

# STATE OF NORTH CAROLINA

**DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES**

**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 YEAR ENDED JUNE 30, 2010**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES**

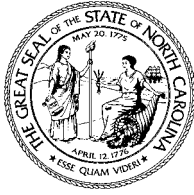
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March 19, 2010

The Honorable Beverly Eaves Perdue, Governor  
Members of the North Carolina General Assembly  
The Honorable Steve Troxler, Commissioner  
Department of Agriculture and Consumer Services

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 year ending 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 Agriculture and Consumer Services on the following programs that have received American Recovery and Reinvestment Act funds:

- CFDA 10.568 Emergency Food Assistance Program (Administrative Costs) - In March 2009 the Department was awarded \$776,812 and as of November 2009 all administrative funds had been received and expended.
- CFDA 10.569 Emergency Food Assistance Program (Food Commodities) - In March 2009 the Department was awarded \$3.1 million for commodities and as of November 2009 \$2.5 million had been received and distributed.

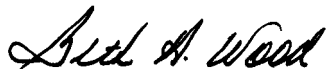
Our consideration of internal control over compliance is for the limited purpose described above and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined in the following paragraph. However, as discussed 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 did not consider any of the deficiencies described in the Schedule of Audit Findings and Responses to be material weaknesses in relation to our audit 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, Commissioner Steve Troxler, 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

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### 1. DEFICIENCIES IN INTERNAL CONTROL OVER FEDERAL REPORTING

The Department of Agriculture and Consumer Services has not implemented effective internal control to ensure compliance with federal reporting requirements specific to federal American Recovery and Reinvestment Act funds. As a result, the Department did not present its Emergency Food Assistance Program amounts in the 2009 Schedule of Expenditures and Federal Awards (SEFA) or the September 2009 quarterly FNS-667 *Report of Emergency Food Assistance Program (TEFAP) Administrative Costs* in accordance with requirements described in the *OMB Circular A-133 Compliance Supplement*.

We noted the following during our interim audit procedures of TEFAP funds awarded under the federal American Recovery and Reinvestment Act (ARRA):

- In the 2009 SEFA, the Department did not separately report \$139,412 of ARRA food commodity expenditures. As a result of our audit, the Department corrected the report and submitted a revised SEFA to the Office of the State Controller.
- The FNS-667 report of TEFAP administrative costs funded by ARRA for the quarter ended September 30, 2009 contained misstatements. The reported expenditures paid from federal funds included payments made to subrecipients during the month of October 2009, and thus, were overstated by \$203,746. In addition, the Department did not report \$19,794 of state-level costs associated with the program. As a result of our audit, the Department revised the September FNS-667 report and resubmitted it to the United States Department of Agriculture.

These deficiencies occurred because management did not identify and consider the impact of the new ARRA-specific compliance requirements and did not adjust their current procedures to address the risk of noncompliance with the requirements.

*Federal Award Information:* This impacts the design of internal control over compliance with ARRA grant 5NC840815 for CFDA 10.568 Administrative Costs and CFDA 10.569 Food Commodities.

*Recommendation:* The Department should enhance internal control to identify and address risks associated with changes in compliance requirements. Appropriate internal control procedures should be implemented to ensure proper reporting of ARRA funds.

*Agency Response:* The Budget & Finance division will implement the following change to strengthen the internal control over the reporting of the Schedule of Expenditures and Federal Awards (SEFA) and the Food Distribution Division will implement the following changes to strengthen the internal control over the federal reporting of FNS-667 *Report of the Emergency Food Assistance Program (TEFAP) Administrative Costs*.

## **SCHEDULE OF AUDIT FINDINGS AND RESPONSES (CONCLUDED)**

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- Budget & Finance: Prior to completing the SEFA annual report, the agency's Controller will review the *OMB Circular A-133 Compliance Supplement* for any updates and/or additions that would impact the annual report.
- Food Distribution: The division's administrative officer will prepare a hard copy of the report to be reviewed and approved by the Division Director prior to entering the information into the online federal system. The administrative officer will print off the online screens to compare with the approved hard copy report for accuracy prior to final submission.

### 2. DEFICIENCIES IN INTERNAL CONTROL OVER STATE REPORTING REQUIREMENTS

The Department of Agriculture and Consumer Services did not implement effective internal control to ensure compliance with state reporting requirements that are applicable to federal American Recovery and Reinvestment Act (ARRA) funds. As a result, the Department did not report federal drawdown amounts on the ARRA Funding and Disbursement Report submitted to the State's Office of Economic Recovery and Investment in a timely manner. Reporting errors could mislead users of this state report.

We noted federal draws totaling \$121,027, which represent approximately 16% of the Emergency Food Assistance Program's ARRA administrative grant award, were not reported timely to the State's Office of Economic Recovery and Investment. We reviewed the September 29, 2009 and October 6, 2009 ARRA Funding and Disbursement Reports submitted to the Office of Economic Recovery and Investment and noted that no drawdowns were reported. However, we found that federal funds of \$52,683 were drawn and deposited with the State in August 2009 but were not reported until December 2009, and federal funds of \$68,344 were drawn and deposited with the State in September 2009 but were not reported until January 2010.

These deficiencies occurred because management did not identify and consider the impact of the new ARRA-specific compliance requirements and did not adjust their current procedures to address the risk of noncompliance with the new requirements.

*Federal Award Information:* This impacts the design of internal control over compliance with ARRA grant 5NC840815 for CFDA 10.568 Administrative Costs.

*Recommendation:* The Department should enhance internal control to identify and address risks associated with changes in compliance requirements. Appropriate internal control procedures should be implemented to ensure reporting of ARRA funds in accordance with state requirements.

*Agency Response:* The Budget & Finance division will implement the following change to strengthen the internal control over the reporting of information on the ARRA Funding and Disbursement Report.

- Starting March 2010 the Funding & Disbursement Report will be handled by the Fiscal area of the Budget & Finance division. The report will be prepared by the fiscal Accountant and reviewed and approved by the Controller.

## **ORDERING INFORMATION**

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