



STATE OF NORTH CAROLINA

AUDIT RESULTS FROM

CAFR AND SINGLE AUDIT PROCEDURES

DEPARTMENT OF CRIME CONTROL AND PUBLIC SAFETY

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR



Ralph Campbell, Jr.
State Auditor

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April 16, 2002

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Mr. Bryan Beatty, Secretary
Department of Crime Control and Public Safety

We have completed certain audit procedures at the Department of Crime Control and Public Safety 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 general-purpose financial statements and 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 several internal control weaknesses and instances of noncompliance with federal regulations related to reporting, monitoring subrecipients, and contracting.

The accounts and operations of the Department of Crime Control and Public Safety 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 Crime Control and Public Safety as we considered necessary:

Funds for the *Comprehensive Annual Financial Report*:

Special Revenue Fund – Budget Code 24960

Federal Programs for the *Single Audit Report*:

Public Assistance Grants

Disaster Housing Program

Hazard Mitigation Grant

The individual funds and federal programs subjected to audit at the Department of Crime Control and Public Safety 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

Matters Related to Financial Reporting or Federal Compliance Objectives

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

1. PUBLIC ASSISTANCE GRANT PROGRESS REPORTS WERE INCOMPLETE

The Quarterly Progress Reports submitted to the Federal Emergency Management Agency (FEMA) did not provide information on all projects. This condition limits FEMA's ability to monitor or review the progress of disaster projects. These reports should outline any problems or circumstances expected to result in noncompliance with the approved grant conditions.

Completed large projects awaiting final payment were not included on the quarterly reports submitted to FEMA. The Department only submitted quarterly reports for ongoing large projects. Title 44, part 206, section 204(f) of the Code of Federal Regulations states that progress reports shall be submitted by the Grantee (the Department) to the Regional Director quarterly and should describe the status of projects for which a final payment of the federal share has not been made.

Recommendation: The Department should submit quarterly reports for the Public Assistance Grant Program (CFDA # 83.544) in accordance with Federal regulation.

Agency Response: The Department concurs with this finding and will ensure by internal auditor review that quarterly progress reports submitted to the Federal Emergency Management agency (FEMA) provide information on all projects. Currently, the Division of Emergency Management, Public Assistance Section submits quarterly progress reports on majority of projects.

2. TRACKING OF SUBRECIPIENT AUDIT REPORTS INADEQUATE

The Department did not have adequate and reliable controls to ensure the tracking and receipt of subrecipient audit reports for the Public Assistance Grant Program (CFDA # 83.544). This condition limits the ability of the Department to comply with Federal OMB Circular A-133 requirements which state, in part, that the pass-through entity (the Department) is responsible for ensuring that required subrecipient audits are performed and that the subrecipient takes prompt corrective action on any audit findings.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

The Department uses the US Office of Management and Budget (OMB) Federal Audit Clearinghouse website to monitor subrecipient audit reports. Our tests indicate that the website did not include all subrecipients that receive \$300,000 or more in Federal funds: two subrecipients in a sample of 8 were not included on the Clearinghouse system. The Single Audit Act requires grant recipients expending \$300,000 or more in Federal funds in a fiscal year to obtain a single audit.

Recommendation: The Department should develop and implement a complete tracking system to ensure that all required subrecipient audit reports are received and reviewed in a timely manner.

Agency Response: The Department concurs with this finding and will ensure by internal auditor review that adequate and reliable controls are in place to ensure the tracking and receipt of all subrecipient audit reports for the Public Assistance Grant Program (CFDA #83.544) in compliance with Federal OMB Circular A-133 requirements. Currently, the Division of Emergency Management, Public Assistance Section tracks and reviews audit reports on majority of subrecipients.

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.

3. REQUIRED DEBARMENT CERTIFICATIONS NOT OBTAINED

The Department failed to obtain the required debarment certifications for the Disaster Housing Program (CFDA # 83.545). Failure to secure these debarment certifications increases the risk that the Department contracted with or provided funds to individuals or organizations prohibited by the federal government from contracting for or receiving awards from federal funds when convicted of fraud or found in violation of government contracts or federal laws.

We examined four vendor contracts and determined that all four vendors did not have the required certifications on file. Federal Executive Orders 12549 and 12689 and 44 CFR Part 13 require contractors receiving individual awards for \$100,000 or more and all subrecipients to certify that the organization and its principles are not suspended or debarred.

Recommendation: The Department should implement and document review procedures to ensure that all required certifications from contractors and subrecipients are obtained prior to executing contracts.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Agency Response: The Department concurs with this finding and will ensure by internal auditor review that required debarment certifications for the Disaster Housing Program (CFDA #83.545) is obtained.

4. MANAGEMENT DECISIONS ON SUBRECIPIENT AUDIT REPORTS NOT ISSUED

The Department failed to issue management decisions for audit findings reported in subrecipient audit reports. This condition increases the risk that reported internal control deficiencies and noncompliance matters which impact the Public Assistance Grant Program (CFDA # 83.544) may not be satisfactorily resolved.

A management decision means the evaluation by the pass-through entity (the Department) of the audit findings and corrective action plan and the issuance of a written decision as to what correction action is necessary. OMB Circular A-133 provides that a pass-through entity is responsible for 1) making the management decision for audit findings that relate to Federal awards it makes to subrecipients and 2) making the management decision within six months of receipt of the audit report.

Recommendation: The Department should develop procedures to ensure management decisions are issued as required by Federal regulation.

Agency Response: The Department concurs with this finding and will ensure by internal auditor review that management decisions for audit findings reported in subrecipient audit reports are issued as required by OMB Circular A-133 requirements related to the Public Assistance Grant Program (CFDA #83.544).

DISTRIBUTION OF AUDIT RESULTS

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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Mr. David T. McCoy	State Budget Officer
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Mr. Bryan Beatty	Secretary, Department of Crime Control and Public Safety

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April 16, 2002

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