



# STATE OF NORTH CAROLINA

**DEPARTMENT OF ENVIRONMENT AND NATURAL  
RESOURCES**

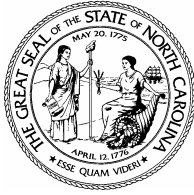
**STATEWIDE FINANCIAL AUDIT PROCEDURES**

**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

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>

February 1, 2008

The Honorable Michael F. Easley, Governor  
Members of the North Carolina General Assembly  
Mr. William G. Ross, Secretary  
Department of Environment and Natural Resources

We have completed certain audit procedures at the Department of Environment and Natural 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, 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 Environment and Natural Resources included the following:

State of North Carolina's Financial Statements

*EPA Clean Water Revolving Loan Fund*  
*EPA Drinking Water Revolving Loan Fund*

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

*Capitalization Grants for Clean Water State Revolving Funds*  
*Capitalization Grants for Drinking Water State Revolving Funds*

Our audit procedures at the Department of Environment and Natural 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 for the Department related to the State's financial statements and federal financial assistance programs that may require disclosure in the aforementioned reports. These findings are included in the Audit Findings and Responses section of this report.

The Department of Environment and Natural Resources responses to the findings identified in our audit are included in the Audit Findings and Responses section of this report. We did not audit the responses, and accordingly, we express no opinion on them.

*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 RESPONSES**

---

### **Matters Related to Financial Reporting or Federal Compliance Objectives**

The following findings 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. Finding number 2 was also reported in the prior year.

#### 1. INCOMPATIBLE DUTIES NOT SEGREGATED

One employee was responsible for processing, authorizing and recording year-end journal entries. This increases the risk that an error or fraud could occur and go undetected. Sound internal control includes employees providing a cross-check on the work of others.

*Recommendation:* The Department should segregate the duties for preparing, authorizing and recording year-end journal entries

*Agency's Response:* The Department agrees with the finding and has initiated corrective action. Future entries will be initiated by the Manager of the Grants & Contracts section and then reviewed and approved by the DENR Assistant Controller. The risk of error or fraud in this situation was extremely small since the DENR Controller and staff at the Office of the State Controller reviewed the results of these entries.

#### 2. NONCOMPLIANCE WITH FEDERAL SUSPENSION AND DEBARMENT REQUIREMENTS

The Department did not comply with federal suspension and debarment requirements applicable to vendor contracts. The failure to comply with these requirements increases the risk that the Department may contract with suspended or debarred vendors. However, we did not identify any contracts with suspended or debarred parties.

We examined three vendor contracts that required either verification of federal suspension and debarment status prior to the execution of the contract or a provision in the contract where the vendor asserted that they were not suspended or debarred. In all three cases, the Department did not check the status and the contracts did not contain a suspension and debarment assertion.

The grant award and grant period impacted for the Drinking Water State Revolving Loan Fund program is FS-98433801 and FS-98433804 and for the Clean Water State Revolving Loan Fund program is CS-37000105 (July 2005 - December 2008).

*Recommendation:* The Department should strengthen procedures to ensure compliance with federal suspension and debarment requirements

*Agency's Response:* The Department agrees with the finding and has initiated corrective action. We have checked all vendors and none were on the federal debarment list.

The language of the federal regulations (Title 40 CFR, Section 32.300) is confusing. The Department's interpretation was that the procurement transactions were not included. We were only including grants and other non-procurement transactions in our federal suspension and debarments requirements. We are now including the requirement on all contracts involving federal funding.

## ORDERING INFORMATION

---

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:

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