



# STATE OF NORTH CAROLINA

**DEPARTMENT OF LABOR**

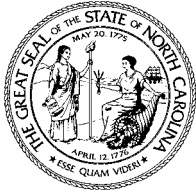
**STATEWIDE FINANCIAL AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2005**

**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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March 31, 2006

The Honorable Michael F. Easley, Governor  
Members of the North Carolina General Assembly  
The Honorable Cherie K. Berry, Commissioner  
Department of Labor

We have completed certain audit procedures at the Department of Labor 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, 2005. 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 Labor included the following:

State of North Carolina's Financial Statements

None

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

Occupational Safety and Health - State Program

Our audit procedures at the Department of Labor 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 audit 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**

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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.

#### **1. COSTS BILLED OUTSIDE OF THE PERIOD OF AVAILABILITY**

The Department billed expenditures to the 2005 Occupational Safety and Health State Program that had been obligated before the grant period began. Expenditures that were obligated and recorded under the 2004 grant were reclassified as expenditures of the 2005 grant because 2004 funds were not available to cover all expenditures incurred.

Title 29 CFR section 97.23 states that when a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period. The \$82,751 charged to the 2005 grant, but obligated before the period of availability began on October 1, 2004, is being questioned.

*Recommendation:* The Department should not shift costs from one grant to another but ensure that only costs obligated within a designated funding period are charged to a grant.

*Agency's Response:* An error was made in billing \$82,751 in 2004 expenses to the 2005 grant. This was corrected and a revised Financial Status Report was sent to the US Department of Labor on February 24, 2006 for the 2004 federal fiscal year closeout. Since the 2005 federal fiscal year grant has not been closed out (we have an approved extension to March 31, 2006), an adjustment will be made in the closeout document(s) to reflect this change.

#### **2. CONTROLS NOT IN PLACE TO ENSURE COMPLIANCE WITH FEDERAL SUSPENSION AND DEBARMENT REQUIREMENTS**

The Department did not have controls in place to ensure that the federal suspension and debarment requirements were met for providers of goods or services. The failure to comply with these requirements heightens the risk that the Department may contract with or provide funds to suspended or debarred parties.

Title 29 CFR part 98 requires verification for procurement transactions, expected to equal or exceed \$25,000, to ensure that the recipients of federal funds are not suspended or debarred. This verification may be accomplished by checking the Excluded Parties List System maintained by the General Services Administration, collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

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

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Six contracts exceeding \$25,000 were funded by the Occupational Safety and Health State Program (OSH) without this verification.

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

*Agency's Response:* The department will comply with the requirement to check the Excluded Parties List System maintained by the General Services Administration on all federal purchases, contractual obligations, and/or lease agreements totaling \$25,000 or greater. A policy within our Budget and Management Division was put into place February 21, 2006 to ensure the Excluded Parties List System is checked prior to obligating federal funds.

## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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