



STATE OF NORTH CAROLINA

DEPARTMENT OF PUBLIC SAFETY

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

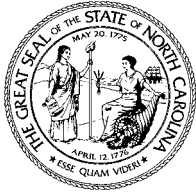
DEPARTMENT OF PUBLIC SAFETY

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2012

ADMINISTRATIVE OFFICER

KIERAN SHANAHAN, SECRETARY



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA

Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Mr. Kieran Shanahan, Secretary
Department of Public Safety

As part of our audit of the State of North Carolina's compliance with requirements applicable to its major federal programs, we have completed certain audit procedures at the Department of Public Safety for the year ended June 30, 2012. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*. We conducted the audit 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*.

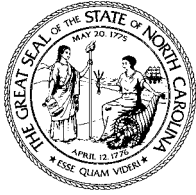
Our audit objective was to render an opinion on the State of North Carolina's, and not the Department's, administration of major federal programs. However, the report included herein is in relation to our audit scope at the Department and not to the State of North Carolina as a whole. The State Auditor expresses an opinion on the State's compliance with requirements applicable to its major federal programs in the States *Single Audit Report*.

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 Kieran Shanahan
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, 2012, we have performed audit procedures at the Department of 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 Public Safety included the following:

- Disaster Grants – Public Assistance (Presidentially Declared Disasters)
CFDA 97.036

The audit results described below are in relation to our audit scope at the Department and not to the State of North Carolina as a whole.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

**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)**

The results of our audit procedures at the Department of 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 2 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.

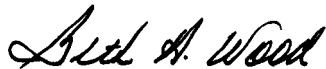
Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses, and 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 weaknesses in internal control over compliance, as defined above. Furthermore, we consider the deficiencies described in findings 2 and 3 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, the Secretary, 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 5, 2013

AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

1. REVIEW OF SUBRECIPIENT AUDIT REPORTS NEEDS IMPROVEMENT

The Department of Public Safety did not obtain and review the required audit reports from subrecipients that received grant funds from the Disaster Grants – Public Assistance program. As a result the Department is in noncompliance with federal subrecipient monitoring requirements, and there is an increased risk that deficiencies at the subrecipient level will not be detected and corrected timely.

Based on our analysis of the grant's 2011 expenditures, we identified 11 subrecipients from which the Department should have obtained audits. In our tests of the subrecipients' 2011 audit reports, we noted the following deficiencies related to four of the 11 required reports (36%):

- The Department did not receive the required audit reports from three subrecipients.
- The Department received an audit report from one subrecipient that did not include the additional report on compliance with federal requirements and the schedule of expenditures of federal awards, as required by OMB Circular A-133.

The Department reported disbursements of approximately \$3.48 million in federal Public Assistance funds to these four subrecipients in fiscal 2011.

The *OMB Circular A-133 Compliance Supplement* requires the Department to ensure subrecipients that expend \$500,000 or more in federal awards in a year have an audit completed within nine months of the end of the subrecipients audit period. The Department is required to review subrecipient audit reports, issue a management decision on audit findings within six months after receipt of the subrecipient's report, and ensure the subrecipient took timely and appropriate action on all audit findings.

Significant aspects of this finding were reported for other federal programs in fiscal years 2009 and 2010.

Federal Award Information: This finding affects CFDA 97.036 Disaster Grants – Public Assistance program disasters:

- NC Severe Winter Storms and Flooding award FEMA-1871-DR-NC,
- NC Severe Storms, Tornadoes, and Flooding award FEMA-1969-DR-NC, and
- NC Tropical Storm Hanna award FEMA-1801-DR-NC.

Recommendation: The Department should strengthen its monitoring procedures and tracking system to ensure the appropriate audit reports are received from all applicable subrecipients.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Department Response: The Department agrees with the finding. The Controller's Office staff will analyze the procedure for reviewing the subrecipient audit reports. The procedure will be modified to strengthen the review process to ensure required audit reports are received and include the report on compliance.

2. SUBRECIPIENT MONITORING NEEDS IMPROVEMENT

The Department of Public Safety did not communicate all federal award information to subrecipients in the Disaster Grants – Public Assistance program, increasing the risk subrecipients could incorrectly report federal funds in their Schedule of Expenditures of Federal Awards (SEFA) or other federal reporting documents. Additionally, the Department did not monitor subrecipients to ensure applicants provided a valid Dun and Bradstreet Data Universal Numbering System (DUNS) number prior to issuing the subaward. This resulted in noncompliance with federal requirements.

The *OMB Circular A-133 Compliance Supplement* requires the Department to separately identify to each subrecipient, and document at the time of the subaward, the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, and name of federal awarding agency. For subawards made on or after October 1, 2010, it also requires the Department to determine whether an applicant has provided a valid DUNS number as part of its subaward application or before the issuance of the award.

We noted the following:

- The Department provided the award name, award number, and name of federal awarding agency at the time of award; however, the CFDA title and number were not communicated.
- The Department does not have a procedure in place to ensure applicants are providing a valid DUNS number prior to issuing funds to the subrecipient. The Department believed the Federal Emergency Management Agency (FEMA) was verifying the validity of the DUNS number at the time of the award. However, our tests of 60 applicants revealed 10 errors (a 17% error rate) consisting of: eight subrecipients that did not provide a valid DUNS number at the time of award and two subrecipients for which there was no DUNS number on file. The Department disbursed \$2.3 million in federal funds to these 10 entities during fiscal 2012.

Federal Award Information: This finding affects CFDA 97.036 Disaster Grants – Public Assistance program disasters:

- NC Severe Storms, Tornadoes, and Flooding award FEMA-1969-DR-NC, and
- NC Hurricane Irene award FEMA-4019-DR-NC.

Recommendation: The Department should strengthen procedures to ensure subrecipients provide a valid DUNS number prior to issuing the subaward and to ensure all applicable federal award information is communicated to subrecipients at the time of the subaward.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Department Response: The Department agrees with the finding. Public Assistance staff will separately identify to each sub recipient, and document at the time of the sub award, the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, and name of federal awarding agency and ensure sub recipients provide a valid DUNS number prior to issuing the sub award.

3. DEFICIENCIES IN INTERNAL CONTROL OVER ACCESS TO PUBLIC ASSISTANCE MANAGEMENT SYSTEM

The Department of Public Safety has deficiencies in internal control over access to the Public Assistance Management System (PAMS). This increases the risk that 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 does not have a formal process for granting and changing access rights in PAMS. As a result, the user responsible for approving and monitoring the Disaster Grants - Public Assistance grant payments was granted inappropriate access levels. At the time of our audit work, this user had the ability to enter disasters, set up new users, modify entries in the database tables, create applicants, create payments, and approve payments in PAMS.

As part of his normal job responsibilities, this user generates a “request for payment” spreadsheet from PAMS and submits it to the Department’s Fiscal Division. The Fiscal Division uses this spreadsheet to draw federal funds and make payments to subrecipients. There is no review or approval of this spreadsheet. Once the Fiscal Division generates payments to subrecipients, this same user enters the payments in PAMS.

- The Department did not conduct semi-annual reviews of user access levels for PAMS, 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. Access controls over PAMS are configured at two levels: at the application and at the network. Based on our review of the system, we do not believe it would be possible to conduct an effective access review at the application level. However, it is possible to conduct an access review at the network level.
- We noted other deficiencies related to access controls over PAMS. Given the sensitive nature of the conditions found, we have conveyed these findings to management separately pursuant to the provisions of *North Carolina General Statute 132-6.1(c)*.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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 our last audit of this program in fiscal year 2008.

Federal Award Information: This finding affects CFDA 97.036 Disaster Grants – Public Assistance program disasters:

- a. NC Severe Winter Storms and Flooding award FEMA-1871-DR-NC,
- b. NC Severe Storms, Tornadoes, and Flooding award FEMA-1969-DR-NC,
- c. NC Tropical Storm Hanna award FEMA-1801-DR-NC,
- d. NC Hurricane Isabel award FEMA-1490-DR-NC,
- e. NC Tropical Storm Frances award FEMA-1546-DR-NC,
- f. NC Hurricane Ivan award FEMA-1553-DR-NC,
- g. NC Hurricane Ophelia award FEMA-1608-DR-NC,
- h. NC Hurricane Earl award FEMA-3314-EM-NC, and
- i. NC Hurricane Irene award FEMA-4019-DR-NC.

Recommendation: The Department should strengthen controls to ensure users only have privileges that are required to complete their job functions and responsibilities, including semi-annual user access reviews of the Public Assistance Management System as required by state policy.

Department Response: The Department agrees with the finding. Public Assistance staff will develop a formal process for granting and changing access rights in PAMS and the Department will conduct semi-annual reviews of user access levels for PAMS.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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