

## **The Office of the State Controller from Comptrollers and Boards of Auditors to an Independent Office within the Executive Branch**

Today, the State Controller functions as the State's Chief Fiscal Officer and supervises or manages the State's accounting, financial reporting, disbursement activities, and the implementation and monitoring of internal controls. From colonial times to 1862, that was not the case, as the North Carolina General Assembly appointed state comptrollers and boards of auditors in various parts of the state to perform these types of services. From 1862 to 1921, these responsibilities were spread out across various governmental entities. Consequently, at the turn of the 20<sup>th</sup> century, there was little to no budgetary control over the state's agencies and this resulted in authorized budgets being overdrawn and overspent. Summaries of expenditures were not possible because a uniform chart of accounts did not exist.

Beginning in 1921 and for the next 34 years, the State Auditor performed the State's auditing and controller functions including maintaining appropriation, allotment, expenditure and revenue records of each state agency. Other controller roles performed by the Auditor included exclusive authority to issue warrants for the payment of money upon the State Treasurer and responsibility for the pre-audit functions over all disbursement vouchers and supporting documentation. The Auditor maintained the accounts between the State and the State Treasurer, and supervised the bookkeeping and accounting systems used by state agencies.

The 1925 General Assembly enacted the Executive Budget Act, and established a Budget Bureau within the Office of the Governor to assist the governor as director of the budget in administering the state's fiscal and budgetary operations. The Executive Budget Act stated that the Governor was the "*ex officio Director of the Budget, and shall be the head of the Budget Bureau which is hereby created and established in connection with his office. He shall . . . appoint a budget officer to be known as the Assistant to the Director . . .*" Chap. 89, sec. 2, 1925 Sess. Laws.

The 1953-1955 Commission on Reorganization of State Government studied the possibility of consolidating into a single department the separate agencies and divisions that handled the functions of accounting, budgeting, building maintenance, and personnel administration for state government as a whole. The commission's successor concluded that although creation of a Department of Administration would not produce savings, its establishment was justified in terms of freeing the governor from numerous administrative details, thus allowing the Governor and his office to focus on long-range planning and citizens' interests.

The Executive Budget Act was again amended in 1955 and provided that the "*Governor shall be ex officio Director of the Budget and shall be the responsible head of the Budget Bureau, which Bureau is a part of the Governor's office. The Governor shall appoint a budget officer who shall be known as the 'Assistant to the Director' and such officer shall serve at the pleasure of the Governor. . . . The purpose of this Article is to include within the powers of the Budget Bureau all agencies, institutions, departments, bureaus, boards, and commissions of the State of North Carolina under whatever name now or hereafter known, and the change of the name of such agencies hereafter shall not affect or lessen the powers and duties of the Budget Bureau in respect thereto.*" Chap. 578, sec. 1, 1955 Sess. Laws.

In 1957, the Department of Administration was created with the adoption of N.C.G.S. § 143-344. The legislation stated that: *(a) All of the powers, duties, functions, records, property, supplies, equipment, personnel, funds, credits, appropriations, quarterly allotments, and executor contracts of the Budget Bureau are hereby transferred to the Department of Administration, effective July 1, 1957. All statutory references to the “Budget Bureau” or the “Bureau of the Budget” shall be deemed to refer to the Department of Administration.*” Chap. 269, 1957 Sess. Laws.

During this same time period, a significant change occurred in 1955, when the legislature vested the State Auditor with independence and exclusive post audit responsibility. Shortly thereafter, the controller functions performed by the State Auditor were transferred to the Department of Administration, and by the beginning of the 1960s, the Department of Administration consisted of four divisions authorized by the 1957 legislation: Budget, Purchase and Contract, Property Control, and General Services.

However, in 1969, the State Budget Office in the Department of Administration asked the State Auditor to retake responsibility for oversight of the bookkeeping and accounting systems used by the state’s agencies. The General Assembly agreed with this request and in 1969 the State Auditor once again became responsible for managing this component of state government financial management. Following this transfer, the State Budget Office focused exclusively on budgetary control and state policy issues.

Under the Executive Organization Act of 1971, the Department of Administration was re-created, reestablished, and placed under the supervision of a cabinet-level secretary appointed by the governor. The Department’s divisions remained virtually the same except that the Budget Office was renamed the Division of Budget and Management. N.C.G.S. § 143A-81.

The Reorganization Act of 1975 amended parts of the 1971 act relating to the Department of Administration and stated that the Department shall include the Division of State Budget (the 1971 act was not specific on this point). N.C.G.S. § 143-337(b) stated: *“There shall be a Budget Division . . . in the Department.”* and N.C.G.S. § 143-341 provided *“The Department of Administration has the following powers and duties: “(1) Budget: a. To exercise those powers and perform those duties which are delegated or assigned to it by the Director of the Budget pursuant to the Executive Budget Act; b. To exercise those powers and perform those duties which were, at the time of the ratification of this Article, conferred by statute upon the former Budget Bureau.”* Chap. 879, sec. 46(2), 1975 Sess. Laws.

The legislation further stated that *“Whenever the words “Assistant Director of the Budget” . . . or “State Budget Officer”, . . . are used or appear in any statute or law of this State, the same shall be deleted and the words “Secretary of Administration” or “Secretary”, as appropriate shall be inserted in lieu thereof.”* Id. Also in 1975, Governor Holshouser created the Office of Administrative Analysis within the Governor’s Office as a systems and budget study organization.

As the use of “modern” technology began to expand within state government, systems were developed to help manage the state’s finances, and in 1979, the State Auditor’s Office developed

a Budget Preparation system for the State Budget Office's use enabling the automation of the budget's preparation and certification process. This system also provided an interface with the State's Accounting System permitting the exchange of information at designated points in the annual budgeting and accounting cycles. In 1979, the Division of State Budget and Management and the State Disbursing Office were transferred by Governor Hunt from the Department of Administration to the Office of the Governor. (Executive Order 38). Later that year, the General Assembly approved the transfer of the Division of State Budget and Management from the Department of Administration to the Office of the Governor, giving the Governor direct control over budgetary and fiscal affairs.

The Statewide Reporting System was developed by the State Auditor's Office in 1980 to combine all accounting systems into one standard reporting system.

In 1985, North Carolina was the only state in the nation without a dedicated controller function. Recognizing the many financial risks associated with this type of practice, the 1985 Governor's Efficiency Study Commission Report recommended the "Establish [ment of] a Department of the State Controller." Stating that, "*Currently, responsibility for accounting activities is highly fragmented, so the state operates without concise, reliable financial and statistical data.*" Shortly thereafter, the General Assembly created a legislative study commission to "study the fiscal and accounting functions of the State Accounting System and establishment of a State Controller to assure continued, consistent, uniform application of generally accepted accounting principles throughout the State entity." Chap.792, sec. 3.1, 1985 Sess. Laws. This legislative study commission was co-chaired by Senator Kenneth Royall and Representative Joe Hackney. Mr. Cliff Cameron, the State Budget Officer at that time, stated in an April, 1986 report to the Committee:

*"Although many of the functions required of a controller's office are currently outlined in North Carolina's state laws, those functions are fragmented thereby causing inefficiencies in the controlling and reporting of state funds. Through the consolidation of these functions and well defined duties of the state controller, reporting, controlling and decision making will be improved for both the Executive and Legislative branches. Governor Martin and the Office of State Budget and Management support your study and encourage the establishment of such an office."*

*The Controller's Office should be subject to the Executive Budget Act, State Personnel Act, and state purchasing procedures. However, **the office should be independent of any daily supervision by the principal department in which it is located.** . . . If however it is felt the consolidation of functions should begin with as little organizational change as possible, in state government, with a permanent location to be determined later, we recommend that the office be located within the Office of State Budget and Management with the independency stated above provided by law."*

Because of the widespread legislative and executive branch belief that housing centralized accounting functions within the Office of State Budget and Management could lead to

weaknesses in accounting and internal controls caused by political pressures to develop creative accounting schemes, deficit and/or unsound accounting practices, and that major changes to the accounting system could be subject to the whims of each new administration, following the legislative study commission's recommendations, on July 15, 1986, the General Assembly created an independent Office of the State Controller to provide control over the expenditure and disbursement of funds on a statewide basis. Thus, North Carolina became the 50<sup>th</sup> state to establish a state controller function. Chap. 1024, 1986 Sess. Laws (H. 2136).

On August 1, 1986, the Disbursing Office, housed in the Office of State Budget and Management, and the Systems Division, within the Office of the State Auditor, were merged into the new Office of the State Controller. The State Controller was granted primary responsibility to prescribe, develop, operate and maintain the state accounting and disbursing systems and to operate the State Information Processing Services (SIPS). In 1987, Governor Martin, by executive order, transferred the State Information Processing Services (SIPS) and the State Computer Center to the Office of the State Controller where it remained until 1997, when technology-related functions of state government moved to the Department of Commerce (in 1999, SIPS was renamed the Division of Information Technology Services).

Today, the Office of the State Controller exists as a centralized, enterprise focused agency whose mission is to provide essential fiscal services to support North Carolina's state government. It functions to assist State agencies in complying with state and federal fiscal laws, rules, regulations and generally accepted accounting principles. Utilizing its in-house financial expertise, it works to ensure standardized implementation of statewide processes that foster value-added solutions to maximize agency performance and improve results in a measurable, accountable and reliable manner.

With a staff of 206, the current duties and functions of the State Controller's Office include:

- Responsibility for record keeping of all appropriations, allotments, expenditures, and revenues of each State department, institution, board, commission, officer or agency handling State funds;
- Developing, operating and maintaining the State's Accounting System in accordance with generally accepted principles of accounting;
- Generating on-line management reports through NCAS Decision Support System;
- Managing statewide fiscal controls through the State's Cash Management Plan;
- Issuing all warrants, prescribing the manner in which all disbursements are made, authorizing or rescinding the use of disbursing accounts by an agency, and requiring the form and schedule for reporting for these activities;
- Monitoring and ensuring control compliance with allotments approved by the State Budget Director;

- Managing the Statewide Accounts Receivables Program;
- Issuing statewide financial reports including Financial Highlights, General Fund Monthly Highlights, IT Expenditures Report, Statewide Accounts Receivable Report, and the state's Comprehensive Annual Financial Report (CAFR);
- Managing the central payroll and tax accounting for more than 110,000 State employees with a monthly payroll of \$1.2 billion, managing the associated Best Shared Services Call Center and the training aspect of the HR/Payroll system, BEACON University;
- Managing the State's eCommerce and PCI security activities;
- Development and implementing the State's Internal Controls Program "EAGLE";
- Providing specialized training for state agencies related to contracting and financial management;
- Managing the federal-state process for Statewide Central Service Indirect Cost Allocation Reports;
- Managing North Carolina's Foreign Nationals Program;
- Managing the State's Overpayment and Recovery Audit Program; and
- Developing and implementing the State's statewide data integration initiative including the Wake County Criminal Justice Pilot Program and NCWorks.

Since 1994, the State Controller's Office has been awarded the "Certificate of Achievement for Excellence in Financial Reporting" by the Government Finance Officers Association. This award is presented to governmental units whose Comprehensive Annual Financial Report (CAFR) achieves the highest standards in governmental accounting and financial reporting. North Carolina is one of only three states (Delaware, Utah and North Carolina) in the nation that is rated AAA by all three bond rating houses and is a recipient of the GFOA Certificate of Excellence for Financial Reporting.