



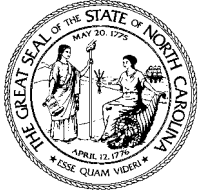
STATE OF NORTH CAROLINA

AUDIT RESULTS FROM
CAFR AND SINGLE AUDIT PROCEDURES
DEPARTMENT OF PUBLIC INSTRUCTION
FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR



Ralph Campbell, Jr.
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April 22, 2004

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, 2003. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The results of these procedures, as described below, yielded audit findings and recommendations for the Department related to the State's federal financial assistance programs that required disclosure in the aforementioned reports. The findings noted above are included in the findings and recommendations section contained herein. Our recommendations for improvement and management's response follow each finding.

Overall, we found that the required level of effort was not maintained for State administration in the Vocational Education – Basic Grants to States program. Also, the Department's method for reallocating unexpended funds for this grant was not in accordance with federal regulations. In addition, the Department did not consistently follow prescribed procedures when processing cash disbursements.

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, as we considered necessary:

Funds for the *Comprehensive Annual Financial Report*:

General Fund

Federal Programs for the *Single Audit Report*:

Child Nutrition Cluster:

School Breakfast Program

National School Lunch Program

Special Milk Program for Children

Vocational Education – Basic Grants To States

Improving Teacher Quality State Grants

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 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.



Ralph Campbell, Jr.
State Auditor

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

Current Year Findings and Recommendations - The following findings and recommendations were identified during the current audit and represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

1. LEVEL OF EFFORT NOT MAINTAINED FOR STATE ADMINISTRATION

The Department did not have controls in place to ensure that the required level of effort was maintained for State administration for the Vocational Education – Basic Grants to States Program. Our test of the 2000 federal grant award, that ended September 30, 2002, revealed that the Department provided \$369,238 less for State administration in State fiscal year 2001 than it provided in State fiscal year 2000. Since the State did not meet the required level of effort, we question the \$369,238.

The Carl D. Perkins Vocational and Applied Technology Education Amendments of 1998, requires states to provide an amount for State administration from a non-federal source, which is not less than the amount provided from a non-federal source in the previous year.

Recommendation: The Department should establish controls to ensure that the required level of effort for state administration is maintained.

Agency's Response: Technically, we are in agreement with the finding; however, we disagree that it should be considered an exception due to the following reason. During the 1995 reorganization of DPI, House Bill 230, Section 15.11 reassigned the function providing overall leadership, coordination, and structure for agricultural education programs and Future Farmers of America activities in public schools to North Carolina State University (NCSU). During fiscal years 1995 through 2000, NCSU provided to DPI the amount of State funds spent for this function, and DPI included that amount when reporting the total administration expenditures for maintaining the level of effort. In fiscal year 2001, NCSU advised DPI they were using these expenditures to meet matching requirements for other fund sources and, therefore, DPI could no longer include them to meet the level of effort requirement. Without NCSU's expenditures, the level of effort as reported for 2000 could not be maintained. However, it should be noted that the level of effort by DPI in 2001 did in fact increase from 2000 by 2.8% and has actually increased 36% since 2000 although the overall state appropriation for DPI has decreased 7% during this same period.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. REALLOCATIONS TO LOCAL EDUCATION AGENCIES (LEAs) NOT PERFORMED IN ACCORDANCE WITH FEDERAL REGULATIONS

The Department's method for reallocating unexpended funds was not in accordance with the Vocational Education – Basic Grants to States Program regulations. Unexpended funds totaling \$271,919 were allocated to a few of the LEAs instead of reallocating the funds to all LEAs in the formula prescribed by the federal regulations.

The Carl D. Perkins Vocational and Applied Technology Education Amendments of 1998, requires unexpended funds within the academic year to be returned to the State for redistribution in that same year. If the funds are returned late in the year they may be retained by the State for distribution in combination with amounts provided for the following academic year. Allocations are based on factors such as low income population and population in the school district.

Recommendation: The Department should reallocate the unexpended budgets with the new grant award to all LEAs as required by federal regulations. Also, the Department's *Allotment Policy Manual* should be updated and communications between program and fiscal personnel should be strengthened to ensure that the program is being operated in accordance with federal regulations.

Agency's Response: We are in agreement with the finding. The Department will take the necessary steps to allocate unexpended funds to all LEAs as required by federal regulations. To prevent reoccurrence of this finding, the Allotment Policy Manual will be updated and communications between the program and fiscal personnel will be strengthened.

3. DISBURSEMENTS NOT ADEQUATELY SUPPORTED

The Department did not consistently follow prescribed procedures when processing cash disbursements for the Vocational Education – Basic Grants to States Program. The Department was unable to locate supporting documentation for two of the thirty-nine disbursements tested. The risk of inappropriate disbursements increases when payments are processed without proper documentation.

In order for costs to be allowable under federal awards, OMB Circular A-87 requires costs to be adequately documented. Since projected questioned costs would likely exceed \$10,000, we question \$96, the amount of the disbursements in our test that was not supported by documentation.

Recommendation: The Department should adhere to prescribed procedures and federal regulations when processing cash disbursements.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Agency's Response: We are in agreement with this finding. We will continue to search for the missing documentation. Our procedures for processing cash disbursements including filing procedures for cancelled invoices will be reviewed and strengthened as needed.

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Michael E. Ward	State Superintendent
	Department of Public Instruction

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April 29, 2004

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