



STATE OF NORTH CAROLINA

AUDIT RESULTS FROM
CAFR AND SINGLE AUDIT PROCEDURES
DEPARTMENT OF PUBLIC INSTRUCTION
FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR



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April 30, 2002

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
The Honorable Michael E. Ward, State Superintendent
Department of Public Instruction

We have completed certain audit procedures at the Department of Public Instruction related to the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report* for the year ended June 30, 2001. Our audit was made by authority of Article 5A of *North Carolina General Statute § 147*.

The results of these procedures, as described below, yielded an audit finding and recommendation for the Department related to the State's general-purpose financial statements and the State's federal financial assistance programs that required disclosure in the aforementioned reports. The finding is included in the finding and recommendation section contained herein. Our recommendation for improvement and management's response follow this finding.

We found continuing weak internal controls related to the Department's method of allotting funds to subrecipients. The Department advanced funds to several subrecipients who were never approved for funding.

The accounts and operations of the Department of Public Instruction are an integral part of the State's reporting entity represented in the *CAFR* and the *Single Audit Report*. In the *CAFR*, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the results of tests on the State's internal control and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget Circular A-133.

As part of the work necessary for issuance of the *CAFR* and the *Single Audit Report*, the following individual funds and federal programs of the State were subjected to audit procedures at the Department of Public Instruction:

Funds for the *Comprehensive Annual Financial Report*:

General Operating Fund

Public School Building Bond Fund

Public School Insurance Fund

Federal Programs for the *Single Audit Report*:

Child Nutrition Cluster:

School Breakfast Program

National School Lunch Program

Special Milk Program for Children

Special Education Cluster:

Special Education - Grants to States (IDEA, Part B)

Special Education - Preschool Grants (IDEA, Preschool)

Title I Grants to Local Educational Agencies

Class Size Reduction

The individual funds and federal programs subjected to audit at the Department of Public Instruction are substantially less in scope than would be necessary to report on the general-purpose financial statements that relate solely to the Department or the administration of federal programs by the Department. Therefore, we do not express such conclusions.

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 report.

Respectfully submitted,



Ralph Campbell, Jr.
State Auditor

AUDIT FINDING AND RECOMMENDATION

Matter Related to Financial Reporting or Federal Compliance Objectives

Current Year Finding and Recommendation Also Reported in Prior Audit - The following finding and recommendation was identified during the current and prior audits and represents significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

FUNDS WERE PROVIDED TO SUBRECIPIENTS WHO WERE NEVER APPROVED FOR FUNDING

The Department established allotments for all of its subrecipients in the Special Education-Grants to States Program before the subrecipients' applications for funding were approved. Failure to approve applications before allotments were made allowed the Department to advance funds to applicants who never were approved for funding.

Twelve subrecipients were provided funds prior to approval of their applications. Four of the applications were subsequently approved. The remaining eight applicants, however, were never approved and were advanced funds totaling \$10,295. The Department has recouped all but \$1,470 of this amount from seven of the applicants and reimbursed the program.

Insufficient communication between program and fiscal personnel was the cause of these conditions.

Recommendation: The Department should strengthen allotment procedures and communications between program and fiscal personnel. The Department should stop the practice of establishing allotments for applicants while their applications are still under consideration and should ensure all applicants are approved for funding prior to providing funds. The Department should recoup all amounts still outstanding and reimburse the program.

Agency's Response: Subsequent to a similar finding in the prior year's audit, we strengthened the allotment procedures and communications between program and fiscal staff. In addition, a supervisory control was established to ensure applications are approved prior to allotments to subrecipients. The instances of noncompliance mentioned in this year's audit finding occurred prior to the reporting of the prior year's finding and the corrective actions we took to prevent future occurrences. The final \$1,470 was recovered from the last subrecipient on January 28, 2002, so all funds inappropriately advanced to the eight subrecipients have been recovered.

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May 9, 2002

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