



# STATE OF NORTH CAROLINA

## AUDIT RESULTS FROM CAFR AND SINGLE AUDIT PROCEDURES

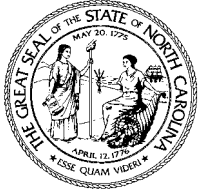
DEPARTMENT OF COMMERCE

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR



Ralph Campbell, Jr.  
State Auditor

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April 30, 2004

The Honorable Michael F. Easley, Governor  
Members of the North Carolina General Assembly  
Mr. James T. Fain, III, Secretary  
Department of Commerce

We have completed certain audit procedures at the Department of Commerce related to the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*, for the year ended June 30, 2003. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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

We found errors in the Performance and Evaluation Report submitted by the Division of Community Assistance for the Community Development Block Grants program. Control procedures employed by the Division did not ensure accuracy in this report.

The accounts and operations of the Department of Commerce 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 Commerce as we considered necessary:

Funds for the *Comprehensive Annual Financial Report*:

None

Federal Programs for the *Single Audit Report*:

Community Development Block Grants/State's Program

Workforce Investment Act – Adult Program

Workforce Investment Act – Youth Activities

Workforce Investment Act – Dislocated Workers

The individual funds and federal programs subjected to audit at the Department of Commerce are substantially less in scope than would be necessary to report on the 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.



Ralph Campbell, Jr.  
State Auditor

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **Matters Related to Financial Reporting or Federal Compliance Objectives**

The following finding and recommendation was identified during the current audit and describes a condition that represents a significant deficiency in internal control and noncompliance with laws, regulations, contracts, or grants.

#### FEDERAL REPORT CONTAINED ERRONEOUS DATA

Errors were noted in the Performance and Evaluation Report (PER) submitted by the Division of Community Assistance for the Community Development Block Grants (CDBG) program. Such errors may reduce the usefulness of the data to federal funding sources. The following errors were noted in the PER for the year ended December 31, 2002:

- The “Amount Obligated to Recipients” did not agree to the total of the National Objectives for the 1996 through 2001 grant years. The differences were varied and ranged from the obligated amount exceeding the total for National Objectives by \$6,618,651 in 1998 to being less than the National Objectives by \$7,006,596 in 2001. The “Amount Obligated to Recipients” was incorrectly shown as zero for the 2002 grant while the total of the National Objectives was shown as \$34,298,780. The report’s instructions state that the amounts reported for these two captions should be in agreement.
- The “Funds Meeting Urgent Needs” in the National Objective section was incorrectly shown as zero for the 2002 grant. The supporting documentation showed this amount to be \$1,113,500.
- Not all funds awarded to seven of thirty-nine subrecipients sampled were included on the PER. The omitted awards ranged from \$30,000 to \$1,000,000.

The control procedures employed by the Division did not ensure accuracy in the federal report and utilization of checklists established by the Department of Housing and Urban Development (HUD). Adequate internal control would provide reasonable assurance that amounts reported on the federal report are accurate and agree with supporting documentation.

*Recommendation:* The Division should implement review procedures to ensure that data reported on the Performance and Evaluation Report are accurate and agree to supporting documentation. Review procedures could include comparison of reports to supporting records and utilizing checklists recommended by HUD.

## AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

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### *Agency Response:*

#### *Corrective Action*

The Financial Section and the Information Services Section will share joint responsibility for preparation of the Financial Summary Report, Part I of the Performance Evaluation Report (PER). In the future, all detailed financial information contained in the PER will be derived from the Grants Management System (GMS) financial tables. Staff will reconcile this information on a monthly basis. The Information Services Section will generate a cumulative report, which compares the grant financial database in GMS to the Grant's Registry database maintained by the Finance Section. The Finance Officer will review the report for accuracy, reconcile any inconsistencies, and prepare a written report.

The Director and Assistant Director will review the monthly reports and the Financial Summary Report, Part I for compliance with the federal checklist as established by the US Department of Housing and Urban Development (HUD).

#### *Corrective Action*

The programming error, which resulted in the incorrect reporting of funds obligated under the Urgent Needs National Objective for 2002, has been corrected. To test for similar problems in the future, the Finance Officer and Information Services Section Chief will conduct a comparative analysis of the Grants Management System (GMS) database and the Grants Registry database on a quarterly basis. The Director and Assistant Director will receive a written report of the results.

#### *Corrective Action*

The Information Services Section Chief will be responsible for conducting quarterly reviews of the PER database and the Grant Activities Budget database to ensure consistency. The Finance Officer will review the report for accuracy and reconcile any variations. A written report of this review will be provided to the Director and Assistant Director.

The 2003 PER is presently being completed for submission to US Department of Housing and Urban Development (HUD) by March 31, 2004. To ensure accuracy, the staff will complete the HUD checklist prior to submission. All other corrective action procedures will be implemented for the 2004 PER reporting period.

## **DISTRIBUTION OF AUDIT REPORT**

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report 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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The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. James T. Fain, III	Secretary, Department of Commerce

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Mr. James D. Johnson	Director, Fiscal Research Division
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May 11, 2004

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