



STATE OF NORTH CAROLINA

OFFICE OF STATE BUDGET AND MANAGEMENT

**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

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April 19, 2010

The Honorable Beverly Eaves Perdue, Governor
Members of the North Carolina General Assembly
Mr. Charlie Perusse, State Budget Director
Office of State Budget and Management

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 Office of State Budget and Management on the following programs that have received American Recovery and Reinvestment Act funds:

- CFDA 84.394: State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (Education Stabilization Fund). Education State Grants, Recovery Act (Education Stabilization Fund) – In May 2009, the Office of the Governor was awarded approximately \$778.5 million in ARRA funds under this program. As of January 5, 2010, the Office of State Budget and Management had received and expended approximately \$436.9 million of this ARRA grant.

- CFDA 84.397: State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act – In May 2009, the Office of the Governor was awarded approximately \$232.7 million in ARRA funds under this program. As of January 5, 2010, the Office of State Budget and Management had received and expended approximately \$230.7 million of this ARRA grant.

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 a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 deficiency in internal control over compliance described in the attached Schedule of Audit Findings and Responses to be a significant deficiency.

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 did not consider the deficiency described in the Audit Findings and Responses section of this report to be a material weakness.

Management responded to our finding. 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, 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

ERROR IN LEVEL OF SUPPORT CALCULATION

During our statewide federal compliance audit procedures for the year ended June 30, 2009, we determined that the Office of State Budget and Management did not have controls in place to ensure that the calculation of the State's total expenditures for elementary and secondary education for the 2006 fiscal year was accurate. Since the State Fiscal Stabilization Fund regulations require the State to maintain its 2006 level of support in fiscal years 2009, 2010, and 2011, errors in this calculation could cause the State to be out of compliance with the regulations. If calculations are not reviewed for accuracy there is an increased risk that other federal reports could be in error.

For finding details and the Office of State Budget and Management's response, please refer to the audit report on the Office of State Budget and Management's Statewide Federal Compliance Audit Procedures for year ended June 30, 2009.

Federal Award Information: This finding impacts federal grant number S394A090034 and federal funding funding period May 20, 2009 – September 30, 2010.

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