



STATE OF NORTH CAROLINA

DEPARTMENT OF CRIME CONTROL AND PUBLIC SAFETY STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue
Members of the North Carolina General Assembly
Reuben F. Young, 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 *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.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
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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**

Secretary Reuben F. Young
and Management of the Department of Crime Control and Public Safety

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 Crime Control and Public Safety. 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 Crime Control and Public Safety included the following:

- CFDA 16.738: Edward Byrne Memorial Justice Assistance Grant Program
- CFDA 97.067: Homeland Security Grant Program
- CFDA 97.004: State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program)
- CFDA 83.544: Public Assistance Grants – Federal Emergency Management Agency
- CFDA 97.036: Public Assistance Grants – Department of Homeland Security

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

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

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.

The results of our audit procedures at the Department of Crime Control and Public Safety disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described in findings 2, 3, and 4 in the Audit Findings and Responses section of this report.

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 and others that we consider to be material weaknesses.

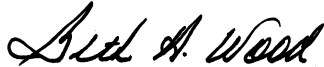
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal 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 all of the deficiencies described 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. Of the significant deficiencies in internal control over compliance described in the Audit Findings and Responses section of this report, we consider finding 3 to be a material weakness.

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

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 Reuben F. Young, 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.



Beth A. Wood, CPA
State Auditor

February 24, 2009

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AUDIT FINDINGS AND RESPONSES

Matters Related To Federal Compliance Objectives

The following findings and recommendations were identified during the current audit and discuss conditions that represent deficiencies in internal control and/or noncompliance with laws, regulations, contracts or grants. Finding number three was also reported in the prior audit.

PUBLIC ASSISTANCE

1. INADEQUATE ACCESS AND PROGRAM CHANGE CONTROLS FOR THE PUBLIC ASSISTANCE MANAGEMENT SYSTEM

The Department of Crime Control and Public Safety does not have adequate controls in place over access and program changes to the public assistance management system. As a result, there is an increased risk of noncompliance from accidental or unauthorized changes being made and not detected. However, no actual noncompliance was noted in our audit.

The public assistance management system is used to ensure compliance with matching requirements set by the federal government for each specific disaster. We identified the following deficiencies related to access and program change controls for the system:

- Adequate controls are not in place to ensure users are assigned proper access to the system. The system's programmer grants and removes users' access rights based on verbal authorization from each user's supervisor. No one other than the system's programmer monitors the assigned access levels to ensure users' rights are appropriate.
- The system's programmer has access to the application in live operation, job control language, and to the live data files. There are no controls in place to monitor the programmer's system activity.
- The programmer is responsible for making changes to the program, the tables, and databases. The programmer also tests the changes and is responsible for moving changes into live production. While known changes are reviewed by users for accuracy, there is no control to ensure that unauthorized changes are not made.

Federal Award Information: CFDA 83.544 disasters Hurricane Floyd (Disaster #1292); CFDA 97.036 disasters Hurricane Isabel (Disaster #1490), Tropical Storm Frances (Disaster #1546), Hurricane Ivan (Disaster #1553), and Hurricane Ophelia (Disasters #1608 and 3254).

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Recommendation: The Department should implement effective policies and procedures to ensure adequate controls are in place for system access and program changes.

Response: The Department agrees with this finding. We have implemented procedures requiring approval of any access or programming changes to the Public Assistance Management System, documented by two levels of supervision.

2. INADEQUATE CONTROLS TO ENSURE COMPLIANCE WITH THE SUSPENSION AND DEBARMENT REQUIREMENT

The Department does not have adequate controls in place to ensure that federal funds are not awarded or disbursed to parties that are debarred or suspended from receiving federal funds. As a result, there is an increased risk that the Department or one of its subgrantees could be in noncompliance with the federal suspension and debarment requirement.

According to the federal program requirements in 44 CFR Part 13, the Department and its subgrantees must not make an award or permit an award to any party which is debarred or suspended from receiving federal funds. We identified the following deficiencies:

- As part of the grant award process, the Department is to obtain a certification from the subgrantee attesting they are not suspended or debarred from receiving federal funds. In 46% of the grant files we reviewed, the Department did not have the required certification from the subgrantee. However, we did not identify any subgrantees that were suspended or debarred.
- The Department did not have subrecipient monitoring procedures in place to ensure that subgrantees did not contract with or disburse funds to debarred or suspended parties. As a result, the Department was in noncompliance with subrecipient monitoring requirement.

Federal Award Information: CFDA 97.036 disasters Hurricane Isabel (Disaster #1490), Tropical Storm Frances (Disaster #1546), Hurricane Ivan (Disaster #1553), Hurricane Katrina Evacuation (Disaster #3222), and Hurricane Ophelia (Disaster #1608 and Disaster #3254).

Recommendation: The Department should enhance controls over awarding federal funds to ensure compliance with the suspension and debarment requirement. In addition, the Department should implement procedures to ensure that it monitors subgrantees for all compliance requirements, including the federal suspension and debarment requirement.

Response: The Department agrees with this finding. Procedures have been developed to require each sub-grantee to certify their compliance with suspension and debarment requirements on a standard form that will be maintained in each applicant's folder. Additionally, grants managers will be required to document their review of sub-grantee certifications on each reimbursement approval form to certify that they are monitored and current.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

HOMELAND SECURITY CLUSTER

3. HOMELAND SECURITY FUNDS WERE NOT OBLIGATED WITHIN 60 DAYS

The federal funds for the Homeland Security Grant Program were not obligated to subgrantees within the required 60-day timeframe. Under the program's requirements, states must establish a firm and unconditional commitment with a subgrantee within 60 days of the grant award.

We identified the following noncompliance in our audit:

- Funds totaling \$10.61 million should have been obligated within 60 days of the grant award date for the State Homeland Security Program. At least \$9.81 million of the funds were not awarded within the 60-day period.
- Funds totaling \$4.97 million should have been obligated within 60 days of the grant award date for the Urban Areas Security Initiative. None of the funds were awarded within the 60-day period.
- Funds totaling \$7.58 million should have been obligated within 60 days of the grant award date for the Law Enforcement Terrorism Prevention Program. At least \$4.38 million of the funds were not awarded within the 60-day period.

Federal Award Information: CFDA 97.067 grant agreement 2007-GE-T7-0048.

Recommendation: The Department should enhance internal controls to ensure compliance with the federal guidelines and execute subawards within the federally required timeframe.

Response: The Department agrees with this finding. We have modified the Homeland Security Grant Program Grant (HSGP) processes and procedures to ensure compliance by executing sub-awards within the federally mandated timeline.

4. SUBRECIPIENT MONITORING PROCEDURES NOT SUFFICIENT

The Department's subrecipient monitoring of the Homeland Security Cluster did not include procedures to ensure subgrantees were in compliance with the program's procurement and suspension and debarment requirements. As a result, the Department was in noncompliance with the subrecipient monitoring requirement.

Under the federal compliance requirements, monitoring procedures should be in place to address all significant laws, regulations, and contract and grant provisions applicable to the program. The Department has monitoring procedures that address the other program requirements, but its procedures were not designed to cover procurement and suspension and debarment requirements.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Federal Award Information: CFDA 97.004 grant agreement 2004-GE-T4-0014; CFDA 97.067 grant agreements 2005-GE-T5-0051, 2006-GE-T6-0010, and 2007-GE-T7-0048.

Recommendation: The Department should implement procedures to ensure they monitor subgrantees for all compliance requirements, including the federal procurement and suspension and debarment requirements.

Response: The Department agrees with this finding. Procedures have been revised to require grants managers to document on each cost report their review of state and federal debarment lists to confirm the eligibility of vendors submitted by sub-grantees.

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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. 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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