

STATE OF NORTH CAROLINA

DEPARTMENT OF CRIME CONTROL AND PUBLIC SAFETY

**RESULTS OF AUDIT PROCEDURES APPLIED TO THE
DESIGN OF INTERNAL CONTROL OVER COMPLIANCE
FOR SELECTED PROGRAMS AWARDED
AMERICAN RECOVERY AND REINVESTMENT ACT FUNDS**

FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

DEPARTMENT OF CRIME CONTROL AND PUBLIC SAFETY

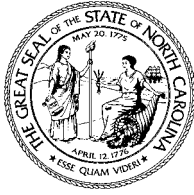
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May 17, 2010

The Honorable Beverly Eaves Perdue, Governor
Members of the North Carolina General Assembly
Reuben F. Young, Secretary
Department of Crime Control and Public Safety

This communication is provided pursuant to the *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, which encourages auditors to communicate, at an interim date, control deficiencies related to federal programs with American Recovery and Reinvestment Act of 2009 (ARRA) funding that are, or likely to be, significant deficiencies or material weaknesses in internal control over compliance. Accordingly, this communication is based on our assessment of the design of internal control over compliance. Because we have not completed our compliance audit, additional significant deficiencies and material weaknesses may be identified and communicated in our final report on compliance and internal control over compliance issued to meet the reporting requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

As part of our audit of the State of North Carolina's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the years ending June 30, 2009 and June 30, 2010, we are considering the State's internal control over compliance with these requirements that could have a direct and material effect on the major programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the State of North Carolina's internal control over compliance.

We performed these audit procedures at the Department of Crime Control and Public Safety on the following programs that have received American Recovery and Reinvestment Act funds:

- CFDA #16.738 - Edward Byrne Memorial Justice Assistance Program - The agency was awarded \$34.4 million and has received and expended \$3.1 million as of October 31, 2009.
- CFDA #12.400 - National Guard Military Construction - The agency was awarded \$53.9 million, but has not received or expended any funds as of October 31, 2009.

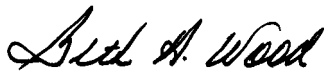
Our consideration of internal control over compliance is for the limited purpose described above and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined in the following paragraph. However, as discussed subsequently, based on the audit procedures performed on the design of internal control over compliance, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affect the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the attached Schedule of Audit Findings and Responses to be significant deficiencies.

A material weakness is a significant deficiency or combination of significant deficiencies that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider the deficiencies described in the Schedule of Audit Findings and Responses to be material weaknesses in relation to our scope at the Department.

Management's response to our findings is included in the accompanying schedule. We did not audit the response and, accordingly, we express no opinion on it.

This interim communication is intended solely for the information and use of the Governor, the General Assembly, the Office of Economic Recovery and Investment, Secretary Reuben F. Young, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives for year ended June 30, 2009

During our statewide federal compliance audit procedures for the year ended June 30, 2009, we identified findings that could impact the administration of the American Recovery and Reinvestment Act (ARRA) funds in 2010. For finding details and the Department's response, please refer to the audit report on the Department's Statewide federal compliance audit procedures for year ended June 30, 2009. Summaries of these findings are shown below:

1. SALARIES NOT ALLOCATED BASED ON TIME AND ATTENDANCE RECORDS

The Department's Governor's Crime Commission did not ensure that salary charges were allocated to the programs based on actual time recorded by employees on their time and attendance records. Employee's salaries were typically allocated based on funding availability with the assumption that employees will work an amount of time proportional to funding levels. The Department did not perform a verification that this actually occurred, therefore there is increased risk that the Department has not properly allocated payroll costs.

Federal Award Information: This finding impacts - CFDA 16.738 Edward Byrne Memorial Justice Assistance Grant Program, ARRA Grant #2009-SU-B9-0054.

2. DEFICIENCIES IN SUBRECIPIENT MONITORING - EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM

We identified deficiencies in the Department's monitoring procedures for the Edward Byrne Memorial Justice Assistance Grant Program. We determined that the Governor's Crime Commission grant managers did not maintain a complete record of all monitoring visits and the site visit checklist used as a monitoring tool did not address all federal compliance requirements. As a result, there is an increased risk that noncompliance at the subrecipient level could occur and not be detected in a timely manner.

Federal Award Information: This finding impacts - CFDA #16.738 Edward Byrne Memorial Justice Assistance Grant Program, ARRA Grant #2009-SU-B9-0054.

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