

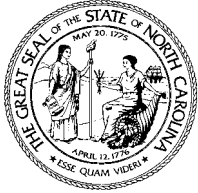
STATE OF NORTH CAROLINA

AUDIT RESULTS FROM
CAFR AND SINGLE AUDIT PROCEDURES
OFFICE OF INFORMATION TECHNOLOGY SERVICES
FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR



Ralph Campbell, Jr.
State Auditor

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February 20, 2002

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Mr. Ronald P. Hawley, Chief Information Officer
Office of Information Technology Services

We have completed certain audit procedures at the Office of Information Technology Services related to the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*, for the year ended June 30, 2001. Our audit was made by authority of Article 5A of *North Carolina General Statute § 147*.

The results of these procedures, as described below, yielded an audit finding and recommendation for the Office related to the State's general-purpose financial statements and the State's federal financial assistance programs which may require disclosure in the aforementioned reports. The finding noted above is included in the findings and recommendations section contained herein. Our recommendation for improvement and management's response follow this finding.

The Office did not have adequate control procedures to ensure that Telecommunication Services invoices were properly approved and cancelled.
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The accounts and operations of the Office of Information Technology Services are an integral part of the State's reporting entity represented in the *CAFR* and the *Single Audit Report*. In the *CAFR*, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the results of tests on the State's internal control and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget Circular A-133.

As part of the work necessary for issuance of the *CAFR* and the *Single Audit Report*, the following individual funds and federal programs of the State were subjected to audit procedures at the Office of Information Technology Services as we considered necessary:

Funds for the *Comprehensive Annual Financial Report*:

Internal Service Funds: State Computer Center and
State Telecommunications Services

Federal Programs for the *Single Audit Report*:

Section II Costs

The individual funds and federal programs subjected to audit at the Office of Information Technology Services are substantially less in scope than would be necessary to report on the general-purpose financial statements that relate solely to the Office or the administration of federal programs by the Office. Therefore, we do not express such conclusions.

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.

Respectfully submitted,

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

Current Year Findings and Recommendations - The following findings and recommendations were identified during the current audit and represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

INVOICES NOT ALWAYS APPROVED AND CANCELLED

In a sample of thirty-nine invoices charged to the Telecommunication Services Office of Information Technology Services, fourteen invoices were not properly approved and twenty-five invoices were not properly cancelled. Established control procedures were not followed by the Office consequently increasing the risk that inappropriate payments could occur.

RECOMMENDATION: Management oversight of invoice processing should be revised as necessary to ensure that established control procedures are in place and functioning as designed.

AGENCY RESPONSE: The accounts payable function for the ITS Telecommunications section was transferred to ITS Fiscal Services in September, 2000 at which time, Telecom invoice processing procedures were evaluated. As a result of our review we then started implementing the same approval and cancellation procedures utilized by ITS Fiscal in paying other invoices.

Based on your audit, you identified certain areas where we were non-compliant with our standard procedures in this area. Consequently we have gone back to the personnel involved and reinforced what the procedures are and that they should be followed consistent with our practices across all of ITS. We will continue to monitor this area to insure that all of our procedures in this area will be followed as required.

DISTRIBUTION OF AUDIT REPORT

In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. Ronald P. Hawley	Chief Information Officer
	Office of Information Technology Services

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N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

February 20, 2002

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