



STATE OF NORTH CAROLINA

RESULTS OF

STATEWIDE FINANCIAL AUDIT PROCEDURES AT THE

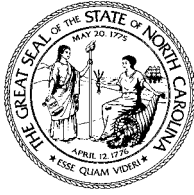
DEPARTMENT OF COMMERCE

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR



STATE OF NORTH CAROLINA
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April 7, 2005

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

We have completed certain audit procedures at the Department of Commerce related to the State of North Carolina reporting entity as presented in the *Comprehensive Annual Financial Report (CAFR)* and *Single Audit Report* for the year ended June 30, 2004. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

In the *CAFR*, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor presents the results of tests of internal control and compliance with laws, regulations, contracts and grants applicable to the State's financial statements and to its federal financial assistance programs. Our 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 the Single Audit Act as applicable. Our audit scope at the Department of Commerce included the following:

State of North Carolina's Financial Statements

None

State of North Carolina's Administration of Federal Financial Assistance Programs

Community Development Block Grants/State's Program

Workforce Investment Act – Adult Program

Workforce Investment Act – Youth Activities

Workforce Investment Act – Dislocated Workers

Our audit procedures at the Department of Commerce were less in scope than would be necessary to report on the financial statements that relate solely to the Department or its administration of federal programs. Therefore, we do not express such conclusions.

The results of our audit procedures yielded audit findings and recommendations for the Department related to the State's federal financial assistance programs that may require

disclosure in the aforementioned reports. These findings are included in the findings and recommendations section contained herein. Our recommendations for improvement and management's response follow each finding.

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
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 discuss conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grants. Finding number 1 was also reported in the prior year.

1. COMMUNITY DEVELOPMENT BLOCK GRANT REPORT CONTAINED INACCURATE 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, 2003:

- Not all funds awarded to four of 40 subrecipients sampled were included on the PER. The omitted awards ranged from \$20,000 to \$105,000;
- The “Amount Obligated to Recipients” exceeded the amounts “Allocated” for the 2002 and 2003, grant years. For grant year 2002, the excess amount was \$2,291,115, and for grant year 2003, the excess amount was \$3,639,394. The report’s instructions state that the amount obligated for a grant year should be less than or equal to the amount allocated;
- The reporting period date was incorrectly shown on the PER as January 1, 2001, through December 31, 2002. The period should have been January 1, 2003, through December 31, 2003.

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. We also found that the subsystem used to prepare this report was not reconciled to the Department’s accounting records. Good internal controls suggest reconciliation between these systems be prepared to ensure accuracy of data reported.

Recommendation: The Division of Community Assistance should review the PER more closely, being especially alert to the financial data to ensure accuracy. Review procedures could include comparison of reports to supporting records and utilizing the checklists recommended by HUD. In addition, the Division should require subsystems to be reconciled and reviewed by management on a monthly basis.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Agency Response: As part of the PER preparation and process, the Assistant Director will ensure all information is in compliance with the federal checklist as established by HUD and that all grammatical and mathematical errors are corrected.

In addition, the Division of Community Assistance has established and implemented policies and procedures that govern the accountability and tracking of allocation funds that are carried forward from one program year into another. As part of a monthly reconciliation procedure, all open program years will be reviewed to ensure all funds are accounted for in their respective year. The Assistant Director will conduct quarterly reviews of these operating procedures to ensure full implementation has occurred and accuracy is achieved.

2. MONITORING VISITS AND CLOSEOUT PROCEDURES WERE NOT PERFORMED TIMELY

The tracking system used by the Division of Community Assistance did not ensure that each project in the Community Development Block Grant program received a monitoring visit or was closed out timely. Federal regulations require on-site reviews of units of local government as necessary to determine whether the subrecipient has carried out activities in accordance with Title I of the Housing and Community Development Act of 1974, and with other applicable laws.

Our tests of a sample of 57 subrecipients found that two had not received a monitoring visit. In both cases the subrecipients had received 100% of awarded funds. One subrecipient project had requisitioned all of its funds in December 2002, and the other project had requisitioned all of its funds in January 2004. These subrecipient projects received \$844,487 and \$400,000 in grant funds respectively. In addition, these projects had not been closed out.

Without monitoring, the Division cannot be assured that the subrecipient complied with all program requirements.

Recommendation: The Division of Community Assistance should take greater care to ensure that monitoring procedures are performed and reevaluate the system used to determine the projects that need monitoring and closeouts.

Agency Response: This finding is a direct result of DCA having several vacancies in their monitoring section.

DCA monitored the \$400,000 project in November 2004. DCA will monitor the \$844,487 project on March 18, 2005. Although HUD regulations do not specifically state the number of monitoring visits that must be conducted or the percentages/intervals at which they are to take place, DCA is currently reviewing its monitoring practices and procedures to ensure projects that are delayed or are in need of intervention are identified in a timely fashion.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Since DCA is recently fully staffed, Community Development Block Grant (CDBG) personnel will receive professional development training in project management. This training will provide updated grants management techniques and best practices.

3. FEDERAL FINANCIAL REPORTS NOT REVIEWED FOR THE WORKFORCE INVESTMENT ACT PROGRAM

The quarterly Financial Status Reports for the Workforce Investment Act (WIA) program were not reviewed and approved by someone independent of the preparer during our audit period. The employee that had been responsible for reviewing and approving the report retired during the year, and no one was assigned these duties. Supervisory review is a good control to ensure that the financial reports are accurate and complete.

Recommendation: The Division of Employment and Training should act to ensure that the federal reports are reviewed and approved.

Agency Response: The Division of Employment and Training has taken steps to ensure that segregation of duties and approvals are in place to prepare, review and approve the quarterly Financial Status Reports.

4. IMPROPER ACCESS TO COMPUTER SYSTEMS

Instances were noted where former employees had improper access to the State's North Carolina Accounting System. Improper access to computer systems can result in alteration, unauthorized use, or loss of information. Our sample of 22 separated employees revealed that two still had access to the North Carolina Accounting System. The two employees had been separated from employment for four and five months respectively, at the time of our test.

The Department's procedures for terminating access to the North Carolina Accounting System were not effective to ensure that access for all separating employees was removed. The system security administrator, who was responsible for removing access, was unaware that these employees were no longer employed. Once these deficiencies were brought to the agency's attention, immediate action was taken to remove these employees' access.

Recommendation: The Department should terminate former employees' access to the State computer systems in a timely manner. Supervisors or other appropriate personnel should notify the system security administrator immediately and in writing of any changes in a user's employment status. Periodic security access reviews should be conducted to ensure that access is restricted to authorize users.

Agency Response: Immediate action was taken to resolve the 10% found in the OSA's sample. Commerce will continue to monitor for separated employees and their security access.

DISTRIBUTION OF AUDIT RESULTS

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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Mr. Robert L. Powell	State Controller
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April 13, 2005

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