



STATE OF NORTH CAROLINA

OFFICE OF STATE BUDGET AND MANAGEMENT

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

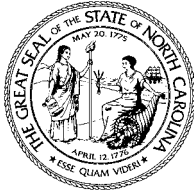
STATE AUDITOR

OFFICE OF STATE BUDGET AND MANAGEMENT
STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES
FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA

Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
Members of the North Carolina General Assembly
Mr. Andy Willis, State Budget Director
Office of State Budget and Management

We have completed certain audit procedures at the Office of State Budget and Management related to the State of North Carolina reporting entity as presented in the *Single Audit Report* for the year ended June 30, 2011. 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 Office of State Budget and Management's, administration of major federal programs. However, the report included herein is in relation to our audit scope at the Office of State Budget and Management and not to the State of North Carolina as a whole.

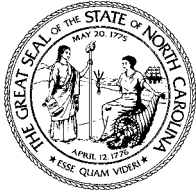
The audit finding referenced in the report is also evaluated to determine its impact on the State's internal control and the State's compliance with rules, regulations, contracts, and grants. If determined necessary in accordance with *Government Auditing Standards* or the OMB Circular A-133, these findings 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

Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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

Mr. Andy Willis
and Management of the Office of State Budget and Management

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, 2011, we have performed audit procedures at the Office of State Budget and Management. 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 Office of State Budget and Management included the following:

- 84.394 State Fiscal Stabilization Fund – Education State Grants Recovery Act
- 84.397 State Fiscal Stabilization Fund – Government Services Recovery Act
- 84.410 Education Jobs Fund

The audit results described below are in relation to our audit scope at the Office of State Budget and Management 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

**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)**

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 the Office of State Budget and Management's compliance with those requirements.

The results of our audit procedures at the Office of State Budget and Management disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described 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.

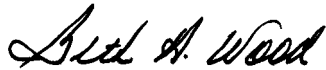
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 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 response to the finding identified in our audit is 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, Mr. Willis, 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 9, 2012

AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

The following finding and recommendation was identified during the current audit and discusses conditions that represent deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grants.

1512 REPORTS NOT PREPARED IN ACCORDANCE WITH ARRA REQUIREMENTS

The Office of State Budget and Management did not have adequate controls in place to ensure that 1512 quarterly reports included all activity of the reporting period. As a result the 1512 quarterly reports for the State Fiscal Stabilization – Education Fund and the Education Jobs Fund were not presented in accordance with the American Recovery and Reinvestment Act grant requirements. Errors in financial reports reduce the usefulness of the data to the users and can result in noncompliance with federal reporting requirements.

OSBM utilized internal data and data from the Department of Public Instruction to complete the 1512 quarterly reports for State Fiscal Stabilization - Education Fund. The recipient data elements such as Award Number and Award Amount were appropriately identified in the reports submitted during the 2011 State Fiscal Year. However, a previously allowed method of reporting that omitted the last month of the quarter was used to report financial data which resulted in quarterly reports that incorrectly reported the cumulative “Federal Amount of ARRA funds Received/Invoiced” and the cumulative “Federal Amount of ARRA Expenditures” as follows:

- The 1512 report for the quarter ended September 2010 *under* reported the cumulative “Federal Amount of ARRA Funds Received/Invoiced” and the cumulative “Federal Amount of ARRA Fund Expenditures” by \$37,672,775.48 and \$30,491,564.59 respectively.
- The 1512 report for the quarter ended December 2010 *under* reported the cumulative “Federal Amount of ARRA Funds Received/Invoiced” and the cumulative “Federal Amount of ARRA Fund Expenditures” by \$61,604,714.04 and \$37,581,313.03 respectively.
- The 1512 report for the quarter ended March 2011 *under* reported the cumulative “Federal Amount of ARRA Funds Received/Invoiced” and the cumulative “Federal Amount of ARRA Fund Expenditures” by \$37,028,665.16 and \$35,175,686.13 respectively.
- The 1512 report for the quarter ended June 30, 2011 *over* reported the cumulative “Federal Amount of ARRA Fund Expenditures” by \$27,173,363.87 due to an error made when attempting to present in accordance with currently allowable reporting methods that includes the best available data for the last month of the quarter ending June 2011.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

OSBM utilized internal data and data from the Department of Public Instruction to complete the 1512 quarterly reports for the Education Jobs Fund. The recipient data elements such as the Award Number and Award Amount were appropriately identified in the 1512 reports submitted during the 2011 state fiscal year. However, until the method was changed with the quarter ending June 2011, a previously allowed method of reporting that omitted the last month of the quarter was used to report financial data which resulted in 1512 quarterly reports that incorrectly reported the cumulative “Federal Amount of ARRA Funds Received/Invoiced” and the “Federal Amount of ARRA Expenditures” as follows:

- The 1512 report for the quarter ended December 2010 *under* reported the cumulative “Federal Amount of ARRA Funds Received/Invoiced” and the cumulative “Federal amount of ARRA Fund Expenditures” by \$6,418,981.57.
- The 1512 report for the quarter ended March 2011 *under* reported the cumulative “Federal Amount of ARRA Funds Received/Invoiced” and the cumulative “Federal amount of ARRA Fund Expenditures” by \$5,869,661.65 and \$4,737,415.52 respectively.

OMB Circular A-133 requires recipients of ARRA funds to report data as of the last day of the quarter for the full quarter. If actual data is not available within 10 days following the end of the quarter for the 1512 reporting period, best available data that includes estimates can be used.

Federal Award Information: This finding affects:

- CFDA 84.394 State Fiscal Stabilization Fund – Education State Grants Recovery Act and federal award S394A090034A for the award period of May 20, 2009 – September 30, 2010.
- CFDA 84.410 Education Jobs Fund and federal award S410A100034 for the award period of August 10, 2010 – September 30, 2012.

This finding was resolved for the Education Jobs Fund for the quarterly reports ended June 30, 2011.

Recommendation: OSBM should strengthen its internal controls over preparation of the 1512 Quarterly Reports for the State Fiscal Stabilization Fund – Education Fund to ensure that activity of the reporting period is accurately included.

Response: For the reports in quarters ended September 2010, December 2010, and March 2011, the one month lag method was used as allowed by the US Department of Education. OSBM was notified by the US Department of Education on May 13, 2011 about the forthcoming OMB compliance supplement and received the final OMB compliance supplement on June 23, 2011 which prohibited the one month lag method. As of the July 2011 reporting period, the methodology for reporting was modified to comply with the revised guidance.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Regarding the quarter ended June 30, 2011 State Fiscal Stabilization – Education Fund report, in all future reporting periods, OSBM requires DPI to provide an explanation if the amount drawn down varies from the total amount of sub recipient expenditures to ensure that the “Federal Amount of ARRA Fund Expenditures” is accurately reported. The State Fiscal Stabilization – Education Fund final 1512 report is January 2012 as the grant period has ended.

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:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647