

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



DEPARTMENT OF PUBLIC SAFETY

RALEIGH, NORTH CAROLINA

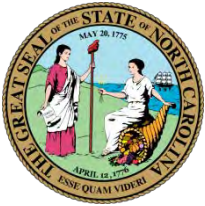
STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2014



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The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Frank L. Perry, 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, 2014. 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 was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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 State's *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



Beth A. Wood, CPA
State Auditor

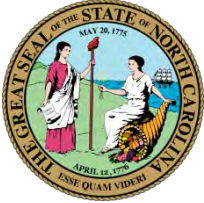
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INDEPENDENT AUDITOR'S REPORT

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**INDEPENDENT AUDITOR'S 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 Frank Perry
and Management of the Department of Public Safety

Report on Compliance for Each Major Federal Program

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, 2014, 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:

- CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
- CFDA 97.067 – Homeland Security Grant Program

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.

Management's Responsibility

Management is responsible for compliance with laws, regulations, contracts, and grants applicable to federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State of North Carolina's major federal programs based on our audit of the types of compliance requirements referred to above, which we issue in the State's *Single Audit Report*. 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. However, our audit does not provide a legal determination of the Department's compliance with those requirements.

Opinion on Each Major Federal Program

As stated above, our opinion on compliance for each of the State of North Carolina's major federal programs is included in the State's *Single Audit Report*.

Other Matters

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, Recommendations, and Responses section of this report.

Report on Internal Control Over Compliance

Management of the Department of Public Safety is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance, as described in findings 1, and 2 in the Audit Findings, Recommendations, and Responses section of this report, that we consider to be significant deficiencies.

Department of Public Safety's Responses to Audit Findings

The Department's responses to the findings identified in our audit are included in the Audit Findings, Recommendations, and Responses section of this report. The Department's responses were not subjected to the auditing procedures applied in the audit of compliance or consideration of internal control over compliance, and accordingly, we express no opinion on them.

Purpose of Report on Internal Control Over Compliance

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 24, 2015



FINDINGS, RECOMMENDATIONS, AND RESPONSES

MATTERS RELATED TO FEDERAL COMPLIANCE OBJECTIVES

1. Subaward Obligations Were Not Reported Timely

The Department did not report subaward obligations exceeding \$25,000 within the time period established by the Federal Funding Accountability and Transparency Act (FFATA).

The Department reported all 21 Homeland Security Grant Program subawards at least four months late. These subawards totaled over \$4.3 million. Additionally, in a sample of 34 out of a total of 166 Public Assistance – Disaster Grants subawards, 12% or 4 subawards were reported at least two months late. These subawards totaled over \$430,000.

As a result, the federal awarding agency and the public did not have timely notification of subawards issued by the Department.

The Federal Funding Accountability and Transparency Act was enacted to show citizens how federal funds are spent in their communities. At the time of subawards, the Department did not have procedures in place, such as internal checklist or automatic reminders, to ensure the required reports were submitted by their due date.

The Federal Funding Accountability and Transparency Act requires states to report any subawards issued for more than \$25,000 in the federal reporting system by the end of the month following when the subaward is issued.

The Department began working on this issue after our finding in February of 2014. The Department implemented a monthly supervisory review of the federal reporting system comparing it to all grants issued. We reviewed subawards from February 2014 through June 2014 (5 subawards out of 27 total). Those reviewed were reported within the required time frame.

Federal Award Information

This finding affects CFDA 97.067 Homeland Security Grant Program award DHS-13-GPD-067-000-01 for the award period 10/01/13 – 09/30/2015, and CFDA 97.036 Disaster Grants – Public Assistance program disaster NC Hurricane Irene award FEMA-4019-DR-NC.

Recommendation

We recommend that the Department continue to ensure required reports are submitted timely.

Agency Response

The Department agrees with this finding. The Department has implemented procedures to ensure Homeland Security Grant Program and Public Assistance Disaster Grants are reported as required under the Federal Funding Accountability and Transparency Act.

2. Subrecipient Audit Reports Were Not Obtained and Reviewed

The Department did not obtain and review audit reports for two organizations receiving more than \$500,000 in federal funds.

Two of 15 (13%) required audit reports were not received or reviewed. As a result, the Department could be unaware of significant problems reported by the auditors of those organizations. By reviewing the audit reports the Department could monitor the grant funds more effectively or withhold grant funds until the problems are corrected.

The department does not have adequate procedures in place, such as automated reminders or supervisory review, to ensure that audit reports are received and reviewed.

Federal law requires that the State review the audit reports and follow up on any relevant audit findings.

Federal Award Information

This finding affects CFDA 97.036 Public Assistance Disaster Grants NC Hurricane Irene award FEMA-4019-DR-NC.

Recommendation

We recommend that the agency strengthen its monitoring and audit tracking procedures to ensure that the required audit reports are received and reviewed.

Agency Response

The Department agrees with this finding. The Department will implement an audit tracking protocol to ensure all subrecipient audit reports are obtained and reviewed in a timely manner. The Department will conduct appropriate follow up should any deficiencies be noted.

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

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To report alleged incidents of fraud, waste or abuse in state government contact the
Office of the State Auditor Fraud Hotline: **1-800-730-8477**
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