

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

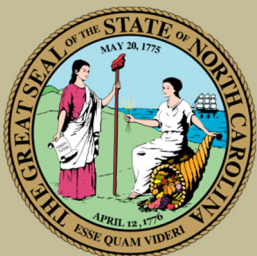


NORTH CAROLINA DEPARTMENT OF COMMERCE

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2022



NCOSA
The Taxpayers' Watchdog

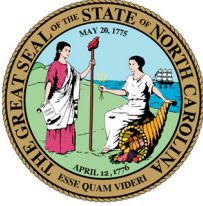


Beth A. Wood, CPA
State Auditor

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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Machelle B. Sanders, Secretary
North Carolina Department of Commerce

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 Commerce (Department) for the year ended June 30, 2022.

We conducted our audit of federal 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). Our audit objective was to express an opinion on the State of North Carolina's compliance for each of its major federal programs. However, 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. The State Auditor expresses an opinion on the State of North Carolina's compliance with requirements applicable to its major federal programs in the State's *Single Audit Report*.

Our federal compliance audit scope at the Department included Unemployment Insurance (Assistance Listing Number 17.225).

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

Compliance

The results of our audit procedures at the Department of Commerce disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and which are described in the finding in the Finding, Recommendation, and Views of Responsible Officials of the Auditee section.

Internal Control Over Compliance

In planning and performing our audit of federal compliance, we considered the Department's 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 the Department's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's 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 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 have not been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we consider the deficiency described in the finding in the Finding, Recommendation, and Views of Responsible Officials of the Auditee section to be a significant deficiency in internal control over compliance.

Department of Commerce's Response to Finding

The Department's response to the finding identified in our audit is included in the Finding, Recommendation, and Views of Responsible Officials of the Auditee section of this transmittal. 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 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 Department based on the requirements of the Uniform Guidance. Accordingly, this transmittal is not suitable for any other purpose.

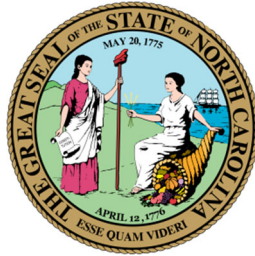
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this transmittal.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 24, 2023



**FINDING,
RECOMMENDATION, AND
VIEWS OF RESPONSIBLE
OFFICIALS OF THE
AUDITEE**

Matters Related to Federal Compliance Audit Objectives**ADMINISTRATION FUNDS USED FOR UNALLOWABLE ACTIVITIES**

The Department of Commerce (Department) incorrectly used \$18,028 of Unemployment Insurance (UI) administration award funds. During the audit period, the Department spent \$116.8 million to administer the UI program.

To administer the UI program, funds are allowed for both automation¹ and nonautomation expenditures for the first 15 months of the award period and only automation expenditures for the remaining 21 months of the award period. Auditors tested 26 out of 1,750 UI expenditures, totaling \$5.9 million, related to awards that were in the automation only period and found 4 errors totaling \$18,028 that were not allowed.

As a result, the \$18,028 is considered questioned costs² and the Department may be required to pay the funds back to the federal government. Furthermore, the funds could have been used for automation activities such as purchasing new computers and software for the UI program.

According to Department management, reviews over the expenditures were not detailed enough to ensure only allowable expenditures were charged to the award during the automation period.

Federal regulations³ require costs to conform to limitations and exclusions that apply to the federal award.

Federal Award Information: U.S. Department of Labor; Assistance Listing Number (title): 17.225 (Unemployment Insurance); Federal Award Identification Number (award period): UI-35666-21-55-A-37(October 1, 2020 – December 31, 2023).

Recommendation: Department management should develop and implement detailed review procedures over expenditures to ensure compliance with federal award requirements.

Views of Responsible Officials of the Auditee: See page 4 for the Department of Commerce's response to this finding.

¹ Automation expenditures are costs directly related to the automation of UI operations, such as purchase of computer equipment and associated software. Nonautomation expenditures are any allowable costs related to administering the UI program, such as maintenance and payroll costs.

² 2 CFR 200.516(a)(3) requires auditors to report known questioned costs when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program.

³ 45 CFR 75.403.



**NC DEPARTMENT
of COMMERCE**
EMPLOYMENT SECURITY

Roy Cooper
GOVERNOR

Machelle Baker Sanders
SECRETARY

M. Antwon Keith
ACTING ASSISTANT SECRETARY

March 22, 2023

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor

Dear State Auditor Wood:

Thank you for providing the Department of Commerce Division of Employment Security the opportunity to respond to your office's audit of the major federal programs of the State of the North Carolina for the year ended June 30, 2022, in accordance with the Single Audit Act 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).

During the audit period, the Division of Employment Security (DES) spent \$116.8 million in federal administrative grant funding to administer the state's unemployment insurance program. The audit found that \$18,028 of the federal Unemployment Insurance administrative grant was used incorrectly.

While the costs in question are allowable under the federal grant for nonautomation purposes, the payments were incorrectly charged to funding designated for automation purposes.

The Division of Employment Security agrees with this finding and has implemented corrective actions to strengthen internal controls and help prevent future errors of this nature.

Please contact me if you have any questions regarding our efforts or response.

Sincerely,

Machelle Baker Sanders
Secretary, Department of Commerce

CC: M. Antwon Keith, Acting Assistant Secretary for Employment Security

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For additional information contact the
North Carolina Office of the State Auditor at:

919-807-7666



This audit required 2,016 hours at an approximate cost of \$241,920.