



# STATE OF NORTH CAROLINA

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

**FOR THE YEAR ENDED JUNE 30, 2009**

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State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly Eaves Perdue, Governor  
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, 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**

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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, 2009, 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:

- Edward Byrne Memorial Justice Assistance Grant Program - CFDA 16.738
- Homeland Security Grant Program - CFDA 97.067
- State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program - CFDA 97.004

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 Crime Control and Public Safety disclosed instances of noncompliance that are required to be reported in accordance with OMB

**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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Circular A-133 and which are described in findings 1 through 6 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 the deficiencies described in the Audit Findings and Responses section of this report to be significant deficiencies.

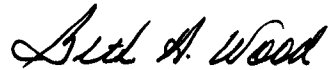
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the Audit Findings and Responses section of this report, we consider findings 1, 3, and 6 to be material weaknesses.

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)**

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This report is intended solely for the information and use of management, Secretary Reuben F. Young, 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**

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

#### **1. LACK OF INTERNAL CONTROL OVER HOMELAND SECURITY CLUSTER EQUIPMENT**

The Department did not maintain an adequate inventory record or conduct a physical inventory for certain equipment purchased for the Voice Inoperability Plan for Emergency Responders (VIPER). OMB Circular A-133 requires that equipment records be maintained and a physical inventory of equipment taken at least once every two years. This inventory is required to be reconciled to the equipment records.

The VIPER funds are used to construct radio transmission towers and surrounding structures at locations throughout the State, typically on land leased by the State. The Department maintains a warehouse containing component parts that can be used for construction or repairs at the sites. While the Department maintains complete records of items purchased for the warehouse, there is not a record of assets currently in custody, exact location, price, etc., and the Department does not conduct a periodic physical count of the items in the warehouse for comparison to such records.

*Federal Award Information:* This finding impacts CFDA #97.004 - Homeland Security Grant #2004-GE-T4-0014; CFDA #97.067 - Homeland Security Grant #2005-GE-T5-0051, Grant #2006-GE-6-0010, Grant #2007-GE-T7-0048, and Grant #2008-GE-T8-0033.

*Recommendation:* The Department should strengthen its internal control over VIPER equipment stored in its warehouse to address the concerns noted above.

*Agency Response:* The Department agrees that the details included in warehouse inventory records should be increased and the adequacy of inventory records should be verified by routine physical inventories.

#### **2. SALARIES NOT ALLOCATED BASED ON TIME AND ATTENDANCE RECORDS**

The Department's Governor's Crime Commission did not ensure that salary charges to the Edward Byrne Memorial Justice Assistance Grant program were allocated to the program based on actual time recorded by employees on their time and attendance records. As a result, there is an increased risk that the Department has not properly allocated payroll costs. The questioned costs resulting from this deficiency are likely to exceed \$10,000.

Employees' salaries are typically allocated to more than one grant based on funding availability. The Department's intention is that employees will work an amount of time on each program that is proportional to the funding level for the program. However, the Department does not perform a verification that this actually occurs.

OMB Circular A-87 requires that charges to grant awards for salaries and wages be based on personnel activity reports that reflect the total time spent on each grant or project. In



## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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addition, the Office of Justice Programs Financial Guide provides similar guidance for documenting and allocating salaries in federal programs.

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

*Federal Award Information:* This finding impacts all grants at the Department Governor's Crime Commission. We have specifically addressed the Justice Assistance Grant Program.

- CFDA #16.738 Edward Byrne Memorial Justice Assistance Grant Program, Grant #2005-DJ-BX-0402 and Grant #2006-DJ-BX-0056.
- CFDA #16.738 Edward Byrne Memorial Justice Assistance Grant Program - ARRA - Grant #2009-SU-B9-0054.

*Recommendation:* The Department should strengthen internal control to ensure that payroll costs are properly allocated to each grant.

*Agency Response:* The Department agrees that procedures did not ensure that time allocated to the grant program was equal to time actually worked. Effective June 2009, the Department implemented an automated system to more effectively track time spent on each grant.

### 3. HOMELAND SECURITY CLUSTER FUNDS WERE NOT OBLIGATED WITHIN REQUIRED TIMEFRAME

The internal controls over obligating federal funds to subgrantees for the Homeland Security Cluster were not effective. Federal funds were not consistently obligated to subgrantees within the required 45-day timeframe. Under the program's requirements, states must establish a firm and unconditional commitment with a subgrantee within 45 days of the grant award.

Our tests of the obligation of funds revealed errors in 15 out of 39 items examined. We determined that \$474,199 out of the \$1.8 million tested in State Homeland Security Program and Metropolitan Medical Response System grants was not awarded within the 45-day period.

This finding was also reported in the prior year.

*Federal Award Information:* This finding impacts CFDA #97.067 Grant Award #2008-GE-T8-0033.

*Recommendation:* The Department should strengthen procedures to ensure compliance with federal requirements to timely obligate federal funds to subgrantees.

*Agency Response:* The Department agrees that the exceptions noted were not obligated within the required timeframe. During 2009 the Department implemented procedures to

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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improve our ability to obligate funding more timely. However, the reported exceptions were based on the 2008 award which occurred prior to the implementation of the improvements.

#### 4. DEFICIENCIES IN SUBRECIPIENT MONITORING - HOMELAND SECURITY CLUSTER

We identified deficiencies in the Department's monitoring procedures for the Homeland Security Cluster. As a result, there is an increased risk that noncompliance could occur at the subrecipient level and not be detected in a timely manner.

The Department has not routinely conducted site visits necessary to ensure that the subrecipients' requests for reimbursement of expenditures are based on bona fide charges, and thus, have not ensured that cash has not been provided to the subrecipients in excess of actual need. Also, the Department has not verified that subrecipients comply with procurement requirements, such as seeking quotes or bids for purchases over established dollar thresholds. Finally, the Department has not reviewed contracts entered into by subrecipients to ensure that they contain an assertion by the contractor that it is not a suspended or debarred party, or alternatively, ensured that the subrecipient has checked the suspension and debarment list to verify that the vendor is not suspended or debarred.

Federal and state guidelines require the monitoring of subrecipient activities to provide reasonable assurance that they comply with applicable laws and regulations.

A similar finding was also reported in the prior year.

*Federal Award Information:* This finding impacts CFDA #97.067 - Homeland Security Grant #2005-GE-T5-0051, Grant #2006-GE-T6-0010, Grant #2007-GE-T7-0048, and Grant #2008-GE-T8-0033.

*Recommendation:* The Department should ensure that all applicable types of federal requirements are monitored at the subrecipient level.

*Agency Response:* The Department agrees that the items noted in the audit finding have not been fully implemented.

#### 5. DEFICIENCIES IN SUBRECIPIENT MONITORING - EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM

We identified deficiencies in the Department's monitoring procedures for the Edward Byrne Memorial Justice Assistance Grant Program. As a result, there is an increased risk that noncompliance at the subrecipient level could occur and not be detected in a timely manner.

The Department's Governor's Crime Commission is responsible for monitoring subrecipients in the Justice Assistance Grant Program. Our review of monitoring procedures for the program identified the following deficiencies:

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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- Grant managers have not consistently recorded their site visits on the Department's tracking system worksheet. Consequently, the record of monitoring visits is not complete.
- The site visit checklist, a monitoring tool used by grant managers, does not address all federal compliance requirements. Specifically, the cash management, procurement, and suspension and debarment compliance requirements were not included. This omission could result in failure to review these requirements during the monitoring visit and have an adverse impact on the Department's overall compliance with program requirements. The Department may monitor these requirements using methods other than site visits if feasible.

Federal and state guidelines require the monitoring of subrecipient activities to provide reasonable assurance that subrecipients comply with applicable laws and regulations.

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

*Federal Award Information:* This finding impacts -

- CFDA #16.738 - Edward Byrne Memorial Justice Assistance Grant Program, Grant #2005-DJ-BX-0402, Grant #2006-DJ-BX-0056, Grant #2007-DJ-BX-0079 and Grant #2008-DJ-BX-0032.
- CFDA #16.738 - Edward Byrne Memorial Justice Assistance Grant, ARRA Grant #2009-SU-B9-0054.

*Recommendation:* The Department should enhance its subrecipient monitoring policies and procedures, including ensuring that all applicable types of federal requirements are monitored at the subrecipient level

*Agency Response:* The Department agrees that the items noted in the audit finding have not been fully implemented.

### 6. LACK OF REVIEW OF SUBRECIPIENT AUDIT REPORTS

The Department did not obtain and review all of the required audit reports from subrecipients that received grant funds from the Edward Byrne Memorial Justice Assistance Grant program. As a result, the Department is in noncompliance with federal subrecipient monitoring requirements, and there is an increased risk that deficiencies identified at the subrecipient level will not be corrected timely.

We sampled 28 subrecipients, including local governments and municipalities, for review of required audit reports for the Edward Byrne Memorial Justice Assistance Grant program. Our test disclosed that audit reports were not received by the Department for seven subrecipients that received funds from the program. During the 2009 fiscal year, the Department disbursed \$3.9 million in federal funds to subrecipients.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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OMB Circular A-133 requires that a pass-through entity review subrecipient audit reports and issue a management decision on audit findings within six months after receipt of the report, as well as ensure that the subrecipient took timely and appropriate corrective action on all audit findings.

*Federal Award Information:* This finding impacts CFDA #16.738 - Edward Byrne Memorial Justice Assistance Grant Program, Grant #2005-DJ-BX-0402, Grant #2006-DJ-BX-0056, Grant #2007-DJ-BX-0079, and Grant #2008-DJ-BX-0032.

*Recommendation:* The Department should strengthen its monitoring procedures and tracking system to ensure that all required audit reports are received and that the Department's monitoring procedures are completed in accordance with federal requirements.

*Agency Response:* The Department agrees that the reports noted in the finding had not been submitted for review. The Department has procedures for monitoring, collecting and reviewing subrecipient audit reports. Of the total 624 entities for which reports were required during the year in review, 608 audit reports (97.4%) were collected and reviewed. Prior to the audit, the Department identified the noncompliant entities and documented follow up activity showing attempts to collect all missing reports; however, the exceptions noted in the finding had not been obtained.

### **Matters Not Related to Federal Compliance Objectives**

#### 7. LACK OF DOCUMENTED USER ACCESS REVIEW FOR CERTAIN COMPUTER SYSTEMS

The Department of Crime Control and Public Safety did not provide evidence that semi-annual reviews of user access to certain of its computer systems have been performed, as required by Information Technology Services (ITS) policy. Improper access to information systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

During the audit, we noted no evidence that a semi-annual review was performed for the human resources/payroll system. We determined that a review was performed for the E-procurement system during June 2008, and reviews were performed for the North Carolina Accounting System (NCAS) in July 2008 and again in June 2009. However, there were no additional reviews to meet the semi-annual requirement.

*Recommendation:* The Department should ensure that user access reviews required by ITS policy are performed for all systems.

*Agency Response:* The Department agrees that full evidence was not provided to verify semi-annual reviews of user access to certain systems.

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