



STATE OF NORTH CAROLINA

DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

STATEWIDE FINANCIAL AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
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>

March 12, 2007

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
The Honorable Steve Troxler, Commissioner
Department of Agriculture and Consumer Services

We have completed certain audit procedures at the Department of Agriculture and Consumer Services 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, 2006. 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 Agriculture and Consumer Services included the following:

State of North Carolina's Financial Statements

None

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

Emergency Food Assistance Program (CFDA #'s 10.568 and 10.569)

Our audit procedures at the Department of Agriculture and Consumer Services 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 an audit finding and recommendation 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.

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

Matters Related to Financial Reporting or Federal Compliance Objectives

The following finding and recommendation was identified during the current audit and discusses conditions that represent a deficiency in internal control and/or noncompliance with laws, regulations, contracts or grants.

INADEQUATE MONITORING OF SUBRECIPIENT AUDIT REPORTS

The Department of Agriculture and Consumer Services' Food Distribution Division (the Division) did not have adequate controls in place to ensure that required subrecipient audit reports for the Emergency Food Assistance Program were obtained. This limits the Department's ability to ensure that funds granted to subrecipients are expended in accordance with grant requirements. However, we noted only one required subrecipient audit report that was not obtained.

OMB Circular A-133 requires pass-through entities to ensure that subrecipients that expend \$500,000 or more in federal awards in a year have an audit completed within nine months of the end of the subrecipient's audit period. The pass-through entity is then required to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. The Circular's definition of expended federal awards includes the value of food commodities; however, the Division only considered administrative awards and not food commodities when determining which subrecipient audit reports to obtain and review.

This issue was raised in an evaluation by the United States Department of Agriculture in April 2006, and since then the Division has developed new monitoring procedures that should be in place for fiscal 2007. Once fully developed and implemented, the new procedures should allow the Division to be in compliance with the requirements for subrecipient audit reports.

This finding impacts CFDA 10.568, Emergency Food Assistance Program, administrative award 5NC810815 for October 2003 to September 2004 and October 2004 to September 2005, as well as CFDA 10.569, Emergency Food Assistance Program food commodity entitlements for October 2003 to September 2004 and October 2004 to September 2005.

Recommendation: The Division should monitor the new subrecipient audit report procedures to ensure compliance with OMB Circular A-133.

Agency's Response: We have implemented policies and procedures at the Food Distribution Division of the Department of Agriculture and Consumer Services that will ensure compliance with the OMB Circular A-133 for the Emergency Food Assistance Program.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at 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:

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

Telephone: 919/807-7500

Facsimile: 919/807-7647