



STATE OF NORTH CAROLINA

DEPARTMENT OF CULTURAL RESOURCES

STATEWIDE FINANCIAL AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR



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November 17, 2006

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Ms. Lisbeth C. Evans, Secretary
Department of Cultural Resources

We have completed certain audit procedures at the Department of Cultural Resources 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 Cultural Resources included the following:

State of North Carolina's Financial Statements

None

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

State Library Program (CFDA# 45.310)

Our audit procedures at the Department of Cultural Resources 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

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. SUBRECIPIENT MONITORING PROCEDURES NOT SUFFICIENT

The Department's subrecipient monitoring procedures for the State Library Program were not sufficient to provide reasonable assurance that grant awards were administered in compliance with grant requirements. As a result, there is an increased risk that subrecipients do not comply with the requirements.

The Department did not obtain and review subrecipient audit reports to identify audit findings applicable to the State Library Program for federal grant years October 2002 – September 2004 (LS-00-03-0034-03) and October 2003 – September 2005 (LS-00-04-0034-04). Certain subrecipients submitted audit reports to the Department, and the reports were reviewed for issues applicable to State aid but were not reviewed for issues applicable to federal pass-through monies. The Department should obtain audit reports for subrecipients required to have an audit, identify audit findings relevant to federal grants, and ensure that timely and appropriate corrective action is taken.

The Department did not perform monitoring procedures during the award period that address all of the categories of compliance applicable to the program. The Department requires subrecipients to submit invoices to support requests for reimbursement, and reviewing the invoices helps ensure that the charges are allowable under the grant award. The Department also performs site visits for some subrecipients to perform certain other monitoring procedures. However, monitoring procedures for federal grant years October 2003 – September 2005 (LS-00-04-0034-04) and October 2004 – September 2006 (LS-00-05-0034-05) did not cover suspension and debarment requirements and requirements for equipment management. Monitoring procedures should be in place to address all significant laws, regulations, and contract and grant provisions applicable to the program.

The Department did not identify the Catalog of Federal Domestic Assistance number in the subrecipient award agreements for federal grant years October 2003 – September 2005 (LS-00-04-0034-04). However, the number was included in later award agreements for federal grant years October 2004 – September 2006 (LS-00-05-0034-05).

Recommendation: The Department should implement monitoring procedures to provide reasonable assurance that recipients administer the Federal awards in compliance with federal laws and regulations as required by OMB Circular A-133.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Response: For subrecipients required to have an audit, the Department will obtain and review subrecipient audit reports, identify audit findings applicable to the State Library's Library Services and Technology Act (LSTA) programs, and ensure that timely and appropriate corrective action is taken. The Department will establish monitoring procedures for suspension and debarment requirements and equipment management requirements that will correct the deficiencies noted in the finding.

2. INTERNAL CONTROL OVER MATCHING AND MAINTENANCE OF EFFORT REQUIREMENTS FOR STATE LIBRARY PROGRAM NEEDS IMPROVEMENT

The Department did not have adequate internal control in place to ensure compliance with matching and maintenance of effort compliance requirements for the State Library Program. As a result, there is a risk that these requirements will not be met. However, our audit did not identify any such noncompliance.

Under the State Library Program requirements, the Department must provide from non-federal sources 34% of total program expenditures. The Department is also required to maintain a level of State expenditures in each fiscal year that is greater than the average expenditures for the three preceding fiscal years.

For federal grant years October 1, 2003 – September 30, 2005 (LS-00-04-0034-04), the Department verified after the period that the matching and maintenance of effort requirements were met. However, the Department did not develop a plan prior to the grant years to ensure compliance with the requirements. Should the Department ever fall short of the required participation in the program, personnel will not identify the shortage until it is too late to take corrective action.

Also, in computing the matching and maintenance of effort amounts, the Department included a percentage of certain employee salaries but did not develop a basis for the percentage used. The Department should have some reasonable means, such as employee timesheets, for determining the amount of personnel costs allocable to the program.

Recommendation: The Department should strengthen internal control to ensure that the matching and maintenance of effort compliance requirements are met.

Response: The Department will conduct regular, periodic monitoring of appropriate expenditures to ensure that adequate internal control over matching and maintenance of effort requirement compliance is maintained.

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