

REGULATORY ACTIONS DIVISION TRUST

**Independent Accountants' Report
On Applying Agreed-Upon Procedures**

BATCHELOR, TILLERY & ROBERTS, LLP

CERTIFIED PUBLIC ACCOUNTANTS

POST OFFICE BOX 18068

RALEIGH, NORTH CAROLINA 27619

RONALD A. BATCHELOR
ANN H. TILLERY
FRANKLIN T. ROBERTS
WM. JAMES BLACK, JR.

3105 GLENWOOD AVENUE, SUITE 301
RALEIGH, NORTH CAROLINA 27612
TELEPHONE (919) 787-8212
FACSIMILE (919) 783-6724

**Independent Accountants' Report
On Applying Agreed-Upon Procedures**

Mr. Ray Martinez, Trustee
Regulatory Actions Division Trust:

We have performed the procedures described below which were agreed to by Regulatory Actions Division Trust (the "Trust"), solely to assist you with respect to the report issued by the North Carolina State Auditor on September 19, 2005 pursuant to their special review of the Trust and the estates it supervises. The Trustee is responsible for the Trust's response to this review. This engagement to apply agreed-upon procedures was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Trust. Consequently, we make no representation regarding the sufficiency of the procedures, either of the purpose for which this report has been requested or for any other purpose.

Our procedures and recommendations are described as follows:

The following listing provides details of the procedures that were performed as part of our Agreed-Upon Procedures Engagement. The procedures were performed to assess implementation of recommendations from the North Carolina State Auditor. We reviewed the findings and recommendations found in the North Carolina State Auditor's report dated September 19, 2005 and examined documentation during the period September 19, 2005 through May 31, 2006 to determine that the selected items listed below have been implemented and that policies and procedures adopted are responsive to the Auditor's findings.

1. We reviewed the Trust's practice of filing quarterly reports as required by the Declaration of Trust to ascertain that such reports are being filed.

No exceptions were found as a result of our testing.

2. We examined a sample of the Trust's asset disposal records to determine that the Trust has not sold estate assets to employees, that the documentation for such sale is adequate, that adequate inventory records are maintained, and that prices charged are reasonable.

No exceptions were found as a result of our testing.

3. We examined a sample of disbursements to determine that the Trust has not continued to purchase equipment with estate funds for DOI employees to conduct their work.

No exceptions were found as a result of our testing.

4. We reviewed the procedures that have been established to ensure that all expenditures are necessary and reasonable. We examined a sample of invoices to determine that the Trust has discontinued the practice of purchasing meals and food items for NCDOI and Trust employees.

No exceptions were found as a result of our testing.

5. We examined a sample of disbursements to determine that the Trust has not purchased any first class airline tickets. Additionally, we reviewed the procedures that have been established to ensure that all travel costs are reasonable and necessary.

No exceptions were found as a result of our testing.

6. We examined all sub-leases that the Trust has entered into related to its lease of the Glenwood Avenue Building. Our procedures were limited to determining that the rent charged is reasonable based upon the footage utilized and the rate in the lease agreement between the Trust the landlord/owner of the building.

The Trust has entered into a sub-lease to the North Carolina Department of Insurance (NCDOI) for approximately 12,600 square feet of office space located at 401 Glenwood Avenue, Raleigh, North Carolina. We recommend that the Trust consider renegotiating the sub-lease to NCDOI as the current lease does not appear to be a reasonable lease. It appears the rate that the Trust pays to the building owner (\$18.72 per foot) is comparable to rates charged in similar buildings in the area. However, the Trust entered into a sub-lease to NCDOI for a portion of the building for a lesser rate per square foot (\$12.37). There does not appear to be a valid business purpose in the Trust absorbing a portion of NCDOI's lease expense. (NCDOI occupies 59.5% of the building but pays only 39.3% of the rent).

7. We examined invoices and contracts for all moving costs since September 19, 2005 to determine that they were incurred in accordance with NCGS 148-70.

No exceptions were found as a result of our testing.

8. We reviewed policies and procedures adopted by the Trust that prohibit the personal use by employees of equipment, assets, and credit cards of the Trust, as well as ensuring the reasonableness and necessity of all Trust expenditures.

No exceptions were noted as a result of our testing. However, in an effort to offer improvement, we recommend the Trust develop a cover sheet to process and document invoices for payment. This would provide documentation for proper approval, coding to general ledger, verification of amounts/receipt of goods, etc.

9. We examined a sample of disbursements to determine that each is adequately documented with an original invoice or a properly executed contract, and proper approval and support.

One exception was noted as a result of our testing. Selection number nineteen reimbursing a NCDOI employee for travel expenses included a duplicate copy of a hotel receipt. We recommend payment only of original invoices. Duplicates should be accompanied by an approved explanation.

10. We examined the Trust's accounting system since September 19, 2005 to determine that checks are in sequential order in the general ledger, that all voided checks are properly documented, and that all reconciliations are complete and thorough.

No exceptions were found as a result of our testing.

Additional recommendations we noted while conducting our procedures are as follows:

We recommend that the Trust research the possibility of obtaining more cost effective health insurance for its employees. Perhaps a leasing company could be considered.

We recommend that where documentation is not readily evident to provide a reasonable allocation of an expense to the proper entity, Trust staff develop or provide documentation to support a proper allocation. For example, square footage used is a readily evident method of allocation for rent, as is number of users is such a method for allocation software licenses. However, when the Trust ships a package by UPS or Fed Ex, the only support for the allocation is a hand written notation on the paid invoice.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The report is intended solely for the information and use of the Trustee, and is not intended to be and should not be used by anyone other than this specified party.

Baldwin, Gilley & Roberts, LLP

July 30, 2006