



# STATE OF NORTH CAROLINA

**DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES**

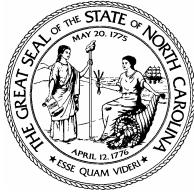
**STATEWIDE FINANCIAL AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2007**

**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 24, 2008

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, 2007. 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

**10.550 Food Donation**

**10.568 Emergency Food Assistance Program (Administrative Costs)**

**10.569 Emergency Food Assistance Program (Food Commodities)**

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. This finding is included in the Audit Finding and Response section of this report.

The Department of Agriculture and Consumer Services response to the finding identified in our audit is included in the Audit Finding and Response section of this report. We did not audit the response, and accordingly, we express no opinion on it.

*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 FINDING AND RESPONSE

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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 conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts or grants.

#### INADEQUATE TRACKING AND REVIEW OF SUBRECIPIENT AUDIT REPORTS

The Department of Agriculture and Consumer Services' Food Distribution Division (Division) did not track and review all of the required subrecipient audit reports for the Emergency Food Assistance Program. As a result, there was an increased risk of noncompliance at the subrecipient level not being corrected.

We identified two instances out of 65 subrecipient audit reports examined that were not tracked or reviewed due to lack of staff availability. OMB Circular A-133 requires the pass-through entity to ensure that subrecipients receive required audits and take prompt corrective action on any audit findings.

This finding impacts CFDA 10.568, Emergency Food Assistance Program, administrative award 5NC810815 for October 2006 to September 2007, as well as CFDA 10.569, Emergency Food Assistance Program food commodity entitlements for October 2006 to September 2007.

*Recommendation:* The Division should strengthen its monitoring procedures and tracking system to ensure all required subrecipient audit reports are received, reviewed in a timely manner, and comply with federal OMB Circular A-133 requirements.

*Agency's Response:* The department is in agreement with the audit finding and has taken the following steps to improve the process. This process will ensure adequate tracking and review of Subrecipient audit reports for full compliance with OBM Circular A-133.

- The Food Distribution Division will send out written notification to all agencies in the month of September following the end of the state fiscal year that an audit report is required from their agency no later than December 15.
- A master log containing all agencies that are required to submit an audit report will be developed. This log will be maintained and updated at the Food Distribution Division to record when an audit report is received and when the audit review has been completed.

## **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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