



STATE OF NORTH CAROLINA

DEPARTMENT OF COMMERCE

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

DEPARTMENT OF COMMERCE

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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
Mr. J. Keith Crisco, Secretary
Department of Commerce

We have completed certain audit procedures at the Department of Commerce 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 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 J. Keith Crisco
and Management of the Department of Commerce

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 Department of Commerce. 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 Commerce included the following:

- Community Development Block Grant - State-Administered Small Cities Program Cluster (CFDA 14.228 and CFDA 14.255)
- Workforce Investment Act of 1998 (WIA) Cluster - Adult Program (CFDA 17.258), Youth Activities (CFDA 17.259), Dislocated Workers (CFDA 17.260 and CFDA 17.278)
- Weatherization Assistance for Low-Income Persons (CFDA 81.042)

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 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)**

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 Department's compliance with those requirements.

The results of our audit procedures at the Department of Commerce disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described in findings 1, 3, 5, 6, 7, and 8 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. However, we consider the deficiencies described in findings 1, 2, 6, 7, and 9 in the Audit Findings and

**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)**

Responses section of this report to be material weaknesses in internal control over compliance, as defined above. Furthermore, we consider the deficiencies described in findings 3, 4, 5, 8, and 10 in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over compliance, as defined above.

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 J. Keith Crisco, 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

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AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) - STATE-ADMINISTERED SMALL CITIES PROGRAM CLUSTER - CFDA 14.228 AND 14.255

1. DEFICIENCIES IN SUBRECIPIENT MONITORING

For projects funded by the Community Development Block Grant (CDBG), the Department of Commerce did not establish adequate monitoring procedures to ensure that the subrecipients were in compliance with all federal requirements. As a result, there is an increased risk that noncompliance with federal requirements could occur at the subrecipient level and not be detected by the Department.

During our review of the Department's monitoring procedures, we noted the following deficiencies:

- The Department's procedures do not include monitoring subrecipients funded by American Recovery and Reinvestment Act (ARRA) funds to ensure they were registered in the Central Contractor Registration (CCR) database with a valid Data Universal Numbering System (DUNS) number. We examined six of the 26 total subrecipients and found that one was not registered in the CCR database.
- The Department's procedures do not include monitoring subrecipients of the CDBG - Neighborhood Stabilization Program (NSP) to ensure that required audits were performed or reviewed. Of the 16 NSP subrecipients requiring an audit, only 3 audits were received and reviewed.

The *OMB Circular A-133 Compliance Supplement* states that a pass-through entity is responsible for identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration database, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and for maintaining the currency of that information. This requirement is codified in Section 1512(h) of ARRA and 2 CFR section 176.50(c).

The *OMB Circular A-133 Compliance Supplement* requires pass-through entities who expend \$500,000 or more in federal awards during the subrecipient's fiscal year have an audit completed within nine months after the end of the subrecipient's audit period. The pass-through entity is also required to issue management decisions on audit findings within six months after the receipt of the subrecipient's audit report and ensure the subrecipient takes timely and appropriate corrective action on all audit findings.

Federal Award Information: This finding affects CFDA 14.228 Community Development Block Grant award B-10-DC-37-0001 awarded January 1, 2010; award

AUDIT FINDINGS AND RESPONSES (CONTINUED)

B-09-DC-37-0001 awarded January 1, 2009; award B-08-DC-37-0001 awarded January 1, 2008; and award B-07-DC-37-0001 awarded January 1, 2007 and CFDA 14.255 Community Development Block Grant (Recovery Act Funded) award B-09-DY-37-0001 for the award period of June 15, 2009 - September 30, 2012.

Recommendation: The Department should strengthen internal controls to ensure that all applicable federal compliance requirements are included in their subrecipient monitoring procedures.

Agency Response: CDBG Recovery grantees have been instructed to maintain updated CCRs and a procedure has been implemented to check against the CCR database at time of preparing the 1512 Report to the Federal Government.

All NSP grantees that expended \$500,000 or more in federal awards have submitted audits and the audits have been reviewed. Division has implemented procedures to ensure that this issue does not recur.

2. LACK OF SEGREGATION OF DUTIES - ADMINISTRATION OF GRANT MANAGEMENT SYSTEM

The Department did not properly segregate duties for the administration of the Grant Management System (GMS). As a result, there is an increased risk that data integrity could be compromised and noncompliance with federal regulations could occur.

Duties for production and programming of the GMS are not separated. Instead, a single individual is responsible for all duties related to the system. A review is not conducted by an alternate person after changes to the database and programs have been implemented. Also, there are no formal procedures to identify needed maintenance and updates, emergency changes, and incident handling.

The *Statewide Information Security Manual* states that agency management must ensure that there is proper segregation of duties to reduce the risk of agency system misuse and fraud. In addition, system development and system change management shall be performed by different personnel and system operations and system security administration shall be performed by different personnel.

Federal Award Information: This finding affects CFDA 14.228 Community Development Block Grant award B-10-DC-37-0001 awarded January 1, 2010; award B-09-DC-37-0001 awarded January 1, 2009; award B-08-DC-37-0001 awarded January 1, 2008; and award B-07-DC-37-0001 awarded January 1, 2007 and CFDA 14.255 Community Development Block Grant (Recovery Act Funded) award B-09-DY-37-0001 for the award period of June 15, 2009 - September 30, 2012.

Recommendation: The Department should adequately segregate duties for the administration of the Grant Management System.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Agency Response: Due to budget constraints, the ability to hire additional IT staff is not feasible at this time. Division will identify additional methods within budgetary means to address segregation of duties concern and ensure the intended outcomes resulting from changes to the database and program are correct.

3. DEFICIENCIES IN FEDERAL REPORTING

For the Community Development Block Grant (CDBG), the Department of Commerce did not implement effective internal control procedures to ensure compliance with the federal reporting requirements described in the *OMB Circular A-133 Compliance Supplement*. As a result, reports submitted to the federal agency were misstated.

During our test of the federal reports, we noted the following deficiencies:

- The Department did not adequately review the data or supporting documentation to ensure the accuracy of the information in the Section 1512 American Recovery and Reinvestment Act (ARRA) report prior to its submission. As a result, the amount of total ARRA expenditures reported was understated by \$1,819,063.12 for the period ended 6/30/2011.
- The Department did not adequately review the data or supporting documentation to ensure the accuracy of the information in the 2010 CDBG Performance and Evaluation Report (PER) prior to its submission. As a result, the 2010 grant State administrative expenditures of \$1,078,848.62 and technical assistance expenditures of \$489,424.31 were not reported.
- While testing documentation supporting the annual *Section 3 Summary Report*, we reviewed a sample of 60 subrecipient Annual Performance Reports and found that data for four subrecipients were not included in the report. As a result, not all activity was included in the annual report submitted to HUD.

As required by the *OMB Circular A-133 Compliance Supplement*, the recipients of federal awards are expected to have controls in place to ensure compliance with the following federal reporting requirements: reports for federal awards are required to include all activity of the reporting period, be supported by applicable accounting or performance records, and be fairly presented in accordance with program requirements.

Significant aspects of this finding were also reported in a prior year finding.

Federal Award Information: This finding affects CFDA 14.228 Community Development Block Grant award B-10-DC-37-0001 awarded January 1, 2010; award B-09-DC-37-0001 awarded January 1, 2009; award B-08-DC-37-0001 awarded January 1, 2008; and award B-07-DC-37-0001 awarded January 1, 2007 and CFDA 14.255 Community Development Block Grant (Recovery Act Funded) award B-09-DY-37-0001 for the award period of June 15, 2009 - September 30, 2012.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Recommendation: The Department should strengthen internal controls to ensure reports are prepared in accordance with federal reporting requirements.

Agency Response:

- a. There was a clerical error with the 1512 Report for the period identified in the audit. That error has since been corrected and procedures have been implemented to ensure that additional review is conducted prior to submission of subsequent 1512 Reports.
- b. Division did not adequately review the data or supporting documentation to ensure the accuracy of the PER. Administrative and technical assistance expenditures not included in the 2010 PER have been included and submitted to U.S. HUD. Procedures have been implemented to ensure that additional review is conducted prior to submission of subsequent PER's.
- c. Division did not include data for four subrecipients in the Section 3 Summary Report. Data is being collected from the four subrecipients that did not submit the Section 3 Summary Report. Once the data is collected, it will be submitted to U.S. HUD. Procedures have been implemented to ensure that additional review is conducted prior to submission of subsequent Section 3 Summary Reports.

4. DEFICIENCIES IN INFORMATION SYSTEM ACCESS CONTROLS

The Department of Commerce did not conduct semi-annual reviews of user access levels for the Grant Management System (GMS) as required by the *Statewide Information Security Manual*. Lack of such procedures increases the risk of unauthorized access to the database and that noncompliance with federal regulations could occur.

The current process to request issuance, modification, and termination of user access is an email sent by the user's supervisor or manager to the System Administrator. If an email is not sent to the Administrator, a user's access remains unchanged. Without adequate access controls, unauthorized individuals could potentially gain access to information within the application and could intentionally or unintentionally read, add, modify, delete, or remove data that are outside their approved span of authority. In addition, the administrator may not be aware of all the users who should have access and the type of access they should have.

The *Statewide Information Security Manual* requires that access to State information technology assets be controlled and managed to ensure that only authorized devices/persons have access as is appropriate for an agency in accordance with the agency's business needs. The manual further provides that access shall be controlled by the documented semi-annual review of users' rights and documented review of privileged accounts every quarter.

Federal Award Information: This finding affects CFDA 14.228 Community Development Block Grant award B-10-DC-37-0001 awarded January 1, 2010; award

AUDIT FINDINGS AND RESPONSES (CONTINUED)

B-09-DC-37-0001 awarded January 1, 2009; award B-08-DC-37-0001 awarded January 1, 2008; and award B-07-DC-37-0001 awarded January 1, 2007 and CFDA 14.255 Community Development Block Grant (Recovery Act Funded) award B-09-DY-37-0001 for the award period of June 15, 2009 - September 30, 2012.

Recommendation: The Department should implement a semi-annual user access review and a quarterly user access review for privileged accounts as required by the *Statewide Information Security Manual*.

Agency Response: In compliance with the *Statewide Information Security Manual*, Division will conduct semi-annual user and a quarterly user access review for privileged accounts.

5. FEDERAL INFORMATION NOT COMMUNICATED TO ARRA SUBRECIPIENTS

For the Community Development Block Grant funded by the American Recovery and Reinvestment Act (ARRA), the Department of Commerce did not communicate the federal award number to each subrecipient at the time of the ARRA award or the federal award number and CFDA number at the time ARRA funds were disbursed. As a result, the Department did not comply with federal requirements specific to ARRA funds. This increases the risk that subrecipients will not properly identify the ARRA awards and expenditures in their Schedule of Expenditures of Federal Awards and Data Collection Form.

The Department's ARRA awards to subrecipients identify the award as ARRA, the amount of the ARRA funds, and the Catalog of Federal Domestic Assistance (CFDA) number for the Community Development Block Grant. However, the federal award number was not included in the award documents. The Department disburses funds based on standard forms that identify the disbursement as ARRA funds, but do not identify the federal award number or CFDA number.

The *OMB Circular A-133 Compliance Supplement* requires the State to separately identify to each subrecipient and document at the time of the subaward and disbursement of funds, the federal award number, CFDA number, and the amount of ARRA funds; and require their subrecipients to provide similar identification in their Schedule of Expenditures of Federal Awards and Data Collection Form.

Federal Award Information: This finding affects CFDA 14.255 Community Development Block Grant (Recovery Act Funded) award B-09-DY-37-0001 for the award period of June 15, 2009 - September 30, 2012.

Recommendation: The Department should ensure the federal award number and CFDA number are communicated to subrecipients of ARRA funds.

Agency Response: Division corresponded with subrecipients notifying them of the Federal Award number and instructed them to place the Federal Award information on all

AUDIT FINDINGS AND RESPONSES (CONTINUED)

future correspondence and reports. The Department implemented a cash disbursement code sheet that ensures Federal Award numbers and CFDA numbers are communicated to subrecipients.

WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS - CFDA 81.042

6. DEFICIENCIES IN CASH MANAGEMENT

For the Weatherization Assistance for Low-Income Persons grant, the Department of Commerce did not have effective procedures in place to ensure timely disbursement of federal funds or to timely request federal reimbursement of program expenditures paid to subrecipients. Payments to subrecipients were generally made using funds other than federal Weatherization funds, and as a result, the Department has violated both state and federal cash management requirements.

Based on our review of the Department's federal draw procedures, we noted that for the Weatherization grant they did not consider the actual expenditures paid to subrecipients to determine the requested amount and did not attempt to minimize the time between the date of disbursement and the date a drawdown request was sent to the federal agency. As a result, a receipt from the federal agency could take place weeks before or after the payments are made to subrecipients.

We analyzed the population of Weatherization grant payments to subrecipients and the corresponding federal draws that were processed by the Department. For the 358 ARRA payment requests and 385 regular Weatherization payment requests, we noted the following deficiencies:

- For 268 ARRA payments to subrecipients valued at \$30 million and 318 regular Weatherization payments to subrecipients valued at \$2.26 million, the funds were drawn from the federal agency four to 50 and four to 116 working days, respectively, before they were disbursed to subrecipients. As a result, the Department did not comply with federal requirements to minimize the time elapsing between draw down of funds and disbursement to subrecipients.
- For 30 ARRA payments to subrecipients valued at \$3.58 million and 57 regular Weatherization payments to subrecipients valued at \$156,349, the funds were drawn from the federal agency four to 14 and four to 42 working days, respectively, after the Department paid the subrecipients. As a result, funds used to pay the subrecipients were not promptly reimbursed as required by state statute. However, for these subrecipient payments, it is unclear whether the funds used for the payments were from state funds or other federal programs. We noted that the account used to make the Weatherization payments included deposits from other federal grants, such as the Workforce Investment Act (WIA) Cluster, the State Energy Program ARRA, and others.

The *OMB Circular A-133 Compliance Supplement* requires the State to follow procedures to minimize the time elapsing between the transfer of funds from the U.S.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Treasury and disbursement. In addition, per *General Statute* 147-86.11(f.3), North Carolina's cash management policy requires federal and other expenditure reimbursements paid from state funds be paid immediately to the source of the state funds.

This finding was also reported in the prior year.

Federal Award Information: This finding affects CFDA 81.042 Weatherization Assistance for Low-Income Persons award DE-FG26-07NT43134 for the award period July 1, 2007 - June 30, 2011 and ARRA award DE-EE0000118 for the award period April 1, 2009 - March 31, 2012.

Recommendation: The Department should strengthen procedures to ensure that federal funds are drawn and disbursed in accordance with federal and state cash management requirements.

Agency Response: The Fiscal Management Division has implemented additional internal controls to ensure compliance with federal and state cash management requirements.

7. MONITORING OF SUBRECIPIENT AUDIT REPORTS NEEDS IMPROVEMENT

For the Weatherization Assistance for Low-Income Persons grant (WAP), the Department of Commerce did not have adequate controls in place to ensure compliance with federal requirements intended to ensure timely receipt of required audit reports and issuance of management decisions on audit findings. Although all required audit reports were received timely, the absence of proper controls increases the risk of noncompliance with federal regulations. Not all management decisions on audit findings were issued timely, which increases the risk that timely corrective action will not be taken on subrecipient audit findings.

During our review of the Department's subrecipient audit monitoring procedures, we noted that there was no procedure in place to ensure that required audit reports were received timely and appropriate action is taken in accordance with federal regulations. During our test of the 28 subrecipients, we noted that audit findings related to WAP were present in six of the subrecipient audit reports. The Department did not issue a timely management decision for two of the six subrecipient audit reports with findings.

The *OMB Circular A-133 Compliance Supplement* requires pass-through entities to ensure subrecipients who expend \$500,000 or more in federal awards during the subrecipients' fiscal year have an audit completed within nine months after the end of the subrecipients' audit period. The pass-through entity is also required to issue management decisions on audit findings within six months after the receipt of the subrecipient's audit report and ensure the subrecipient takes timely and appropriate action on all findings.

Federal Award Information: This finding affects CFDA 81.042 Weatherization Assistance for Low-Income Persons award DE-FG26-07NT43134 for the award period

AUDIT FINDINGS AND RESPONSES (CONTINUED)

July 1, 2007 - June 30, 2011 and ARRA award DE-EE0000118 for the award period April 1, 2009 - March 31, 2012.

Recommendation: The Department should strengthen its monitoring procedures and tracking system to ensure all required subrecipient audit reports are received, reviewed and acted on in a timely manner, and comply with federal OMB Circular A-133 requirements.

Agency Response: A spreadsheet has been created to track the fiscal year end, the due date of the A-133 audit, the findings, the date the management letter was sent, and the date the response was received.

8. SUBRECIPIENT MONITORING NEEDS IMPROVEMENT

The Department of Commerce did not consistently perform adequate monitoring procedures to ensure subrecipients of the Weatherization Assistance for Low-Income Persons grant were in compliance with all applicable federal requirements. As a result, there is an increased risk that noncompliance with federal requirements could occur at the subrecipient level and not be detected by the Department.

During our review of the on-site monitoring inspections, we noted the following deficiencies:

- a. The Department did not have a tracking system or other procedures to ensure that for each subrecipient at least 5% of completed units were inspected as required by guidance from the U.S. Department of Energy. As a result, there is an increased risk that the weatherization work being performed could be deficient and not be detected timely by the Department. However, we did not detect significant noncompliance with the requirement.
- b. The Department's procedures do not include monitoring the subrecipients' average cost per completed unit for subrecipients receiving regular Weatherization Assistance funds. As a result, the Department did not ensure that subrecipients' average cost per unit weatherized was within the required federal limits.
- c. In our tests of the programmatic site visits that were conducted by the Department, we found the monitoring documentation for one of the six that we tested had not been reviewed and approved by the appropriate supervisory personnel. As a result, there is a deficiency in internal control and an increased risk that the site visits performed may be incomplete or inaccurate.
- d. In our tests of the fiscal monitoring site visits that were conducted by the Department, we found that one of the six that we tested had not received a fiscal monitoring visit. Therefore, the subrecipient had not been monitored for compliance with suspension and debarment, program income, equipment and Schedule of Expenditures of Federal Awards federal requirements. As a result, there is a deficiency in internal control and an increased risk that noncompliance

AUDIT FINDINGS AND RESPONSES (CONTINUED)

with federal requirements could occur at the subrecipient level and not be detected by the Department.

- e. The Department's procedures did not include the timely submission of fiscal monitoring site visit reports for management review and approval. As a result, there is a deficiency in internal control and an increased risk that the site visits performed may be incomplete or inaccurate.
- f. The Department's procedures did not include the preparation of written reports on findings to be sent to the subrecipients within 30 days of each fiscal monitoring visit. As a result, the Department did not ensure that noncompliance findings unresolved within 45 days were reported to the U.S. Department of Energy.

The *OMB Circular A-133 Compliance Supplement* states that subrecipients should be monitored to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Per the *U.S. Department of Energy Program Year 2010 Weatherization Grant Guidance*, the State must conduct comprehensive monitoring of each subgrantee at least once per year. The comprehensive monitoring must include a review of client files and subgrantee records as well as actual inspection of at least five percent of the completed units. Within 30 days after each monitoring visit, the State must prepare a written report on findings and send to the subrecipient for corrective action. Noncompliance findings unresolved within 45 days should be reported to the U.S. Department of Energy and sensitive or significant noncompliance should be reported immediately.

Significant aspects of this finding were also reported in a prior year finding.

Federal Award Information: This finding affects CFDA 81.042 Weatherization Assistance for Low-Income Persons award DE-FG26-07NT43134 for the award period July 1, 2007 - June 30, 2011 and ARRA award DE-EE0000118 for the award period April 1, 2009 - March 31, 2012.

Recommendation: The Department should strengthen internal controls to ensure that all applicable federal compliance requirements are included in their subrecipient monitoring procedures.

Agency Response:

- a. A procedure to ensure inspection of 5% of each subrecipient's completed units and a tracking system have been implemented to track the number of units completed, the number of units monitored, and corresponding percentage is updated and reviewed monthly.
- b. The subrecipients' average cost per unit is now detailed on the regular Weatherization Assistance monthly financial status report and electronically

AUDIT FINDINGS AND RESPONSES (CONTINUED)

- flagged for excessive averages. The Department is in compliance with federal rules and has not exceeded average cost per unit requirements.
- c. Supervisory personnel verify that all necessary signatures have been obtained before signing the final assessment letter and a different staff member reviews the signature approval sheet as a final check for required reviews and signatures before mailing the final assessment letter.
 - d. All subrecipients have had one fiscal monitoring visit to document compliance with suspension and debarment, program income, equipment and the Schedule of Expenditures of Federal Awards federal requirements. For those subrecipients that were not in compliance, a Corrective Action was or will be issued and during subsequent fiscal monitoring visits the monitor will review the Corrective Action to ensure that the subrecipient has taken the required action.
 - e. Program fiscal staff is in the process of completing past due reports for management's review and approval. To prevent the backlog from occurring again a procedure has been implemented to require review of multiple years during the monitoring visit to ensure that the reports are completed.
 - f. A subrecipient assessment tool has been developed and is used to communicate the monitor's findings with the subrecipient during fiscal monitoring visit's exit conference. The executive director signs the assessment form acknowledging that he/she has been informed of the findings and trends for concern.

WORKFORCE INVESTMENT ACT OF 1998 (WIA) CLUSTER - CFDA 17.258, 17.259, 17.260 AND 17.278

9. SUBSYSTEM NOT RECONCILED TO NORTH CAROLINA ACCOUNTING SYSTEM (NCAS)

For the Workforce Investment Act (WIA) Cluster, the Department did not reconcile the Financial Management Information System (FMIS) accounting subsystem to the North Carolina Accounting System (NCAS). As a result, there is an increase in risk that the Schedule of Expenditures of Federal Awards (SEFA) could be misstated.

The Department used NCAS data to prepare the SEFA for the applicable WIA grants. The expenditure amounts reported on the SEFA matched amounts in the NCAS, although the FMIS subsystem did not reconcile to the NCAS for the WIA regular funds by a net value of \$4.4 million and for the WIA ARRA funds by a net value of \$4.5 million. The Department was unable to identify and resolve the discrepancies, thus increasing the risk of errors reported in the SEFA.

The *OMB Circular A-133 Compliance Supplement* states that recipients of federal awards are expected to have controls in place to ensure that reports for federal awards include all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with program requirements. It is essential that effective internal control over the preparation of the SEFA be established to provide reasonable

AUDIT FINDINGS AND RESPONSES (CONTINUED)

assurance that expenditures are accurate and presented in accordance with federal guidelines.

This finding was also reported in the prior year.

Federal Award Information: This finding affects the following:

- CFDA 17.258 WIA Adult Program award AA-16040-07-55-A-37 for the award period July 1, 2007 - June 30, 2010, award AA-17139-08-55-A-37 for the award period July 1, 2008 - June 30, 2011, award AA-18653-09-55-A-37 for the award period July 1, 2009 - June 30, 2012, and award AA-20205-10-55-A-37 for the award period July 1, 2010 - June 30, 2013.
- CFDA 17.259 WIA Youth Activities award AA-16040-07-55-A-37 for the award period April 1, 2007 - June 30, 2010, award AA-17139-08-55-A-37 for the award period April 1, 2008 - June 30, 2011, award AA-18653-09-55-A-37 for the award period April 1, 2009 - June 30, 2012, and award AA-20205-10-55-A-37 for the award period April 1, 2010 - June 30, 2013.
- CFDA 17.260 WIA Dislocated Workers award AA-16040-07-55-A-37 for the award period July 1, 2007 - June 30, 2010, award AA-17139-08-55-A-37 for the award period July 1, 2008 - June 30, 2011, and award AA-18653-09-55-A-37 for the award period July 1, 2009 - June 30, 2012.
- CFDA 17.278 WIA Dislocated Workers award AA-20205-10-A-37 for the award period July 1, 2010 - June 30, 2013.
- CFDA 17.258 ARRA WIA Adult Program, CFDA 17.259 ARRA WIA Youth Activities, and CFDA 17.260 ARRA WIA Dislocated Workers award AA-17133-08-55-A-37 for the award period February 17, 2009 - June 30, 2011.

Recommendation: The Department should strengthen internal controls to ensure that grant subsystems are properly reconciled to the NCAS.

Agency Response: Division Finance Department is creating a monthly control sheet to reconcile FMIS Cash Draws with the amounts drawn from the Payment Management System. Resolution of timing discrepancy and adjustments will be included to balance that reconciliation to the operating and Federal levels of the NCAS BD-701.

10. DEFICIENCIES IN FEDERAL REPORTING

For the Workforce Investment Act (WIA) Cluster, the Department of Commerce did not have adequate controls in place to ensure compliance with federal reporting requirements. As a result, there is an increased risk that federal reports could contain errors and not be detected and corrected timely by the Department.

During our review of the federal reports required for the WIA Cluster, we noted the following deficiencies:

AUDIT FINDINGS AND RESPONSES (CONTINUED)

- The Department's controls were not adequate to ensure that the WIA Annual Performance Report (ETA-9091) included all activity of the period. The annual report is created from a subsystem designed to track individual participant data needed to verify compliance with the federal requirements. Participant data are entered by the subrecipients and certain data are monitored by the Department. However, we noted that the Department's monitoring procedures were not designed to ensure that all the data elements needed for the federal reports were in the subsystem.
- The Department's controls were not adequate to ensure that the Monthly Youth Served with WIA Recovery Act Resources Reports (ETA-9149) were prepared in accordance with all federal requirements. A computer program was used to extract data from a subsystem to create the monthly reports. While controls over the accuracy of the data in the supporting subsystem may have been adequate, internal control to ensure data were properly extracted and summarized in the reports was lacking.

The OMB Circular A-133 Compliance Supplement states that recipients of federal awards are expected to have controls in place to ensure that reports for federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.

This finding was also reported in the prior year.

Federal Award Information: This finding affects the following:

- CFDA 17.258 WIA Adult Program award AA-16040-07-55-A-37 for the award period July 1, 2007 - June 30, 2010, award AA-17139-08-55-A-37 for the award period July 1, 2008 - June 30, 2011, award AA-18653-09-55-A-37 for the award period July 1, 2009 - June 30, 2012, and award AA-20205-10-55-A-37 for the award period July 1, 2010 - June 30, 2013.
- CFDA 17.259 WIA Youth Activities award AA-16040-07-55-A-37 for the award period April 1, 2007 - June 30, 2010, award AA-17139-08-55-A-37 for the award period April 1, 2008 - June 30, 2011, award AA-18653-09-55-A-37 for the award period April 1, 2009 - June 30, 2012, and award AA-20205-10-55-A-37 for the award period April 1, 2010 - June 30, 2013.
- CFDA 17.260 WIA Dislocated Workers award AA-16040-07-55-A-37 for the award period July 1, 2007 - June 30, 2010, award AA-17139-08-55-A-37 for the award period July 1, 2008 - June 30, 2011, and award AA-18653-09-55-A-37 for the award period July 1, 2009 - June 30, 2012.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

- CFDA 17.278 WIA Dislocated Workers award AA-20205-10-A-37 for the award period July 1, 2010 - June 30, 2013.
- CFDA 17.258 ARRA WIA Adult Program, CFDA 17.259 ARRA WIA Youth Activities, and CFDA 17.260 ARRA WIA Dislocated Workers award AA-17133-08-55-A-37 for the award period February 17, 2009 - June 30, 2011.

Recommendation: The Department should strengthen internal controls to ensure reports are prepared in accordance with federal requirements.

Agency Response: Division has made changes to the sampling report used by monitoring staff to increase the numbers of records reviewed. The number of records reviewed is based on current enrollment and now can be up to 35%. Policy guidance, training and technical assistance has been, and will continue to be, provided to all sub-recipients in order to ensure required data elements are included in the ETA-9091 report.

The programs that created the ETA-9149 report have been changed to allow it to run against previous months' data. The source code is now captured as part of the monthly copy and will reference the program that was used to create a specific months report. Two additional programs have also been created that will create detail snapshots of all data used in the summary reports, and will be kept to support the report. The step-by-step processes for all reports will be fully documented, and cross-training will be provided to create a check-and-balance to ensure that more than one person is able to generate the reports.

In addition to the strategies outlined above, the Department held an internal workshop on March 15, 2012 which was a refresher outlining the requirements and procedures for a successful monitoring program.

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