

# STATE OF NORTH CAROLINA

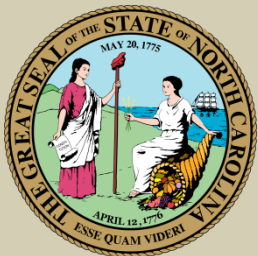
OFFICE OF THE STATE AUDITOR  
BETH A. WOOD, CPA



## DEPARTMENT OF PUBLIC SAFETY

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES  
FOR THE YEAR ENDED JUNE 30, 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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## AUDITOR'S TRANSMITTAL

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The Honorable Roy Cooper, Governor  
Members of the North Carolina General Assembly  
Erik A. Hooks, 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, 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 *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). 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

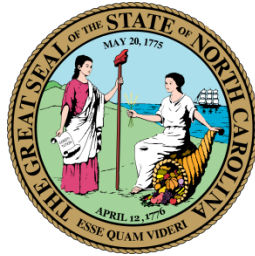
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Article V, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The 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**



**Beth A. Wood, CPA**  
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 REQUIRED BY THE UNIFORM GUIDANCE**

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Secretary Erik A. Hooks  
and Management of the North Carolina 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 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 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 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 Public Safety included the following:

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

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 Public Safety disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance 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 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 certain deficiencies 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.

#### Department of Public Safety'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.

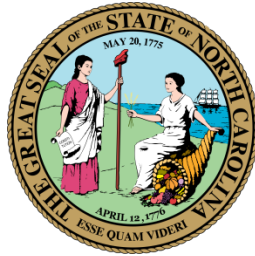


Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 19, 2018





# **FINDINGS, RECOMMENDATIONS, AND RESPONSES**



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

### **INCORRECT PAYMENTS MADE TO NATIONAL GUARD SOLDIERS FOR DISASTER SERVICES**

The Department used incorrect active duty pay rates to pay National Guard soldiers who assisted in the aftermath of Hurricane Matthew. During the audit period, the Department processed 4,354 payments totaling \$1.7 million for 1,285 National Guard soldiers.

Auditors recalculated wage payments to the 1,285 National Guard soldiers. The recalculations identified 1,166 (90.7%) soldiers paid in error, which resulted in a \$38,559 (2.3%) net overpayment.

The overpayments could have been used for other Hurricane Matthew disaster assistance related purposes. The net overpayments of \$38,559 (\$28,919 federal share) are being questioned.

The errors occurred because the National Guard, a division of the Department, did not have procedures in place to ensure the correct rates were used. The Department used the State Active Duty system to make the payments. However, review and verification procedures were not in place to ensure that the correct military pay tables<sup>1</sup> were obtained and entered timely in the State Active Duty system.

State law establishes the active duty pay rate for Department use. Per *North Carolina General Statute* 127A.105,

“The militia of the State, both officers and enlisted personnel, when called into the service of the State by the Governor shall receive the same pay as when called or ordered into the service of the United States, and shall be rationed or paid the equivalent thereof, provided that no officer or enlisted personnel shall receive less than 18 times the minimum hourly wage per day.”

*Federal Award Information:* This finding affects CFDA 97.036 Disaster Grants – Public Assistance (Presidentially Declared Disasters) program disaster NC Hurricane Matthew award FEMA-4285-DR-NC.

*Recommendation:* The Department should establish procedures to ensure the correct pay rates are entered timely and verified in the State Active Duty system.

*Agency Response:* See page 5 for the Department of Public Safety’s response to this finding.

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<sup>1</sup> The Defense Finance and Accounting Service of the U.S. Department of Defense publishes military pay tables that outline the pay rates based on military personnel rank and years of service. The calendar year 2016 rates were in effect for the payments during fiscal year 2017 audit.



# North Carolina Department of Public Safety

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## Controller's Office

Roy Cooper, Governor  
Erik A. Hooks, Secretary

Casandra Skinner Hoekstra, Chief Deputy Secretary  
Doug Holbrook, Chief Financial Officer  
James J. Cherokee, Controller

March 14, 2018

The Honorable Beth A. Wood, State Auditor  
Office of the State Auditor  
2 South Salisbury Street  
Raleigh, North Carolina 27699-0600

Dear Auditor Wood:

The Department agrees with the finding that 1,166 North Carolina National Guard soldiers were paid in error for state active duty services performed in the aftermath of Hurricane Matthew. This error was due to the National Guard's use of incorrect pay rates in the State Active Duty system and resulted in a net overpayment of \$38,559.

On October 10, 2016, the North Carolina National Guard was activated as part of the state's response to Hurricane Matthew. At that time, the National Guard was responsible for maintaining the State Active Duty system to process payroll. During this activation period, the State Active Duty system did not utilize the current Defense Finance and Accounting Service (DFAS) military pay tables to calculate wages. On or about November 30, 2016, the National Guard independently identified and corrected this deficiency.

On May 30, 2017, responsibility for maintaining the State Active Duty system was transferred from the North Carolina National Guard to the Department's Management Information Systems section. At the time of the transfer, current DFAS tables were entered in the system. In order to ensure the financial integrity of the State Active Duty system and to prevent a recurrence of the Auditor's finding, the Controller's Office will review, verify and document timely updating of the DFAS military pay tables on an annual basis. In addition, the Controller's Office will continue to monitor and verify use of the prevailing minimum military wage rate.

Chief Executive Officer

Chief Financial Officer

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