



# STATE OF NORTH CAROLINA

**RESULTS OF**

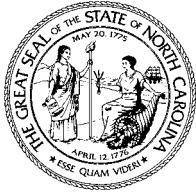
**STATEWIDE FINANCIAL AUDIT PROCEDURES AT THE  
DEPARTMENT OF CRIME CONTROL AND PUBLIC SAFETY**

**FOR THE YEAR ENDED JUNE 30, 2004**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**



STATE OF NORTH CAROLINA  
Office of the State Auditor

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April 11, 2005

The Honorable Michael F. Easley, Governor  
Members of the North Carolina General Assembly  
Mr. Bryan E. 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 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 Crime Control and Public Safety included the following:

State of North Carolina's Financial Statements

None

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

CFDA 83.544 - Public Assistance Grants – Federal Emergency Management Agency

CFDA 97.036 - Public Assistance Grants – Department of Homeland Security

Our audit procedures at the Department of Crime Control and Public Safety 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 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.

A handwritten signature in black ink that reads "Leslie W. Merritt, Jr." with a stylized flourish at the end.

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

# AUDIT FINDINGS AND RECOMMENDATIONS

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## 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 numbers 3, 5 and 7 were also reported in the prior year.

### 1. COSTS PAID WITHOUT PRIOR APPROVAL

Controls were not in place to ensure that Public Assistance Grants funds were only drawn down for expenditures that had been approved for reimbursement. The Department reimbursed State management administrative costs directly with Public Assistance funds prior to receiving approval from the Federal Emergency Management Agency (FEMA). The FEMA Public Assistance guide requires that a Project Worksheet be used to generate the reimbursement of State management administrative costs. The following conditions were noted during the audit:

- Funds totaling \$605,850 were drawn down to reimburse the Department for payroll expenses prior to submitting the required project worksheet for federal approval. The employee initiating the drawdown was not aware that these expenditures required prior federal approval. The Department's staff could have detected this error if they had investigated differences noted when reconciling federal funds to federal expenditures during the preparation of federal financial reports. The risk exists that federal funds were drawn down to reimburse the Department for these same expenditures after receiving federal approval;
- Funds totaling \$151,520 were drawn down to reimburse the Department for other State management costs prior to receiving FEMA approval. The Department returned this amount to the federal government when the error was recognized in December 2004.

We question \$757,370 which is the total drawn down for State administrative expenditures during our audit period prior to receiving federal approval.

*Recommendation:* The Department should adhere to federal regulations when processing federally funded transactions. Personnel should be properly trained and informed to ensure that expenditures are processed correctly.

*Agency's Response:* The Department agrees with this finding. The Department verified that this condition did not result in a duplicate reimbursement. Project worksheets have been prepared to document the legitimacy of the management costs, and they have been forwarded to FEMA for verification and approval. Procedures will be implemented to ensure that funds are drawn down using the appropriate authorization process.

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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### *Corrective Action*

Training and organizational changes will be implemented to improve communication and coordination of federal draw downs. This action will be completed by May 1, 2005.

### 2. ACCOUNTING RECORDS DID NOT IDENTIFY FEDERAL EXPENDITURES

The Public Assistance Grants expenditures were not recorded in the North Carolina Accounting System (NCAS) by funding source. Therefore, the amount of federal funds expended for the program was not readily determinable in the accounting records. The Department did not perform an adequate reconciliation of the federal funds transferred to the general fund to the amount of actual federal expenditures recorded in the subsystem. The Department is currently working with the Office of the State Controller to develop an accounting structure that will enable the Department to identify the application of federal funds.

In addition, the Department reimbursed the State with \$303,509 of Public Assistance funds for previously incurred management administrative costs that were not readily identified in the accounting records. After researching the issue, the Department was able to locate evidence that these expenses were previously incurred by the State.

The risk of drawing down funds in error would decrease if the accounting records identified federal expenditures and receipts adequately. This would also reduce the risk of errors being made during the preparation of the Schedule of Expenditures of Federal Awards.

Under Title 44 CFR section 13.20(b) grantees are required to maintain records that adequately identify the source and application of funds provided for financially assisted activities.

*Recommendation:* The Department should reconcile the federal funds transferred to the general fund to the federal expenditures recorded in the subsystem and continue its efforts to establish an accounting system that will capture grant transactions in a manner sufficient to readily report the federal expenditures.

*Agency's Response:* The Department agrees with this finding. Prior to the audit, the Department, in conjunction with the Office of the State Controller, initiated a project to restructure the Department's coding structure and methodology of accounting for federal expenditures. These changes and other procedural improvements will be implemented to ensure that the flow of federal funds will be easily followed in the Department's accounting records.

### *Corrective Action*

By May 31, 2005, the Department will complete the modification of the NCAS coding structure, where appropriate, to allow for adequate reconciliation of status reports, subsidiary records and the NCAS records.

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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

The Department did not have adequate controls in place to ensure that drawdowns were made in accordance with the *Cash Management Improvement Act (CMIA) Agreement*. Consequently, there were instances when the amount of drawdowns did not agree to the amount the State expected to disburse as required by the CMIA Agreement. Our tests revealed four instances where the amount drawn down did not agree to the amount of disbursements. These errors are described below:

- The Department processed an additional draw of \$178,168 for costs that had been previously funded with federal funds;
- An extra \$18,798 of federal funds was drawn because of an adjustment that was processed twice;
- The Department did not return \$98,724 to the federal government because of an error made in the monthly reconciliation process;
- The amount of federal expenditures exceeded the amount of drawdowns by \$23,875 for cost that should have received 100% federal participation.

There were also instances where the Department submitted erroneous data regarding the federal draws and 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 Department's accounting records did not agree with the data reported to OSC for the Public Assistance Grants in nine of the 21 days tested. These errors occurred because all deposits and expenditures for the Public Assistance Grants were not included. For example, both the total daily deposits and expenditures reported to OSC for July 29, 2003, were understated by \$1,531,146;
- The Department reported an excessive cash balance for the Public Assistance Grants to OSC for the entire fiscal year. At June 30, 2003, the Public Assistance Grants had a cash balance of \$265,073. This amount was returned to the federal government on July 8, 2003, but remained on the Department's accounting records because a duplicate entry was posted.

*Recommendation:* The Department should advise all employees involved in the federal drawdown process about the CMIA requirements. Personnel should be properly trained and informed to ensure that transactions are drawn from the federal government and processed correctly. Also, the Department should determine if the funds drawn down in error have been returned and if not, these funds should be returned to the federal government. In addition, procedures should be implemented to ensure that data submitted to OSC is accurate.

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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*Agency's Response:* The Department agrees with this finding. Controls will be established to ensure that federal draw downs are processed in accordance with CMIA requirements, and CMIA reporting is prepared in an accurate and timely manner.

### *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 draw downs are made in compliance with the CMIA agreement. This action will be completed by May 31, 2005.

#### 4. DOCUMENTATION NOT MAINTAINED TO SUPPORT PROPER ACCESS TO THE NORTH CAROLINA ACCOUNTING SYSTEM

The Department did not have adequate procedures to ensure that proper access rights were given to employees and that access rights were removed for separated employees. Improper access to computer systems can result in alteration, unauthorized use, or loss of information. Our tests revealed the following conditions:

- There were several employees who had inappropriate access to North Carolina Accounting System (NCAS) screens. Four employees had access capability to add/delete vendors and enter invoices. Failure to limit individual access capabilities to NCAS increases the risk of irregularities;
- There were four former employees still listed on various security reports of NCAS. Agency personnel stated that access capabilities for the employees were removed. However, there was no documentation to support that the access rights were removed.

*Recommendation:* 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. Documentation should be maintained to support the termination of access rights for all separated employees.

*Agency's Response:* The Department followed State and Departmental procedures to ensure that security access was limited and revoked where required. The new recommendation for adding vendors will be implemented. Where operator access profiles must be maintained for future reassignment, names of terminated employees will be replaced with a code to prevent the appearance that former employees still have access.

### *Corrective Action*

The Department has implemented the revised security access procedures and we will continually monitor this process.

#### 5. TRACKING SYSTEM OF SUBRECIPIENT AUDIT REPORTS WAS INCOMPLETE

The system used to track the receipt of subrecipient audit reports for the Public Assistance Grants did not include all subrecipients. This condition limited the Department's ability to

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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ensure that funds granted to subrecipients were expended in accordance with grant requirements.

Four of the 39 subrecipients receiving \$300,000 or more in federal funds were not included on the Department's tracking system. Therefore, the Department was unable to ensure that audits were performed on these subrecipients. After performing additional tests, we found that two of the four had not filed the required audit reports with the Federal Audit Clearinghouse.

The Department developed a comprehensive tracking system, however the system was not fully implemented for the year under audit. OMB Circular A-133 requires the pass-through entity (the Department) to ensure that required audits are performed and that the subrecipient takes timely and appropriate corrective action on any audit findings.

*Recommendation:* The Department should ensure that the tracking system is fully implemented to ensure that all required subrecipient audit reports are received and reviewed in a timely manner.

*Agency's Response:* The Department agrees with this finding. As stated in the audit finding, prior to the audit, procedures were established to track subrecipient audit reports. Procedures will be enhanced to ensure full compliance.

### *Corrective Action*

The Governmental Accounts Auditor will continue reviewing the reports for relevant findings, and a management decision will be issued on audit findings within six months of receipt of each audit report. As necessary, a retroactive review of prior reports will be done prior to May 1, 2005.

## 6. PUBLIC ASSISTANCE GRANTS PROGRESS REPORTS NOT SUPPORTED BY ADEQUATE DOCUMENTATION

The Department did not consistently follow prescribed procedures when preparing the Quarterly Progress Reports required by the Federal Emergency Management Agency (FEMA). The Department required subgrantees to submit monthly progress reports to support the data reported on the Quarterly Progress Reports. Our tests disclosed that four of 22 quarterly progress reports were not supported by the monthly progress reports.

Failure to maintain the monthly progress reports limits the Department's ability to prove the accuracy of the Quarterly Progress Reports submitted.

*Recommendation:* The Department should consistently follow procedures to ensure that Monthly Progress Reports are maintained to support Quarterly Progress Reports submitted to FEMA.

*Agency's Response:* These procedures were established by the Department to provide added assurance that reports were accurate. The Department will work to ensure that the procedures are consistently followed.



## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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### *Corrective Action*

The Division of Emergency Management is currently filling vacant positions in this area. After hiring is completed, adequate staffing should be in place to consistently follow the Division's procedures.

### 7. REQUIRED DEBARMENT CERTIFICATIONS NOT OBTAINED

The Department did not have controls in place to ensure that the required debarment certifications were obtained from contractors that received awards greater than \$100,000 prior to November 26, 2003, for the Public Assistance Grants. The Department did not obtain the required debarment certification from one contractor during our audit period. OMB Circular A-133 required contractors receiving individual awards for \$100,000 or more prior to November 26, 2003, to certify that the organization and its principles were not suspended or debarred.

*Recommendation:* The Department should establish procedures that ensure compliance with current federal debarment and suspension regulations.

*Agency's Response:* The Department agrees that the referenced certification was not obtained; however, the Department does not process contracts for awards greater than \$100,000. This exceeds the Department's delegation of purchasing authority. However, the Department will work with the Division of Purchase and Contract to develop procedures to address this issue.

### *Corrective Action*

The Department will work with the Division of Purchase and Contract to develop procedures to address this issue by June 30, 2005.

# 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 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 E. Beatty	Secretary, Department of Crime Control and Public Safety

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Mr. James D. Johnson	Director, Fiscal Research Division
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April 20, 2005

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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