



# 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, 2003**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.ncauditor.net>

April 29, 2004

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 *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 audit findings and recommendations for the Department related to the State's federal financial assistance programs that 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 found that the Department's Schedule of Expenditures of Federal Awards contained errors and that amounts reported on the Hazard Mitigation Grant's Financial Status Reports were not in agreement with the accounting records. The Department did not have adequate controls in place to ensure that federal drawdowns were made in accordance with the agreement with the federal government. Controls were not in place to ensure that subrecipient audit reports were received or that debarment certifications were obtained from subrecipients or contractors. In addition, federal progress reports were not submitted, and there were weaknesses noted in controls over fixed assets.

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*:

None

Federal Programs for the *Single Audit Report*:

Public Assistance Grants

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 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.

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**

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants. Finding number 4 was also reported in the prior year.

#### **1. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS CONTAINED ERRORS**

Controls were not in place to ensure that the Schedule of Expenditures of Federal Awards (SEFA) was prepared in accordance with federal requirements. The OMB Circular A-133 requires that the SEFA provide total federal awards expended for each individual federal program. The selection of major programs for the State's Single Audit is based in part on the amounts recorded on the SEFA, and the errors found caused the statewide selection of major programs to be revised. The errors found are described below.

- The expenditures for the Cooperating Technical Partners Initiative Grant, the Acquisition/Elevation Supplemental Grant, and the Floyd Supplemental Grant were erroneously included with the Hazard Mitigation Grant expenditures on the SEFA. As a result, the Hazard Mitigation Grant expenditures were overstated by \$21,317,645 and the other federal programs were understated by that amount.
- The Hazard Mitigation Grant expenditures were understated by \$284,941 as a result of coding errors.

The Department corrected these errors and submitted a revised SEFA to the Office of State Controller in November 2003.

In addition, the Department's method of identifying expenditures to be reported on the SEFA did not comply with the requirements of OMB Circular A-133. When reporting expenditures on the SEFA, the Department reported the amount of federal funds received in the general fund, rather than reporting the actual outlays of federal funds. The OMB Circular A-133 states that the determination of when an award is expended should be based on when the activity related to the award occurs, such as when the expenditure takes place.

*Recommendation:* The Department should strengthen procedures to ensure that the SEFA is prepared in accordance with federal requirements.

*Agency Response:* The Department agrees with this finding and will strengthen procedures to ensure that future SEFA reports are accurate.

#### *Corrective Action*

To guard against future errors in the SEFA, procedures will be implemented to require independent double-checking of calculations and reported amounts prior to submitting the report. Procedures will also be revised to ensure that the methodology for

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

---

determining the reported amounts of actual outlays of federal funds is in compliance with the requirements of OMB Circular A-133. This action will be completed by May 31, 2004.

### 2. FINANCIAL STATUS REPORTS NOT IN AGREEMENT WITH ACCOUNTING RECORDS

Errors were noted in two of the Financial Status Reports submitted by the Department for the quarter ending June 30, 2003. These errors may reduce the usefulness of the data to federal funding sources. The following errors were noted.

- The total outlays, recipient share, and federal share reported for one disaster did not agree to the accounting records. The amounts reported exceeded the amounts recorded in the accounting records by \$592,639, \$548,496 and \$44,143, respectively. When reporting the federal share, the Department used the amount of federal funds received, as shown in the federal draw down system, instead of using the amount recorded in the accounting records. No explanations were given for the differences for the total outlays and recipient share.
- The other report understated total outlays by \$429,912 and understated the recipient share by \$429,981. Expenditures for one reporting center were erroneously omitted from the report, and other miscalculations were made.

The detail costs from the Grants Status Report subsidiary records are combined with other costs from the North Carolina Accounting System (NCAS) to prepare the quarterly Financial Status Reports. The Department did not maintain an adequate audit trail to allow amounts reported to be traced back to the accounting records. The Department did not perform an adequate reconciliation of the Grants Status Report subsidiary records to the amounts recorded in NCAS.

Title 44, part 13, section 20(b) of the Code of Federal Regulations states accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements and grantees must maintain records, which adequately identify the source and application of funds provided for financially assisted activities.

*Recommendation:* The Department should reconcile all subsidiary records to NCAS on a monthly basis. The Department's accounting system should capture grant transactions in a manner sufficient to readily record, summarize, and report the necessary information required on the Financial Status Reports. The Department should ensure that amounts reported on the quarterly Financial Status Reports are supported by the financial records.

*Agency Response:* The Department agrees with this finding. Procedures will be established to ensure that Financial Status Reports are accurate and reported in accordance with federal financial reporting requirements.

#### *Corrective Action*

By May 31, 2004, the Department will modify the NCAS coding structure, where appropriate, to allow for adequate reconciliation of status report subsidiary records and the NCAS records.

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

---

### 3. FEDERAL FUNDS NOT DRAWN IN ACCORDANCE WITH AGREEMENT

The Department did not comply with the agreement between the U. S. Department of the Treasury and the State of North Carolina that implemented the provisions of the federal *Cash Management Improvement Act (CMIA) of 1990*. The Department did not have adequate controls in place to ensure that drawdowns were made in accordance with the CMIA Agreement. Consequently, drawdowns were received from the federal treasury earlier than two business days prior to the corresponding expenditure. There were also many instances where the Department submitted erroneous data regarding federal drawdowns and federal expenditures to the Office of the State Controller (OSC). Errors in this data could cause OSC's calculation of the State's interest liability to the federal government to be incorrect. Examples of these violations include:

- The Public Assistance Grants maintained an excessive balance of \$1,000,000 for seventeen days during the State's fiscal year ended June 30, 2003.
- We found thirteen instances where the agency's accounting records did not agree with the data reported to OSC for the Public Assistance Grants. These errors were due to miscalculations made by agency personnel. For example, the total daily deposits and expenditures reported to OSC for June 5, 2003 was \$2,099,866 but the amount reflected in the agency's accounting records was \$2,583,039.
- We found four instances where the agency's accounting records did not agree with the data reported to OSC for the Hazard Mitigation Grant. For example, the total daily deposits and expenditures for October 31, 2002 reported to OSC was \$1,337,053, but the amount on the accounting records was \$1,115,655.

The CMIA agreement requires that program costs be funded on a pre-issuance basis, but funds should not be drawn down more than two business days prior to the day corresponding disbursements are made. The agreement also requires that requests for funds be no more than the amount the State expects to disburse.

*Recommendation:* The Department should advise all employees involved in the federal drawdown process about the CMIA Agreement requirements. The Department should strengthen internal controls to ensure that drawdowns are made in compliance with the CMIA Agreement and the data submitted to OSC is accurate.

*Agency Response:* The Department agrees with this finding. Procedures will be implemented to ensure that drawdown and expenditure reports are accurately prepared.

#### *Corrective Action*

The importance of complying with all aspects of the CMIA will be reemphasized to all responsible employees. Reports will be double-checked prior to submission, and internal controls will be strengthened to ensure that drawdowns are made in compliance with the CMIA agreement. This action will be completed by May 31, 2004.

### 4. INADEQUATE TRACKING OF SUBRECIPIENT AUDIT REPORTS

As disclosed during the prior year audit, the Department did not have adequate and reliable controls to ensure the tracking and receipt of subrecipient audit reports for the Public Assistance Grants and the Hazard Mitigation Grant. This condition limits the Department's ability to ensure that funds granted to subrecipients are expended in

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

---

accordance with grant requirements. OMB Circular A-133 requirements state, in part, that the pass-through entity (the Department) is responsible for ensuring required audits are performed and that the subrecipient takes timely and appropriate corrective action on any audit findings.

Our review of the Department's system of tracking subrecipient audit reports during our 2003 audit revealed the following.

- The Department had not received audit reports from any of the twenty-eight subrecipients of the Public Assistance Grants. After we brought this to the Department's attention, a letter was sent requesting that the audits be submitted.
- The Department had not received audit reports from ten of sixteen subrecipients of the Hazard Mitigation Grant.

*Recommendation:* The Department should develop and implement a complete tracking system to ensure that all required subrecipient reporting packages are received and reviewed in a timely manner. In addition, a management decision should be issued on audit findings within six months of receipt of the audit report.

*Agency Response:* The Department agrees with this finding. On March 9, 2003, the North Carolina Division of Emergency Management hired a Governmental Accounts Auditor who has been assigned responsibility for working with subrecipients and staff members of Public Assistance, Hazard Mitigation, and Homeland Security to ensure that all OMB Circular A-133 Single Audit Act requirements are completed in a timely manner.

### *Corrective Action*

The Division of Emergency Management will correspond with subrecipients, requesting copies of their audit reports. The Governmental Accounts Auditor will review the reports for relevant findings, and a management decision will be issued on audit findings within six months of receipt of each audit report. This action will be completed by April 30, 2004.

## 5. REQUIRED DEBARMENT CERTIFICATIONS NOT OBTAINED

The Department did not obtain the required debarment certifications from any subrecipients reviewed or any contractors that received an award greater than \$100,000 in the Public Assistance Grants and Hazard Mitigation Grant. Failure to secure the required debarment certifications increases the risk that the Department may contract with or provide funds to debarred companies, individuals, or subrecipients.

The federal government may prohibit individuals or organizations convicted of fraud or found in violation of government contracts or federal laws from contracting for or receiving awards from federal funds. OMB Circular A-133 requires contractors receiving individual awards for \$100,000 or more and all subrecipients to certify that the organization and its principles are not suspended and debarred.

As of September 2003, the Department revised the standard subgrantee application used for the Public Assistance Grants to include the required certification.

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

---

*Recommendation:* The Department should establish procedures that ensure compliance with current Federal debarment and suspension regulations for all grants.

*Agency Response:* The Department agrees with this finding. Federal Emergency Management Agency (FEMA) Summary Sheets for Assurances and Certifications have been obtained.

*Corrective Action*

Division of Emergency Management employees will work to ensure that Assurances and Certification forms are incorporated into each subgrantee application for the required certifications. Procedures will be established to ensure compliance with the current federal debarment and suspension regulations for all grants to subrecipients for \$100,000 or more. These procedures will be implemented prior to May 31, 2004.

### 6. PUBLIC ASSISTANCE GRANTS PROGRESS REPORTS NOT SUBMITTED

Quarterly Progress Reports were not submitted to the Federal Emergency Management Agency (FEMA). 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.

The Department had a policy in place to submit quarterly progress reports to FEMA. The Department explained that due to high employee turnover and the additional labor efforts required to process costs of a major disaster declared during the State fiscal year, progress reports were not submitted to FEMA. 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 in accordance with Federal regulation.

*Agency Response:* The Department agrees with this finding. At FEMA's direction, the Division of Emergency Management submitted progress reports electronically using FEMA's National Emergency Management Information System (NEMIS). However, documented evidence of these submissions was not available for review. Only FEMA's Public Assistance staff can retrieve printed copies of quarterly reports through NEMIS.

*Corrective Action*

The Division Director has requested FEMA's Regional Director to provide documentation of the previously submitted quarterly reports. In addition, procedures will be established to provide ongoing confirmation of submitted reports. This action will be completed by March 31, 2004.

### 7. WEAKNESSES NOTED IN CONTROLS OVER FIXED ASSETS

The Division of Emergency Management did not conduct an annual inventory of fixed assets purchased with the Hazard Mitigation Grant funds as required by policies established by the Office of the State Controller. This condition increases the risk that

## AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

---

missing or unauthorized removals of fixed assets from the Department's inventory could go undetected. Federal regulation 44 CFR 13.32 requires states to manage equipment acquired under a grant in accordance with state laws and procedures.

In addition, one employee in the General Accounting/Accounts Payable section had access to the Fixed Asset System (FAS) that was not necessary for her job. Inappropriate access to FAS increases the risk of errors and unauthorized transactions. Although the Department had security procedures in place to review and monitor access rights, the unnecessary access was not detected.

*Recommendation:* The Division should follow established policies and conduct a fixed assets inventory at least annually. In addition, the Department should review and monitor general controls over the access level provided to employees. Access should be limited to employees on a need-to-use basis.

*Agency Response:* The Department agrees with this finding. While the Division conducted physical inventories, the inventory count sheets and results were not forwarded to the Department for review, approval and adjustment of financial records, as necessary.

### *Corrective Action*

Documented results of completed physical inventories will be submitted to the Department no later than April 5, 2004. The Division will ensure that State and Departmental policies requiring the completion and submission of annual physical inventories are followed. All improper access to the Fixed Asset System has been corrected, and procedures have been implemented to routinely review for proper limits on system access.

## **DISTRIBUTION OF AUDIT REPORT**

---

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.

### **EXECUTIVE BRANCH**

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. Bryan Beatty	Secretary, Department of Crime Control and Public Safety

### **LEGISLATIVE BRANCH**

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore	Speaker of the House
Senator Marc Basnight, Co-Chair	Representative James B. Black, Co-Chair
Senator Charles W. Albertson	Representative Richard T. Morgan, Co-Chair
Senator Patrick J. Ballantine	Representative Martha B. Alexander
Senator Daniel G. Clodfelter	Representative Rex L. Baker
Senator Walter H. Dalton	Representative Bobby H. Barbee, Sr.
Senator Charlie S. Dannelly	Representative Harold J. Brubaker
Senator James Forrester	Representative Debbie A. Clary
Senator Linda Garrou	Representative E. Nelson Cole
Senator Wilbur P. Gulley	Representative James W. Crawford, Jr.
Senator Fletcher L. Hartsell, Jr.	Representative William T. Culpepper, III
Senator David W. Hoyle	Representative W. Pete Cunningham
Senator Ellie Kinnaird	Representative W. Robert Grady
Senator Jeanne H. Lucas	Representative Joe Hackney
Senator Stephen M. Metcalf	Representative Julia C. Howard
Senator Anthony E. Rand	Representative Joe L. Kiser
Senator Eric M. Reeves	Representative Edd Nye
Senator Robert A. Rucho	Representative William C. Owens, Jr.
Senator R. C. Soles, Jr.	Representative Wilma M. Sherrill
Senator Scott Thomas	Representative Thomas E. Wright

### **Other Legislative Officials**

Mr. James D. Johnson	Director, Fiscal Research Division
----------------------	------------------------------------

May 11, 2004

## ORDERING INFORMATION

---

Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647