



STATE OF NORTH CAROLINA

DEPARTMENT OF CRIME CONTROL AND PUBLIC SAFETY

STATEWIDE FINANCIAL AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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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 18, 2008

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Bryan E. Beatty, Secretary
Department of Crime Control and Public Safety

We have completed certain audit procedures at the Department of Crime Control and Public Safety 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 Crime Control and Public Safety included the following:

State of North Carolina's Financial Statements

None

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

CFDA 12.401 – National Guard Military Operations & Maintenance

Public Assistance Grants:

- CFDA 83.544 – Public Assistance Grants – Federal Emergency Management Agency
- CFDA 97.036 – Public Assistance Grants – Department of Homeland Security

Homeland Security Cluster:

- CFDA 97.004 – State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program)
- CFDA 97.067 – Homeland Security Grant Program

Our audit procedures at the Department of Crime Control and Public Safety 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 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.

We noted certain other matters that we reported to management of the Department of Crime Control and Public Safety in a separate letter dated February 28, 2008.

The Department of Crime Control and Public Safety's 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., 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. Similar findings were also reported in the prior year for finding numbers 5, 6, and 8.

NATIONAL GUARD MILITARY OPERATIONS AND MAINTENANCE PROGRAM

1. DEFICIENCIES IN DOCUMENTATION SUPPORTING SALARIES CHARGED TO GRANT

We identified deficiencies in the documentation of salary amounts charged to the National Guard Military Operations and Maintenance program. Federal regulations require that such salary charges be supported by timesheets or similar documentation.

We noted that employees at the Army National Guard did not prepare timesheets by project in accordance with program requirements, which prevents the proper allocation of time for allowable activities.

We noted that employees at the Air National Guard were completing project timesheets; however, the timesheets were not signed by employees or approved by the supervisor.

National Guard Regulation 5-1 states, “the State Military Department shall apportion their salaries based on the type of facility they support and the amount of time they spend on each one. The State shall charge on each portion of the overall salary (including benefits) to the appropriate account as a fraction of an FTE based upon auditable record keeping systems.” In addition, OMB Circular A-87 requires that personnel activity reports or equivalent documentation to support salaries charged to federal grants to be prepared at least monthly and be signed by the employee.

This finding impacts multiple cooperative agreements.

Recommendation: The Army and Air National Guard should take appropriate action to ensure that adequate payroll documentation is maintained to support salary charges to the program.

Department Response: The Department agrees with this finding.

Corrective Action: The Army National Guard Installations Management Agency will implement a new monthly timesheet in which each maintenance technician will report the type of facility they support and the amount of time spent on each facility. The Air National Guard has implemented new procedures to ensure that adequate payroll documentation is maintained.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

2. FAILURE TO COMPLETE THE FEDERAL CASH TRANSACTION REPORT

We noted that the Department had not completed the SF-272, *Federal Cash Transaction Report* for the various National Guard Military Operations and Maintenance program cooperative agreements. It did not appear that officials from either the Department or the National Guard were aware of the federal reporting requirement.

OMB Circular A-133 and the Department of Defense (DoD) Grant and Agreement Regulations, DoD 3210.6-R# (paragraph 33.41) require that the SF-272, *Federal Cash Transaction Report*, be prepared unless the terms of the award exempt the grantee from the reporting requirement. We found no waiver of this requirement.

This finding impacts multiple cooperative agreements.

Recommendation: The Department should comply with the applicable federal guidelines and prepare the SF-272, *Federal Cash Transaction Report*, as required.

Department Response: The Department agrees that the SF-272, *Federal Cash Transaction Report* was not prepared; however, in practice, it also is not prepared by other states, and confusion exists regarding its actual continued requirement for National Guard cooperative agreements.

Corrective Action: We will request a waiver from future preparation of this report for NC National Guard cooperative agreements.

3. DEFICIENCIES IN CASH MANAGEMENT PROCEDURES

The Army National Guard did not have adequate controls in place to minimize the time elapsing between the drawdown and disbursement of federal cash. We identified five instances where the advance cash projection did not coincide with the actual expenditures resulting in excessive balances at the end of the advance period.

32 CFR part 33, Department of Defense Uniform Administration Requirements for Grants and Cooperative Agreements to State and Local Governments provides that grantees may be paid in advance if adequate procedures are in place to minimize the time elapsing between the transfer of funds and the actual disbursement.

This finding impacts multiple cooperative agreements.

Recommendation: The Army National Guard should enhance its cash management procedures to better project its cash needs, minimizing the time elapsing between the transfer of funds from its federal source and the disbursement by the Department.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Department Response: Prior to the audit, the Department and the National Guard took action to implement procedures to minimize the time elapsing between the transfer and disbursement of funds.

Corrective Action: A cash flow estimate will be generated at the beginning of each fiscal year for each month based on the historical financial data and projected requirements for each agreement. Cash flow estimates will be adjusted as needed.

4. INCOMPATIBLE DUTIES NOT SEGREGATED FOR JOURNAL ENTRY PROCESS

Department personnel are not consistently approving adjusting journal entries, resulting in an inadequate segregation of duties for the authorizing, processing, and recording of these 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.

Our review of the Air National Guard identified two instances where journal entries were not approved out of seven items tested. Our review of the Army National Guard identified five instances where journal entries were not approved out of 14 items tested.

This finding impacts multiple cooperative agreements.

Recommendation: The Department should take appropriate action to ensure proper segregation of duties exists for the consistent approval for adjusting journal entries.

Department Response: In processing the referenced journal entries, separation of duties was achieved by having the entries written by one employee and entered into the accounting system and electronically approved by another employee. The accounting system will not allow journal entries to process without electronic approvals.

Corrective Action: The Department will reinstate the practice of manually signing journal entries to further document approvals.

PUBLIC ASSISTANCE

5. INADEQUATE TRACKING OF PUBLIC ASSISTANCE SUBRECIPIENT AUDIT REPORTS

The Department did not adequately track subrecipient audit reports for the Public Assistance grant. This condition limits the Department's ability to ensure that funds granted to subrecipients are expended in accordance with grant requirements. OMB Circular A-133 states, in part, that the pass-through entity (the Department) is responsible for ensuring required audits are performed and that the subrecipient takes timely and appropriate corrective action on any audit findings.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Twelve subrecipients expended over \$500,000 in Public Assistance funds during the prior year and thus were required to have audits. The subrecipients' names were included on the Department's tracking system but no information was recorded related to the review of the audit reports for three of these subrecipients. In addition we found that one of the twelve subrecipients was not listed on the Department's tracking spreadsheet; therefore, no audit was requested or reviewed.

This finding impacts Hurricane Isabel (Disaster #1490) and Ophelia (Disaster #1608).

Recommendation: The Department should ensure that all subrecipients receiving over \$500,000 are included on the tracking system. The Department should ensure that all required subrecipient audit reports are received and reviewed in a timely manner.

Department Response: In prior years, the Department implemented procedures to improve tracking of subrecipient audit reports; however, we agree that the exception noted in the audit finding occurred.

Corrective Action: The Department will continue to work toward full compliance and ensure that all required audit reports are received and reviewed.

HOMELAND SECURITY CLUSTER

6. AMOUNTS IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS WERE MISCLASSIFIED.

The total federal expenditures reported on the agency's SEFA was correct, but we did note a number of misclassifications that are described below:

- Homeland Security Cluster expenditures that should have been reported under CFDA 97.067 were reported under their legacy CFDA numbers. This caused CFDA 97.067 to be understated by \$8,366,759, CFDA 97.074 to be overstated by \$5,572,877, CFDA 97.008 to be overstated by \$2,198,580, and other grants to be overstated by \$595,302.
- Homeland Security Cluster and Non-Homeland Security Cluster expenditures were commingled under CFDA 97.004. Expenditures totaling \$138,706 should have been recorded on a separate line under CFDA 97.004 as a "non cluster item."

Controls were not in place to ensure that the Schedule of Expenditures of Federal Awards (SEFA) was prepared in accordance with federal requirements. OMB Circular A-133 requires that the SEFA provide total federal awards expended for each individual federal program. The U.S. Department of Homeland Security has issued specific instructions explaining how expenditures of the different components of the Homeland Security Cluster should be reported on the SEFA.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

A revised SEFA was submitted to the Office of the State Controller, containing corrections for all errors identified.

Recommendation: The Department should take extra care to ensure that the SEFA is prepared in accordance with federal guidelines.

Department Response: The Department agrees with this finding.

Corrective Action: We will continue to institute procedures to ensure consistent preparation of the SEFA.

7. HOMELAND SECURITY FUNDS WERE NOT OBLIGATED WITHIN 60 DAYS

Homeland Security Funds were not obligated within the required time frames. The Homeland Security Grant Program Guidance and Application Kit states that at least 80% of the grant funds must be obligated within 60 days of the grant award date. Our review of project award letters revealed the following:

- Funds totaling \$8,624,000 should have been obligated within 60 days of the grant award date for the State Homeland Security Program. None of the funds were awarded within the 60 day period. The obligations were made between four and fourteen months late;
- Funds totaling \$7,648,000 should have been obligated within 60 days of the grant award date for the Law Enforcement Terrorism Prevention Program. None of the funds were awarded within the 60-day period. The obligations were made between four and six months late;
- Funds totaling \$557,592 should have been obligated within 60 days of the grant award date for the Metropolitan Medical Response Program. Only \$232,200 of the award money was obligated within 60 days. The remaining balance was obligated five months later.

This finding impacts grant agreement number 2006-GE-T6-0010.

Recommendation: The Division of Emergency Management should enhance internal control to ensure compliance with the federal guidelines and execute the Memorandum of Agreements within 60 days of the grant award date.

Department Response: The Department agrees with this finding.

Corrective Action: We have implemented procedures requiring continuous project review throughout the application process. These reviews will aid in ensuring that sub-grantees meet eligibility requirements and other criteria imposed by the federal granting agency, and they will enable the Department to prepare draft agreements available for execution once the grant award is received by the State.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

8. HOMELAND SECURITY GRANT ADMINISTRATION COSTS EXCEEDED ALLOWABLE AMOUNTS

The Department exceeded the allowance for administrative costs for the 2005 fiscal year State Homeland Security Grant Program. According to the U.S. Department of Homeland Security Program Guidelines and Application Kit, no more than 3% of the total amount allocated to the state for each program within the Homeland Security Grant Program may be retained at the state level and used for management and administrative costs.

The maximum allowed management and administrative costs for the 2005 EMPG portion of the Homeland Security grant was \$127,800. The agency spent \$327,784. Therefore, we question costs of \$199,984, which is the amount that the actual administrative costs exceeded the amount allowed.

This finding impacts grant number 2005-GE-T5-0051.

Recommendation: The Department should institute controls to ensure that the administrative cap is not exceeded. The Department should track administrative expenditures on a monthly basis and compare to the maximum amount allowed.

Department Response: The Department does not agree with this finding.

Corrective Action: Our spending under this program is in compliance with EMPG program guidance. Our approved FFY2005 EMPG budget included as eligible cost: salaries, benefits, equipment, supplies and other administrative cost to support emergency management missions and programs. We have submitted a request to DHS for their reconfirmation of our compliance with the FY2005 EMPG program guidance.

Auditor Comment: The Department did not provide evidence that the costs in question were for program costs and not for administrative costs. No evidence was provided to show that the administrative cost cap did not apply to this grant.

ORDERING INFORMATION

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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