



# STATE OF NORTH CAROLINA

**DEPARTMENT OF COMMERCE**

**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

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March 27, 2007

The Honorable Michael F. Easley, Governor  
Members of the North Carolina General Assembly  
Mr. James Fain, 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, 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 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 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. The finding is included in the audit findings and recommendations section contained herein. Our recommendation for improvement and management's response follow the 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 finding and recommendation was identified during the current audit and discusses a condition that represents a significant deficiency in internal control and/or noncompliance with laws, regulations, contracts or grants.

#### **CONTROL WEAKNESSES OVER FEDERAL FINANCIAL REPORTS NOTED IN WORKFORCE INVESTMENT ACT PROGRAM**

The Department did not have controls in place to ensure that all federal financial reports were completed for the Workforce Investment Act program. In addition, controls were not in place to ensure that the financial status reports that had been prepared were reviewed by someone independent of the preparer. The employee that had been responsible for these duties resigned during the year, and no one was assigned these duties. The issues noted are described below.

The quarterly PSC 272-E, *Major Program Statement for the SF-272 Federal Cash Transactions Reports*, for the Workforce Investment Act (WIA) program were not obtained from the federal payment system and reconciled to the Department's accounting records during our audit period. Although the Department had not done so, we reconciled the PSC 272-E report to the accounting records for the quarter ended March 2006 and found no errors. The grant awards and grant periods impacted for the WIA program are Program Years 2003 through 2005 (April 1, 2003 – June 30, 2008), Section 173(e) Program Years 2002 and 2003 (June 30, 2004 – June 30, 2006), Project H.E.A.L.T.H (June 1, 2004 – December 31, 2006), National Emergency Grants (August 1, 2003 - June 30, 2007), and Workforce Innovation in Regional Economic Development Initiative (February 1, 2006 - January 31, 2009).

The instructions provided by the U.S. Department of Health and Human Services for the PSC 272-E state that adequate accounting records should be maintained and reconciled to the Payment Management System (PMS) on a quarterly basis. Without performing this reconciliation, the Department cannot be assured that its grant awards and federal draw downs are in agreement with amounts recorded by the federal government.

In addition, the quarterly Financial Status Reports (ETA 9076 A-F) were not reviewed and approved by someone independent of the preparer during our audit period. Supervisory review is a good control to ensure that the financial reports are accurate and complete. The grant award and grant period impacted for the WIA program is AA-146930555 (Program Year 2005, April 1, 2005 – June 30, 2008).

## AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

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*Recommendation:* The Department should act to ensure that federal reports are reconciled, reviewed and approved by effectively communicating essential policies and procedures to employees and equipping them with the training and resources necessary to fulfill their assigned duties.

*Agency's Response:* The finding is a direct result of the Division of Employment and Training having staff turnover in a number of critical positions. The Workforce Investment Act Program has taken immediate action to ensure that all reports are prepared, reviewed, and approved by appropriate staff in a timely manner.

## ORDERING INFORMATION

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