



STATE OF NORTH CAROLINA

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

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
Members of the North Carolina General Assembly
Mr. 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, 2010. 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; 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*.

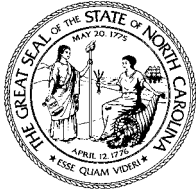
Our audit objective was to render an opinion on the State of North Carolina's, and not the Department's, administration of major federal programs. However, the report included herein is in relation to our audit scope at the Department and not to the State of North Carolina as a whole.

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 OMB Circular A-133, 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 THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON 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 could have a direct and material effect on each of its major programs for the year ended June 30, 2010, 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 that could have a direct and material effect on 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)
- Recovery Act / Edward Byrne Memorial Justice Assistance Grant Program (CFDA 16.803)

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

opinion. Our audit does not provide a legal determination of the Department's 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 1 through 3 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

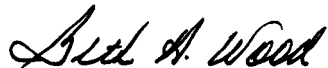
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we consider the deficiencies described in findings 1 through 4 in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over compliance, as defined above.

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON 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, 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 11, 2011

AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

Management's responses are presented after each audit finding. We did not audit the responses, and accordingly, we express no opinion on them. However, Government Auditing Standards require that we add explanatory comments to the report whenever we disagree with an audit finding response. In accordance with this requirement and to ensure that the nature and seriousness of the findings are not minimized or misrepresented, we have provided comments to the Department's responses when appropriate.

1. DEFICIENCIES NOTED IN THE SUBRECIPIENT MONITORING PROCESS

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. Our review of monitoring procedures for the program identified the following deficiencies:

- The Department did not have adequate controls in place to ensure effective site visit monitoring for each subrecipient. The Department's policy required a site visit sometime within the grant period, which is typically two years. To ensure these site visits occurred, the Department primarily relied on an after-the-fact check at the end of the grant period to determine if the grantee had a site visit. Without an up-front control in place to provide assurance that site visits occur during the grant activities, the risk of undetected noncompliance at the subrecipient level increases.
- The site visit checklist and the desktop review checklist, monitoring tools used by grant managers, do not address all compliance requirements. Specifically, the suspension and debarment and the cash management compliance requirements were omitted. These omissions could result in failure to review these requirements during a monitoring visit and have an adverse impact on the Department's compliance with program requirements.

OMB Circular A-133 requires that the pass-through entity monitor the activities of subrecipients to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements.

Aspects of this finding were reported in the prior year.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

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, 2009-DJ-BX-0839.
- CFDA #16.803-Edward Byrne Memorial Justice Assistance Grant Program, ARRA Grant #2009-SU-B9-0054.

Recommendation: The Department should strengthen its monitoring procedures to ensure compliance with federal requirements and to provide reasonable assurance that recipients administer federal awards in compliance with federal laws and regulations as required by OMB Circular A-133. Consideration should be given to the development of a comprehensive site visit monitoring plan which would set goals and objectives for each grant manager to ensure that visits occur periodically throughout the grant period.

Agency Response: The Governor's Crime Commission has a monitoring plan, which outlines, among other things, grant monitoring and frequency, documentation required to view, and various reporting structures and forms. Grants management staff conducts desk monitoring, monthly monitoring via a review of requests and supporting documentation submitted by subrecipients for reimbursements, and on-site visits of subrecipients. The current on-site requirement of grants management staff is to make a personal site visit at least once during the period of performance of the grant. This grant period of performance may vary from six (6) months, for some equipment grants, up to two (2) years for other grants. The grants management supervisor reviews hard copies of the site visit reports completed by grants management staff and returns said reports to the appropriate staff person. Notations are made in the grants management system to document the site visits. At the end of the grant period for each grant, the grants management director performs a "grant close out." During this grant close out, each grant file is reviewed to ensure a site visit has been completed.

Auditor Comment: The Department's response does not address the design of the current practice which allows all, or significant amounts of, grant dollars to be spent before an on-site monitoring visit occurs. Further the response does not specifically address the portion of the finding related to the failure to include all compliance requirements in the site visit checklist and the desktop review checklist. If all applicable compliance requirements are not adequately addressed, the Department continues to risk noncompliance at the subrecipient level that may not be detected and corrected in a timely manner.

2. DEFICIENCIES NOTED IN THE TRACKING AND REVIEW OF SUBRECIPIENT AUDIT REPORTS

We identified deficiencies in the Department's procedures for documenting the tracking and review of subrecipient audit reports for the Edward Byrne Memorial Justice Assistance Grant program. As a result, there is an increased risk that noncompliance

AUDIT FINDINGS AND RESPONSES (CONTINUED)

with federal subrecipient monitoring requirements could occur, and deficiencies identified at the subrecipient level may not be corrected timely.

We examined the Department's tracking spreadsheet for 30 subrecipients to determine whether audit reports were properly received and reviewed. While the spreadsheet indicated that the reports were reviewed, the date of the review of 15 of the reports was not documented. These reports are required to be reviewed within six months of receipt. Due to the lack of documentation, it could not be determined whether the Department rendered timely management decisions on audit findings as required by OMB Circular A-133.

OMB Circular A-133 requires pass-through entities to ensure that subrecipients that expend \$500,000 or more in federal awards in a year have an audit completed within nine months of the end of the subrecipients audit period. The pass-through entity is required to issue a management decision on audit findings within six months after receipt of the subrecipients audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

Aspects of this finding were reported in the prior year.

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, 2009-DJ-BX-0839.

Recommendation: The Department should strengthen its monitoring procedures to ensure that all subrecipient audit reports are received and reviewed in accordance with federal requirements and that the tracking spreadsheet is accurate.

Agency Response: The Department has procedures for monitoring, collecting and reviewing subrecipient audit reports. Of the subrecipient entities for which reports were required during the year in review, 98% were collected and reviewed. Due to a large number of subrecipients going paperless, CCPS collected and reviewed a majority of audit reports from subrecipient websites. These were noted on the CCPS tracking spreadsheet as "online"; however, we did not document a completion date.

3. IMPROPER ALLOCATION OF SALARIES TO FUND SOURCES

The Department's Governor's Crime Commission (GCC) did not ensure that quarterly time and activity reports provided to the Fiscal Division were adequately reviewed and agreed to time entered into the timekeeping system by employees. As a result, the salary charges to Edward Byrne Memorial Justice Assistance Grant (JAG) programs were not properly allocated and recorded to the appropriate federal program.

GCC's timekeeping system allocates payroll expenses to grants based on an initial estimate of time each employee will spend on a particular grant. Actual time to be

AUDIT FINDINGS AND RESPONSES (CONTINUED)

charged to a grant is tracked through a time and activity reporting system and provided monthly to the Fiscal Division where journal entries are prepared to reallocate payroll charges to the proper grant. Data in the timekeeping system was not reconciled to the time and activity reporting system and resulted in overstatement of JAG salaries by \$10,072 and understatement of the JAG American Recovery and Reinvestment Act salaries by \$10,813.

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

Significant aspects of this finding were reported in the prior year.

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, 2009-DJ-BX-0839.
- CFDA #16.803-Edward Byrne Memorial Justice Assistance Grant Program, ARRA Grant #2009-SU-B9-0054.

Recommendation: The Department should strengthen its procedures for allocating salaries to funding sources to ensure compliance with federal guidelines.

Agency Response: Data in the electronic timekeeping system has been updated to reflect all funding sources from which employees of the Governor's Crime Commission are paid. This information is retrieved quarterly by the office manager, reconciled and reviewed by executive management prior to the information being forwarded to the Fiscal Section for any necessary reallocation of payroll charges. The aspects of the finding reported in the previous year were addressed when the finding was reported.

Matters Not Related to Federal Compliance Objectives

4. LACK OF INTERNAL CONTROL OVER ACCESS TO COMPUTER INFORMATION SYSTEMS

The Department of Crime Control and Public Safety did not conduct semi-annual reviews of user access levels for the Grants Management System at the Governor's Crime Commission, as required by Information Technology Services (ITS) policy. Maintaining proper access controls over computer systems helps prevent improper alteration, unauthorized use, or loss of data. In this case, information needed to meet federal reporting requirements was at risk.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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, 2009-DJ-BX-0839.
- CFDA #16.803-Edward Byrne Memorial Justice Assistance Grant Program, ARRA Grant #2009-SU-B9-0054.

Recommendation: The Department, specifically the Governor's Crime Commission, should ensure that user access reviews required by ITS policy are performed for the Grants Management System.

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

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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