

STATE OF NORTH CAROLINA

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

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

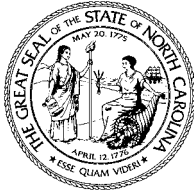
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Office of the State Auditor

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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 Public Safety

We have completed certain audit procedures at the Department of Crime Control and Public Safety (currently known as the Department of Public Safety) 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.

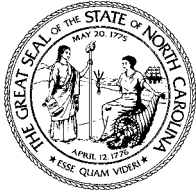
The audit findings referenced in the report are also evaluated to determine their impact on the State's internal control and the State's compliance with rules, regulations, contracts, and grants. If determined necessary in accordance with *Government Auditing Standards* or the OMB Circular A-133, these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

Office of the 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 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, 2011, 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 (JAG) Program / Grants to States and Territories (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

**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)**

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 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 and 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.

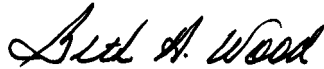
Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we consider the deficiency described in finding 1 in the Audit Findings and Responses section of this report to be a material weakness in internal control over compliance, as defined above. Furthermore, we consider the deficiencies described in findings 2 through 5 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)**

We noted certain deficiencies in information systems controls that were only generally described in this report. Details about these deficiencies, due to their sensitive nature, were communicated to management in a separate letter pursuant to *North Carolina General Statute* 147-64.6(c)(18).

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 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 9, 2012

AUDIT FINDINGS AND RESPONSES

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.

Matters Related to Federal Compliance Objectives

1. SUBRECIPIENT MONITORING NEEDS IMPROVEMENT

The Department of Crime Control and Public Safety (Department) did not adequately monitor subrecipients of the Edward Byrne Memorial Justice Assistance Grant (JAG) and the Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG ARRA) for compliance with all applicable federal requirements. This resulted in noncompliance with certain federal requirements and increases the risk that noncompliance with other 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 identified the following deficiencies:

- a. The Department did not completely communicate to its subrecipients the state procedures governing the use, management, and disposal of equipment. Even though the grant award document and the compliance packet contain general equipment compliance requirements, certain specific requirements were not communicated. Specific state procedures that were not communicated to the subrecipients include proper safeguarding of equipment, capitalizing equipment purchases of \$5,000 or more, and taking a physical inventory on at least an annual basis. As a result, there is an increased risk that the subrecipient will not properly use, manage, and/or dispose of equipment in accordance with state procedures as required by the OMB Circular A-133.
- b. The Department did not have a specific, agency-wide plan in place to ensure that required site visits are performed for all applicable subrecipients. The Department does have a policy that requires site visits to be performed, and based on the Department's monitoring procedures, site visits are used to monitor equipment, procurement, and cash management. However, without a specific site monitoring plan, there is an increased risk that site visits will not be performed for all subrecipients within the required timeframe. During the audit, we noted 66 JAG subrecipients with open grants during the 2011 fiscal year that should have received a site visit before June 30, 2011 per the Governor's Crime Commission's monitoring policy. We found that 23 of these 66 did not receive a site visit

AUDIT FINDINGS AND RESPONSES (CONTINUED)

- (a 35% error rate). In addition, the grant period for all 23 of these subrecipients had ended as of June 30, 2011 and none had received a site visit during the life of their grant. These 23 subrecipients received over \$1.6 million during the 2011 fiscal year. This results in noncompliance since the subrecipients were not monitored for certain compliance requirements during the award period as required by OMB Circular A-133.
- c. The Department did not consistently monitor to ensure that subrecipients were not contracting with suspended or debarred parties. During our test of controls, we tested seven subrecipients that had contracts and identified two instances (a 28% error rate) where the Department had no documentation to support they had monitored the subrecipients for the suspension and debarment requirements. This increases the risk that a subrecipient could contract with a suspended or debarred vendor.
 - d. The Department did not adequately monitor subrecipients that received the JAG ARRA funds to ensure subrecipients maintained a current, up-to-date Central Contractor Registration (CCR) as required by OMB Circular A-133. We reviewed the CCR status for 12 JAG ARRA subrecipients and found that three of them (a 25% error rate) did not have an active CCR for a portion or all of the fiscal year when they were receiving JAG ARRA funds.
 - e. The Department did not monitor cash management requirements for subrecipients of grants designated as “equipment-only.” This increases the risk that subrecipients could submit a reimbursement request for costs that have not yet been paid. The Governor's Crime Commission added procedures to monitor equipment-only grants for compliance with cash management requirements; however it was not effective until July 1, 2011, which was after the fiscal year under audit.
 - f. The Department did not adequately monitor subrecipients of grants designated as “equipment-only” for the continued use, management, and disposal of equipment in accordance with state laws and procedures. The information obtained from these subrecipients when the equipment is initially purchased does not provide the Department with a means to continue to monitor the subrecipients to ensure the subrecipient still owns the equipment, is safeguarding the equipment, or that the equipment is being used for its intended purpose. If the agency does not adequately monitor equipment-only subrecipients for compliance there is an increased risk that the subrecipient will not properly use, manage, and dispose of equipment in accordance with state procedures as required by the OMB Circular A-133.

The *OMB Circular A-133 Compliance Supplement* specifies that a pass-through entity should identify to the subrecipient applicable compliance requirements and that the pass-through entity is responsible for during-the-award monitoring. This includes monitoring the subrecipient’s use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers

AUDIT FINDINGS AND RESPONSES (CONTINUED)

federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Significant aspects of this finding have been reported for the prior two years.

Federal Award Information: This finding affects the following:

- CFDA 16.738 Edward Byrne Memorial Justice Assistance Grant Program award 2006-DJ-BX-0056 for the award period October 1, 2005 – December 31, 2011; award 2007-DJ-BX-0079 for the award period October 1, 2006 – September 30, 2011; award 2008-DJ-BX-0032 for the award period October 1, 2007 – September 30, 2011; award 2008-DJ-BX-0768 for the award period October 1, 2007 – September 30, 2012; award 2009-DJ-BX-0839 for the award period October 1, 2008 – September 30, 2012; and award 2010-DJ-BX-0045 for the award period October 1, 2009 – September 30, 2013.
- CFDA 16.803 Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories award 2009-SU-B9-0054 for the award period March 1, 2009 – February 28, 2013.

Recommendation: The Department should strengthen its monitoring procedures to ensure compliance with all applicable 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 so that all necessary site visits are completed in a timely manner.

Department Response:

- a. Grant award instructions were issued with language requiring that subrecipients comply with state procedures for acquiring, managing and disposing of assets. However, the instructions did not restate the specifics of the capital asset policies published by the Office of the State Controller.

The Governor's Crime Commission will provide subrecipients with references to the specific capital asset policies issued by the Office of the State Controller.

- b. The Governor's Crime Commission has a monitoring plan that has been in place for several years, and the plan was modified effective April 1, 2011, to comply with a prior year audit recommendation. The modified plan set internal goals to complete site visits prior to June 30, 2011 for grants ending on that date. However, the significant workload associated with the implementation of the new Grant Enterprise Management System (GEMS) resulted in the required redirection of the work of the grants managers, precluding their travel to offsite locations. While site visits were not completed prior to June 30, 2011 for the 23 exceptions noted in the audit report, site visits were completed prior to the close-out of these

AUDIT FINDINGS AND RESPONSES (CONTINUED)

grants during the months of July and August 2011. In addition, each sub-recipient was monitored using authorized desk monitoring techniques throughout the projects.

The Governor's Crime Commission will continue to work to strengthen its agency-wide site visit plan.

- c. As a part of the monitoring process, procedures require grants managers to review the suspension and debarment lists to ensure subrecipients are not contracting with suspended or debarred parties; however, we agree that documentation was not provided to verify that reviews were performed in the two instances noted.

Management has reinforced the procedural requirements for review and documentation of suspension and debarment lists.

- d. The Governor's Crime Commission required of subrecipients a current CCR at the time of application; however, there was no follow-up to ensure their CCR was up-to-date.

To correct this issue, we have placed this requirement in GEMS. Every subrecipient has to certify that they are in fact CCR registered and provide us with the expiration date of their registration. If during the life of their project, they allow their CCR registration to lapse, the GEMS system will freeze any further payments to them until their CCR registration is updated.

- e. Equipment-only sub-recipients were required to submit proof of purchase of the equipment through pictures, a certification, and invoice. Once these documents were received, the law enforcement agencies were reimbursed. Procedures were modified to require agencies to submit cancelled checks following grant cycle that started July 1, 2011 (subsequent to the audit date). However, we have noted that most financial institutions are no longer routinely providing cancelled checks along with the bank statement. Consistent application of this procedure has proven to be impractical. We will explore alternative means to address this issue.

The "cancelled" check policy was implemented effective July 1, 2011. We will implement alternative means to accomplish the cash management objectives.

- f. It has always been the policy of the Governor's Crime Commission to award, reimburse, and close "equipment-only" grants as quickly as possible (preferably within six months) based on the case load of our grants management specialists. This policy allows our grants managers to concentrate and devote more time to the larger, more programmatic-type grants.

Once a grant closes, the grant does not remain a part of the grants manager's caseload for which additional monitoring of the equipment is required. Sub-recipients are made aware that they become owners of the equipment as long as the equipment continues to be used for the purposes for which it was purchased.

This matter will be further researched and discussed with federal program representatives to determine what action, if any, will satisfy this finding.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

2. INTERNAL CONTROL OVER PROCUREMENT NEEDS IMPROVEMENT

The Department of Crime Control and Public Safety (Department) did not have adequate controls for purchases made through the U.S. General Services Administration (GSA). This increases the risk of noncompliance with procurement laws and regulations.

The U.S. GSA provides innovative solutions for its customers by offering numerous purchasing programs to state governments, such as the 1122 program. This 1122 program allows state governments to purchase approved law enforcement equipment and vehicles from selected GSA Schedules for use in counter-drug, homeland security, and emergency response activities. The Department is authorized to use this program for equipment purchases associated with these activities.

Purchase of Segways

The Department was unable to provide supporting documentation for the decisions and procedures followed to procure multiple Segways in the amount of \$87,921. Based on discussions with the Department, the purchases were made through a U.S. GSA program and the staff had various meetings and discussions about the purchase. However, not maintaining documentation of the decisions, the basis for the decisions, and procedures followed increases the risk of noncompliance with associated laws and regulations.

A year after the Segway purchase, the Department obtained a letter from the Attorney General's office stating that the Law Enforcement Support Services (LESS) division of the Department was statutorily authorized to purchase through the 1122 program without specific involvement of State Purchase and Contract. This indicates that for this specific purchase, the typical state policies and procedures used for equipment procurements does not apply. However, the Attorney General also recommended that for future 1122 purchases, the Department should meet with state Purchase and Contract officials to develop a specific understanding and appropriate protocol.

Phone System Purchase

The Department entered into a contract to procure a phone system and spent federal American Recovery and Reinvestment Act (ARRA) funds on the purchase before all required state procurement procedures were met. The State's Office of Information Technology Services (ITS) is responsible for procuring all information technology for state agencies and ITS is responsible for establishing procedures to permit state agencies to use the GSA Cooperative Purchasing program to purchase information technology pursuant to *North Carolina General Statute* 147-33.95. In a letter, the State CIO stated that the statutes governing the Department's LESS division and the provisions of the 1122 program do not exempt the Department from the state statute governing the purchase of information technology.

The Department received approval from the State Chief Information Officer (CIO) to use a federal GSA purchasing vehicle to procure telephone equipment on the condition that

AUDIT FINDINGS AND RESPONSES (CONTINUED)

the project be submitted to the Enterprise Project Management Office (EPMO) for monitoring. To comply with the EPMO monitoring, the Department entered required information in the EPMO's project management tool, however required Department approvals were not submitted until a later date. Once Department data were approved and available to the EPMO to review, the EPMO rejected the project, citing additional information was needed for their monitoring purposes. The Department entered into the contract prior to providing the proper approvals within the EPMO tool, and when the project was rejected by the EPMO, a contract already existed. The additional data were not entered in the EPMO tool until after the project was nearly complete. As a result, the Department entered into a contract and spent federal ARRA funds without allowing the EPMO to monitor the project as required by the State CIO.

The Department maintains that the procedures they used resulted in the best value purchase for the state, which may be the case. However, the Department did not have proper procedures in place to allow the EPMO to monitor the project as specified by the State CIO.

Federal Award Information: CFDA 16.803 Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories award 2009-SU-B9-0054 for the award period March 1, 2009 – February 28, 2013.

Recommendation: The Department should strengthen internal controls to ensure the appropriate procurement policies are followed and relevant documentation is maintained. The *OMB Circular A-133 Compliance Supplement* specifies that States shall use the same State policies and procedures used for procurements from non-Federal funds. However, due to the nature of the federal GSA purchasing vehicle, for future procurements the Department should work with the appropriate state officials to develop an appropriate protocol.

Department Response: While the Department followed standard procedures for GSA purchasing of the Segways, the requested documentation was not provided during the audit. The importance of maintaining documentation will be reiterated to appropriate staff.

The Department was careful to ensure compliance with state and federal requirements prior to authorizing the purchase of the telephone system. By following procedures governing purchases through GSA contracts and using ARRA awarded funding, the Department achieved significant cost savings and efficiency improvements with the replacement of an old and frequently failing telephone system. While it was clearly understood that under recently established state statutes ITS was granted the responsibility for establishing procedures to permit state agencies to use the GSA program to purchase information technology equipment, the procedures had not been developed and issued. Under the authority granted to the Department, the federal 1122 program was used to make this purchase.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Even though the Department's authority to proceed with this purchase under the 1122 program had been confirmed with department and state legal counsel, Department management chose to obtain the concurrence of the State CIO. In the event that exceptions to state IT procurement policies are necessary, authority to grant exceptions rests with the CIO. The CIO granted approval for the Department to proceed with the purchase. This approval was granted with the direction that the project was entered into the project management tool and coordinated with the ITS EMPO. The Department complied with this request. Later, a subordinate within the ITS organization rejected the project indicating that it contained "insufficient cost projections". However, costs included in the tool were based on projects authorized and funding available at the time of the request. The Department proceeded based on the approval of the CIO and our compliance with his request to enter the project information in the management tool.

In addition, since ARRA funds were used to make this purchase, the Department sought the approval of the North Carolina Office of Economic Recovery and Investment (OERI). Federal regulations required that purchases made using ARRA funding followed state procedures. OERI directives required exception approval by that office of any deviations from routine state purchasing procedures. OERI granted approval of the purchase as well as the specific supplier recommended by the Department. The Department proceeded with the purchase.

The Department was careful in every detail to pursue a course of action that resulted in a best value purchase, in compliance with all applicable policies and regulations. Based on the Department's delegated authority, and the additional efforts to obtain the approval of the CIO, enter the project into the management tool, and obtain approval of the OERI, the Department is of the opinion that not only were policies followed, but extra care was exercised to comply with state and federal requirements.

Because of the Department's position on this finding no corrective action is noted.

Auditor Comment: The Department's response implies that the State CIO's approval of the phone system purchase was optional rather than required, which is not the case. The State CIO approved the purchase with the condition that the Department allow the EPMO to monitor the project, a condition that the Department did not meet. The State CIO has subsequently sent a letter to the Department stating that ITS has deemed this phone system project "non-approved" in the state project approval process. The letter further states that the project approval process must be followed in the future so that ITS can meet its statutory requirements.

In regards to the purchase of the Segways, the agency response may imply that the documentation existed but was simply not provided during the audit. If the documentation does exist, the Department has been unable to locate it.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

3. NONCOMPLIANCE WITH ARRA AWARD PROVISIONS

The Department of Crime Control and Public Safety (Department) did not communicate all the American Recovery and Reinvestment Act (ARRA) federal award information to subrecipients and did not monitor subrecipients of the ARRA funds to ensure the subrecipients provided appropriate identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and federal Data Collection Form. This increases the risk that subrecipients will not properly account for ARRA funds or identify the ARRA awards and expenditures in their SEFA and Data Collection Form. As a result, errors were identified in the subrecipients' reporting of this information.

The *OMB Circular A-133 Compliance Supplement* requires recipients 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. It also requires subrecipients to separately identify ARRA funds in their SEFA and Data Collection Form. We noted the following:

- The Department provided the Catalog of Federal Domestic Assistance (CFDA) number and amount of ARRA funds at the time of award; however, the federal award number was not provided. Additionally, the Department communicated the amount of ARRA funds at the time of disbursement; however the federal award number and the CFDA number were not communicated.
- The Department did not adequately monitor its subrecipients to ensure they properly identified Justice Assistance Grant ARRA awards in their SEFA and Data Collection Form. We identified three subrecipients in a sample of seven (a 43% error rate) who did not provide appropriate identification of ARRA awards in their SEFA and Data Collection Form (SF-SAC).

Federal Award Information: CFDA 16.803 Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories award 2009-SU-B9-0054 for the award period March 1, 2009 – February 28, 2013.

Recommendation: The Department should ensure all applicable federal award information is communicated to subrecipients of ARRA funds and should strengthen monitoring procedures to ensure ARRA subrecipients properly disclose ARRA award information in their SEFA and Data Collection Form.

Department Response:

- When this finding was brought to the attention of staff at the Governor's Crime Commission, the programmers for our grants management system, GEMS, were contacted to add the federal award number to all Grant Awards. Prior to this addition, the federal award name, CFDA number, and the amount of funds awarded were included on the award. All required information is now included.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

In reference to the disbursement of funds, we concur that the federal award number, CFDA number and the amount of ARRA funds were not communicated to the subrecipients at time of payment.

Programming changes to GEMS have been made to include information for both the award and disbursement.

- To strengthen subrecipients compliance monitoring, CCPS has already developed and implemented procedures to address the ARRA disclosure issue. The new procedures include verifying that all ARRA awards funding are identified on their SEFA and the data collection form. Any discrepancies will be communicated to subrecipients by utilizing an existing “Audit Finding Worksheet” form and cover letter to inform subrecipients of required modification(s), which all audit finding forms are logged and tracked for completion.

Procedures have been implemented to strengthen subrecipients compliance monitoring.

4. DEFICIENCIES IN INTERNAL CONTROL OVER ACCESS TO GRANT ENTERPRISE MANAGEMENT SYSTEM

The Department of Crime Control and Public Safety (Department) has deficiencies in internal control over access to the Grant Enterprise Management System (GEMS). While user level controls are in place to correct and detect material noncompliance, lesser amounts of noncompliance could occur and not be detected and corrected on a timely basis. Maintaining proper access controls over computer systems helps prevent improper alteration, unauthorized use, or loss of data that could result in unauthorized grants and/or unauthorized payments to subrecipients.

Our review of internal control over information systems access identified the following deficiencies:

- The Department did not conduct semi-annual reviews of user access levels for GEMS at the Governor’s Crime Commission (GCC), as required by the Statewide Information Security Manual. Without a regular review, levels of user access to the system could occur that is not required by the users’ current job functions and remain undetected for extended periods of time. The Department has developed a process for performing the semi-annual access reviews over GEMS; however the first review of access rights is scheduled to occur in 2012, subsequent to the fiscal year under audit.
- The GEMS application was implemented in July 2010, replacing the Grants Management System (GMS). Access was initially granted in GEMS based on access rights in this previous system. The administrator may not be aware of all the users who should have access and the type of access they should have, and semi-annual reviews of access levels were not performed in the previous system. Additionally, during the audit period, the Department was not following its usual

AUDIT FINDINGS AND RESPONSES (CONTINUED)

method of granting and removing access to the GEMS application. Instead of using the help desk tracking system, access change requests were being requested verbally during weekly meetings between the IT staff and GCC. Subsequent to our initial audit work, we observed that requests are being routed through the help desk tracking system.

- We noted other deficiencies relating to access controls over GEMS. Due to the sensitive nature of the conditions found, we have conveyed these findings to management in a separate letter pursuant to the provision of *North Carolina General Statute* 132-6.1(c).

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.

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

Federal Award Information: This finding affects the following:

- CFDA 16.738 Edward Byrne Memorial Justice Assistance Grant Program award 2006-DJ-BX-0056 for the award period October 1, 2005 – December 31, 2011; award 2007-DJ-BX-0079 for the award period October 1, 2006 – September 30, 2011; award 2008-DJ-BX-0032 for the award period October 1, 2007 – September 30, 2011; award 2008-DJ-BX-0768 for the award period October 1, 2007 – September 30, 2012; award 2009-DJ-BX-0839 for the award period October 1, 2008 – September 30, 2012; and award 2010-DJ-BX-0045 for the award period October 1, 2009 – September 30, 2013.
- CFDA 16.803 Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories award 2009-SU-B9-0054 for the award period March 1, 2009 – February 28, 2013.

Recommendation: The Department, specifically the Governor's Crime Commission, should continue to implement the semi-annual user access reviews required by ITS policy for the Grant Enterprise Management System. The Department should continue to manage all user access change requests to the Grant Enterprise Management System through its Help Desk ticketing solution.

Department Response:

- Since the GEMS system was still under development, the GCC had not performed its first review of access rights. To correct this issue, we created a new Access Control Audit feature inside of GEMS to enable appropriate staff members the ability to perform the semi-annual reviews and generate the results in a report format for auditing purposes. This has been tested and is in production. GEMS developers have completed a system-wide user review.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

- The access change requests were being communicated during the weekly status meetings while in the application development period. Now that GEMS has moved into a live production environment, we are routing access control requests via the helpdesk for tracking and validation.
- The Department has been made aware of deficiencies associated with access controls over GEMS. The Department will review procedures and implement changes as necessary.

Auditor Comment: We agree with the Department that portions of the GEMS application were still actively in development during the audit period. However, since all payments to subrecipients were initiated and approved through the GEMS application beginning in July 2010, our opinion is that the access controls over the system should have been in place as of that time. We are pleased with the Department's timely response to our concerns about access controls over GEMS.

5. DEFICIENCIES IN INTERNAL CONTROL OVER ACCESS TO THE E-PROCUREMENT SYSTEM

The Department of Crime Control and Public Safety (Department) has deficiencies in internal control over access to the E-Procurement System. Improper levels of access to the systems could occur and remain undetected for extended periods of time, allowing for unauthorized approval of purchases. If proper levels of approval are not in place, there is an increased risk that the expenditures made could be for unallowable activities and costs, and may not be in compliance with procurement policies.

Our review of internal control over information systems access identified the following deficiencies:

- Users are requesting access to E-Procurement directly and not via their immediate supervisors. The Purchasing Officer performs a semi-annual user access review; however, the Purchasing Officer also grants access to new users and removes users as needed. In addition, the Purchasing Officer alone is not likely to have a full knowledge of all staffs' roles and responsibilities to sufficiently assess all access rights.
- The E-Procurement administrators who grant users access to the application also have access to other roles within E-Procurement, which causes these individuals to have conflicting responsibilities. All of the four users have requestor, approver, and purchasing agent roles in conjunction with the "e-form" role. The "e-form" role can change permissions and roles within the application and grant access for new users.

Federal Award Information: This finding affects the following:

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

- CFDA 16.738 Edward Byrne Memorial Justice Assistance Grant Program award 2006-DJ-BX-0056 for the award period October 1, 2005 – December 31, 2011; award 2008-DJ-BX-0032 for the award period October 1, 2007 – September 30, 2011; award 2009-DJ-BX-0839 for the award period October 1, 2008 – September 30, 2012; and award 2010-DJ-BX-0045 for the award period October 1, 2009 – September 30, 2013.
- CFDA 16.803 Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories award 2009-SU-B9-0054 for the award period March 1, 2009 – February 28, 2013.

Recommendation: The Department should correct the identified deficiencies over access to the E-Procurement system. At a minimum, access requests should be initiated and approved by the employee's supervisor and persons who can modify users' access within the E-Procurement system should not themselves be users (requestor, approver or purchasing agent). In addition, supervisors should review access rights of employees semi-annually and sign off on their appropriateness.

Department Response:

- The Department will review its procedures and implement changes as necessary.
- Due to limited resources and the critical nature of purchases due to departments mission adequate segregation of duties is a challenge. The Department will review its procedures and implement changes as necessary.

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