



STATE OF NORTH CAROLINA

DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

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FOR THE YEAR ENDED JUNE 30, 2009

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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, 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 *Single Audit Report* for the year ended June 30, 2009. 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
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**

The Honorable Steve Troxler, Commissioner
and Management of the Department of Agriculture and Consumer Services

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, 2009, we have performed audit procedures at the Department of Agriculture and Consumer Services. 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 Agriculture and Consumer Services included the following:

- Emergency Food Assistance Program (Administrative Costs) - CFDA 10.568
- Emergency Food Assistance Program (Food Commodities) - CFDA 10.569

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.

The results of our audit procedures at the Department of Agriculture and Consumer Services disclosed an instance of noncompliance that is required to be reported in accordance with

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

OMB Circular A-133 and which is described in finding 1 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.

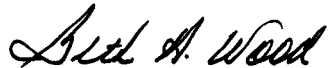
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal 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 deficiency described in finding 1 in the Audit Findings and Responses section of this report to be a significant deficiency.

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 the deficiency described in the Audit Findings and Responses section of this report to be a material weakness in relation to our audit scope at the Department.

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.

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

This report is intended solely for the information and use of management, Commissioner Steve Troxler, others within the entity, the Governor, the General Assembly, 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

March 17, 2010

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AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

1. DEFICIENCIES IN INTERNAL CONTROL OVER FEDERAL REPORTING

The Department of Agriculture and Consumer Services did not implement effective internal control to ensure compliance with federal reporting requirements described in the *OMB Circular A-133 Compliance Supplement*. As a result, the Department did not present the final FNS-667 *Report of the Emergency Food Assistance Program (TEFAP) Administrative Costs* closeout report for the 2008 grant year in accordance with federal reporting requirements.

We reviewed the TEFAP administrative costs closeout report for grant year 2008 and noted the U.S. Department of Agriculture detected a discrepancy in the initial report and rejected it. As a result, a revised report was submitted by the Department to correct total expenditures by \$287,827, the State's share of those costs by \$27,853, and both the federal share of costs and federal funds authorized by \$259,974. These errors occurred because controls, such as an effective supervisor review, have not been implemented to prevent or detect and correct potential noncompliance.

If not corrected, this control deficiency also increases the risk of noncompliance with federal reporting requirements applicable to 2010 American Recovery and Reinvestment Act (ARRA) funds received by the Department.

Federal Award Information: This impacts grant 5NC810815 for CFDA 10.568 Emergency Food Assistance Program - Administrative Costs.

Recommendation: The Department should enhance internal control to ensure federal reports are completed in accordance with federal reporting requirements.

Agency Response: The Food Distribution division will implement the following change to strengthen the internal control over the federal reporting of FNS-667 *Report of the Emergency Food Assistance Program (TEFAP) Administrative Costs*.

- The division's administrative officer will prepare a hard copy of the report to be reviewed and approved by the Division Director prior to entering the information into the online federal system. The administrative officer will print off the online screens to compare with the approved hard copy report for accuracy prior to final submission.

Matters Not Related to Federal Compliance Objectives

2. EXPENDITURES NOT REIMBURSED ACCORDING TO STATE REQUIREMENTS

The Department of Agriculture and Consumer Services did not make timely requests for federal reimbursement of state funds that were used to pay subrecipients of the Emergency Food Assistance Program (TEFAP), as required by *North Carolina General*

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Statute 147-86.11(f) and the state cash management plan. In addition to not complying with state law and policy, this practice reduces the State's potential investment earnings.

During our audit, we analyzed 167 draw requests for federal TEFAP administrative funds to reimburse the State for payments made to subrecipients. We found 140 requests, with a total value of \$784,195, were made 5 and 38 working days after the Department's payment to the subrecipients. State law and the state cash management plan requires moneys due to the State to be promptly collected and federal reimbursements of expenditures paid from State funds to be repaid immediately to the source of those funds.

Recommendation: The Department should implement internal control to ensure state expenditures for federal programs are reimbursed in accordance with state law and the state cash management plan.

Agency Response: The Food Distribution division will implement the following change to strengthen the internal control over requests for federal reimbursement of state funds that were used to pay subrecipients of the Emergency Food Assistance Program (TEFAP).

- The division's administrative officer will submit a request for federal reimbursement within 2 business days following the disbursement of state funds used to pay the subrecipients of the Emergency Food Assistance Program (TEFAP).

ORDERING INFORMATION

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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