

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

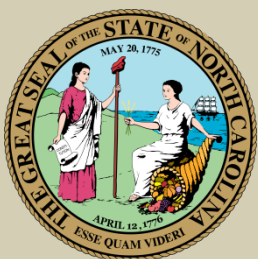


DEPARTMENT OF ENVIRONMENTAL QUALITY

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2017



NC  **OSA**
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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Raleigh, NC 27699-0600
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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Michael S. Regan, Secretary
Department of Environmental Quality

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 Environmental Quality for the year ended June 30, 2017. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 major federal programs 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 finding in this report is also evaluated to determine its 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*, this finding is 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'.

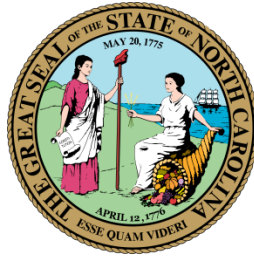
Beth A. Wood, CPA
State Auditor



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

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INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
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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 REQUIRED BY THE UNIFORM GUIDANCE**

Michael S. Regan, Secretary
and Management of the Department of Environmental Quality

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 Compliance Supplement* that could have a direct and material effect on each of its major programs for the year ended June 30, 2017, we have performed audit procedures at the Department of Environmental Quality. 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is included in the State's *Single Audit Report*. Our federal compliance audit scope at the Department of Environmental Quality included the following:

- 66.458 – Clean Water State Revolving Fund
- 66.468 – Drinking Water State Revolving Fund
- 93.568 – Low-Income Home Energy Assistance 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 federal statutes, regulation, and the terms and conditions of its federal awards applicable to its 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Environmental Quality disclosed no instances of noncompliance that are required to be reported in accordance with the Uniform Guidance.

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 the Uniform Guidance, 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 that were considered to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance as described in the finding in the accompanying schedule of Findings, Recommendations, and Responses section of this report that we consider to be a significant deficiency in internal control over compliance.

Reporting Sensitive Information

We noted a deficiency in information system controls that was only generally described in this report. Details about this deficiency, due to its sensitive nature, was communicated to management in a separate letter.

Department of Environmental Quality's Response to Findings

The Department's response to the finding identified in our audit is included in the Findings, Recommendations, and Responses section of this report. The Department's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Purpose of Report on Internal Control Over Compliance

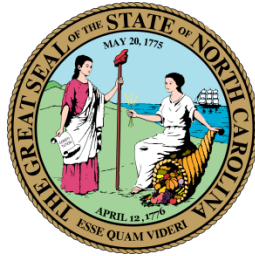
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 19, 2018



FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Federal Compliance Audit Objectives

DEFICIENCIES IN SYSTEM ACCESS AND CHANGE CONTROLS

The results of our audit disclosed security deficiencies considered reportable under generally accepted *Government Auditing Standards*. These deficiencies are reported to the Department by separate letter in accordance with these standards. This item should be kept confidential as provided by *North Carolina General Statute 132-6.1(c)*.

This finding was reported in the 2016 Statewide Single Audit Report as finding number 2016-044.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.568 (Low-Income Home Energy Assistance Program); Federal Award Number (award period): 16B1NCLIEA (October 1, 2015 – September 30, 2017); 17B1NCLIEA (October 1, 2016 – September 30, 2018).

Agency Response: See page 5 for the Department of Environmental Quality's response to this finding.



ROY COOPER
Governor
MICHAEL S. REGAN
Secretary

Date: February 12, 2018

To: Beth Wood, CPA, State Auditor
State of North Carolina
20601 Mail Service Center
Raleigh, NC 27699-0600

From: Michael S. Regan
Secretary, DEQ

Subject: Federal Compliance Audit at the Department of Environmental Quality SFY17

Ms. Wood,

Thank you for your letter of January 16, 2018 regarding the department's federal compliance audit for the year ending June 30, 2017. We have reviewed the audit finding and recommendation and are pleased to provide our response as follows:

Finding – DEFICIENCY IN SYSTEM ACCESS AND CHANGE CONTROLS

Department Response

The Department agrees with the finding.

The Department is committed to maintaining information security and system access controls. The Department has taken corrective actions to address the risks identified by the audit team, which have been detailed in a response separately submitted to OSA. All system access and change controls will comply with the applicable portions of the North Carolina Statewide Information Security Manual.

Thank you for the time and opportunity to review and respond to these findings. Please contact me if you have any questions regarding the department's response to any of the findings and recommendations.

Sincerely,

A handwritten signature in black ink that reads 'Michael S. Regan'. The signature is written in a cursive style.

Michael S. Regan
Secretary, DEQ

cc: John Nicholson, DEQ
Rex Whaley, DEQ
Jennifer Mundt, DEQ
Kim Colson, DEQ
Landon Perry, DEQ

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<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:
Brad Young
Director of External Affairs
919-807-7513



This audit was conducted in 1895 hours at an approximate cost of \$195,185.