

STATE OF NORTH CAROLINA

DEPARTMENT OF COMMERCE

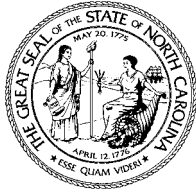
**RESULTS OF AUDIT PROCEDURES APPLIED TO THE
DESIGN OF INTERNAL CONTROL OVER COMPLIANCE
FOR SELECTED PROGRAMS AWARDED
AMERICAN RECOVERY AND REINVESTMENT ACT FUNDS**

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

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR



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December 31, 2009

The Honorable Beverly Eaves Perdue, Governor
Members of the North Carolina General Assembly
J. Keith Crisco, Secretary
Department of Commerce

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 Commerce on the following programs that have received or will receive American Recovery and Reinvestment Act funds:

- CFDA # 14.228 - Community Development Block Grants/State's Program - The agency was awarded \$12.1 million, but has not received or expended any funds.
- CFDA # 81.041 - State Energy Program - The agency was awarded \$76.0 million, but has not received or expended any funds.
- CFDA # 17.258 - Workforce Investment Act - Adult Program - The agency was awarded \$10.3 million and has received and expended \$3.5 million.

- CFDA # 17.259 - Workforce Investment Act - Youth Activities - The agency was awarded \$25.1 million and has received and expended \$13.9 million.
- CFDA # 17.260 - Workforce Investment Act - Dislocated Workers - The agency was awarded \$44.4 million and has received and expended \$5.2 million.

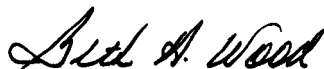
Our consideration of internal control over compliance is for the limited purpose described above and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined in the following paragraph. However, as discussed 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 and a material weakness.

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 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 consider the deficiency in internal control over compliance described in the finding to be a material weakness.

Management's response to our finding 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, the Secretary of Commerce, 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

DEFICIENCIES IN SUBRECIPIENT MONITORING

The State Energy Office (Office) has not updated its monitoring plans and tools to ensure that subrecipients will be monitored timely for the compliance requirements that are specifically applicable to American Recovery and Reinvestment Act (ARRA) funds. As such, there is an increased risk that noncompliance with federal requirements at the subrecipient level will not be detected.

The Office is still reviewing subgrant applications for ARRA-related energy grants, and therefore, no on-site monitoring is immediately required. However, the Office should begin the process of revising its monitoring procedures soon to ensure that these procedures will be effective and timely.

Primary grant recipients are responsible for monitoring subrecipients to provide reasonable assurance that the subrecipients administer federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Monitoring plans and tools should be modified to address ARRA-specific federal requirements.

Federal Award Information: This finding affects CFDA# 81.041 - State Energy Program - Grant # DE-EE0000157 - Award year July 1, 2009 through June 30, 2010.

Recommendation: The Office should begin revising its monitoring plans and tools to ensure that ARRA-specific compliance requirements are addressed timely.

Agency Response: The State Energy Office agrees with the finding of the State Auditor. As part of our process improvement, we have brought on-staff an internal auditor who will be responsible for implementing your recommendation.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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