

# 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, 2019



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Beth A. Wood, CPA  
State Auditor

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**Office of the 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  
North Carolina Department of Public Safety

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 federal programs, we have completed certain audit procedures at the North Carolina Department of Public Safety for the year ended June 30, 2019.

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. However, the results included herein are 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*.

Our federal compliance audit scope at the North Carolina Department of Public Safety included the following:

- CFDA 16.575 – Crime Victim Assistance
- CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

We conducted our audit of compliance 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about

compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

### Other Matters

#### *Compliance*

The results of our audit procedures at the North Carolina 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.

#### *Internal Controls*

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. Therefore, material weaknesses and significant deficiencies may exist that were not identified. However, we consider the deficiencies described in the Findings, Recommendations, and Responses section to be material weaknesses in internal control over compliance.

### North Carolina 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 transmittal. The Department's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Purpose of This Transmittal

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

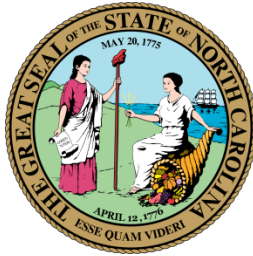
*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this transmittal.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 20, 2020



# **FINDINGS, RECOMMENDATIONS, AND RESPONSES**

**Matters Related to Federal Compliance Audit Objectives****CFDA 97.036 – DISASTER GRANTS – PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS)****1. INADEQUATE SUBRECIPIENT MONITORING**

The Department of Public Safety (Department) did not adequately monitor \$202 million in federal funds passed to state agencies, non-profits, and other organizations (collectively called subrecipients) for disaster relief assistance.

Auditors reviewed a sample of 68 out of 764 payments to subrecipients and found that 11 of 68 (16%) payments were paid without supporting documentation.

Auditors then required the Department to obtain the missing supporting documentation for those 11 payments from the subrecipients. Upon reviewing the support for these 11 payments, auditors discovered that documentation for 6 of the 11 payments did not support the amount paid. Payments totaling \$3,015,348 are being questioned.

In addition, auditors reviewed the monitoring process for all 18 subrecipients that were required to have an audit in accordance with the Uniform Guidance and found that the Department did not obtain or review the audit reports.

As a result, the Department may be required to pay \$3,015,348 back to the United States Department of Homeland Security. Furthermore, inadequate monitoring increased the risk that federal funds would not be used in accordance with federal requirements, which could have reduced the funding available for providing disaster relief assistance.

According to Department management, during the period the errors occurred, there was an unusual high volume of payment requests from subrecipients which resulted in certain payments not being adequately reviewed. In addition, the Department experienced staff turnover during the year which reduced the number of staff who had knowledge and experience with the monitoring requirements.

However, federal regulations<sup>1</sup> required the Department to:

- Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.
- Verify that every subrecipient is audited as required.

*Federal Award Information:* Federal Awarding Agency: United States Department of Homeland Security; CFDA Number (title): 97.036 (Disaster Grants – Public Assistance (Presidentially Declared Disasters)); Federal Award Number (award period): FEMA-4285-DR-NC (beginning October 10, 2016).

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<sup>1</sup> 2 CFR 200.331(d) and 2 CFR 200.331(f)

*Recommendation:* Department management should monitor the volume of payment requests to ensure adequate review during periods of high volume.

Additionally, Department management should implement contingency planning to reduce the risk that staff turnover could lead to oversight in monitoring.

*Agency Response:* See pages 8-11 for the North Carolina Department of Public Safety's response to this finding.

### CFDA 16.575 – CRIME VICTIM ASSISTANCE

#### 2. INADEQUATE SUBRECIPIENT MONITORING

The Department did not adequately monitor \$53.6 million in federal funds passed to state agencies, non-profits, and other organizations (collectively called subrecipients) for providing assistance to victims of crime. Specifically, the Department did not:

1. Perform all required site visits
2. Review participant eligibility during site visits
3. Adequately review reimbursement requests
4. Perform required risk assessments
5. Review subrecipient audit reports

First, auditors reviewed all 141 projects that ended during the audit period. Each project was required to have a site visit during the project life. Site visits were not properly performed for 38 (27%) of the projects. Specifically,

- For 12 (9%) projects, site visits were performed 2 to 95 days after the project ended.
- For 26 (18%) projects, site visits were not performed at all.

Second, auditors reviewed a sample of 27 of the 128 site visits performed during the audit period and found no evidence that the monitor reviewed participant eligibility in 15 (56%) of the visits.

Third, auditors reviewed a sample of 83 out of 3,506 reimbursement requests paid to subrecipients and found that 23 (28%) requests were not adequately reviewed. Specifically,

- For 19 (23%) requests, the supporting documentation did not support the amount being requested for reimbursement. Payments totaling \$15,335 are being questioned.<sup>2</sup>
- For 4 (5%) requests, there was no evidence of approval prior to payment.

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<sup>2</sup> Even though the tests identified only \$15,335 in questioned costs, if extended to the entire population, questioned costs could exceed \$25,000. 2 CFR 200.516(a)(3) requires auditors to report known questioned costs when likely questioned costs are greater than \$25,000.



Fourth, auditors reviewed the risk assessment procedures for the projects awarded to subrecipients during the audit period. The Department's monitoring plan requires a risk assessment for all new subrecipients prior to awarding funds and for all projects within the first week of the project assignment to the grant manager. Auditors found deficiencies in 100% of the items tested. Specifically,

- For all 5 of the new subrecipients, no risk assessment was performed prior to awarding funds.
- For a sample of 35 (23%) of the 153 projects awarded during the audit period, no risk assessment was performed within the first week of project assignment to the grant manager.

Fifth, auditors reviewed the monitoring process for all eight subrecipients that were required to have an audit in accordance with the Uniform Guidance and found that the Department did not obtain or review the audit reports.

As a result, inadequate monitoring increased the risk that federal funds would not be used in accordance with the federal requirements, which could have reduced funding available for the victims of sexual assault, domestic abuse, child abuse, and other crimes. Further, the Department may be required to pay \$15,335 back to the United States Department of Justice.

According to Department management, it experienced significant turnover in recent years which reduced the number of staff who had knowledge and experience with the monitoring requirements. Further, management did not have adequate policies and procedures in place to ensure sufficient monitoring was performed.

However, federal regulations<sup>3</sup> required the Department to:

- Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.
- Evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.
- Verify that every subrecipient is audited as required.

Significant aspects of this finding were previously reported in the 2018 Statewide Single Audit as finding number 2018-006.

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Justice; CFDA Number (title) 16.575 (Crime Victim Assistance); Federal Award Number (award period): 2015-VA-GX-0019 (October 1, 2014 – September 30, 2018); 2016-VA-GX-0075 (October 1, 2015 – September 30, 2019); 2017-VA-GX-0050 (October 1, 2016 – September 30, 2020); 2018-V2-GX-0061 (October 1, 2017 – September 30, 2021).

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<sup>3</sup> 2 CFR 200.331(d) and 2 CFR 200.331(f)

*Recommendation:* Department management should ensure responsible staff receive proper training on the monitoring requirements and implement contingency planning to reduce the risk that staff turnover could lead to oversight in monitoring.

Additionally, Department management should develop policies and procedures to ensure subrecipients are adequately monitored such as thorough reviews of reimbursement requests, a tracking tool for planning and completing on-site visits, a monitoring plan based on risk assessments, and updating review procedures for on-site visits.

*Agency Response:* See pages 8-11 for the North Carolina Department of Public Safety's response to this finding.



Roy Cooper, Governor

Erik A. Hooks, Secretary

December 9, 2019

The Honorable Beth A. Wood, CPA  
 State Auditor  
 North Carolina Office of the State Auditor  
 20601 Mail Service Center  
 Raleigh, North Carolina 27600-0600

Re: North Carolina Department of Public Safety – Federal Compliance Audit

Dear Auditor Wood:

I am in receipt of your letter dated November 15, 2019 and the accompanying Audit Findings and Recommendations related to the federal compliance audit of the Department of Public Safety for the state fiscal year ending June 30, 2019. The audit covered federal grants administered by the Division of Emergency Management and the Governor's Crime Commission. This response will address the audit findings pertaining to each entity individually and the common finding to both collectively.

CFDA 97.036 – Disaster Grants Public Assistance

The Office of State Auditor (OSA) determined the department did not adequately monitor Public Assistance Disaster Grants administered to subrecipients by the Division of Emergency Management for disaster relief assistance. Specifically, the audit found that eleven of 68 payments were made without supporting documentation, and when received, the documentation did not support the amount paid in six cases.

The department acknowledges OSA's finding and notes most of these payments were transfers to the Department of Transportation (DOT) to repair roads damaged by Hurricane Matthew. Emergency Management included a process for issuing "Advance of Funds" payments in its 2017 Administrative Plan, which was approved by the Federal Emergency Management Agency (FEMA). The approved plan allows the division to make advance payments based on anticipated costs documented in a FEMA-obligated Project Worksheet. The plan also requires the subrecipient to repay any funds not supported by the final cost of the project, a requirement which would apply in any cases where advance payments were issued. The department acknowledges, however, that Emergency Management did not obtain an "Advance of Funds Request" form from DOT, as required under the process described in the Administrative Plan.

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## CFDA 16.575 – Crime Victim Assistance

The Office of the State Auditor (OSA) determined the department did not adequately monitor Crime Victims' Assistance, Victims of Crime Act (VOCA) grant funds administered to subrecipients by the Governor's Crime Commission (the Commission) for state fiscal year (SFY) 2018-19, beginning July 1, 2018 and ending June 30, 2019. Since VOCA grants are generally open for three federal fiscal years (FFYs) beginning October 1 and ending September 30, this audit encompassed VOCA grant funding for FFYs 2015, 2016, 2017 and 2018. By way of background, it is important to note, in October of 2018, OSA conducted an audit of the same grant for SFY 2017-18, beginning July 1, 2017 and ending June 30, 2018. OSA completed its audit and provided its final recommendations to the department in January 2019. At that point, more than half of SFY 2018-19 had passed, and all subrecipient VOCA grants ending September 30, 2018 had closed.

Immediately after receiving the final audit report in January 2019, the Commission began developing and implementing its corrective action plan based on OSA's recommendations. In fact, the Commission implemented its corrective action plan well ahead of the anticipated completion date of October 1, 2019. However, the Commission had no ability to address any issues related to the recipient VOCA grant for FFY 2015, which closed on September 30, 2018. The Commission also could not address issues related to any other subrecipient grants that closed on September 30, 2018. Consequently, OSA made a repeat finding pertaining to the Commission's failure to perform subrecipient site visits, review participant eligibility, and adequately review reimbursement requests. We address each of the audit findings below.

### 1) Perform all required site visits

The audit found the department failed to conduct subrecipient site visits for 26 (18%) of the 141 projects open during SFY 2018-19, which represents a 20% improvement over the prior year's audit findings. Of these 26 projects, 25 had closed by the time the department received the final audit report for SFY 2017-18, and the Commission was not able to conduct site visits for these projects retroactively. Since receiving OSA's final report in January of 2019, the Commission has performed site visits for 167 projects statewide, including all VOCA projects closed on September 30, 2019. In addition, the Commission has updated the process for documenting site visits in the Grant Enterprise Management System (GEMS) to improve the agency's ability to track their progress. The Director of Grants Management also monitors site visits through a master spreadsheet to ensure they are completed throughout the year.

### 2) Review participant eligibility during site visits

The audit found the department failed to review participant eligibility in 56% of the site visits audited. As part of the corrective plan implemented in response to OSA's final report for SFY 2017-18, the Commission updated its site visit tool in April of 2019 to ensure grant monitors review participant eligibility during each visit. All deficiencies identified in OSA's findings

occurred prior to implementing the new tool. Grant monitors have reviewed participant eligibility during all site visits conducted since implementation of the updated tool.

### 3) Adequately review reimbursement requests

The audit found the department failed to adequately review reimbursement requests paid to subrecipients and questioned reimbursements totaling \$15,335, which is less than three hundredths of one percent of the \$53.6 million reviewed by OSA during this audit. The audit also found that four payments were made to subrecipients by the department's Controller's Office without prior approval from the Commission. Pursuant to the recommendations made in OSA's final report for SFY 2017-18, the Commission has implemented more stringent processes and procedures to ensure the thorough review of reimbursement requests.

### 4) Perform required risk assessments

The department accepts the audit's finding that the Commission failed to follow its monitoring plan requiring a pre-award risk assessment for all new subrecipients and a risk assessment for all projects within the first week of the project assignment to a grant manager. Federal guidelines do not mandate risk assessments within the first week of the project's assignment. Rather, this was a stringent policy established by the Commission but unachievable when staff levels reached critical lows. However, the Commission completed 100% of the required pre-award risk assessments prior to opening grants for FFY beginning October 1, 2019. In addition, the agency has revised its policy to clarify that while federal guidelines do not mandate risk assessments within the first week of the project's assignment, grant managers are encouraged to complete the assessments as soon as practical once the project has been assigned.

### 5) Review subrecipient audit reports

Finally, the department accepts the audit finding pertaining to both Emergency Management and the Governor's Crime Commission that the department failed to obtain or review audit reports from subrecipients. Under the Uniform Guidance, a pass-through agency is required to verify that non-profit subrecipients expending more than \$750,000 in federal funds during their fiscal year undergo a single audit. For the department, this responsibility resided with a position in the Controller's Office, and staffing shortages in that office led to the deficiency noted in the audit. To ensure this responsibility is met going forward, the department has transferred the position and the function to the Internal Audit Section, which is where it more commonly resides across state government. Establishing and filling this position is a priority for the department.

Moreover, the department fully embraces the audit recommendation to implement contingency planning to reduce the risk of lapses in grant monitoring due to staff turnover. The department is committed to building a robust internal control structure within the Internal Auditor's Office dedicated to federal grant compliance and oversight. The department is also committed to enhancing the grant management staff within both Emergency Management and the Commission by establishing additional grant management/oversight positions in each entity. The department

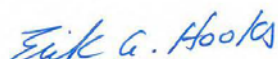


is working with its Human Resources section to appropriately classify these positions in order to attract and retain skilled staff for these important roles.

Attached you will find the corrective action plan outlining these improvements.

The Department greatly appreciates the opportunity to respond to this report, as well as the courtesy, congeniality and professionalism with which your staff conducted this audit.

Sincerely,



Erik A. Hooks  
Secretary

Cc: Casandra Hoekstra, Chief Deputy Secretary for Administration  
Pamela Cashwell, Chief Deputy Secretary for Professional Standards, Policy & Planning  
Jane Ammons Gilchrist, General Counsel  
Douglas Holbrook, Chief Financial Officer  
Darlene Langston, Controller  
Tim Harrell, Internal Audit Director  
Mike Sprayberry, Director, Emergency Management  
Caroline Valand, Executive Director, Governor's Crime Commission  
Katrina Agasino, Director of Federal Compliance, Governor's Crime Commission

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For additional information, contact the  
North Carolina Office of the State Auditor at 919-807-7666.



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This audit was conducted in 2,390 hours at an approximate cost of \$248,560.