

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR  
BETH A. WOOD, CPA



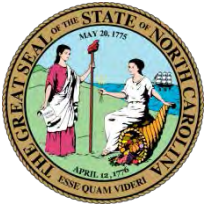
## NORTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

RALEIGH, NORTH CAROLINA  
STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES  
FOR THE YEAR ENDED JUNE 30, 2015



**NCOSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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## AUDITOR'S TRANSMITTAL

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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, 2015. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 in this 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*, 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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State Auditor

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Article V, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



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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**

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Secretary Frank L. Perry  
and Management of the Department of Public Safety

Report on 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, 2015, 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 12.401 – National Guard Military Operations and Maintenance Projects

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 the Findings, Recommendations, and Responses section of this report.

### Report on Internal Control Over Compliance

Management 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. However, as described in the accompanying Findings, Recommendations, and Responses section, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. We consider the deficiency described in finding 2 in the Findings, Recommendations, and Responses section of this report to be a material weakness in internal control over compliance. Furthermore, we consider the deficiency described in finding 1 in the Findings, Recommendations, and Responses section of this report to be a significant deficiency in internal control over compliance.

#### Department of Public Safety's Response to Findings

The Department's responses to the findings identified in our audit are included in the 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 28, 2016



# **FINDINGS, RECOMMENDATIONS, AND RESPONSES**



## **Matters Related to Federal Compliance Audit Objectives**

The following audit findings were identified during the current audit and describe conditions that represent deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements, or other matters.

### **1. REVIEW OF SUBRECIPIENT AUDIT REPORTS NEEDS IMPROVEMENT**

The Department of Public Safety (Department) does not have an adequate system to ensure that federal compliance audits are obtained for those entities to which they pass federal disaster recovery grant funds. The Department passed nearly all (approximately 97%) of its federal funds to subrecipients during the fiscal year ended June 30, 2015.

The Department currently uses a tracking sheet to ensure the appropriate audits are obtained and reviewed from subrecipients to whom the Department has passed \$100,000 or more during the previous fiscal year. The Department did not compare the amounts passed through to subrecipients in the accounting system to the tracking sheet to ensure all subrecipients matching the established criteria were included. We reviewed all subrecipients who received greater than \$100,000 in federal disaster recovery funds from the Department (20 out of 101 subrecipients) during fiscal year 2014. One of the subrecipients receiving greater than \$100,000 was not included on the tracking sheet.

Further, during discussions with the employee responsible for the review of the obtained audits, we noted a lack of understanding of what to review once an audit was obtained. The employee did not fully understand the difference between the federal compliance and financial statement audits, the objectives of each audit, and their impact on the federal program.

Because the Department does not have an adequate system to ensure that federal compliance audits are obtained and reviewed for subrecipients, there is increased risk that the Department could pass federal dollars to subrecipients who have historically misspent federal dollars.

The failure to monitor audit reports was caused by a lack of adequate training related to the tracking and monitoring of the audit results for those entities to which they pass federal disaster recovery grant funds.

Federal regulations<sup>1</sup> state that grant/award recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements. Further, OMB Circular A-133 requires the Department to review the subrecipient's A-133 audit reports to determine if there is an impact on the funds received from the Department.

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

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<sup>1</sup> 2 CFR, section 215.51, paragraph a

**Federal Award Information**

This finding affects CFDA 97.036 Public Assistance Disaster Grants.

**Recommendation**

We recommend the Department provide employees with adequate training related to the tracking of the required audit reports and how they impact the federal program.

**Agency Response**

The Department of Public Safety remains fully committed to ensuring that federal compliance audits are obtained for entities receiving the statutory level of federal funding.

- (1) Based on input from the Office of the State Auditor, during the prior examination period, the Department implemented an aggressive strategy to track all entities who receive in excess of \$100,000 which is well below the mandated \$500,000 as required by OMB Circular A-133 for the period under review.
- (2) During extraction of the data from the North Carolina Accounting System (NCAS), to the tracking sheet, one of the entities receiving in excess of \$100,000 did not convert. This entity did not receive \$500,000 or more in federal funds and was not required to obtain an A-133 audit report.
- (3) Subsequent to the audit period, DPS has hired a new Grants Manager and Assistant Controller. The Grants Manager will be tasked with ensuring the position responsible for maintaining the tracking sheet receives the training necessary to ensure a comprehensive understanding of the A-133 and 2 CFR 200 audit requirements. In addition, the Assistant Controller will review the tracking sheet to ensure that the data extracted from NCAS is correctly reflected on the tracking sheet. DPS will continue efforts to further develop a robust tracking system to ensure the accuracy and integrity of sub recipient monitoring.

**2. LACK OF SALARY AND WAGE CERTIFICATIONS INCREASES RISK OF INACCURATE CHARGES TO FEDERAL GRANTS**

The Department did not ensure that the time reported by the employees on employee timesheets was correctly entered into the time and effort reporting system (BEACON). The Department uses BEACON to generate both salary payments and salary postings to the accounting system, which allocates charges to the federal grant. The Department paid approximately \$4.9 million in federal National Guard Operations and Maintenance (O&M) grant funds for payroll expenditures during the fiscal year ended June 30, 2015.

In a sample of 60 randomly selected employee time records with charges to the O&M program, 17 errors (28%) were identified:

- In eight of 60 time records (13%) tested, the time record showed hours worked and/or leave taken, but the hours were not recorded in BEACON. Because

BEACON is the system that generates pay, one of these errors resulted in the Department under-reporting grant expenditures by \$577.44.

- In five of 60 time records (8%) tested, there were 54 total hours recorded in BEACON to a different time code than what was recorded and approved on the time record.
- In four of 60 time records (7%) tested, the employee's supervisor did not certify the time record.

Further, the Department failed to perform reconciliations to ensure amounts recorded in BEACON were the same as amounts reported by employees and approved by supervisors.

As a result, there is increased risk that salary and wage charges could be inappropriately billed to federal grants and not detected.

Department procedures do not ensure that time and effort reporting is accurate due to a lack of direct supervision in the National Guard payroll division.

Federal regulations, as well as the National Guard Regulation (NGR) 5-1, Chapter 5, state that the distribution of salaries and wages for individuals paid in connection with federal grants must be accurately confirmed (i.e. documented) or approved after the work is performed, to ensure that the costs were incurred by the grantee in connection with the O&M grant.<sup>2</sup> To comply with federal requirements, the Department established a policy by which supervisors are responsible for reviewing time records to verify accuracy and completeness of employee time records. After review, the supervisor is required to sign and date the employee time record and submit the time record to the time administrator staff.

### **Federal Award Information**

This finding affects CFDA 12.401 National Guard Military Operations and Maintenance (O&M) Projects.

### **Recommendation**

The Department should ensure that time charged to federal grants is certified and that reconciliations are performed between certified timesheets and the time and effort reporting system (BEACON).

### **Agency Response**

The National Guard Payroll Division is fully committed to working with the Payroll office within the Department of Public Safety (DPS) to ensure that time actually reported on employee timesheets is correctly entered and recorded into BEACON.

- (1) All Beacon time entry errors have been identified and corrected.

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<sup>2</sup> Appendix A of 2 CFR Part 220 – J.10.b.(2).c

- (2) NC National Guard State Appropriations and Personnel Manager has become actively involved in the BEACON process in order to ensure time records are submitted, entered and reconciled for accuracy on weekly basis.
- (3) The NC National Guard State Appropriations and Personnel Manager are working with the Department of Public Safety to transition to employee self-service time entry in BEACJON for NC National Guard State employees. Training should occur early 2016 with self-service entry to begin shortly thereafter.

# ORDERING INFORMATION

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## COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

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