

# **STATE OF NORTH CAROLINA**

**DEPARTMENT OF TRANSPORTATION**

**STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2008**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**DEPARTMENT OF TRANSPORTATION**

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State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. Perdue  
Members of the North Carolina General Assembly  
Eugene A. Conti, Jr., Secretary  
Department of Transportation

We have completed certain audit procedures at the Department of Transportation related to the State of North Carolina reporting entity as presented in the *Single Audit Report* for the year ended June 30, 2008. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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 major federal 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.

Our audit objective was to render an opinion on the State of North Carolina's administration of major federal programs and not the Department's administration of major federal programs. However, the report included herein is in relation to our audit scope at the Department and not to the State of North Carolina as a whole.

The audit findings referenced in the report are also evaluated to determine their impact on the State's internal control and the State's compliance with rules, regulations, contracts, and grants. If determined necessary in accordance with *Government Auditing Standards* or the Single Audit Act, these findings are reported in the State's *Single Audit Report*.

*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.

Beth A. Wood, CPA  
State Auditor



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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Mr. Eugene A. Conti, Jr.  
and Management of the Department of Transportation

Compliance

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 2008, we have performed audit procedures at the Department of Transportation. Our report on the State of North Carolina's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 is included in the State's *Single Audit Report*. Our federal compliance audit scope at the Department of Transportation included the following:

- Highway Planning and Construction Cluster
- Airport Improvement Program

The audit results described below are in relation to our audit scope at the Department and not to the State of North Carolina as a whole.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of compliance with those requirements.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

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The results of our audit procedures at the Department of Transportation disclosed no instances of noncompliance that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in findings 1 and 2 in the Audit Findings and Responses section of this report to be significant deficiencies.


A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the Audit Findings and Responses section of this report to be material weaknesses in relation to our audit scope at the Department.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

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Management'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.

This report is intended solely for the information and use of management, Secretary Eugene A. Conti, Jr., others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA  
State Auditor

February 20, 2009

## AUDIT FINDINGS AND RESPONSES

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### **Matters Related to Federal Compliance Objectives**

#### 1. TESTING STANDARDS WERE NOT MET

The Department did not always perform the required testing for materials used in contracts funded by the Highway Planning and Construction grant. The failure to meet the requirements limits the Department's ability to ensure that materials used in construction projects conform to approved specifications.

Our current year tests of the Department's testing of Portland cement (cement specified for making the concrete pavement in roads) used in federally funded highway paving contracts revealed the following:

- The number of Portland cement powder samples taken from one of the four contracts did not meet the Department's minimum material and test requirements. This testing is necessary to determine that the cement contains the specified level of ingredients. Based on the amount of cement received for this contract, 54 samples were required to be tested; however, only 33 samples were taken.
- The required number of Independent Assurance (IA) tests was not performed for the Concrete Beam Breaker test for one of the four contracts. The IA tests are necessary to determine that the testing results are comparable with the technician's test that determines that the concrete is strong enough and can withstand a specified amount of pressure. Based on the square meters of pavement for this project, nine IA samples were required; however, only six samples were taken.

Title 23 CFR section 637.205 requires the Department to have a testing program for construction projects to ensure that materials and workmanship conform to approved plans and specifications.

*Federal Grant Award Information:* Highway Planning and Construction 2008

*Recommendation:* The Department's Materials and Tests unit should formalize a monitoring procedure to ensure that the correct number of material samples is taken and the correct number of Independent Assurance samples is taken for all Federal Highway Administration funded projects.

*Agency Response:* We agree. The Materials and Tests Unit has initiated actions to formally monitor compliance with the Minimum Sampling Guide for both Acceptance samples and Independent Assurance samples.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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### 2. SUBRECIPIENT MONITORING VISITS WERE NOT DOCUMENTED

The Division of Aviation did not present adequate documentation to demonstrate that it performed sufficient monitoring of Airport Improvement Program funds. This condition limits the Division's ability to ensure that funds granted to subrecipients are expended in accordance with grant requirements. Subrecipients received \$17.4 million of Airport Improvement Program funds during the year.

The Division's monitoring procedures included a combination of reviewing quarterly status reports followed by site visits to check on the status of the projects and to ensure the accuracy of the information reported. The Division did not provide documentation of site visits for any of the 25 subrecipients that we sampled. The documentation provided to us consisted of notes and memos but did not pertain to our audit year or the sample items we requested.

OMB Circular A-133 requires pass-through entities to monitor their subrecipients' activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal regulations.

*Federal Grant Award Information:* Grant #3-37-SBGP-26 FY 2003, #3-37-SBGP-28 FY 2004, #3-37-SBGP-30 FY 2005, and #3-37-SBGP-31 FY 2006.

*Recommendation:* The Division of Aviation should develop a method of documenting all subrecipient monitoring visits. The documentation should be in written form signed by the site reviewer.

*Agency Response:* Although the Division of Aviation's development staff has complied with the Block Grant program requirements to provide "direct oversight of the subrecipient airports and associated grants," we agree that the documentation to substantiate this was not consistent or adequate for the year ended June 30, 2008. There is no direct format from FAA for documentation of project site visits, nor had the Division adopted a standardized method of formally documenting the project manager's site visits to the subrecipients. As of the above date, the project managers were providing documentation in a variety of ways, i.e., notes to the files, memos, letters, digital photos, etc.

## 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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