Auditor for the period January 1, 2005, through December 31, 2005. Our audit work for 2005 was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

In the Annual Report issued by the Office of the State Auditor in November 2005, we promised to follow up on all audit findings for the 2005 calendar year. A chart showing the original findings and the subsequent actions reported by State agencies and other entities we audited is included in this report.

While future audits will follow up on the findings reported in 2005, the chart included in this report is based primarily on responses from audited agencies and not on audit services performed by this office.

This report also contains information on organizational changes made to the Office of the State Auditor during the last calendar year.

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.

Leslie W. Merritt, Jr.

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State Auditor

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OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, the Office of the State Auditor conducted a follow-up review of all findings issued in audit reports and reviews issued by all divisions within the office during the calendar year 2005.

SCOPE

Our report scope covered the period January 1, 2005, through December 31, 2005, and included all audits or reviews conducted during the period which resulted in findings.

METHODOLOGY

In some cases, field work for follow-up audits had been completed and the subsequent actions reflected in the chart at the end of this report were certified by those audit results. In other cases, audit teams contacted officials with the agency or program involved and inquired about actions taken in response to the audit findings. In those cases, no audit work was performed to certify the reported results.

ORGANIZATIONAL CHANGES

In the past year, the Office of the State Auditor has undergone a number of organizational changes and realignments intended to make us more proactive in identifying potential problems before they become major issues. We specifically are focusing more of our limited resources on areas where the state faces the greatest risk of problems.

The changes we have instituted include:

Human Capital

Like any public service organization, our greatest asset is our people. We are working diligently to make sure we have a well-trained workforce that is up to date not only on the many changes now sweeping the accounting industry, but also in the areas of information technology and shifts in government programs funded by the State and Federal governments.

Last fall, we began an active recruitment program on North Carolina university campuses and some private institutions to attract bright, young accounting graduates into State service. Our efforts there have paid off with hiring a number of our best graduates attracted to the rewarding careers available in public service.

In addition, we are using internship programs to provide positive educational experiences for students interested in public service and provide an effective recruiting tool for the agency.

Information Systems (IS) Audit

The Information Systems audit section is a vital part of all our audit efforts. IS auditors certify the validity of computer-generated financial reports used by financial auditors, reconstruct data erased accidentally or otherwise from agency files, and provide security testing for the State's entire computer network.

We have added three new staff members to this critical area to help cope with the rapid evolution of information systems.

In the last year, the IS section also has started a strategic auditing initiative to proactively look for potential problems long before they would otherwise be found. Strategic auditing uses hardware, software and talented people already on our staff to conduct data mining of the State's accounting records in search of trends that might be difficult to recognize without the computerized assistance. We are investigating the use of SAS data-mining software to help in this effort. Key IS section staff have traveled to other states and started implementing data mining techniques similar to those used by the auditing agencies of those states. Our IS staff also will be developing techniques in cooperation with our Investigative and Financial divisions to search for indications of potential fraud. These audit techniques will be expanded by Office of State Auditor during 2006.

ORGANIZATIONAL CHANGES (CONTINUED)

Management Services and Non-Governmental Compliance Division

This section was reorganized with former staff from the Smart Start and non-governmental section. They began training agency and nonprofit organization staff on the new state grant reporting rules, which were adopted on July 1, 2005. Under the new rules, private agencies are required to report on state grants, regardless of the amount received. The rules also raise the threshold for requiring outside audits from \$300,000 to \$500,000.

We have trained thousands of agency officials and nonprofit agency staff, and they have been very complimentary of our training initiatives. Nonprofit groups prefer to know what is expected of them and how to comply with the reporting requirements.

The Division also has started a quarterly newsletter, "Best Practices," which is distributed to non-governmental organizations. It also is available through our website. "Best Practices" provides valuable information for nonprofits on state grant requirements, potential financial accountability problems and developing adequate internal policies and accounting controls.

Consistent with auditing standards, we are working with agencies to proactively address issues before they become problems. North Carolina's nonprofit community provides many valuable services for our residents, and we should provide them with information necessary to help them operate effectively and efficiently within the rules. about potential problems in financial accountability that can be headed off with adequate policies and accounting controls.

This division directly addresses Office of State Auditor's intentions to get ahead of problems proactively before they happen. North Carolina's nonprofit community performs many valuable services for our residents at much lower cost than State agencies could provide them. We want to do all we can under auditing standards and State law to help them meet their obligations for accountability.

Investigative

The Investigative section of the Office of the State Auditor began 2005 with a backlog of 126 cases, some of which were over two years old. At the end of December 2005, the section had a total of 60 open cases, which included new complaints filed during the year. We plan to continue directing the necessary resources to the Investigative Section to reduce the turnaround time on all complaints and eliminate, to the extent possible, our backlog.

Performance

Our efforts in the Performance Audit section during 2005 revolved around retooling our work to produce reports that are narrower in scope and target specific programs or areas where the State is at the greatest risk.

Those efforts included moving one of our most experienced financial audit managers into the section and redirecting audit resources into areas we believe will be of value to legislators who must consider the effectiveness of State programs in funding decisions, and to the taxpayers who pay for those programs.

ORGANIZATIONAL CHANGES (CONTINUED)

In addition, nearly a third of the Performance Section staff dedicated more than 1,600 work hours in helping to clear the backlog of Investigative Audit cases.

The retooling efforts will result during 2006 in audit reports focusing on issues such as the internal audit function in State government. Improved internal auditing could add another watchdog function to government, and help us to direct our resources more effectively. A number of other audit issues are in development that should result in focused reports this year.

Audit Changes

Our revised audit plan which will take effect this year will focus on areas of increased risk to the State. Using strategic auditing and other analytical approaches, we can evaluate potential audit subjects based on the size of the agency, the length of time since their last audit, the number of transactions they perform, significant personnel or management changes and changes in the services they provide.

The risk-based approach will require us to continually revise, update and improve our engagements as we adapt and adjust to the changing circumstances in State government. We plan to provide three days of intensive risk-based training for all financial auditors in 2006.

We will meet our statutory obligations for financial audits of specific agencies, such as universities and the State's Comprehensive Annual Financial Report, but we will be directing resources away from agencies that have a proven track record of financial accountability.

Instead, we will be developing audit programs to provide more timely monitoring of programs that have had persistent problems. We also will be directing more resources toward agencies and programs that have gone for years without substantive audit work performed.

We intend for our audit work to have a positive impact on the agencies where we work. And we will be following up regularly with agencies where problems are detected to see that they are carrying out the corrections that they promise in their responses.

Continuing Issues

As we move to reshape the Office of the State Auditor, there are a number of issues which we must continuously address.

One is the rapid evolution of technology, which presents unique challenges to auditors as they attempt to track transactions through increasingly complex financial and accounting programs. We will be studying technology developments closely to make sure our audit staff has the knowledge and equipment to keep pace with an increasingly complicated Information Age.

We also need to be knowledgeable about changes to information systems, such as the Statewide Business Infrastructure Project in the Office of the State Controller, so we can train and prepare to audit in these new information system environments.

ORGANIZATIONAL CHANGES (CONCLUDED)

We also face the same problems as other government agencies which rely on highly trained professionals to carry out their missions. While there are attractive facets to a career in public service, the salaries offered by the Office of the State Auditor are often not competitive with private industry or even with universities, which have more budget flexibility. We will renew our efforts this year with the Legislature and the Office of State Personnel to make our office more competitive in retaining experienced staff, in seeking bright young people for public service, and in developing a truly performance-based pay system.

FOLLOW-UP REPORT ON FINDINGS FROM REPORTS/REVIEWS ISSUED IN 2005

The Office of the State Auditor presents this data for informational purposes only and has performed no audit services related to the accuracy of the "Subsequent Actions" information presented.

<i>REPORT NO.</i>	<i>AGENCY</i>	<i>REPORT TYPE</i>	<i>DATE ISSUED</i>	<i>FINDINGS REPORTED</i>	<i>SUBSEQUENT ACTIONS</i>
PER-2005-0210	UNC-System Repair	PER	1/6/2005	1. The level, consistency, and timing of funding for repairs and renovations have not been re-evaluated in several years. 2. Information to update replacement value of state buildings is not consistently provided. 3. The repair and renovation fund distribution formula used by UNC general administration may not consider certain factors.	Resolved: University renewing efforts to present repair and renovation needs to the General Assembly Resolved: University is emphasizing training efforts to ensure updated information on replacement values are available. Resolved: The distribution formula has been modified consistent with recommendations from outside consultant.
NGV-2004-9177	Rockingham County PFC	FIN	1/11/2005	1. Noncompliance with contract provisions	Resolved: All contract amendments are being performed in accordance with contract terms.
PER-2005-0211	Accountability State Gov	PER	1/13/2005	1. Long-range study of issues facing state	No short-term action possible
ISA-2004-6040	UNC-Greensboro	ISA	1/14/2005	1. Access controls to computers-private letter 2. Client approval of changes not documented. 3. Operations procedure manual incomplete.	Resolved Resolved Resolved
NGV-2004-9125	Wilkes County PFC	FIN	1/14/2005	1. Inadequate contract management and monitoring	Resolved: New policies have been adopted that address contract management and adequate documentation of the monitoring activities.
NGV-2004-9137	Wilson County PFC	FIN	1/14/2005	1. Weaknesses in contract management 2. Control environment	Resolved: Improvements had been made in the area of contract management to better document the grant-making process. Resolved: The Partnership has addressed the overall management concerns by rebuilding infrastructure and focusing of board and management dynamics.
FIN-2004-3400	State Treasurer-CAFR	FIN	1/14/2005	1. Retirement benefits computed incorrectly 2. Financial statement disclosures contained deficiencies	Resolved: New training, policies & procedures strengthened controls. Resolved: New procedures strengthened controls.
FIN-2004-4407	Butner Town of	FIN	2/7/2005	1. Inadequate internal control over billings and collections 2. Failure to close and depreciate completed construction projects	Resolved: Proper controls implemented for billings and collections. Partially Resolved: During the current year, the System began the process of identifying completed projects and properly expensing capitalized interest.
NGV-2004-9115	Avery County PFC	FIN	2/16/2005	1. Inadequate documentation of competitive bidding 2. Misappropriation of assets	Resolved: Documentation is now being maintained to support competitive bidding process. Resolved: Former finance director terminated and referred to proper legal authorities. Restitution of all identified misappropriated funds received.
FIN-2004-4160	Office of State Controller	FIN	3/3/2005	1. Federal interest liability computed incorrectly	Resolved: Computation was corrected and revised report submitted.

REPORT NO.	AGENCY	REPORT TYPE	DATE ISSUED	FINDINGS REPORTED	SUBSEQUENT ACTIONS
NGV-2004-9106	Davidson County PFC	FIN	3/3/2005	1. Control Environment	Resolved: Policies and procedures implemented to strengthen internal control system.
INV-2005-0276	Town of Winfall	INV	3/23/2005	1. Duplicate reimbursements should be repaid. 2. Town should change its reimbursement forms.	Resolved: Mayor repaid the Town, the Governor's Crime Commission, and the REDC. Resolved: Town has revised its travel expense policies and reimbursement forms.
NGV-2004-9117	Chatham County PFC	FIN	3/29/2005	1. Inadequate contract fiscal monitoring	Resolved: Fiscal monitoring activities performed for all direct service providers.
NGV-2004-9153	Bladen County PFC	FIN	4/5/2005	1. Contract management and monitoring deficiencies 2. Procedural weaknesses with the authorizing and processing of transactions 3. Control environment concerns	Resolved: The contract management and monitoring policies have been revised and staff trained. Resolved: Fiscal policies have been revised through assistance from the oversight agency. Resolved: The Partnership has begun to operate independently again and has taken its management role very seriously.
FIN-2004-4500	Dept of Correction - Single Audit	FIN	4/11/2005	1. Funds transferred without equitable distribution to the federal government	Resolved: Policies/procedures for transfers implemented.
FIN-2004-3510	Public Instruction - CAFR & Single Audit	FIN	4/12/2005	1. Cash disbursement control procedures not consistently performed 2. Internal Control Over the Comparability Reviews Needs Improvement	Resolved: Policies/procedures for cash disbursements strengthened. Resolved: Policies/procedures for comparability reviews strengthened and supporting documentation maintained.
ISA-2005-6070	NC A&T State Univ	ISA	4/15/2005	1. Access controls to computers--private letter 2. Security policies not complete, in several locations. 3. Incomplete, inconsistent password policies. 4. Improper access to computer systems	Resolved Resolved Resolved Resolved
NGV-2004-9114	Ashe County PFC	FIN	4/15/2005	1. Inaccurate financial statement presentations 2. Contract management and monitoring deficiencies 3. Internal control weaknesses 4. Noncompliance with the Davis-Bacon Act 5. Failure to file appropriate federal reports	Resolved: All classification issues have been addressed. Resolved: Documentation has been enhanced for monitoring activities and the determination of participant eligibility. Resolved: Internal control processes have been enhanced to resolve weaknesses identified. Unresolved: Involved with federal oversight agency in determining possible resolution. Resolved: Appropriate federal reports have been filed.
FIN-2004-2131	Durham County CSC	FIN	4/15/2005	1. Investment of funds not made timely 2. Withdrawals from minor's accounts without supporting documentation	Resolved - The Clerk's Office is now investing everything in the Suntrust account under the Clerk's tax ID number if over 90 days. Resolved - Policy revised to require receipts for withdrawal or parents/guardian have to sign a withdrawal statement and provide a receipt within 30 days.

REPORT NO.	AGENCY	REPORT TYPE	DATE ISSUED	FINDINGS REPORTED	SUBSEQUENT ACTIONS
FIN-2004-4300	DENR-CAFR and Single Audit	FIN	4/15/2005	1. Reimbursement payments made without required documentation	Resolved: Accounts Payable Supervisor performs spot checks of batches throughout the year and maintains a log of those batches.
				2. Accounting code sheets not reviewed	Resolved effective April 2005. Mail Logs were implemented and deposits are balanced against checks recorded in the receipt log. Accounting duties are adequately segregated. Stressed importance of proper sign-offs of accounting code sheet with the Divisions.
				3. Cash disbursements control procedures not consistently performed	Resolved: Reiterated to employees as a reminder that all accounting code sheets must have the appropriate sign-offs, that all invoices are properly cancelled and batches are totaled and tapes attached.
FIN-2004-4200	Transportation-CAFR/Single Audit	FIN	4/15/2005	1. Schedule of expenditures of federal awards was misstated	Resolved: The correct system transaction was used to appropriately identify subsequent year expenditures.
				2. Receivable from federal government not recorded	Resolved: A process was implemented to record receivable and revenue transactions in the applicable fiscal year.
				3. Year-end financial reporting process did not identify all liabilities	Partially resolved. Improvement has been made to identify liabilities in some areas but significant liabilities were unrecorded in the subsequent year.
				4. Land balances not verified	Resolved. Verification process has been completed.
				5. Testing standards not met in accordance with quality assurance program	Partially resolved. Employee training and monitoring is ongoing to identify problems and encourage compliance but noncompliance continues.
FIN-2004-4600	Commerce-Single Audit	FIN	4/15/2005	1. Community development block grant report contained inaccurate data	Partially Resolved: Policies and procedures have been implemented to correct inaccurate data. This process is on-going.
				2. Monitoring visits and closeout procedures were not performed timely	Partially Resolved: Steps are being taken to review and approve monitoring procedures. This process is on-going.
				3. Federal financial reports not reviewed for the workforce investmentact program	Resolved: Taken steps to ensure that segregation of duties and approvals are in place to prepare, review, and approve reports.
				4. Improper access to computer systems	Resolved: Action taken to resolve errors. Will continue to monitor for separated employees and their security access.
FIN-2004-6020	UNC-Chapel Hill	FIN	4/18/2005	1. Noncompliance with the dailydeposit and reporting law	Partially Resolved - Memos issued to all departments early in calendar 2005 and training offered on the Daily Deposit and Reporting Law in July 2005. Monitoring for compliance is in place.
FIN-2004-4650	ESC - CAFR & Single Audit	FIN	4/19/2005	1. Controls over equipment management need improvement	Partially resolved - new fixed assets policy in effect.
				2. Unemployment insurance claimants eligibility documentation needs improvement	Resolved: Claims manual was updated as of August 2004. Staff to follow updated procedures.
				3. Errors found in benefit payments for trade readjustment assistance	Not Resolved
				4. Trade adjustment assistance participanteligibility documentation was incomplete	Not Resolved
				5. Documentation for federal unemployment tax act certifications needs improvement	Resolved: Procedures have been strengthened to ensure the data from the UI tax system and the manual certifications are maintained on file to support the certified tax credit amount.

REPORT NO.	AGENCY	REPORT TYPE	DATE ISSUED	FINDINGS REPORTED	SUBSEQUENT ACTIONS
FIN-2004-4900	Crime Control-Single Audit	FIN	4/20/2005	1. Costs paid without prior approval	Resolved. Conducted internal training.
				2. Accounting records did not identify federal expenditures	Partially resolved. Implemented changes to cost centers and accounts on Federal and General Fund to more adequately follow the flow of funds.
				3. Federal funds not drawn down in accordance with agreement	Partially resolved. Implemented procedures to check draw downs and CMA before submission. Continue to monitor because of employee turnover and training issues.
				4. Documentation not maintained to support proper access to the North Carolina Accounting System	Resolved. Limited and revoked security access. Continue to monitor.
				5. Tracking system of subrecipient audit reports was incomplete	Resolved. Hired employee that is assigned to this duty.
				6. Public assistance grants progress reports not supported by adequate documentation	Resolved. Hired employee that is assigned to this duty.
				7. Required debarment certifications not obtained	Resolved. Department includes certification requirements in contract applications and award.
ISA-2005-3400	Dept. Of State Treasurer	ISA	4/20/2005	1. Access controls to computers-private letter.	Resolved
				2. Website content displays sensitive information.	Resolved
				3. Information on the mainframe is not classified.	Resolved
				4. Access to production source libraries.	Resolved
				5. Offsite storage issues.	Resolved
FIN-2004-6800	NC CC System-Single Audit	FIN	4/20/2005	1. Weaknesses noted in program change control procedures	Resolved: Program change control procedures implemented.
PER-2005-0212	Alcohol Law Division	PER	4/20/2005	1. Audit discontinued after preliminary study	No action needed
NGV-2004-9112	Region A PFC	FIN	4/28/2005	1. Inaccurate financial statement presentations	Resolved: All classification issues have been addressed.
FIN-2004-8410	Major Medical Plan-CAFR	FIN	4/28/2005	1. Claim payments made in error	Resolved: The Health Plan continues to work with its Claims Processing Contractor to ensure that all claims are processed correctly and in accordance with the terms of its contract.
FIN-2004-4410	DHHS-CAFR	FIN	5/4/2005	1. Final cost-settlements not performed	Partially Resolved: Department in discussions with Centers for Medicare and Medicaid Services to reach final resolution.
				2. Division of medical assistance did not make direct payments to providers	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				3. Unreimbursed uninsured patient cost or "Super" DSH payments were made to ineligible hospitals	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				4. Claims payment system has weaknesses	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				5. The division lacks written policies and procedures over implementation, review and reconciliation of rate changes	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				6. Internal control weaknesses over suspected fraud and abuse investigations and ineffective recipient verification of receipt of medicaid services	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				7. Inpatient hospital and long-term care facility audits were not completed	Partially Resolved: Department entered into a contract with private audit firm to provide such services. In addition, it has worked to obtain delinquent reports by withholding reimbursements due to delinquent reporting.

REPORT NO.	AGENCY	REPORT TYPE	DATE ISSUED	FINDINGS REPORTED	SUBSEQUENT ACTIONS
				8. Required disclosures not obtained at enrollment of providers and lack of controls in the provider eligibility enrollment process	Partially Resolved: Department refined enrollment process for physicians and independent practitioners to bring the enrollment policy of the largest group of providers into full compliance. Department continues to work to bring other Enhanced Benefit Providers into full compliance.
				9. Documentation lacking in county medicaid case files	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				10. Documentation lacking in county state children's insurance program case files	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				11. Appropriate action not taken in child support cases	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				12. Subrecipient monitoring documents in the temporary assistance for needy families (TANF) program were not maintained	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				13. Monitoring procedures in the temporary assistance for needy families program contained weaknesses	Partially Resolved: A corrective action plan was approved by the Administration for Children and Families to be implemented by December 31, 2005. Full resolution will be determined by the results of the 2006 State Single Audit.
				14. Fiscal monitoring not performed on nutrition education subrecipients	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Agriculture
				15. Errors in the ACF-Title IV-E-1, foster care and adoption assistance financial report	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				16. Federal award information provided to subrecipients not sufficient	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				17. Subrecipient monitoring documents not thoroughly reviewed	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				18. Improper access to computer system	Resolved: Department has taken steps to ensure proper steps taken to eliminate improper access to computer systems.
				19. Weaknesses in control over physical inventory of fixed assets	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				20. Documentation lacking in TANF case files	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				21. Ineligible payments charged to foster care IV-E program	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				22. Financial status and program cost reports not in agreement with accounting records	Partially Resolved: Department has requested instructions from the Rehabilitation Services Administrator on how to correct the report.
				23. Basic support claims not properly paid	Partially Resolved: Department has located or obtained appropriate documentation to support claims paid. Full resolution to occur per auditor follow-up.
				24. Federal funds not drawn in accordance with agreement and federal drawdown estimates inadequately documented	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				25. Excessive cash balances in the temporary assistance for needy families program	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				26. Error in the division of central administration's cost allocation	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				27. Inadequate documentation and failure to reconcile fixed assets	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Education
				28. Fixed asset records incomplete/Inaccurate	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services

REPORT NO.	AGENCY	REPORT TYPE	DATE ISSUED	FINDINGS REPORTED	SUBSEQUENT ACTIONS
				29. Internal control weaknesses over accounts receivable	Resolved: The Department has revised policies, segregated staffing functions, and begun to submit accounts to the Attorney General's Office for collection.
				30. Cash disbursement control procedures not always performed	Resolved: Procedures have been re-emphasize to appropriate staff members to correct identified weaknesses.
				31. Error in the statewide cost allocation plan caused cost to be incorrectly allocated	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Health and Human Services
				32. Improper Access to Computer Systems	Resolved: Department has taken steps to ensure proper steps taken to eliminate improper access to computer systems.
				33. Basic support claims were not properly paid	Partially Resolved: The Department will work with its partners to ensure that the correct payment methodology is used. Of \$20,015 in questioned costs, \$18,211 has been resolved or recouped. The balance of \$1,804 is to be forwarded to the Attorney General's Office for collection.
				34. Control weaknesses over determination and documentation of client eligibility	Partially Resolved: Monitoring and reporting systems have been put into place to correct timeliness of eligibility determination. Additional staff training to be provided with compliance to be reassessed.
				35. Controls over fixed assets need improvement	Partially Resolved: All corrective actions have been implemented with exception of random sampling of inventory, which is in process of being implemented.
				36. Improper access to computer systems	Resolved: Department has taken steps to ensure proper steps taken to eliminate improper access to computer systems.
				37. Basic support claims were not properly paid	Partially Resolved: The Department will work with its partners to ensure that the correct payment methodology is used. The \$1,036 in questioned costs have been resolved or recouped.
				38. Maintenance of effort not met	Partially Resolved: The Maintenance of Effort is being reviewed at the federal level to determine if subsequent grants will be reduced by the maintenance of effort deficit or a payback of funds will be required.
				39. Expenditures were made after the period of availability ended	Resolved: Corrective action taken; however, awaiting final resolution decision from the U.S. Department of Education
FIN-2004-6828	Durham Tech CC	FIN	5/9/2005	1. Salaries charged to vocational education (CFDA 84.048) are not supported by time records	Partially Resolved - Vocational funds were reimbursed to NCCCSO. A system of documenting time records to support salaries paid from Vocational Education funds was implemented July 1, 2005.
NGV-2004-9134	Surry County PFC	FIN	5/10/2005	1. Contract management and monitoring weaknesses	Resolved: Contract management and monitoring procedures have been adopted and documentation has been enhanced to supporting monitoring activities.
FIN-2004-6858	Coastal Carolina CC	FIN	5/10/2005	1. Internal control - segregation of duties	Resolved: The College's Foundation implemented a division of duties among its personnel and college personnel, to the extent possible.
ISA-2005-6092	NC School of the Arts	ISA	5/10/2005	1. Access to computers--private letter	Resolved
FIN-2005-2117	Catawba County CSC	FIN	5/26/2005	1. Compliance with the daily deposit act and internal controls over daily closeout procedures	Resolved: Clerk strengthened closeout procedures

REPORT NO.	AGENCY	REPORT TYPE	DATE ISSUED	FINDINGS REPORTED	SUBSEQUENT ACTIONS
INV-2005-0277	DOT Ferry Division	INV	6/2/2005	1. Apparent violations of State vehicle policy	Partially resolved: Ferry Division is now in compliance with MFM regulations with one issue under review.
NGV-2004-9140	Bertie County PFC	FIN	6/2/2005	1. Inadequate authorizing and processing of transactions 2. Contract management and monitoring weaknesses	Resolved: Partnership has revised and implemented new operational policies. Resolved: Partnership has revised contracting policies and received assistance from their oversight agency.
FIN-2005-2124	Craven County CSC	FIN	6/2/2005	1. Timely remittance of magistrate receipts	Resolved: Management Oversight Strengthened and enforced
INV-2005-0278	DENR	INV	6/3/2005	1. Employee should repay travel expense overpayment.	Resolved: Employee repaid questioned amount; Division now in compliance with Wireless Policy.
FIN-2004-6866	Richmond CC	FIN	6/22/2005	1. Financial statement presentation 2. Internal controls over bank reconciliations	Resolved. New controller hired. Resolved. New controller hired responsible for reconciliations and the reconciliations are now performed timely with approval by the VP for Administration
NGV-2004-9146	Lee County PFC	FIN	6/29/2005	1. Control environment weaknesses 2. Internal Control Deficiencies 3. Contract management and monitoring deficiencies 4. Noncompliance with more at four contract	Resolved: Partnership has new staff and good board involvement. It is looking to become independent partnership in July 2006. Resolved: New policies and procedures have been developed and are in final adoption phase. Resolved: New policies are being finalized and should be adopted within the current fiscal year. Resolved: New policies will address the necessary documentation standards for ensuring compliance with applicable rules and regulations.
FIN-2004-6088	Fayetteville State Univ	FIN	6/29/2005	1. Internal control weaknesses over payroll functions 2. Inadequate controls over cash receipts and deposits 3. Employees have access Rights inconsistent with job duties	Resolved. Procedures strengthened. Resolved. Controls strengthened. Resolved. New computer system implemented July 1, 2005.
FIN-2005-3600	Department of Justice	FIN	6/29/2005	1. Grant expenditures not properly classified 2. Inadequate procedures to ensure employee performance appraisals prepared	Resolved: Accounting records have been corrected. Resolved: Improved policies and procedures.
FIN-2004-6878	Sandhills CC	FIN	6/30/2005	1. Weak internal controls over cash 2. Internal controls over bank reconciliations	Resolved. Responsibilities over cash are now adequately segregated. Resolved. Bank reconciliations are now current.
FIN-2004-6864	Randolph CC	FIN	6/30/2005	1. Cash journal entries 2. Financial reporting/audit trail 3. Segregation of duties 4. Password sharing/deletion of access rights for terminated employees 5. Pell grant program 6. Violation of the daily deposit act	Resolved: Corrected entries. Entries authorized by the controller and logged. Resolved: Documentation procedures enhanced. Resolved: Duties realigned. Corrective actions taken. Resolved: Individual passwords assigned. Security policy reviewed with personnel. Resolved: Corrective action taken. Resolved: Procedure in place for back up cashier.

REPORT NO.	AGENCY	REPORT TYPE	DATE ISSUED	FINDINGS REPORTED	SUBSEQUENT ACTIONS
FIN-2004-6870	Robeson CC	FIN	6/30/2005	1. Inadequate management review	Per auditee, unresolved. Additional training will be provided and organizational structure has been revised.
				2. Weak internal controls over cash	Resolved. Controls over cash are now adequately segregated and cash procedures have been strengthened.
				3. Weak internal controls over machinery and equipment	Resolved. Controls over machinery and equipment are now adequately segregated and employees have been made aware of their custodial responsibilities.
				4. Management override of internal controls	Resolved. RCC will follow their internal hiring procedures and contracted employees will be required to complete timesheets.
FIN-2005-2119	Cherokee County CSC	FIN	6/30/2005	1. Segregation of duties related to financial management system (FMS) access rights	Not Resolved: Employee responsibilities have not been segregated or FMS access rights updated.
FIN-2005-4800	Cultural Resources	FIN	6/30/2005	1. Required procedures for grants to nonprofit organizations not followed	Resolved: Implemented new policies and procedures.
				2. Capital assets not properly classified	Resolved: Corrected errors and implemented new policies and procedures.
FIN-2004-6843	Blue Ridge CC	FIN	6/30/2005	1. Financial statement presentation	Resolved: Management will review financial statements and notes
				2. Deficit net assets fund balance and cash overdraft	Partially Resolved: Implemented plan to reduce deficit in three years.
				3. Computer access rights	Resolved: Management strengthened procedures
INV-2005-0280	DOT	INV	7/1/2005	1. Review wireless phone assignments for compliance with agency policy.	Resolved: Employee repaid questioned amount; Division now in compliance with Wireless Policy.
INV-2005-0281	DHHS	INV	7/1/2005	1. Ensure that all employees comply with ethics orders.	Resolved: Employees retrained to ensure compliance with Department policy on the receipt of gifts and favors.
PER-2005-0213	Medicaid Prescription	PER	7/1/2005	1. Some additional cost-containment measures should be considered; and some existing ones expanded.	Resolved: With legislative changes, the Department of Health and Human Services is adding new cost-containment measures and expanding existing ones.
FIN-2005-4463	HHS-Mental Health	FIN	7/15/2005	1. Physical inventory counts revealed internal control weaknesses	Resolved: New control procedures were implemented to strengthen internal controls and reduce inventory discrepancies.
				2. Internal control weaknesses over employee cafeteria receipts	Resolved: New procedures were implemented to secure receipt documentation and to improve deposit and reconciliation procedures.
				3. Improve controls over petty cash transactions and funds	Resolved: Procedures were reinforced to require appropriate supporting documentation for petty cash transactions along with disciplinary actions for failure to comply.
				4. Lack of adequate internal controls over on-call and emergency callback payments	Resolved: Payments were calculated and proper adjustments were made to employee timesheets. In addition, procedures implemented to use log reports to verify the accuracy of reporting.
				5. Improper access to computer systems	Resolved: Human Resources to notify IT personnel of separated or terminated employees in order to terminate computer access.
				6. Hospital bed-day billing errors	Resolved: Billing errors were recalculated and correct billings were submitted for payment. Procedures were implemented to verify the correct application of rates prior to invoices being prepared.

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PER-2005-0214	Driving License Process	PER	7/20/2005	1. North Carolina's driver's licensing laws not as restrictive as surrounding states	Partially Resolved: Division now linking expiration date of licenses/ID cards to the expiration date of visas. Additional changes require legislative action.
				2. Allowing "unregulated" interpreters may compromise the integrity of the driver's license process.	Partially Resolved: Division is expanding automated testing in foreign languages to cover most applicants. Certification process will be established for interpreters in languages not included in automated testing.
				3. One-person field offices pose security risks.	Partially Resolved: Three part-time offices have been closed, and two others converted to two-person offices. Others will be replaced with two new mobile service centers expected this spring.
				4. The Division is encountering difficulty in fitting mobile units with current technology	Resolved: New Digital Imagery workstations have been installed in all three mobile units.
				5. Communication of basic information on acquiring driver's licenses needs improvement	Resolved: The Division has updated its website, updated the Driver Handbook, assigned staff to improve communications and updated signage.
				6. Information is not provided to examiners in timely way.	Resolved: All examiners now have access to e-mail and the Internet. The Examiner's Manual has been posted on the DOT Intra-net to make it more easily available to staff and to allow more timely dissemination of information. The training staff is focusing on insuring that all training is consistent in all the different training venues.
				7. Controls over information input into the division's computer system are weak	Partially Resolved: Scanning equipment for ID documents will be installed so audit trail can be created. Division developing proposal for revised application process to track customers and ensure integrity of vision and sign tests.
				8. Examiner discretion has led to inconsistencies.	Resolved: Division emphasizing consistency and focusing training on consistent interpretation.
NGV-2004-9131	Robeson County PFC	FIN	7/26/2005	1. Contract management and monitoring weaknesses	Resolved: Policies and procedures implemented to address contract management and monitoring issues.
				2. Improper reporting and accounting for transactions	Resolved: Recommended adjustments were posted to correct improper accounting classifications. Review procedures put into place to review the accuracy of accounting information processed.
FIN-2005-2145	Hertford County CSC	FIN	7/29/2005	1. Segregation of duties related to financial management system (FMS) access rights	Partially resolved: Clerk has not implemented corrective action as suggested by OSA, and responded that the suggestions were unfeasible and would compromise the efficiency of her office.
FIN-2004-6801	South Piedmont CC	FIN	8/15/2005	1. Financial reporting process needs improvement	Resolved: Proper corrective action taken.
INV-2005-0282	Admin Office of the Courts	INV	8/17/2005	1. Tighten procedures for foreign interpreters	Partially Resolved: AOC is in the process of reforming the interpreter program procedures which will include a focus on ethics.
NGV-2004-9126	Alleghany County PFC	FIN	8/23/2005	1. Improvement needed for internal control	Resolved: Policies and procedures implemented to address operational aspects of the Partnership and to address identified internal control issues.
				2. Contract monitoring deficiencies	Resolved: Policies and procedures implemented to address contract monitoring issues and the need for adequate supporting documentation of the process.

REPORT NO.	AGENCY	REPORT TYPE	DATE ISSUED	FINDINGS REPORTED	SUBSEQUENT ACTIONS
				3. Inadequate documentation for the competitive bidding processes 4. Mismanagement of executive director	Resolved: More complete documentation now maintained to support the competitive bid process. Resolved: Executive Director was terminated and restitution of funds obtained.
NGV-2004-9154	Cabarrus County PFC	FIN	8/24/2005	1. Internal control weaknesses 2. Contract management deficiencies	Resolved: Partnership has revised accounting policies and procedures and implemented stronger control systems. Resolved: Partnership has developed contracting policies and procedures and implemented processes for tracking contract changes.
NGV-2004-9127	Buncombe County PFC	FIN	8/25/2005	1. Contract management and monitoring deficiencies	Resolved: Procedures have been enhanced to ensure that all documentation is maintained and to support compliance with applicable program requirements.
NGV-2004-9107	Halifax County PFC	FIN	8/29/2005	1. Inadequate policies and procedures 2. Contract monitoring weaknesses	Resolved: The Board approved revised policies and procedures. Resolved: New contracting policies are being developed and improvement has been made in documenting monitoring activities.
FIN-2005-4305	Clear Water Management Trust Fund	FIN	8/30/2005	1. Reimbursement payments made without required documentation 2. Accounting code sheets not reviewed	Resolved: Procedures have been implemented to ensure invoices and other documentation are received and reviewed prior to processing the reimbursement request. Resolved: Procedures have been implemented to ensure that accounting code sheets are not prepared and approved by the same person.
FIN-2004-6854	Montgomery CC	FIN	8/30/2005	1. Financial reporting process	Partially Resolved: Corrective action taken and ongoing.
NGV-2004-9141	Columbus County PFC	FIN	8/31/2005	1. Contract monitoring deficiencies	Resolved: The Partnership has addressed the issues by enhancement to the contract monitoring procedures.
FIN-2005-2000	Admin Office of The Courts	FIN	9/6/2005	1. mileage reimbursements paid incorrectly 2. Excessive travel advances paid to employees 3. Travel advances paid to employees before needed 4. Travel advances not settled timely 5. Authorization/justification for pay raises not properly documented 6. Fees for indigent defense services not properly paid 7. Adjustments to grants expenditures not explained or reviewed	Partially Resolved: Identified and stopped paying invalid reimbursements. Developing new procedures that should be implemented in February or March 2006. Resolved: Implemented new policies and procedures. Partially resolved: Strengthened existing procedures. Trying to get a waiver from the Office of State Budget and Management. Resolved: Implemented new policies and procedures. Resolved: Implemented new policies and procedures. Resolved: Strengthened the language in the legislation regarding IDS's authority, implemented new policies and procedures and added staff. Resolved: Implemented new policies and procedures.
INV-2005-0279	NC General Assembly	INV	9/12/2005	1. Study requested by attorney general	Opinion issued by Attorney General
NGV-2004-9120	Down East PFC	FIN	9/16/2005	1. Contract management and monitoring deficiencies	Resolved: Policies and procedures were revised and enhanced. Supervision over the affected programs was also increased.

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INV-2005-0283	Department of Insurance	INV	9/19/2005	1. RAD Trust has operated outside the rules and regulations of the state even though it is a function and responsibility of the commissioner of insurance.	Partially resolved: Department developing Action Plan.
				2. RAD Trust did not file quarterly reports for the trust as required in the declaration of trust.	Partially resolved: Department developing Action Plan.
				3. RAD Trust management did not maintain adequate documentation for the disposal of estate assets.	Partially resolved: Department developing Action Plan.
				4. Assets of the estates are co-mingled with assets of RAD Trust and the department of insurance.	Partially resolved: Department developing Action Plan.
				5. Excessive purchases of computer items were made using estate and RAD Trust funds.	Partially resolved: Department developing Action Plan.
				6. RAD Trust entered into an exclusive business relationship with advantec global services, inc.	Partially resolved: Department developing Action Plan.
				7. RAD Trust routinely paid for lunches, breakfast items, christmas parties, and soft drinks for estate employees.	Resolved: Policies implemented to prevent further occurrences.
				8. RAD Trust and DOI employees traveled extensively on estate business with minimal advance ticket purchases and some first-class ticket purchases.	Partially resolved: Department developing Action Plan.
				9. The lease for office space is not economical and RAD Trust did not have a written sub-lease with the department of insurance for office space.	Partially resolved: Department developing Action Plan.
ISA-2005-4660	Office of the Governor	ISA	9/21/2005	1. Access controls to computers--private letter	Partially Resolved
FIN-2005-2144	Henderson County CSC	FIN	9/27/2005	1. Judgments and cash bonds	Resolved: Funds properly distributed
FIN-2005-4500	Department of Correction	FIN	10/19/2005	1. Purchasing rules were circumvented	Resolved- New policy initiated. Agency specific term contracts put in place.
				2. The department made salary overpayments	Resolved- New policy initiated.
				3. Disbursement process contains weaknesses	Resolved - Staff reminded of their responsibilities.
				4. Prison facilities did not verify hours worked by inmates	Resolved- New policy initiated.
				5. Control of cell phones needs improvement	Resolved- Cellphone database has been updated and it agrees to the ITS database.
INV-2005-0285	Halifax CC	INV	10/25/2005	1. A new employment contract for the president was approved without advance notice of significant contract amendments.	Partially resolved: Board of Trustees will receive extensive training to fulfill their oversight responsibilities for the college.
				2. The president received \$12,755.66 in questionable payments for insurance-related fringe benefits.	Partially resolved: Board of Trustees has sought legal counsel on this issue; awaiting legal opinion.
				3. The president received \$3,050.48 in questionable travel expense reimbursements.	Partially resolved: Board of Trustees meeting with legal counsel to pursue recovery of funds from former college president.
				4. The president's executive secretary deleted files from her computer after the college received a cease and desist letter from the state auditor.	Partially resolved: Board of Trustees is evaluating legal advice concerning the employee's conduct.
				5. The automotive tech instructor performed automotive services for the president's personal vehicle outside of classroom instruction.	Resolved: Policy prohibiting employees from using College resources for private gain will be strictly enforced.

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				6. The president authorized the lease of college property without obtaining approval from the state board of community colleges.	Resolved: Board of Trustees will strictly enforce the laws of North Carolina especially those pertaining to community colleges in North Carolina General Statute § 115D.
FIN-2006-2146	Hoke County CSC	FIN	11/1/2005	1. Weak internal controls over cash	Resolved. Job duties are more adequately separated.
FIN-2005-4464	DHHS-Cherry Hospital	FIN	11/18/2005	1. Management of overtime is not effective	Resolved: Additional staffing has been hired to reduce demand for overtime. Procedures were implemented to better manage scheduling strategies.
				2. Inventory controls need improving	Resolved: A reduction of "stock" medications reduced the immediate inventory on hand. Procedures were implemented to address purchasing and inventory procedures.
				3. Timekeeping controls need to be improved	Resolved: Procedures implemented to ensure documentation available and properly authorized to support payroll costs.
				4. Access to the state's personnel system should be revoked	Resolved: Access was reviewed and restricted for only those employees necessary to perform their required functions. Access will be reviewed on a semi-annual basis.
INV-2005-0286	NC Board of Electrolysis	INV	12/16/2005	1. Board did not comply with rules on annual reports, meeting schedules and financial interest statements.	Resolved: All required reports updated and filed.

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February 17, 2006

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