



STATE OF NORTH CAROLINA

NORTH CAROLINA WILDLIFE RESOURCES COMMISSION

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 9, 2007

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Mr. Richard Hamilton, Executive Director
North Carolina Wildlife Resources Commission

We have completed certain audit procedures at the North Carolina Wildlife Resources Commission 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 North Carolina Wildlife Resources Commission included the following:

State of North Carolina's Financial Statements

None

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

Fish and Wildlife Cluster (CFDA #'s 15.605 and 15.611)

Our audit procedures at the North Carolina Wildlife Resources Commission were less in scope than would be necessary to report on the financial statements that relate solely to the Commission 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 Commission related to the State's federal financial assistance programs that may require disclosure in the aforementioned reports. We also identified during the current audit a significant deficiency in the management control processes for matters not directly related to

federal compliance objectives. 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." in a cursive script.

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

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Federal Compliance Objectives

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

1. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS MISSTATED

The Schedule of Expenditures of Federal Awards prepared by the North Carolina Wildlife Resources Commission was misstated. The report included expenditures outside the fiscal 2006 reporting period, which resulted in federal expenditures being overstated by \$612,739. As a result, the report could be misleading to report users.

The misstatement occurred because the Commission did not have an effective method to capture capital improvement expenditures timely, which also resulted in delays in the draw down of federal funds. Specifically, the report included:

- An overstatement of \$460,038 for the federal share of expenditures invoiced and paid in fiscal 2005, but the federal reimbursement was not requested until fiscal 2006;
- An overstatement of \$163,576 for the federal share of expenditures invoiced in fiscal year 2006 but not paid until July 2006; and
- An understatement of \$10,875 for the federal share of expenditures invoiced and paid in fiscal 2006, but the federal reimbursement was not requested until fiscal 2007.

Based on State accounting policies, the Schedule of Expenditures of Federal Awards should have included expenditures in the period the disbursements were made. Also, the State's cash management policy in G.S. 147-86.11e(3), states that moneys due to a State agency by another governmental agency shall be promptly billed, collected and deposited.

Prior to our audit, Commission management identified the deficiency in capturing capital improvement costs in a timely manner. In August 2006, the Commission implemented new procedures for processing capital improvement costs that the Commission believes will prevent future errors.

This finding impacts CFDA 15.605 Sport Fish Restoration grant F-82D for February 2005 to June 2006, F58FCM for January 2005 to June 2006, and grant agreement 401815G204 for the period of February 2005 to July 2006, as well as CFDA 15.611 Wildlife Restoration grant W-59 for July 2000 to December 2006, W-63 for October 2001 to December 2006, and W-65 for January 2004 to June 2007.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Recommendation: Management should closely monitor the implementation of the new procedures and should consider whether additional controls need to be put in place to ensure compliance with both federal reporting and State cash management requirements.

Agency Response: The Wildlife Resources Commission had identified the deficiencies associated with the manual procedure in which capital improvement invoices were processed and corrective action was taken in August, 2006. Federally funded capital improvement expenditures are now captured in FAMRS (Federal Assistance and Management Reporting System) at the time they are processed in the North Carolina Accounting System through the use of the same 12 digit cost center structure used to capture all other federally funded expenditures. The Wildlife Resources Commission will continue to monitor the new procedures to ensure compliance with both federal reporting and state cash management requirements.

Matters Not Related to Federal Compliance Objectives

The following finding and recommendation was identified during the current audit and discusses conditions that represent significant deficiencies in the management control processes for matters not directly related to federal compliance objectives.

2. DISASTER RECOVERY PLAN NOT IN PLACE

The North Carolina Wildlife Resources Commission does not have a disaster recovery plan in place for the Federal Aid Management and Reporting System, an application containing critical federal expenditure and compliance data for the Sport Fish Restoration and Wildlife Restoration programs. Therefore, in the event of a disaster, the Commission may suffer an unacceptable interruption of program operations should the system or data not be available.

The Office of Information Technology Systems policy requires agencies to have a plan in place to minimize the impact and reduce the likelihood of business interruptions, as well as financial, legal and regulatory exposure that could result from such interruptions. Plans should be approved by senior management, employees should be made aware of plan provisions and the plan should be tested.

Recommendation: The Commission should develop and periodically test a disaster recovery plan for all critical applications.

Agency Resonse: This is being corrected on April 27, 2007. FAMRS will be located at our hosting vendor, Hosted Solutions Inc., and it will be included as part of the Disaster Recovery Plan currently in place for our mission critical application, ALVIN.

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