

The background of the cover features a low-angle, blue-tinted photograph of a classical building with multiple windows and columns. In the upper left corner, a portion of the North Carolina state flag is visible, showing a yellow star, a yellow banner with the date 'MAY 20, 1775', and a yellow letter 'C'.

Honesty • Integrity • Professionalism

## INCREASING EFFICIENCY...EXPOSING FRAUD

2008 ANNUAL REPORT & 2009 STRATEGIC PLAN

### North Carolina Office of the State Auditor

LESLIE W. MERRITT, JR., CPA, CFP

# Contents

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3	Message from the Auditor
4	2009 Strategic Plan
7	Executive Summary
9	Financial Audit Division
11	Management Services & Nongovernmental Compliance Division
14	Investigative Division
22	Performance Audit Division
25	Information Systems Audit Division
29	General Administration
32	Appendix A
39	Appendix B
40	Contact Information



# Message from the Auditor

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Serving as North Carolina's State Auditor for the last four years has been a privilege and an honor. The State has seen a growing emphasis on government ethics as taxpayers increasingly seek to hold State government accountable for the spending of taxpayer money. I am pleased to say that the Office of the State Auditor has played an important role in the process through our audits and investigations of fraud, waste and abuse of State resources.



One of the single most important factors of holding State government accountable is transparency. I believe that transparency is an essential element in the functioning of any representative democracy. If State government is run from behind a curtain and is not transparent, its citizenry may grow suspicious of its actions or motivations leading to the public's disillusionment and apathy towards government institutions. However, sunshine is a marvelous antiseptic for this ailment in government and I believe that opening State agencies' books and records, with respect for State law and as an effort to increase transparency, is the first step in reversing any negative trends flowing from past bureaucratic stonewalling and government secrecy.

The Office of the State Auditor is willing to lead by example. History reveals no other time when technology has provided such an accessible platform as the World Wide Web. Through new technology, State agencies and departments are able to display accurate and timely information regarding the spending of taxpayer money. For years the State Auditor's Office has published its work product on the World Wide Web in an easily accessible format to enable public scrutiny and review. Now, we are preparing to take the extra step to increase transparency by publishing the Office's budget, expenditures and contract information on our website at [www.ncauditor.net](http://www.ncauditor.net).

It is my hope that the Office of the State Auditor is the first of many State agencies willing to take this step out from behind the government curtain and into the sunlight. I put my faith in the public trust as I work towards the goal of strengthening State government by increasing transparency and accountability to the taxpayer. I am willing to do my part, and on behalf of North Carolina's taxpayers I challenge other agency and department heads to do the same.

Sincerely,

A handwritten signature in blue ink that reads "Leslie W. Merritt, Jr." The signature is written in a cursive, flowing style.

State Auditor Leslie Merritt

# 2009 Strategic Plan

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The Office of the State Auditor has been a leader in holding State government accountable and recommending government reforms. Beginning with the release of this report, the State Auditor's office is preparing to lead State government into an era of greater transparency by posting budget, expenses and contract information on the State Auditor's website ([www.ncauditor.net](http://www.ncauditor.net)). The available content will first include Fiscal Years 2007-2008 and 2008-2009 with plans to update the current numbers every quarter and reach back and post previous fiscal years as we move forward. We recognize that this is only a first step in greater transparency in State government and trust that as the Office of the State Auditor breaks new ground, other agencies and departments will follow.

In addition to our focus on increased transparency, we recognize that the consistent and professional audits and investigations performed by State auditors lend assurance and credibility to other State government agencies' record of supporting the public. Therefore, it is incumbent on the Office of the State Auditor to set challenging, yet attainable goals and objectives for the 2008-2009 Fiscal Year. The following are goals and objects broken-down by audit division:

## Financial Audit Division

The subjects and frequency of audits in our Financial Audit Division are largely dictated by State statute or federal requirements and remain mostly constant every fiscal year. These audits

include State agencies, all sixteen universities, fifty-eight community colleges, clerks of superior court in all 100 counties, the state's Comprehensive Annual Financial Report (CAFR), Smart Start nonprofit organizations, and Fiscal Control audits at agencies not audited annually.

Smart Start audits are one variable within the Financial Audit Division. The Office of the State Auditor is able to contract with private CPA firms to cost-effectively perform these audits which allow State auditors to devote themselves to other audits and uncovering fraud, waste and abuse of State resources. For the Fiscal Year ended June 30, 2007, 45 Smart Start audits were performed, 39 by CPA firms averaging \$9,192 per audit. In prior years, the average cost for the Office of the State Auditor to conduct a Smart Start audit was \$25,459 per audit. That equals a \$16,267 savings per audit or \$634,423 per year. For Fiscal Year 2007-2008, all Smart Start audits will be contracted with CPA firms and meet the goals of increasing savings for the taxpayer.

In addition, the Office of the State Auditor will be releasing all Smart Start audits by March 31, 2009. It is anticipated that the earlier release of the audit reports will allow the North Carolina Partnership for Children, Inc., and the local partnerships to more quickly address identified deficiencies and to make the necessary improvements to ensure accountability of state funds.

## Management Services and

### Nongovernmental Compliance Division

The Management Services and Nongovernmental Compliance Division (MS&NGCD) focuses on the spending of State and federal pass-through

grants to non-profits. In Fiscal Year 2008-2009, MS&NGCD will focus on the administration of the Grants Information Center (GIC) online reporting system that opened in 2008 and will streamline the process of satisfying filing requirements of State grants.

Most non-profits satisfy their grant requirements and filing deadlines. However, increased monitoring resulting in a decrease in the level of noncompliance is a goal that will ensure that taxpayers' money reaches the communities it was intended to serve. The reality is that the number of noncompliant grantees ebbs and flows with reporting deadlines. MS&NGCD's goal for Fiscal Year 2008-2009 is to continue efforts to reduce the number of noncompliant grants by 15%, keeping the total value of those in noncompliance to no more than 5% of the total grants awarded.

In addition to monitoring compliance levels, MS&NGCD is equipping non-profits with the necessary skills needed to properly account for State grant funds and to remain in compliance. These skills can be learned through MS&NGCD's available training courses. MS&NGCD plans to continue the State Auditor's efforts for Fiscal Year 2008-2009 by offering both live and online grants training. MS&NGCD will conduct a minimum of six live sessions per month, in addition to offering online courses in an e-Learning format that includes a course test for each participant. An important part of training is providing information to grantees and grantors that is relevant to their particular circumstances. To aid in this effort, the MS&NGCD will continue to issue its *Best Practices* quarterly newsletter and identify other efforts to benefit both grantors and grantees. *Best Practices* is distributed to all 5,000+ grantees identified in our grants database, as well as to agency personnel

involved with grants administration.

To ensure accountability and compliance, the Office of the State Auditor investigates the spending of grant funds by non-profit organizations. The goal for Fiscal Year 2008-2009 is to increase the number of new investigations to 40 by the end of this fiscal year, a 48% increase in investigations. In an effort to help train agency monitors to be proactive, MS&NGCD plans to conduct separate monitoring reviews of grantor agencies. For Fiscal Year 2007-2008, these reviews were conducted in conjunction with the grant investigation. MS&NGCD's goal is to complete 12 separate agency monitoring reviews by the end of Fiscal Year 2008-2009.

### **Investigative Division**

The Investigative Division forms the core of the Office of the State Auditor's watchdog function. Through this Division, the State Auditor's Office is able to proactively uncover fraud, waste and abuse in State government. The Investigative Division's goals for Fiscal Year 2008-2009 are to effectively promote the State Auditor's Hotline, enhance the Investigative Task Force and increase the efficiency and effectiveness of handling multiple investigations simultaneously.

The Investigative Division achieved remarkable results for the 2007-2008 Fiscal Year. Specifically, the Division had 29 open cases as of July 11, 2007, and opened 257 during Fiscal Year 2007-2008. The State Auditor's Office and the respective agencies assisting with referrals closed 241 cases, with 45 pending serious matters as of June 30, 2008. The average age of cases closed was 57 days. Nearly doubling the intake while using half the time to resolve these matters is a credit to the women and men of the Investigative Division, and the internal

auditors of the various state agencies who have come to work more closely and effectively with the State Auditor and his staff.

### **Performance Audit Division**

Compared to other divisions in the Office of the State Auditor, the Performance Audit Division is uniquely engineered to evaluate whether State programs are reaching their goals. For Fiscal Year 2008-2009, the Division plans to conduct more performance audits than in Fiscal Year 2007-2008, equip performance auditors with additional tools through new training, and provide greater flexibility to meet emerging needs when they arise.

The Performance Audit Division was recognized by the National State Auditors Association for best 2008 performance audit less than 2000 hours. The audit entitled *Internal Auditing in North Carolina Agencies and Institutions* is an example of the type of performance audits that will continue to be conducted by the Office of the State Auditor in Fiscal Year 2008-2009.

### **Information Systems Audit Division**

The Information Systems (IS) Audit Division's responsibilities include analyzing State agency computer systems to ensure that they are properly secured, produce accurate financial reports and comply with State regulations. IS Division auditors are in a unique position to think proactively about discovering suspicious data trends flowing from an agency's information systems.

The State Auditor's goal for Fiscal Year 2007-2008 was to continue the collaboration between IS auditors and the Financial and Investigative audit teams and to increase proactive auditing by providing computer forensic assistance and data mining analyses of agency financial data. At

a university official's request, the State Auditor used that collaborative effort to uncover a widely reported case regarding university employees using taxpayers' resources to operate an unlawful pirating ring that downloaded Hollywood movies and pornographic pictures and films. For the 2008-2009 Fiscal Year, the Office of the State Auditor plans to continue this collaboration and increase its focus on fraud, waste and abuse in the State's information technology systems.

The IS Audit Division performs Strategic Audit Reviews that are issued separately from IS audits. These reviews are used to uncover fraud, waste or abuse of taxpayer resources by following suspicious State agency data trends. A recent target of an IS Strategic Audit Review was to identify invalid Social Security Numbers (SSNs) in the North Carolina Division of Social Services. This review found 1,906 SSNs that were invalid. The review also found 1,237 SSNs that belonged to the deceased persons category on the Social Security Administration's Death File. Finally, the review found 69 food stamp recipients with a certification date equal to or greater than 45 days after their date of death. The IS Audit Division plans to conduct a greater number of Strategic Audit Reviews in Fiscal Year 2008-2009.

In addition to investigative activities, the IS Audit Division is currently implementing an upgrade to the Agency's existing audit software. This software will allow easier access to auditee data by auditors in other sections of the office and will allow the use of a built in "Extract, Transmit, and Load" (ETL) technology that will expedite the acquisition of agency data to be used by the Financial Auditors in financial audits and by IS auditors in their strategic reviews.

# Executive Summary

## Financial Audit Division

- State Auditors identified \$1,180,411 in questioned costs resulting from 129 identified audit findings. This represents a significant increase in questioned costs and the number of findings over the prior year (\$507,833 and 89, respectively).
- The Office of the State Auditor saved a recurring \$634,413 on 39 Smart Start audits by contracting with private CPA firms for Fiscal Year 2007-2008. In Fiscal Year 2008-2009, the Agency plans to contract-out all Smart Start audits to increase this savings for the taxpayer.

## Management Services and Nongovernmental Compliance Division

- During Fiscal Year 2007-2008, the State Auditor's Office trained 2,882 participants in 99 training sessions on improving accountability and compliance with state and federal grant requirements. That brings the total number of participants trained since August 2005 to approximately 11,075.
- While the monthly percentage varies, the rate of grant recipients in noncompliance with their grant requirements dropped 7% from July 1, 2007 to June 30, 2008. That represents a decline in the percentage of noncompliant grantees to 11.4% of total grants (2.9% of total grant dollars). This reflects the proper accounting of an additional \$13.1 million.
- In February 2008, the State Auditor opened the online Grants Information Center (GIC) allowing grantor agencies and non-State grantees to file annual reports online. By June 30, 2008,

more than 1,500 grantees used GIC to file their 2007 annual reports online. Improvements through GIC will help eliminate redundancy, increase data capture efficiency and improve reporting timeliness.

- For Fiscal Year 2008-2009, MS&NGCD carried forward four grant investigations from Fiscal Year 2007-2008, opened 25 and completed 27 investigations. These investigations resulted in the State Auditor's Office recommending repayment of \$797,692 in grant funds, equal to an average of \$29,544 per investigation.

## Investigative Division

- The Investigative Division had 29 open cases as of July 2007 and opened 257 cases during Fiscal Year 2007-2008.
- The State Auditor's Office and the respective agencies assisting with referrals closed 241 cases in Fiscal Year 2007-2008, with 45 cases pending.
- The State Auditor's Office reduced the average case age to 57 days from 315 days in Fiscal Year 2004-2005.

## Performance Audit Division

- The Performance Audit Division was recognized by the National State Auditors Association for best 2008 performance audit less than 2000 hours. The audit entitled *Internal Auditing in North Carolina Agencies and Institutions* is an example of the type of valuable contribution the Performance Audit Division makes to the Office of the State Auditor and State government in general.

- Performance Audits conducted in Fiscal Year 2007-2008 include: the North Carolina Education Lottery, Albemarle Mental Health Center, Academically or Intellectually Gifted Program, Department of Transportation Highway Schedules and Costs, Department of Juvenile Justice and Delinquency Prevention, Department of Health and Human Services Division of Medical Assistance, Department of Environment and Natural Resources.

#### **Information Systems Audit Division**

- The IS Audit Division conducted Strategic Audit Reviews of North Carolina Division of Social Services and North Carolina State University. These reviews uncovered thousands of invalid Social Security Numbers and university employees using taxpayer money for their personal use.

#### **General Administration**

- The follow-up to the 2006 AuditWatch curriculum was completed in 2007. Efficiency levels were analyzed and recommendations from AuditWatch were implemented with impressive results. In 2005, the Office of the State Auditor used 103,703 audit hours in the Financial Audit Division alone. After the AuditWatch efficiencies were in place, the Financial Audit Division used only 87,358 audit hours. This equates to a total efficiency gain of 15,980 audit hours or \$1,358,300 (audit hours x billing rate).
- In 2008, the State Auditor's Office became an authorized Continuing Professional Education (CPE) sponsor recognized by the NC State Board of CPA Examiners. This is part of the ongoing commitment by the State Auditor to conduct quality continuing education.



# Financial Audit Division

Staff in the Financial Audit Section audit state agencies, universities, community colleges, clerks of Superior Court, and Smart Start nonprofit organizations. The State Auditor is required to perform these audits as part of its statutory responsibilities or to comply with federal requirements. Some audits are performed at the State Auditor's discretion to ensure that all agencies are properly reporting their financial conditions.

The Office of the State Auditor spent the greatest percentage of hours (49%) to perform annual financial statement audits including those of the State's sixteen universities and fifty-eight community colleges. One of its largest financial audits is the state's Comprehensive Annual Financial Report (CAFR), which accounted for 15% of staff hours. The CAFR contains the annual financial statements for the State of North Carolina as a whole.

Another major financial audit project, accounting for 29% of staff time, is the state's Single Audit Report. The Single Audit Report contains the results of the audit of the state's financial statements and the audit of the state's compliance with laws and regulations pertaining to federal grant programs. The Agency also periodically audits selected fiscal controls of clerks of Superior Court and general government agencies.

The audit staff conducts financial and compliance audits of the organizations participating in the Smart Start program, including the statewide coordinating agency (The North Carolina Partnership for Children, Inc.) and the individual local partnerships. Smart Start is an early childhood development program designed to prepare children

to begin school healthy and ready to succeed. Currently, 78 Smart Start partnerships operate throughout the state.

## Financial Audit Results Summary

For the fourteenth consecutive year, the State Auditor issued an unqualified opinion on the State's financial statements. This opinion, for the Fiscal Year ended June 30, 2007, was contained in the CAFR prepared by the Office of the State Controller.

The State of North Carolina also received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the fourteenth consecutive year. This award is given to government units whose CAFR achieves the highest standards in government accounting and financial reporting.

In conjunction with the audit of the State's financial statements, the State Auditor issues a report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements in the Single Audit Report. Nine findings of non-compliance and weaknesses in internal control related to the financial statement audit were reported. These findings disclosed internal control deficiencies related to separation of duties, year-end financial reporting, and approval of journal entries.

With regard to compliance with federal program requirements, the State Auditor issued a qualified opinion on certain federal programs due to material noncompliance with certain requirements. In total, auditors identified \$1,180,411 in questioned costs resulting from 129 identified audit findings.

This represents a significant increase in questioned costs and the number of findings over the prior year (\$507,833 and 89, respectively).

In addition to reporting on the CAFR and Single Audit at the statewide level, the Office of the State Auditor publishes in separately issued reports the audit findings and recommendations from CAFR and Single Audit work for each individual government agency.

Reported findings from university and community college audits for Fiscal Year 2007 primarily related to four areas: access rights, financial statement preparation, management oversight and internal control weaknesses. These internal control weaknesses were in areas such as financial aid awards, cash receipts and deposits, cash disbursements and separation of duties.

In the Clerk of Superior Court audits performed in Fiscal Year 2007, the State Auditor's Office noted internal control weaknesses. These internal control weaknesses were in areas such as timely investments, cash receipts, segregation of duties, and timely deposits.

Smart Start findings issued during 2006-2007 focused on internal control weaknesses and financial statements errors. For the Fiscal Year ended June 30, 2007, 45 Smart Start audits were performed,

39 by CPA firms averaging \$9,192 per audit. In prior years, the average cost for the Office of the State Auditor to conduct a Smart Start audit was \$25,459 per audit. That equals a \$16,267 savings per audit or \$634,423 per year. For Fiscal Year 2007-2008, all Smart Start audits will be contracted with CPA firms and meet the goal of increasing savings for the taxpayer.

In addition, the Office of the State Auditor will be releasing all Smart Start audits by March 31, 2009. It is anticipated that the earlier release of the audit reports will allow the North Carolina Partnership for Children, Inc., and the local partnerships to more quickly address identified deficiencies

and to make the necessary improvements to ensure accountability of state funds.

*A complete list of Financial Audit Division audits (prefixes FCA, FIN and NGV) is detailed in Appendix A.*

*In total, auditors identified \$1,180,411 in questioned costs resulting from 129 identified audit findings. This represents a significant increase in questioned costs and the number of findings over the prior year.*

# Management Services & Nongovernmental Compliance Division

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The Management Services and Nongovernmental Compliance Division (MS&NGCD), has the responsibility of increasing oversight and accountability of State and Federal pass-through grants typically given to nonprofit organizations. MS&NGCD responds to the growing need for compliance oversight and training to adhere to changing reporting requirements.

MS&NGCD's mission is to increase training and "best practices" for nonprofit organizations receiving State grants and to increase compliance and accountability of funds on the grantee and funding agency levels. MS&NGCD has set measurable goals for Fiscal Year 2008-2009 based on past accomplishments.

The Office of the State Auditor is pleased to report that MS&NGCD continues to meet all areas of its original mission. The following is a summary of accomplishments for Fiscal Year 2007-2008:

## Training

- **Grants Training:** During Fiscal Year 2007-2008, MS&NGCD trained 2,882 participants in 99 training sessions, bringing the total number of participants trained since August 2005 to approximately 11,075.
- **Effective Grants Administration Certificate Program:** Working with the Office of State Personnel, MS&NGCD established the Effective

Grants Administration Certificate Program in 2007, consisting of five core grants training courses that provide the basics for proper oversight and accountability of grant funds. During Fiscal Year 2007-2008, 61 grantee and agency personnel have earned this Certificate bringing the total number of Certificate holders to 120.

- **Multifaceted Training:** Other types of training included grants administration sessions tailored to State agency program and financial personnel, grants reporting/accountability sessions tailored to grantees, special sessions conducted at the request of various groups (e.g., specific agencies and state level associations of various types) and presentations at 16 conferences during the Fiscal Year 2007-2008.

## Compliance

- **Increased Grantee Compliance:** Posting of the monthly noncompliance list on the State Auditor's website has served to inform legislators, State funding agencies, and the public which grantees have not complied with the statutory reporting requirements. While the monthly percentage varies, the noncompliance rate dropped 7% from July 1, 2007 to June 30, 2008. That represents a decline in the percentage of noncompliant grantees to 11.4% of total grants (2.9% of total grant dollars). This reflects

the proper accounting of an additional \$13.1 million.

- **Online Reporting Program:** A major focus of MS&NGCD for Fiscal Year 2008-2009 is finalizing the implementation of the North Carolina Grants Information Center (GIC). GIC opened to grantors and grantees on February 28, 2008 and allows grantor agencies and non-State grantees to file annual reports online. By July 30, 2008, more than 1,500 grantees used GIC to file their 2007 annual reports online. Improvements through GIC will help eliminate redundancy, increase data capture efficiency, and improve reporting timeliness.

#### **Best Practices and Research Assistance**

- **Quarterly Best Practices Newsletter:** This newsletter updates grantees on state grant requirements, potential financial accountability problems and developing adequate internal policies and accounting controls. MS&NGCD published four quarterly issues during Fiscal Year 2007-2008 with an email distribution of more than 6,000. All issues are posted on the State Auditor's website ([www.ncauditor.net](http://www.ncauditor.net)).
- **Research and Reporting Assistance:** MS&NGCD continues to provide assistance, via telephone or email, on unique, confusing or complicated questions related to grants reporting and the implementation of the GIC. Many of these questions require research of both grantee and grantor issues, with 519 requiring detailed research.
- **Current Documents and Formats:** MS&NGCD provides grantees and funding agencies with

information on required grant reporting documents and formats through developing, updating and maintaining online forms dictated by the reporting statute.

#### **Agency and Grantee Examinations**

- **Grant Investigations:** For Fiscal Year 2007-2008, MS&NGCD carried forward four grant investigations from Fiscal Year 2006-2007, opened 25 and completed 27 investigations. These investigations resulted in the State Auditor's Office recommending repayment of \$797,692 in grant funds, equal to an average of \$29,544 per investigation.
- **Investigation Training Tools:** MS&NGCD uses the investigation process to educate State agency personnel on monitoring techniques and to suggest improvement to those techniques. In addition, the investigation provides an excellent opportunity to provide best practice information on improving accountability directly to grantees.

#### **Special Projects**

- **Local Government Grants:** MS&NGCD continues to work closely with the Local Government Commission at the state level to identify and capture data on the approximately \$12 billion in grants flowing to local government units.

#### **Goals for Fiscal Year 2008-2009**

For Fiscal Year 2008-2009, MS&NGCD will focus on administration of the Grants Information Center (GIC) online reporting system. We will continue to conduct training sessions statewide for both funding agency and grantee personnel

on the use of the GIC, as well as basic grant functions. The GIC has increased the accuracy and timeliness of grants data to all interested parties while significantly decreasing the workload of the funding agencies and the Office of the State Auditor. The GIC affords both grantor agencies and grantees a much simpler method of complying with statutory reporting requirements.

Compliance reporting and subsequent processing is an important benchmark in how effective MS&NGCD is at compliance and accountability. The number of noncompliant grantees will ebb and flow with reporting deadlines. However, the GIC will greatly improve the timeliness of adding noncompliant grantees and removing grantees from the noncompliance list when delinquent reports are provided. The data in the GIC is updated nightly and will allow the public to pull up a report showing the most current noncompliance and suspension lists. MS&NGCD's goal for Fiscal Year 2008-2009 is to continue efforts to reduce the number of noncompliant grants by 15%, keeping the total value of those in noncompliance to no more than 5% of the total grants awarded.

Coordinating and cooperating with the grantor agency is of primary importance to successfully monitor and review nonprofits and their grantor

agencies. The goal for Fiscal Year 2008-2009 is to increase the number of new investigations to 40, a 48% increase in investigations. In an effort to help train agency monitors to be proactive,

MS&NGCD plans to conduct separate monitoring reviews of grantor agencies. For Fiscal Year 2007-2008, these reviews were conducted in conjunction with the grant investigation. MS&NGCD's goal is to complete 12 separate agency monitoring reviews in Fiscal Year 2008-2009.

Training is an important function of MS&NGCD, and we plan to continue our efforts in Fiscal Year 2008-2009 by offering both live and online grants training. MS&NGCD will conduct a minimum of six live sessions per month, in addition to offering online courses in an e-Learning format that includes a course test for

each participant. An important part of training is providing information to grantees and grantors that is relevant to their particular circumstances. To aid in this effort, MS&NGCD will continue to issue its *Best Practices* quarterly newsletter and identify other efforts to benefit both grantors and grantees. *Best Practices* is distributed to all 5,000+ grantees identified in our grants database, as well as agency personnel involved with grants administration.

*A complete list of MS&NGCD reports (prefix GRA) is detailed in Appendix A.*

*During Fiscal Year  
2007-2008, MS&NGCD  
trained 2,882 participants  
in 99 training sessions,  
bringing the total number  
of participants trained  
since August 2005 to  
approximately 11,075.*

# Investigative Division

The Office of the State Auditor's Investigative Division has proven to be an effective tool for investigating allegations of fraud, waste and abuse of State resources. Relying on State constitutional and statutory authority, this Division of the State Auditor's Office exposes the variety and frequency of improper governmental activities and abuses in State government. Furthermore, the State Auditor publishes all material findings in a public report, and refers all substantiated allegations of criminal activity to law enforcement and to the relevant legal authorities for investigation and prosecution.

The majority of tips that lead to investigations come from the State Auditor's confidential, 24-hour, toll-free hotline [1-800-730-TIPS (8477)]. This hotline is designed for State employees and the general public to report activities they believe may be illegal or improper. Allegations of fraud, waste and abuse may also be reported by traditional mail or [hotline@ncauditor.net](mailto:hotline@ncauditor.net).

To protect the integrity of tips, allegations of improper governmental activities are strictly confidential. In addition, State law provides protection from retaliation or discrimination for whistleblowers who report improper or illegal

activities to the State Auditor. The Investigative Division takes seriously and responds accordingly to all specific and credible allegations of improper governmental activities, but is especially concerned about allegations of retaliation that may bring a chilling effect on future tips.

*The Division had 29 open cases as of July 11, 2007, and opened 257 during Fiscal Year 2007-2008.*

*The State Auditor's Office and the respective agencies assisting with referrals closed 241 cases, with 45 pending serious matters as of July 30, 2008.*

The Office of the State Auditor satisfied the statutory requirement to periodically promote the State Auditor's Hotline in Fiscal Year 2007-2008. Consequently, the number of cases opened has nearly doubled since the previous fiscal year. In addition, the average case age has been reduced by over 50%. The Office of the State Auditor has effectively responded to staffing needs of the Investigative Division, and the mission of this Division has evolved into addressing the more egregious and notorious cases of fraud,

waste and abuse. Even those matters referred by the State Auditor to other agencies' internal auditors are monitored by the Auditor's staff for timely inquiry and resolution.

The goals for Fiscal Year 2008-2009 are to effectively promote the State Auditor's Hotline, enhance the Investigative Task Force and increase the efficiency and effectiveness of handling multiple investigations simultaneously.

In the fall of 2007, the Office of the State Auditor launched a statewide television ad blitz featuring two 30 second spots designed to expose fraud, waste and abuse in State government. This one area is unique in that money spent to promote the Hotline has reaped a far greater amount in savings to the taxpayers when fraud, waste and abuse of State money is uncovered. Timing of this promotion was key, since the Investigative Division prepared itself to handle the sharp increase in new cases. Specifically, the Division had 29 open cases as of July 11, 2007, and opened 257 during Fiscal Year 2007-2008. It should be noted that this number does not include immediate and undocumented referrals. The State Auditor's Office and the respective agencies assisting with referrals closed 241 cases, with 45 pending serious matters as of July 30, 2008. In addition, the average case age was 57 days. Nearly doubling the intake while using half the time to resolve these matters is a credit to the women and men of the Investigative Division, and the internal auditors of the various state agencies who have come to work more closely and effectively with the State Auditor and his staff.

Building on the team-centered approach that was begun in 2005, the Office of the State Auditor launched a new entity labeled the Investigative Task Force (ITF) in 2007. Led by the new head of the Investigations Division and the Chief Deputy State

Auditor, the ITF is designed to steer investigations when a deeper vein of fraud, waste or abuse is detected by using standard auditing techniques, while applying more innovative investigative and cyber-driven methods. Being comprised of auditors and staff with investigative, performance, non-profit compliance, financial and information system backgrounds, the ITF is positioned to follow "risk-based" leads and then drill down to the source of fraud, waste or abuse of public resources.

*The following are summaries of the more notable cases in Fiscal Year 2007-2008. A complete list of Investigative Division reports (prefix INV) is detailed in Appendix A.*

#### **North Carolina Central University**

The Office of the State Auditor received an allegation through the State Auditor's Hotline concerning improper payments of \$2,000 checks to an undergraduate student

and her acquaintances by the North Carolina Central University Assistant Provost and Associate Vice-Chancellor of Academic Affairs (Assistant Provost). Allegedly, the Assistant Provost authorized and made payments for University work that was not performed and received portions of the money in return so he could make payments on his University-issued credit card.

Investigators found that the Assistant Provost inappropriately authorized graduate assistant

*Investigators found that the Assistant Provost inappropriately authorized graduate assistant contracts and honoraria for unauthorized individuals. The review discovered nine payments, totaling \$36,041, improperly authorized by the Assistant Provost.*

contracts and honoraria for unauthorized individuals. The review discovered nine payments, totaling \$36,041, improperly authorized by the Assistant Provost. Seven of these payments were cashed with a total value of \$15,341. Two remaining payments valued at \$20,700 were authorized or issued but never cashed. In addition, a review of credit card statements for the Assistant Provost's credit card issued by the University revealed delinquency charges, a notice of account cancellation and a notice to assign the account to a collection agent. These findings lend credibility to the complainant's assertion that the Assistant Provost's actions were taken to help make his credit card payments.

Investigators also found two employment forms initiated by the Assistant Provost for an unqualified student that contained false authorization signatures and other documentation with either false information or lack of sufficient approvals. Further, the review revealed the Assistant Provost did not report an improper relationship with an undergraduate student to University officials. Other findings included the Assistant Provost charging personal expenses to the University-issued credit card, graduate assistant payments were improperly charged to federal grants, and lack of proper approvals and justifications for honoraria payments.

Several findings from this investigation were referred to the U.S. Attorney's Office, the District Attorney, and the State Bureau of Investigation. Investigators recommended the strongest disciplinary action available against the Assistant Provost, collection of reimbursement for unauthorized expenses, and improved administrative controls. As a result of our review, the University removed the Assistant

Provost from all administrative responsibilities and ultimately terminated his employment. In addition, the Assistant Provost paid restitution to the University.

### **Department of Health And Human Services – Adult Care Licensure Section**

The Office of the State Auditor received a complaint through the State Auditor's Hotline concerning the procedures performed by the North Carolina Department of Health and Human Services' Adult Care Licensure Section (ACLS) regarding its oversight of two adult care homes, one licensed and the other, unlicensed.

The investigation found that ACLS allowed a licensed home's management structure to continue in violation of State law despite the high risk of resident injury or death as documented in a May 2007 citation. The May 2007 citation documented the improper use of a restraint which resulted in the death of one resident. After receiving a suspension of admissions and numerous citations, the adult care home received new ownership although it continued to include one of the former owners in the new ownership structure. The North Carolina Administrative Code prohibits the approval of a new license to management that had a license suspension in the prior six months.

In addition, the investigation found that ACLS did not promptly respond to violations discovered in a county investigation of an unlicensed home. Furthermore, ACLS failed to notify the responsible persons of the home's residents that the home received a cease of operations letter that precluded the home from feeding and administering medications to their residents. As a result, this unlicensed home remained in operation after the cease operations notification which allowed residents to

remain in an environment that jeopardized their health and safety.

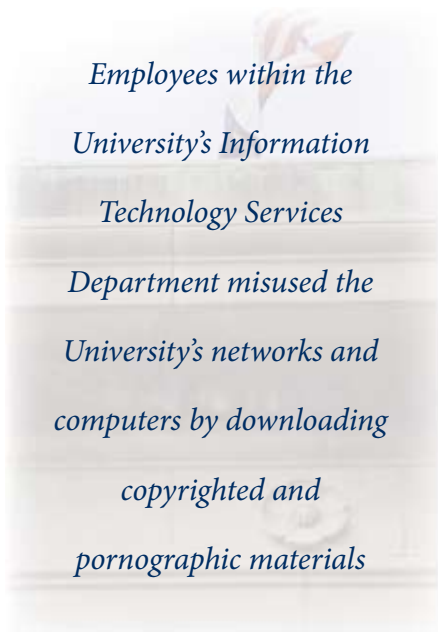
Investigators recommended changes in the license approval procedures, a restructuring of complaint responses, and an improved notification process.

### **North Carolina Central University**

The Office of the State Auditor was contacted by the University of North Carolina General Administration after they became aware of allegations regarding potential inappropriate use of the North Carolina Central University (University) computer networks. Allegedly, employees within the University's Information Technology Services Department misused the University's networks and computers by downloading copyrighted and pornographic materials. In addition, these employees allegedly circumvented purchasing procedures to acquire items for personal use.

Forensic analysis of computers and interviews confirmed that two University employees misused University networks by downloading movies, music, games, software, and pornography. The Data Base Administrator and Information Technology Manager used the higher-speed University network and servers to download these items from unauthorized sources. In addition, these employees distributed these copyrighted materials to friends and business associates in potential

violation of federal copyright law. Investigators also determined that the Information Technology Manager was granted access to servers at North Carolina State University to download music. Unauthorized access of government computers violates North Carolina General Statutes.



In compliance with State law, the State Auditor notified the North Carolina Attorney General and appropriate law enforcement agencies of apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or State employee. Auditors recommended University management take strong disciplinary action against these employees, determine the extent of potential security breaches, offer training to employees, and work with law enforce-

ment as appropriate. The University released these individuals from employment.

Other findings in the report included the lack of adequate controls over fixed assets, absence of requirements for employees to complete secondary employment forms, and inadequate verification of education and employment credentials when hiring and promoting employees. Auditors recommended improved procedures to track fixed assets, additional training, and a course of action for any discrepancies noted during the application process.

### **North Carolina State University**

During the course of a review at North Carolina

Central University, auditors became aware of a connection between an information technology employee at North Carolina State University and employees under investigation at North Carolina Central University. Allegedly, the North Carolina State University employee allowed individuals external to the organization to access the University computer network to share music files. In addition, we received allegations that the employee was involved in illegal downloading and distribution of copyrighted materials.

Forensic analysis of computers and interviews confirmed that the Operations and Systems Analyst misused University networks by downloading movies, music, games, software, pornography, and violent images. Some of these files were buried deep within sub-folders indicating an apparent attempt to conceal the content from detection. The Operations and Systems Analyst used the University servers because of the faster connection speed. In addition, he admitted to distributing copyrighted materials to friends and business associates as well as using software to break encryption that protects copyrights.

The investigation also revealed that the Operations and Systems Analyst intentionally deleted all information contained on his University-issued laptop to conceal inappropriate use. Further, he attempted to notify co-workers to delete suspicious activity. Intentional damage to a government computer and obstruction of an audit are violations of State law.

In addition, the Operations and Systems Analyst provided access to a University server to allow a friend to download music files. State law prohibits the unauthorized granting of access to a government computer.

In compliance with State law, the State Audi-

tor notified the North Carolina Attorney General and appropriate law enforcement agencies of apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or State employee. Auditors recommended University management take strong disciplinary action against the employee, determine the extent of potential security breaches, offer training to employees, and work with law enforcement as appropriate. The University placed the employee on investigative leave and he subsequently terminated employment.

### **North Carolina General Assembly**

Investigators received a complaint through the State Auditor's Hotline related to a potential conflict of interest involving a North Carolina Senator and his involvement with the day-to-day operations of a stock car racing team owned by his son and whose major sponsor at the time was Blue Cross Blue Shield of North Carolina (BCBSNC). A review of the allegations confirmed the relationship between the Senator's son's racing team and BCBSNC and revealed that another company the Senator co-owns with his son has a direct financial relationship with the racing team. The racing team used property owned by a company co-owned by the Senator as collateral to secure a \$150,000 line of credit.

Because BCBSNC is a major sponsor of the racing team and is a company that does business before committees upon which the Senator presides (including one which he co-chairs), this situation is a potential conflict. Furthermore, the potential conflict of interest was not properly disclosed on the Statement of Economic Interest filed with the State Ethics Commission as required. Auditors recommended that the Senator include all business and personal relationships that may create an

actual or potential conflict of interest explicitly as required by the Statement of Economic Interest.

### **Piedmont Community College**

The Office of the State Auditor received an allegation that the Director of the Educational Opportunity Center (EOC) at Piedmont Community College (College) forced her staff members to submit false Annual Performance Reports to the U.S. Department of Education. The investigation confirmed that the EOC Director submitted Annual Performance Reports that included ineligible individuals to meet program goals. Intentional misrepresentation on these reports is a violation of federal law.

The review also found that the Director submitted a fictitious hotel receipt for reimbursement of \$1,646.87, allowed ineligible family members of staff to attend retreats at a cost of \$7,668.33, and gave special benefits to family members through the EOC program. The Director included her son and daughter-in-law as program participants without proper documentation and provided her son a cellular phone purchased with grant funds.

Investigators recommended the College reimburse the federal granting agency, seek restitution from the Director, revise the Annual Performance Reports, and take disciplinary action against the

EOC Director. The EOC Director resigned effective March 31, 2008. Pursuant to State law, the results of the investigation were forwarded to appropriate law enforcement authorities.

*The review also found that the Director submitted a fictitious hotel receipt for reimbursement of \$1,646.87, allowed ineligible family members of staff to attend retreats at a cost of \$7,668.33, and gave special benefits to family members through the EOC program.*

### **University of North Carolina At Greensboro**

The Office of the State Auditor received a complaint through the State Auditor's Hotline concerning the improper contracting for services and related employment issues at the University of North Carolina at Greensboro (UNC-G). Auditors found that the Vice Chancellor for Information Technology Services (ITS) used \$431,925 in State funds to bypass University policy and inappropriately hire a contractor referred through an associate. The Vice Chancellor also authorized a pay

increase from \$150 to \$200 per hour after the contractor requested a higher rate despite the lack of written justification. Further review revealed a lack of competition for other contracts for services. State purchasing policy requires documentation when competition is not obtained, and University procedure requires UNC-G legal counsel to review all outside contracts before they are signed by the appropriate University employee. Auditors recommended tightening the University's internal controls and maintaining appropriate documentation.

The review also revealed that over \$65,000 of

the ITS contract costs related to the contractor's commutes from Los Angeles and Las Vegas and that UNC-G provided excessive reimbursements for the contractor's meals including two purchases of alcoholic beverages, which is prohibited by State policy. Further, \$212,000 of the ITS contract was paid with student fees. Auditors recommended ensuring expenses are reasonable and necessary and that funds are only used for their intended purposes.

**North Carolina  
Department of  
State Treasurer**

The Office of the State Auditor received a written request from the Lieutenant Governor's General Counsel regarding the possible misuse of state computers

within the Department of State Treasurer (State Treasurer) for political purposes. Allegedly, a private citizen used a state computer to send a public records request to conduct political campaign opposition research. The investigation confirmed that the Senior Advisor to the State Treasurer sent the public records request through State Treasurer computers via a private e-mail account belonging to her father-in-law.

Analysis of State computers assigned to four State Treasurer employees, who also work part-time for the State Treasurer's campaign for governor, revealed significant evidence of political ac-

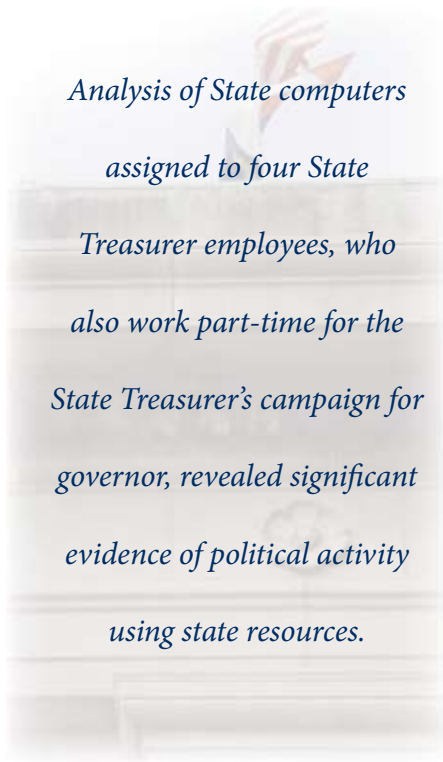
tivity using state resources. Auditors found these employees accessed political websites belonging to political action committees, polling consultants, and the North Carolina Democratic Party's on-

line voter database. In addition, our review discovered 53 political documents including campaign speeches and donor lists and approximately 60 emails regarding campaign activity. State law prohibits political activity by State employees while on duty or using State resources. Auditors recommended disciplinary action against the four employees and improved training for all State Treasurer staff.

**Office of the Lieutenant  
Governor**

The State Treasurer's campaign manager sent a

letter to the State Auditor requesting an investigation into potential political operations within the Office of the Lieutenant Governor. The allegations concerned state property, including computers, being used for campaign activity and the use of the North Carolina State Highway Patrol for transportation to campaign events. The investigation revealed that a private internet connection and wireless internet router were installed in the Lieutenant Governor's office in May 2005 for her employees' personal use. The Lieutenant Governor's campaign committee paid for the equipment and internet service.



Auditors discovered a lack of policies governing the use of personal computers and inadequate monitoring of computer and router use. In addition, the review found that there are no North Carolina General Statutes, rules, or regulations that specifically address the security protection provided the Lieutenant Governor. Auditors recommended the removal of the private internet access, communication of policies regarding personal use of computers, and the issuance of an executive order by the Governor that formally authorized the security protection for the Lieutenant Governor.

#### **Department of Public Instruction / State Board of Education**

The Office of the State Auditor received a complaint through the State Auditor's Hotline concerning the arrangement that allowed the Chairman of the State Board of Education (State Board) to rent a car to use while conducting State Board business. The investigation revealed that the rent-

al car arrangement was not the most economical option. Investigators calculated that leasing the same vehicle rather than renting it on a monthly basis would have resulted in a savings of approximately \$0.39 per mile or \$26,445 in total. Further, the review found that the Chairman was eligible to drive a state vehicle. Analysis of costs associated with the assignment of a state vehicle indicated that cost savings of \$32,695 could have been achieved. Auditors recommended that alternative options be pursued and that management monitor the costs of each option.

The investigation also revealed that \$9,523 related to meals expense was improperly paid to the State Board Chairman. Auditors recommended the clarification of policies regarding the reimbursement of expenses for board members and that the State Board seek re-payment of the improper meals expenses. After receiving the draft report, the State Board Chairman repaid the Department of Public Instruction for meals for which he was improperly reimbursed.

# Performance Audit Division

The Office of the State Auditor's Performance Audit Division is designed to allow for flexible deployment of resources while upholding strict auditing standards. Unlike prescheduled financial audits, the subjects of performance audits are chosen at the discretion of the State Auditor upon consideration of two factors: greatest risk potential and greatest opportunity for impact. Upon release, performance audits provide the public, agency managers and program managers with an objective analysis of whether State agencies efficiently and effectively manage their programs and activities. Furthermore, these audits are of particular value to legislators who must consider the effectiveness of State programs in funding decisions and to the taxpayers who pay for those programs.

The Performance Audit Division was recognized by the National State Auditors Association for best 2008 performance audit less than 2000 hours. The audit entitled *Internal Auditing in North Carolina Agencies and Institutions* is an example of the valuable contribution the Performance Audit Division makes to the Office of the State Auditor and State government in general.

During 2008, the State Auditor's Performance

Audit Division continued to produce reports that are narrow in scope and target specific programs or areas where the State is at greatest risk. Training for the Division's auditors and staff focused on performance-based management, business process improvement, and contract management.

Training sessions instructed auditors how to evaluate the relationship between program results and the resources used to achieve those results, how to identify opportunities to make government operate more efficiently, and how to identify contract management practices that do not protect the interests of the State. The Performance Audit Division continues to concentrate on value-added and proactive audits that strengthen the State

Auditor's watchdog function in State government. The following are summaries of the more notable cases in Fiscal Year 2007-2008. *A complete list of Performance Audit Division audits (prefix PER) is detailed in Appendix A.*

## North Carolina Education Lottery

The audit objectives were to determine whether the North Carolina Education Lottery (NCEL) uses performance management best practices, whether NCEL management compensation is comparable

*The Performance Audit*

*Division was recognized*

*by the National State*

*Auditors Association for*

*best 2008 performance*

*audit less than 2000*

*hours.*

to lotteries in other states, and whether NCEL employee and vendor ethnic diversity reflects the ethnic diversity of North Carolina's general population.

The audit found that NCEL suffers from four performance management weaknesses: no documented revenue forecasting methodology; no formal strategic plan; no ongoing marketing or operational research; and no full-cost accounting of promotional events. The audit also found that NCEL management compensation is in line with lottery management compensation of bordering states, and the ethnic diversity of NCEL management and staff is similar to that of North Carolina's general population.

#### **Albemarle Mental Health Center**

The audit objective was to determine whether the resources provided by the State were used for their intended purpose in a prudent business manner and with proper oversight.

The audit found that the Area Program Director's \$282,663 base salary and the Special Assistant's \$142,848 base salary were excessive. The audit also found that the Center's Board member expenses were excessive, and the Board did not monitor operations and ensure public funds were used in the most effective and efficient manner to fulfill the Center's mission.

#### **Academically or Intellectually Gifted Program**

The audit objective was to determine whether the Exceptional Children Division of the Department of Public Instruction (DPI) adequately monitors the use of state funding for the Academically or Intellectually Gifted (AIG) Program.

The audit found that the AIG Program was not monitored at the state level to ensure that local programs are operated according to documented plans. Also, DPI did not monitor local AIG program expenditures or determine the quality and effectiveness of local programs.

#### **Department of Transportation Highway Project Schedules And Costs**

The audit objective was to determine the extent to which Transportation Improvement Program highway projects are having schedule delays and cost increases and the major

categories contributing to these problems.

The audit found that the Department of Transportation (DOT) did not successfully meet planned construction schedules, resulting in \$152.4 million of additional inflation related construction costs. The audit also found that DOT was deficient in key performance management control activities and does not have meaningful and reliable highway performance objectives and measures.

*The audit found that the Area Program Director's \$282,663 base salary and the Special Assistant's \$142,848 base salary were excessive.*

**Department of Juvenile Justice And  
Delinquency Prevention – Juvenile Crime  
Prevention Council-funded Programs**

The audit objectives were to determine whether Juvenile Crime Prevention Council (JCPC) members have conflicts of interest, whether JCPC-funded programs were adequately monitored, and whether reliable data was available to evaluate JCPC program effectiveness.

The audit found that some JCPC members appear to have financial and program evaluation conflicts of interest between their duty as a council member to fairly select programs to fund and their interest as a program manager to maximize funding for the programs they manage. The audit also found that the Department of Juvenile Justice and Delinquency Prevention and County JCPCs did not adequately monitor JCPC-funded programs, some JCPC program participation data was inaccurate, and there were no standardized measurable performance objectives for each program type.

**Department of Health And Human Services  
Division of Medical Assistance**

The audit objectives were to determine whether Division of Medical Assistance (DMA) properly developed and managed the utilization review contract for mental health services, and whether proper protocols were established to ensure that

the authorizations for services were managed effectively.

The audit found: DMA management disabled critical controls designed to prevent unauthorized payments; DMA's plan for administering the contract was inadequately documented; improvement was needed in DMA's contract monitoring processes; and DMA may have overpaid for services under the contract due to not resolving a settlement agreement.

**Department of Environment And Natural  
Resources – Division of Air Quality**

The objective of the audit was to determine whether the Division of Air Quality (DAQ) Title V air quality permit review process could be more efficient.

The audit found that by implementing "LEAN," a process improvement technique modeled after the Toyota Production System, DAQ could increase the number of air quality permit applications processed by 52%, thus causing applicants to receive permits approximately 40% sooner. This efficiency increase should effectively eliminate the current backlog of 229 air quality permits by 2009, as opposed to 2015 using the current process. DAQ could see an efficiency gain of \$572,000, the cost of hiring seven new full-time staff.

# Information Systems Audit Division

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The Information Systems (IS) Audit Division's responsibilities include analyzing State agency computer systems to ensure that they are properly secured, produce accurate financial reports and comply with State regulations. Staff in this division conduct their own audits of computer systems across the State. In addition, they provide IS audit assistance to financial audit teams to ensure that agency computerized accounting systems can be relied upon to produce accurate financial reports. Without those assurances, financial audit teams would be unable to issue unqualified opinions on the accuracy of agency financial statements.

IS auditors are in a unique position to think proactively about discovering suspicious data trends flowing from an agency's information systems. The State Auditor's goal for Fiscal Year 2007-2008 was to continue the collaboration between IS auditors and the Financial and Investigative audit teams and to increase proactive auditing by providing computer forensic assistance and data mining analyses of agency financial data.

The IS Audit Division continues to perform Strategic Audit Reviews that are issued separately from IS audits. These reviews are used to uncover fraud, waste or abuse of taxpayer resources by following suspicious State agency data trends. While initiated and coordinated by the IS Audit Division, these reviews involve auditors from all divisions of the Office of the State Auditor.

Strategic Audit Reviews build a bridge from an abstract proactive policy to the actual practice of being proactive. By conducting Strategic Audit Reviews through the use of data mining analysis, the State Auditor's office is in the forefront of auditing trends. To improve innovation and effectiveness, the State Auditor continues to work with leading experts in data mining and plans to continue to increase the number of Strategic Audit Reviews to bring more accountability to State government.

In Fiscal Year 2008-2009, the IS Audit Division is implementing an upgrade to the Office of the State Auditor's existing audit software. This software will allow easier access to auditee data by auditors in other sections of the office and will allow the use of a built in "Extract, Transmit, and Load" (ETL) technology that will expedite the acquisition of agency data to be used by Financial auditors in financial audits and by IS auditors in their strategic reviews.

The following is a summary of IS Audit Division's audits and reviews conducted during Fiscal Year 2007-2008. *A complete list of IS Audit Division's audits and reviews (prefixes ISA and SAR) is detailed in Appendix A.*

## **Strategic Audit Review: North Carolina Division of Social Services**

The purpose of this Strategic Audit Review was to identify invalid Social Security Numbers (SSNs)

in the North Carolina Division of Social Services. This review found 1,906 SSNs that were invalid. The review also found 1,237 SSNs that belonged to the deceased person's category on the Social Security Administration's Death File. Finally, the review found 69 food stamp recipients with a certification date equal to or greater than 45 days after their date of death.

### **Strategic Audit Review: North Carolina State University**

The purpose of this Strategic Audit Review was to identify improper use of procurement cards (P-Cards) by University employees. This review found that two University employees used their P-Cards for personal use. The University had taken appropriate action on these employees by the time of our audit.

### **IS Audit: Community Colleges – General Controls Reviews**

IS Audit staff conducted Information System audits at the following Community Colleges: Edgecombe Community College, Blue Ridge Community College, Wilson Technical Community College, Rowan-Cabarrus Community College, Halifax Community College, Piedmont Community College, Gaston Community College, Cleveland Community College, Guilford Technical Community College, Randolph Community College, Robeson Community College, Catawba Valley Community College, Central Carolina Community College, Stanly Community College, Roanoke-Chowan Community College, Johnston Community College, Asheville-Buncombe Community College, Carteret Community College, James Sprunt Community College, Haywood

Community College, Bladen Community College, Martin Community College, Brunswick Community College, McDowell Technical Community College, Pamlico Community College, Wilkes Community College, Richmond Community College, Surry Community College, Mayland Community College, Fayetteville Technical Community College, and Wake Technical Community College.

The primary objective of these audits was to evaluate the colleges' IS general controls. The scope included general security, access controls, systems software, physical security, and disaster recovery. Weaknesses noted in access controls were conveyed to management in a private letter because of the sensitive nature of the findings, while the weaknesses that we noted in general security, systems software, physical security, and disaster recovery are noted in individual public reports for each college available to the public on the State Auditor's website ([www.ncauditor.net](http://www.ncauditor.net)).

### **IS Audit: North Carolina Information Technology Services – General Controls Review**

IS audit staff audited North Carolina Information Technology Services (ITS). The primary objective of this audit was to follow-up on the findings noted in the prior year's general controls review. IS audit staff also performed a limited information systems audit of the application controls for the ITS MICS Billing System and a review of the ITS Service Level Agreement process. We found that ITS was not meeting their targeted resolution time and target percentage of calls resolved on-time as stated in the signed Service Level Agreements.

### **IS Audit: North Carolina Department of Health And Human Services – Application Controls Review**

IS audit staff conducted an application controls review of the County Administration Reimbursement System at the North Carolina Department of Health and Human Services. The scope of the audit included data completeness, data accuracy, table maintenance, user access, processing, and data backup and recovery. We did not note any significant weaknesses in this application.

### **IS Audit: North Carolina Department of Transportation – Application Controls Review**

IS audit staff conducted an application controls review of the Federal Highway Billing System at the North Carolina Department of Transportation. The scope of the audit included data completeness, data accuracy, table maintenance, user access, processing, and data backup and recovery. We did not note any significant weaknesses in this application.

### **IS Audit: North Carolina Department of Health And Human Services, Division of Social Services – Application Controls Review**

IS audit staff conducted an application controls review of the Food Stamps Information Systems

(FSIS) at the North Carolina Department of Health and Human Services, Division of Social Services. The scope of the audit included data completeness, data accuracy, data validity, and data authorization. In the data completeness area we noted that a SAS 70 Report was not available for a third party vendor. In the data accuracy area we noted that

there was a lack of program change controls and a lack of program run books, programmer's manual, and restart procedures. In the data validity area we noted that there was a lack of segregation of duties in the recording and approval of applications through the FSIS system. In the data authorization area we noted that there was information leakage on the internet webpage, an inadequate review of UAudit and

excessive activity reports, and a lack of source code comparison.

### **IS Audit: North Carolina Department of Health And Human Services, Division of Social Services – Application Controls Review**

IS audit staff conducted an application controls review of the Eligibility Information Systems (EIS) at the North Carolina Department of Health and Human Services, Division of Social Services. The scope of the audit included data completeness, data accuracy, data validity, and data authorization. In the data accuracy area we noted that a budget

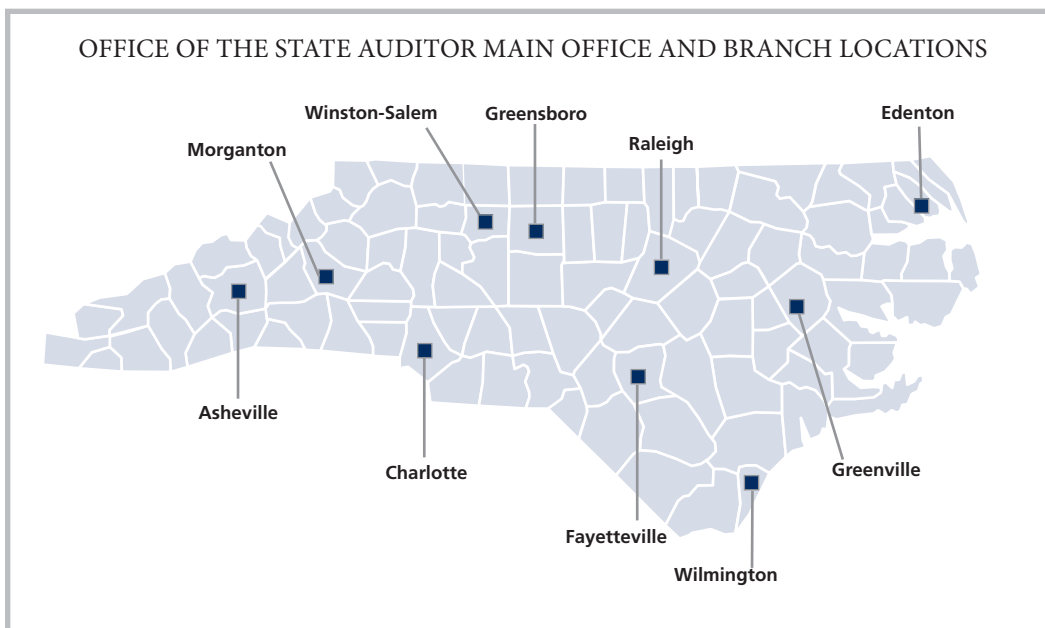


calculation was performed outside of the EIS application, there was a lack of review of the error and attention report, there was a lack of program change controls and a lack of program run books, programmer’s manual, and restart procedures. In the data validity area we noted that there was a lack of segregation of duties in the recording and approval of applications through the EIS system. In the data authorization area we noted that there was information leakage on the internet webpage, an inadequate review of UAudit and excessive activity reports, and a lack of source code comparison.

**Information Security Vulnerability Assessments**

Funded by lapsed salaries, the Office of the State Auditor contracted with a private firm to

conduct vulnerability assessments on the North Carolina Department of Corrections, the North Carolina Department of Environment and Natural Resources, and the North Carolina Department of Public Instruction. The purpose of these assessments were to gauge the entity’s security posture at a given point in time, identify security risks that might make an entity vulnerable to attack, and determine appropriate procedures to mitigate the identified risks. The detailed results of the assessments are kept confidential as to not announce control weaknesses to would-be intruders. General results containing the numbers of high, medium and low weaknesses are released to the public through the State Auditor’s website and email notification service.



# General Administration

## Personnel

To be a proactive State agency, the Office of the State Auditor must be a responsible manager of its personnel. After selecting the best qualified applicants, the State Auditor's Office must then provide quality training to employees and a quality control review of employees work product.

The Office of the State Auditor continues to work towards the goal of more effective and efficient audits. These efficiency gains allow the State Auditor's Office to spread out its resources to do more with current auditor and staff positions.

The follow-up to the 2006 AuditWatch efficiency curriculum was completed in 2007. Efficiency levels were analyzed and AuditWatch provided the State Auditor with feedback in areas that needed improvement. In 2005, the Office of the State Auditor used 103,703 audit hours in the Financial Audit Division alone. After the AuditWatch efficiencies were in place, the Financial Audit Division used only 87,358 audit hours. This equates to a total efficiency gain of 15,980 audit hours or \$1,358,300 (audit hours x billing rate).

## Recruiting

The State Auditor's goal is to build relationships with the right applicants. This will reduce turnover and eliminate the waste that frequent turnover creates.

The Office of the State Auditor continues its efforts to hire talented, skilled staff by recruiting on university campuses across the state. We work with campus faculty to participate in Beta Alpha Psi meetings, accounting classes and other events. Significant effort is made to identify applicants who want to be challenged yet are looking for a good work-life balance and want to make an impact as a public servant.

In addition, the State Auditor's Office has made

great strides in its internship program. Internships provide individuals an opportunity to perform meaningful, career-related work with our Agency prior to their final year in school. If the internship is successful, the intern may be invited to begin their career in the State Auditor's Office. This program has enabled the State Auditor to hire very talented individuals who are looking for a long-term relationship with our office.

## Training

In Fiscal Year 2007-2008, the State Auditor refined the annual training standard from 65 hours to closer to the CPA Board requirement of 40 hours annually per person. This action saved taxpayers over 2000 work hours that are now used for audits, and resulted in the Training Department's restructuring. What once required four full-time staff positions totaling \$230,741 in Fiscal Year 2006-2007, now takes one full-time professional in Fiscal Year 2008-2009.

In 2008, the State Auditor's Office became an authorized continuing professional education (CPE) sponsor recognized by the NC State Board of CPA Examiners. This is part of the ongoing commitment by the State Auditor to conduct quality continuing education. The Agency has streamlined the training process to better focus training in needed areas while maintaining the flexibility to respond and react to specific needs. In addition, training competencies now allow for training needs and also for maximum audit productivity in line with industry standards.

## Quality Controls

The Office of the State Auditor's work product is governed by strict adherence to professional standards promulgated by government agencies

and professional organizations including the Governmental Accounting Standards Board, the Financial Accounting Standards Board, the Federal Office of Management and Budget, the Government Accountability Office, the American Institute of Certified Public Accountants, and various state and federal laws and regulations. These standards require that auditors remain independent, be technically proficient and receive continuing professional education, obtain sufficient appropriate evidence to support conclusions, and issue reports that clearly communicate audit results.

The State Auditor's Office has a control system to ensure the quality of audit work. The system includes supervisory review of all work product and management review of audit reports and critical supporting workpapers. The Agency monitors the effectiveness of its quality control system by having staff who did not participate in an audit periodically review the work. To uphold the standards of the supervisory review, the State Auditor's goal is that all newly hired Supervisor level employees and above in the Financial Audit Division have a valid CPA license, or the merit-based equivalent in work experience.

In another layer of review, the Agency receives a peer review every three years under the direction of the National State Auditors Association. During the peer review, members of audit staffs from other states review the office's quality control system and workpapers for compliance with auditing standards. The most recent peer review was performed in July 2006 and resulted in a clean opinion on the quality control system.

### **Processing & Publication**

With close to 200 employees in the Office of the State Auditor, the publishing of audits, reports and reviews is a complicated and time consuming

process. Magnified by the sensitive nature of the audit subject matter, the Agency's administrative staff must be detail minded and highly organized. The goals of accuracy and timeliness are the staff's top priorities. However without effective publication, the audit, report or review would go unnoticed.

Publication of the audits, reports and reviews is an essential part of Agency's proactive posture. A report exposing an instance of fraud, waste or abuse of taxpayers' resources, if publicized by the statewide news media, becomes an effective tool for the deterrence of future fraud, waste or abuse of taxpayers' resources. The State Auditor's Office, through a positive relationship with the news media, can pro actively deter others from committing similar acts of fraud, waste and abuse of taxpayer money.

### **Budgeting & Purchasing**

The Office of the State Auditor is the taxpayers' watchdog against wasteful spending of State resources. To be an effective messenger, the Agency must ensure that its resources are spent as wisely as possible.

The State Auditor's budget is approximately \$18.9 million and the agency bills approximately \$5.2 million for federal audit work. In addition to the central office in Raleigh, the Agency has 9 branch offices throughout the State which our budget office is responsible for managing financially.

Budgeting and purchasing are governed by strict rules and regulations. An independent CPA firm annually conducts a financial audit of the office and routinely issues a clean opinion of its financial statements.

### **Management Information Systems (MIS)**

The Management Information Systems Division (MIS) of the Office of the State Auditor is charged with four primary objectives:

- Provide Information Technology services including Operational Support, Application Development, Infrastructure Management and Information Security to Agency Personnel
- Oversight of Senate Bill 991 compliance
- Enterprise Information Technology strategic planning for the Agency
- Information Technology tactical implementation in order to increase productivity, efficiency and security of critical business functions.

In addition to providing for the daily operational support for Agency personnel, the MIS Division completed a number of major projects to enhance the efficiency, quality of service, and security of the Agency.

MIS worked closely with the Office of the State Controller to ensure the Agency met all technical requirements for the Beacon Project (statewide payroll application implemented in March 2008). MIS also worked with ITS and the Enterprise Data Warehouse service, as the first customer of the new Statewide Enterprise level service, to complete the Management Services and Nongovernmental Compliance Division's Grants Compliance online application (GIC).

MIS has completed an internal upgrade of the Agency Intranet, completing a change over from a dynamic site to an industry standard portal technology site designed to encourage collaboration among personnel and to enable a more efficient workflow during audits. In 2008, MIS has been applying portal technology to reduce administrative paperwork by developing on-line forms, workflow, and email alerts. In conjunction with the portal upgrade, MIS piloted an e-Learning initiative to make training more efficient and cost effective.

In addition, MIS has upgraded the Agencies network infrastructure to meet ESAP requirements. MIS will continue to work closely with ITS to securely merge the State Auditor's network

infrastructure into the State of North Carolina's architecture. The Agency servers and software have been upgraded to the latest versions. Finally, the Business Continuity Plan (BCP) / Continuation of Operations Plan (COOP) was reviewed and tested to meet State requirements and to address Pandemic Influenza planning requirements.

In 2009, the MIS Division will continue to provide quality operational support to Agency personnel. In addition, the MIS Division will aggressively work to provide technologies to Agency personnel that will improve the efficiency and quality of Agency critical business functions. MIS will continue to work with the Beacon Project Team to help develop guidelines and requirements for additional Beacon initiatives including the SAP Grants module implementation. The GIC application for the Management Services and Nongovernmental Compliance Division will be enhanced to improve both usability and functionality. Agency personnel will complete comprehensive training on the new internal portal. The e-Learning system will be expanded to incorporate an advanced Learning Management System solution. This will lead to expanded education and training opportunities including the ability to make vital information available via web casting. In addition, an Agency wide e-Recruiting solution will be designed and implemented to assist in the recruitment and hiring of quality candidates for open Agency positions. An improved Intrusion Prevention System (IPS) will be installed and configured and infrastructure and security needs will continue to be assessed and improved where feasible. Finally, the Agency has been scheduled for ITS consolidation in 2009 and MIS will work with ITS to ensure that required IT services are smoothly transitioned to ITS while maintaining the operational functionality required for the Office of the State Auditor to perform its mission.

# Appendix A

The following reports are listed by report number which correspond to individual agency divisions. These reports were issued from July 1, 2007 through September 2008.

Report Number	Report Title	Release Date
FCA-2007-2109	Brunswick County Clerk of Superior Court - Fiscal Control Audit	9/26/07
FCA-2007-2126	Currituck County Clerk of Superior Court - Fiscal Control Audit	1/29/08
FCA-2007-2127	Dare County Clerk of Superior Court - Fiscal Control Audit	7/10/07
FCA-2007-2137	Graham County Clerk of Superior Court - Fiscal Control Audit	6/29/07
FCA-2007-2141	Halifax County Clerk of Superior Court - Fiscal Control Audit	11/6/07
FCA-2007-2157	Martin County Clerk of Superior Court - Fiscal Control Audit	9/12/07
FCA-2007-2178	Rockingham County Clerk of Superior Court - Fiscal Control Audit	9/25/07
FCA-2007-2186	Swain County Clerk of Superior Court - Fiscal Control Audit	11/26/07
FCA-2007-2193	Washington County Clerk of Superior Court - Fiscal Control Audit	10/12/07
FCA-2008-2106	Beaufort County Clerk of Superior Court - Fiscal Control Audit	1/29/08
FCA-2008-2132	Edgecombe County Clerk of Superior Court - Fiscal Control Audit	2/27/08
FCA-2008-2151	Jones County Clerk of Superior Court - Fiscal Control Audit	9/11/08
FCA-2008-2171	Perquimans County Clerk of Superior Court - Fiscal Control Audit	1/7/08
FCA-2009-2101	Alexander County Clerk of Superior Court - Fiscal Control Audit	9/15/08
FCA-2009-2111	Burke County Clerk of Superior Court - Fiscal Control Audit	9/15/08
FCA-2009-2149	Jackson County Clerk of Superior Court - Fiscal Control Audit	9/17/08
FIN-2006-6070	North Carolina Agricultural and Technical State University - Financial Statement Audit	8/23/07
FIN-2006-6086	Elizabeth City State University - Financial Statement Audit	9/14/07
FIN-2006-6088	Fayetteville State University - Financial Statement Audit	12/10/07
FIN-2006-6090	North Carolina Central University - Financial Statement Audit	8/17/07
FIN-2006-6801	South Piedmont Community College - Financial Statement Audit	11/14/07
FIN-2006-6807	Brunswick Community College - Financial Statement Audit	8/7/07
FIN-2006-6822	College of The Albemarle - Financial Statement Audit	7/27/07
FIN-2006-6876	Sampson Community College - Financial Statement Audit	7/12/07
FIN-2006-6878	Sandhills Community College - Financial Statement Audit	8/7/07
FIN-2007-3400	Department of State Treasurer - Statewide Financial Audit Procedures	2/5/08
FIN-2007-3510	Department of Public Instruction - Statewide Financial Audit Procedures	3/14/08
FIN-2007-3700	Department of Agriculture and Consumer Services - Statewide Financial Audit Procedures	4/2/08
FIN-2007-4160	Office of the State Controller - Statewide Financial Audit Procedures	2/1/08
FIN-2007-4200	Department of Transportation - Statewide Financial Audit Procedures	4/2/08
FIN-2007-4205	North Carolina Turnpike Authority - Financial Statement Audit	5/30/08

FIN-2007-4300	Department of Environment and Natural Resources - Statewide Financial Audit Procedures	2/5/08
FIN-2007-4410	North Carolina Department of Health and Human Services - Statewide Financial Audit Procedures	4/3/08
FIN-2007-4600	Department of Commerce - Statewide Financial Audit Procedures	3/10/08
FIN-2007-4620	North Carolina State Ports Authority - Financial Statement Audit	4/16/08
FIN-2007-4650	Employment Security Commission - Statewide Financial Audit Procedures	4/2/08
FIN-2007-4670	North Carolina Education Lottery - Financial Statement Audit	12/6/07
FIN-2007-4700	Department of Revenue - Statewide Financial Audit Procedures	2/4/08
FIN-2007-4900	North Carolina Department of Crime Control and Public Safety - Statewide Financial Audit Procedures	3/27/08
FIN-2007-6020	University of North Carolina at Chapel Hill - Financial Statement Audit	3/25/08
FIN-2007-6030	North Carolina State University - Financial Statement Audit	2/1/08
FIN-2007-6040	The University of North Carolina at Greensboro - Financial Statement Audit	1/29/08
FIN-2007-6050	University of North Carolina at Charlotte - Financial Statement Audit	2/5/08
FIN-2007-6055	The University of North Carolina at Asheville - Financial Statement Audit	5/28/08
FIN-2007-6060	University of North Carolina Wilmington - Financial Statement Audit	2/20/08
FIN-2007-6065	East Carolina University - Financial Statement Audit	3/12/08
FIN-2007-6070	North Carolina Agricultural and Technical State University - Financial Statement Audit	5/30/08
FIN-2007-6075	Western Carolina University - Financial Statement Audit	5/9/08
FIN-2007-6080	Appalachian State University - Financial Statement Audit	1/2/08
FIN-2007-6082	The University of North Carolina at Pembroke - Financial Statement Audit	6/2/08
FIN-2007-6084	Winston-Salem State University - Financial Statement Audit	4/3/08
FIN-2007-6086	Elizabeth City State University - Financial Statement Audit	7/2/08
FIN-2007-6088	Fayetteville State University - Financial Statement Audit	5/30/08
FIN-2007-6090	North Carolina Central University - Financial Statement Audit	7/15/08
FIN-2007-6092	North Carolina School of the Arts - Financial Statement Audit	5/1/08
FIN-2007-6095	University of North Carolina Hospitals - Financial Statement Audit	11/14/07
FIN-2007-6801	South Piedmont Community College - Financial Statement Audit	5/21/08
FIN-2007-6802	Asheville Buncombe Technical Community College - Financial Statement Audit	5/28/08
FIN-2007-6804	Beaufort County Community College - Financial Statement Audit	3/7/08
FIN-2007-6807	Brunswick Community College - Financial Statement Audit	5/20/08
FIN-2007-6810	Cape Fear Community College - Financial Statement Audit	5/14/08
FIN-2007-6812	Carteret Community College - Financial Statement Audit	5/9/08
FIN-2007-6814	Catawba Valley Community College - Financial Statement Audit	4/14/08
FIN-2007-6820	Cleveland Community College - Financial Statement Audit	5/28/08
FIN-2007-6830	Edgecombe Community College - Financial Statement Audit	4/2/08
FIN-2007-6832	Fayetteville Technical Community College - Financial Statement Audit	6/13/08

FIN-2007-6836	Gaston College - Financial Statement Audit	5/30/08
FIN-2007-6838	Guilford Technical Community College - Financial Statement Audit	5/21/08
FIN-2007-6842	Haywood Community College - Financial Statement Audit	3/14/08
FIN-2007-6843	Blue Ridge Community College - Financial Statement Audit	3/19/08
FIN-2007-6846	James Sprunt Community College - Financial Statement Audit	2/21/08
FIN-2007-6847	Johnston Community College - Financial Statement Audit	6/9/08
FIN-2007-6850	Martin Community College - Financial Statement Audit	3/14/08
FIN-2007-6851	Mayland Community College - Financial Statement Audit	5/22/08
FIN-2007-6852	McDowell Technical Community College - Financial Statement Audit	3/14/08
FIN-2007-6853	Mitchell Community College - Financial Statement Audit	3/12/08
FIN-2007-6854	Montgomery Community College - Financial Statement Audit	5/22/08
FIN-2007-6860	Pamlico Community College - Financial Statement Audit	5/9/08
FIN-2007-6861	Piedmont Community College - Financial Statement Audit	5/20/08
FIN-2007-6866	Richmond Community College - Financial Statement Audit	5/30/08
FIN-2007-6874	Rowan-Cabarrus Community College - Financial Statement Audit	5/20/08
FIN-2007-6880	Southeastern Community College - Financial Statement Audit	5/14/08
FIN-2007-6882	Southwestern Community College - Financial Statement Audit	5/28/08
FIN-2007-6883	Stanly Community College - Financial Statement Audit	5/21/08
FIN-2007-6884	Surry Community College - Financial Statement Audit	5/21/08
FIN-2007-6890	Wake Technical Community College - Financial Statement Audit	5/28/08
FIN-2007-6896	Wilkes Community College - Financial Statement Audit	5/22/08
FIN-2007-6898	Wilson Technical Community College - Financial Statement Audit	5/28/08
FIN-2007-8303	USS North Carolina Battleship Commission - Financial Statement Audit	5/28/08
FIN-2007-8410	NC Teachers and State Employees Comprehensive Major Medical Plan	1/29/08
FIN-2007-8530	North Carolina Global Transpark Authority	1/2/08
FIN-2007-8550	North Carolina Agricultural Finance Authority	5/14/08
FIN-2007-8560	Wireless Emergency Telephone System Fund - Financial Statement Audit	5/29/08
FIN-2007-8730	Statewide Single Audit	4/8/08
GRA-2007-0014	Review of North Carolina Fair Housing Center State Grant	7/20/07
GRA-2007-0028	Review of Carolyns Little Castle State Grant	9/13/07
GRA-2007-0031	Review of The Kids Place Day Care State Grant	8/22/07
GRA-2007-0032	Review of United Community Ministries State Grant	7/16/07
GRA-2007-0033	Review of Wayne Memorial Hospital State Grant	7/19/07
GRA-2007-0037	Review of East Spencer New Beginning Community Development State Grant	11/29/07
GRA-2007-0038	Review of Operation Sickle Cell Inc. State Grant	2/18/08
GRA-2008-0039	Review of Teaching Academics for Life Learning Outreach Ministries State Grant	9/13/07
GRA-2008-0040	Review of Wee Care Inc. State Grant	2/1/08
GRA-2008-0041	Review of Primary Colors Day Care Center State Grant	11/13/07

GRA-2008-0042	Review of North Hills Child Care Center State Grant	9/13/07
GRA-2008-0043	Review of Hoke County Youth & Family Services Inc. State Grant	3/13/08
GRA-2008-0044	Review of Healthy Mothers Healthy Babies Coalition of Wake County State Grant	11/1/07
GRA-2008-0045	Review of Durham Nursery & Preschool State Grant	2/1/08
GRA-2008-0046	Review of Infants Palace Day Care Inc. State Grant	8/23/07
GRA-2008-0047	Review of JSL Development Center State Grant	11/14/07
GRA-2008-0048	Review of Appletree Day Care Inc. State Grant	8/30/07
GRA-2008-0049	Review of Life After Life Inc. State Grant	9/11/07
GRA-2008-0050	Review of the Boys and Girls Club of Wake County State Grant	4/25/08
GRA-2008-0051	Review of Mediation Services of Forsyth County State Grant	11/13/07
GRA-2008-0052	Review of Microenterprise Loan Program of Winston-Salem State Grant	3/3/08
GRA-2008-0053	Review of The Salvation Army Charlotte State Grant	9/17/07
GRA-2008-0054	Review of Sandhills Community Action Program Inc. State Grant	6/11/08
GRA-2008-0055	Review of Tar Heel Volunteer Rescue Squad State Grant	8/17/07
GRA-2008-0058	Review of Windows of the World CDC State Grant	11/13/07
GRA-2008-0060	Review of Stem Community Fire Department EMS State Grant	4/25/08
GRA-2008-0061	Review of The Enola Group Inc. State Grant	5/29/08
GRA-2008-0062	Review of Prevent Blindness North Carolina State Grant	7/28/08
GRA-2008-0065	Review of Martin County Community Action State Grant	9/4/08
GRA-2008-0068	Review of the North Carolina Pottery Center State Grant	7/17/08
INV-2006-0307F	Follow-up to Tire Retread Contract	3/11/08
INV-2007-0318F	University of North Carolina Hospitals/University of North Carolina School of Pharmacy - Follow-up	2/28/08
INV-2007-0319	University of North Carolina at Greensboro	7/11/07
INV-2007-0320	North Carolina Department of Transportation	8/28/07
INV-2007-0321	North Carolina Department of Administration	9/4/07
INV-2007-0322	East Carolina University	9/7/07
INV-2007-0323	North Carolina Department of Transportation	9/12/07
INV-2007-0324	North Carolina Department of Commerce	10/1/07
INV-2007-0325	North Carolina Department of Environment and Natural Resources	10/23/07
INV-2007-0326	Department of Public Instruction	11/27/07
INV-2007-0327	“The Conflict Resolution Center, Inc.”	11/28/07
INV-2008-0328	Office of the Lieutenant Governor	1/31/08
INV-2008-0329	North Carolina Department of State Treasurer	1/31/08
INV-2008-0330	North Carolina Central University	2/12/08
INV-2008-0331	Piedmont Community College	3/24/08
INV-2008-0332	North Carolina Department of Health and Human Services	4/29/08
INV-2008-0333	North Carolina General Assembly	5/27/08

INV-2008-0334	North Carolina State Board of Elections	5/13/08
INV-2008-0335	University of North Carolina at Greensboro	5/29/08
INV-2008-0336	North Carolina State University	6/17/08
INV-2008-0337	North Carolina Central University	6/17/08
INV-2008-0338	North Carolina Department of Health and Human Services	7/31/08
INV-2008-0339	Autism Society of North Carolina	8/21/08
INV-2008-0340	North Carolina State Ethics Commission	9/18/08
INV-2008-0341	Robeson Community College	9/23/08
ISA-2007-4300	North Carolina Department of Environment and Natural Resources	9/17/07
ISA-2007-4410	North Carolina Department of Health and Human Services/ County Administration Reimbursement System	9/7/07
ISA-2007-4500	North Carolina Department of Corrections	7/3/07
ISA-2007-4660	Information Technology Services	9/4/07
ISA-2007-6802	Asheville-Buncombe Technical Community College	10/22/07
ISA-2007-6806	Bladen Community College	11/30/07
ISA-2007-6807	Brunswick Community College	1/2/08
ISA-2007-6812	Carteret Community College	11/7/07
ISA-2007-6814	Catawba Valley Community College	9/14/07
ISA-2007-6816	Central Carolina Community College	9/18/07
ISA-2007-6820	Cleveland Community College	8/22/07
ISA-2007-6830	Edgecombe Community College	7/3/07
ISA-2007-6836	Gaston College	8/22/07
ISA-2007-6838	Guilford Technical Community College	9/7/07
ISA-2007-6840	Halifax Community College	7/20/07
ISA-2007-6842	Haywood Community College	11/29/07
ISA-2007-6843	Blue Ridge Community College	7/13/07
ISA-2007-6846	James Sprunt Community College	11/7/07
ISA-2007-6847	Johnston Community College	10/2/07
ISA-2007-6850	Martin Community College	12/13/07
ISA-2007-6852	McDowell Technical Community College	1/2/08
ISA-2007-6860	Pamlico Community College	1/3/08
ISA-2007-6861	Piedmont Community College	7/20/07
ISA-2007-6864	Randolph Community College	9/14/07
ISA-2007-6868	Roanoke-Chowan Community College	10/2/07
ISA-2007-6870	Robeson Community College	9/14/07
ISA-2007-6874	Rowan-Cabarrus Community College	7/18/07
ISA-2007-6883	Stanly Community College	9/18/07
ISA-2007-6896	Wilkes Community College	1/3/08

ISA-2007-6898	Wilson Technical Community College	7/16/07
ISA-2008-4200	North Carolina Department of Transportation	2/15/08
ISA-2008-4440A	Department of Health and Human Services	3/27/08
ISA-2008-4440B	Department of Health and Human Services	3/27/08
ISA-2008-4700	North Carolina Department of Revenue	9/12/08
ISA-2008-6832	Fayetteville Technical Community College	3/3/08
ISA-2008-6851	Mayland Community College	1/25/08
ISA-2008-6866	Richmond Community College	1/7/08
ISA-2008-6884	Surry Community College	1/23/08
ISA-2008-6890	Wake Technical Community College	3/6/08
NGV-2006-9101	North Carolina Partnership for Children Inc. - Financial Statement Audit	7/16/07
NGV-2006-9110	Mecklenburg Partnership for Children - Financial Statement Audit	7/30/07
NGV-2006-9127	Buncombe County Partnership for Children Inc. - Financial Statement Audit	6/29/07
NGV-2007-9101	North Carolina Partnership for Children Inc. - Financial Statement Audit	5/30/08
NGV-2007-9102	Burke County Smart Start Inc. - Financial Statement Audit	2/11/08
NGV-2007-9103	Caldwell County Smart Start A Partnership for Young Children - Financial Statement Audit	5/20/08
NGV-2007-9104	Cleveland County Partnership for Children Inc. - Financial Statement Audit	2/1/08
NGV-2007-9108	Hertford County Partnership for Children Inc. - Financial Statement Audit	2/11/08
NGV-2007-9109	Jones County Partnership for Children - Financial Statement Audit	4/4/08
NGV-2007-9111	Orange County Partnership for Young Children - Financial Statement Audit	3/3/08
NGV-2007-9114	Ashe County Partnership for Children - Financial Statement Audit	2/11/08
NGV-2007-9115	Avery County Smart Start: A Partnership for Children - Financial Audit	5/1/08
NGV-2007-9117	Chatham County Partnership for Children - Financial Statement Audit	2/21/08
NGV-2007-9119	Durham Partnership for Children - Financial Statement Audit	3/4/08
NGV-2007-9122	Lenoir/Greene Partnership for Children Inc. - Financial Statement Audit	2/13/08
NGV-2007-9124	Person County Partnership for Children - Financial Statement Audit	3/20/08
NGV-2007-9126	Alleghany Partnership for Children Inc. - Financial Statement Audit	5/21/08
NGV-2007-9129	Pamlico Partnership for Children Inc. - Financial Statement Audit	4/14/08
NGV-2007-9130	Randolph County Partnership - Financial Statement Audit	2/20/08
NGV-2007-9132	Rutherford/Polk Smart Start Partnership - Financial Statement Audit	5/9/08
NGV-2007-9136	Tyrrell-Washington Partnership for Children Inc. - Financial Statement Audit	1/15/08
NGV-2007-9137	Wilson County Partnership for Children - Financial Statement Audit	5/20/08
NGV-2007-9138	Anson County Partnership for Children - Financial Statement Audit	2/15/08
NGV-2007-9139	Smart Start of Brunswick County Inc. - Financial Statement Audit	6/4/08
NGV-2007-9140	The Bertie County Partnership for Children Inc. - Financial Statement Audit	5/1/08
NGV-2007-9143	Guilford County Partnership for Children - Financial Statement Audit	3/3/08
NGV-2007-9144	Hoke County Partnership for Children and Families - Financial Statement Audit	2/27/08

NGV-2007-9146	Lee County Partnership for Children - Financial Statement Audit	4/25/08
NGV-2007-9150	Alamance Partnership for Children - Financial Statement Audit	2/1/08
NGV-2007-9151	Alexander County Partnership for Children - Financial Statement Audit	3/20/08
NGV-2007-9152	Beaufort Hyde Partnership for Children - Financial Statement Audit	2/15/08
NGV-2007-9153	Bladen Smart Start A Partnership for Childern Inc. - Financial Statement Audit	5/21/08
NGV-2007-9155	Carteret County Partnership for Children - Financial Statement Audit	3/19/08
NGV-2007-9157	The Chowan/Perquimans Smart Start Partnership - Financial Statement Audit	3/19/08
NGV-2007-9160	Smart Start of Davie County Inc. - Financial Statement Audit	4/4/08
NGV-2007-9161	Franklin-Granville-Vance Partnership for Children Inc. - Financial Statement Audit	2/15/08
NGV-2007-9163	Harnett County Partnership for Children - Financial Statement Audit	2/27/08
NGV-2007-9164	Smart Start of Henderson County Inc. - Financial Statement Audit	5/2/08
NGV-2007-9166	Partnership for Children of Johnston County Inc. - Financial Statement Audit	3/19/08
NGV-2007-9167	Partnership for Children of Lincoln Gaston Counties Inc. - Financial Statement Audit	1/16/08
NGV-2007-9168	Madison County Partnership for Children and Families Inc. - Financial Statement Audit	2/11/08
NGV-2007-9170	The Mitchell Yancey County Partnership for Children Inc. - Financial Statement Audit	5/2/08
NGV-2007-9171	Northampton Partnership for Children Inc. - Financial Statement Audit	2/15/08
NGV-2007-9176	Montgomery County Partnership for Children - Financial Statement Audit	7/28/08
NGV-2007-9180	Smart Start of Transylvania County - Financial Statement Audit	5/28/08
NGV-2007-9182	Union County Partnership for Children - Financial Statement Audit	4/4/08
NGV-2007-9184	The Partnership for Children of Wayne County Inc. - Financial Statement Audit	3/4/08
NGV-2007-9185	Smart Start of Yadkin County Inc. - Financial Statement Audit	2/13/08
NGV-2007-9186	Richmond County Partnership for Children - Financial Statement Audit	4/25/08
PER-2007-7226	Enterprise Project Management Office	7/26/07
PER-2007-7227	State Childrens Health Insurance Program Claims Processing	7/24/07
PER-2007-7229	Department of Transportation Highway Project Schedules and Costs	2/7/08
PER-2007-7229A	Attachments to Dept. of Transportation Highway Project Schedules and Costs	2/7/08
PER-2007-7230	North Carolina Department of Transportation Funding Allocation Practices	6/3/08
PER-2007-7231	Albemarle Mental Health Center	10/9/07
PER-2007-7232	Academically or Intellectually Gifted Program	2/14/08
PER-2007-7233	North Carolina Education Lottery - Performance Audit	4/10/08
PER-2007-7236	Department of Environment and Natural Resources - Division of Air Quality	4/17/08
PER-2007-7801	Information Technology Services & Wildlife Resources Commission	3/26/08
PER-2008-7223F	Follow-up to Office of Indigent Defense Services	2/8/08
SAR-2007-4440	North Carolina Division of Social Services	12/12/07
SAR-2008-6030	North Carolina State University	6/4/08
SAR-2008-6040	University of North Carolina at Greensboro	9/4/08

# Appendix B

## STATUTORY AND CONSTITUTIONAL AUTHORITY

The Office of the State Auditor independently evaluates the state's fiscal accountability and public program performance for North Carolina's citizens and others. The office strives to assure that state government is executing its management responsibilities in compliance with applicable laws, rules, regulations, and policies. The office also evaluates whether sufficient management controls and policies exist to enable state agencies to most efficiently and effectively use public resources.

### STATUTORY AUTHORITY

North Carolina General Statutes §§147-64.1-64.14 set forth the duties and responsibilities of the State Auditor, and requires the State Auditor be independent of the organizations being audited. These statutes mandate that all state agencies and entities partially or entirely supported by public funds be subject to audit by the state auditor. These audits independently evaluate public program performance for the General Assembly, Governor, executive departments and agencies, governing bodies, and the general public. Specifically, the State Auditor independently examines and makes findings of fact on whether State agencies:

- established adequate operating and administrative procedures, reporting systems, and elements of management control
- provided financial and other reports that disclose fairly, consistently, fully, and promptly all information necessary to demonstrate program performance

- collected, deposited, and properly accounted for all revenues and receipts arising from activities
- conducted programs and expended funds in an efficient and economical manner as well as in compliance with applicable laws and regulations
- determined that programs effectively served the legislative intent.

The Office of the State Auditor is also statutorily mandated to conduct certain audits, including the largest audit, the State's Comprehensive Annual Financial Report (CAFR). These audits are required to be conducted in accordance with appropriate professional standards.

The Investigative staff is statutorily mandated to investigate allegations of improper activities, which may occur as a result of misfeasance, malfeasance or nonfeasance by governmental employees or those receiving state money. Investigators are required to protect complainants who provide information to the State Auditor related to these charges. This section operates under the supervision of the Chief Deputy State Auditor.

### CONSTITUTIONAL AGENCY

The State Auditor is a constitutional officer listed in the North Carolina Constitution under Article III, § 7. The State Auditor is elected statewide every four years and is a member of the Council of State which also includes the Governor, Lieutenant Governor, Secretary of State, State Treasurer, Superintendent of Public Instruction, Attorney General, Commissioner of Agriculture, Commissioner of Labor, and Commissioner of Insurance.

# Contact Information

Copies of reports issued by the Office of the State Auditor may be requested through the email link on the web site at [www.ncauditor.net](http://www.ncauditor.net) or by calling the main phone number. Other inquiries, comments, and suggestions may be made by contacting the main office or one of the staff members listed below.

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