



STATE OF NORTH CAROLINA

AUDIT RESULTS FROM
CAFR AND SINGLE AUDIT PROCEDURES
DEPARTMENT OF TRANSPORTATION
FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR



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April 16, 2002

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Mr. Lyndo Tippet, Secretary
Department of Transportation

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

The results of these procedures, as described below, yielded audit findings and recommendations for the Department related to the State's federal financial assistance programs which required disclosure in the aforementioned reports. The findings noted above are included in the findings and recommendations section contained herein. Our recommendations for improvement and management's response follow each finding.

We noted overall internal control weaknesses and instances of noncompliance with Federal Regulations. These deficiencies pertained to contracting with subrecipients and contractors; inadequate subrecipient monitoring; expending grant funds after project close-out; and purchasing equipment items without required federal approval.

The accounts and operations of the Department of Transportation are an integral part of the State's reporting entity represented in the *CAFR* and the *Single Audit Report*. In the *CAFR*, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the results of tests on the State's internal control and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget Circular A-133.

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

Funds for the *Comprehensive Annual Financial Report*:

Special Revenue: State Highway Fund

Special Revenue: State Highway Trust Fund

General Fixed Asset Account Group

Federal Programs for the *Single Audit Report*:

Highway Planning and Construction Cluster

Highway Safety Cluster

Public Assistance Grant

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

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Respectfully submitted,

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

Ralph Campbell, Jr.
State Auditor

AUDIT FINDINGS AND RECOMMENDATIONS

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

1. EXPENDITURES CHARGED TO A GRANT AFTER THE PERIOD OF AVAILABILITY

The Department of Transportation has not implemented adequate controls for the Highway Safety Cluster Grant to ensure that federal funds are not expended after their period of availability.

49 CFR 18.23 and 23 CFR 1200.32 require grantees to liquidate all obligations incurred under an award not later than 90 days after the end of the funding period. Submission of a final voucher constitutes the final financial reconciliation for each fiscal year. The Department expended \$527,643 after the 90-day period and after the final voucher was submitted to the federal agency for the federal fiscal year 2000 program.

Recommendation: The Department should implement procedures to ensure that all obligations are liquidated within the period of availability and prior to submission of a final voucher.

Agency's Response: We agree. The Governor's Highway Safety Program (GHSP) has instituted strict procedures to avoid paying invoices from sub-grantees after the end of the 90 day funding period. The National Highway Safety Traffic Administration (NHTSA) had informally allowed this practice in the past and so will not disallow federal funding for these outlays from the period in question.

2. AUDIT REQUIREMENTS INCORRECTLY STATED IN SUBRECIPIENT CONTRACTS

Audit requirements included in subrecipient contracts executed by the Department of Transportation's Governor's Highway Safety Program were inconsistent with federal requirements and contained inaccurate references to federal regulations.

OMB Circular A-133 requires pass-through entities to advise subrecipients of requirements imposed on them by federal laws and regulations. Misstated requirements could result in noncompliance at the subrecipient level.

Recommendation: The Department should revise standard Governor's Highway Safety contract documents to accurately state the federal single audit requirements which are found in OMB Circular A-133.

Agency's Response: We agree. THE GHSP will modify its contracts to reflect the proper references to Federal regulations.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

3. REQUIRED DEBARMENT CERTIFICATIONS WERE NOT OBTAINED

The Department of Transportation did not obtain the required debarment certifications from contractors that received awards greater than \$100,000 in the Public Assistance Grant; and in the Highway Safety Cluster Grant, from subrecipients and from a contractor that received an award greater than \$100,000.

OMB Circular A-133 states that contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principles are not suspended or debarred.

As of July 2001, the Department revised the standard emergency contract used in the Public Assistance Grant to include the required certification.

Recommendation: The Highway Safety Cluster contracts should be revised to include the debarment certification. Procedures should be implemented and documented to ensure that all required certifications are obtained for the Public Assistance Grant and the Highway Safety Cluster Grant as part of the procurement process.

Agency's Response: We agree. Both the Division of Highways and the GSP will modify their contracts to reflect the appropriate debarment certifications.

4. SUBRECIPIENT MONITORING PROCEDURES NOT DOCUMENTED

The Department of Transportation did not present adequate documentation to demonstrate that it performed sufficient monitoring of subrecipients of Highway Safety Cluster Grant funds. The Department paid \$8.6 million to subrecipients of the Highway Safety Cluster Grant.

OMB Circular A-133 requires that a pass-through entity monitor subrecipient's activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal regulations.

Recommendation: Monitoring activities should be documented in a format that clearly defines the procedures performed, the results obtained, and the corrective action planned when instances of noncompliance are identified.

Agency's Response: We agree. THE GHSP will improve the scope, frequency, and documentation of its monitoring of sub-grantees.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

5. FUNDS PROVIDED TO SUBRECIPIENTS WITHOUT EXECUTED CONTRACT AGREEMENTS

Established contract application and execution procedures were not followed for some subrecipients of grant funds administered by the Governor's Highway Safety Program. Our testwork revealed payments to eleven organizations without a contract to define the approved use of funds and to require compliance with standards of accountability and compliance with federal regulations. One of these organizations was advanced grant funds with no cash management requirements.

49 CFR 18.20 sets forth standards for financial management systems in order to ensure that funds have not been used in violation of grant restrictions.

Recommendation: A contract should be executed with each subrecipient organization sufficiently defining standards to ensure that grant funds will be used and accounted for appropriately in compliance with federal regulations.

Agency's Response: We agree. The GHSP will institute procedures to assure that all sub-recipients of grant funds have proper contracts.

6. EQUIPMENT PURCHASED WITHOUT REQUIRED APPROVAL

Equipment items exceeding \$5,000 each were purchased with Highway Safety Cluster Grant funds without the required federal approval. Testwork disclosed that four subrecipients were reimbursed for eleven equipment items with purchase prices ranging from \$6,395 to \$7,999. The total cost for these items was \$86,210. We are questioning the federal share that was \$68,657.

23 CFR 1200.21 requires that all equipment with an acquisition cost of \$5,000 or more must receive prior written approval from the National Highway Traffic Safety Administration (NHTSA).

Recommendation: Internal controls should be established to obtain the required approvals from NHTSA prior to the purchase of equipment items. Subrecipients should not be reimbursed for related costs if approval is not requested and obtained.

Agency's Response: We agree. The GHSP will institute procedures to assure prior NHTSA approval for all equipment purchases. The GHSP has requested and received assurance from NHTSA that federal funds will not be disallowed for most the past purchases made without prior NHTSA approval.

DISTRIBUTION OF AUDIT REPORT

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

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April 16, 2002

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