



STATE OF NORTH CAROLINA

RESULTS OF

STATEWIDE FINANCIAL AUDIT PROCEDURES AT THE

DEPARTMENT OF PUBLIC INSTRUCTION

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR



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April 6, 2005

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

We have completed certain audit procedures at the Department of Public Instruction related to the State of North Carolina reporting entity as presented in the *Comprehensive Annual Financial Report (CAFR)* and *Single Audit Report* for the year ended June 30, 2004. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

In the *CAFR*, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor presents the results of tests of internal control and compliance with laws, regulations, contracts and grants applicable to the State's financial statements and to its federal financial assistance programs. Our 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 the Single Audit Act as applicable. Our audit scope at the Department of Public Instruction included the following:

State of North Carolina's Financial Statements

General Fund

State of North Carolina's Administration of Federal Financial Assistance Programs

Child Nutrition Cluster:

School Breakfast Program

National School Lunch Program

Special Milk Program for Children

Special Education Cluster:

Special Education – Grants To States

Special Education – Preschool Grants

Title I Grants To Local Educational Agencies

Vocational Education – Basic Grants To States

Improving Teacher Quality State Grants

Our audit procedures at the Department of Public Instruction were less in scope than would be necessary to report on the financial statements that relate solely to the Department or its administration of federal programs. Therefore, we do not express such conclusions.

The results of our audit procedures yielded audit findings and recommendations for the Department related to the federal financial assistance programs that may require disclosure in the aforementioned reports. These findings are included in the findings and recommendations section contained herein. Our recommendations for improvement and management's response follow each finding.

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings and recommendations were identified during the current audit and discuss conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts or grants.

1. CASH DISBURSEMENT CONTROL PROCEDURES NOT CONSISTENTLY PERFORMED

The Department did not consistently follow prescribed procedures when processing cash disbursements for its internal copy center charges in the Vocational Education – Basic Grants to States Program. Our review of 25 of these disbursements revealed the following:

- Supporting documentation for four disbursements was not located. The risk of inappropriate disbursements increases when payments are processed without proper documentation;
- Nineteen disbursements were processed without evidence that the services had been completed or goods received. Unless there is evidence that goods are received, the Department could pay for items never received;
- Three disbursements were processed without the proper authorization. The risk of unallowable disbursements increases when payments are made without approval from authorized personnel.

OMB Circular A-87 requires costs to be supported by appropriate documentation to be allowable under a grant program. Since projected questioned costs would likely exceed \$10,000, we question \$6,125, the amount of the disbursements in our test that was not supported by adequate documentation. Also, adequate internal controls related to cash disbursements are necessary to ensure that goods are received and purchases are properly authorized.

Recommendation: The Department should adhere to prescribed procedures and federal regulations for the processing of all cash disbursements.

Agency's Response: Management concurs with the finding and recommendation. The Division of Communications and Information will strengthen administrative procedures and controls over the processing of cash disbursements for its internal copy center charges. An existing printing position has been reclassified to work as a print/graphics coordinator. This action will enable the division to better handle the administrative and clerical tasks of billing and filing requisitions, among other support tasks. In addition, the duplicating and graphic design requisitions are being re-designed to incorporate appropriate approval signatures for initiating work, and also to signify delivery of each job.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. INTERNAL CONTROL OVER THE COMPARABILITY REVIEWS NEEDS IMPROVEMENT

The Department did not have a system in place to track the status of the Local Educational Agency (LEA) comparability reviews. Comparability reviews are required to show that services provided by State and local funds in schools receiving Title I funds are comparable to the services provided to the schools not receiving Title I funds. LEAs must meet the comparability requirement in order to receive Title I, Part A funding. A tracking system would enable program personnel to monitor the status of all comparability reviews by ensuring that all documentation has been obtained and corrective action, when necessary, has been taken to address any issues of noncompliance at the LEA level.

We examined the comparability reviews for 28 LEAs and found that documentation was missing in many cases. These documents are necessary to verify that the Department reviewed the LEA's compliance with the comparability requirement. The results of our test showed:

- Five files did not contain the LEA notification letter. The letters that were on file for the other 23 LEAs were not final approved copies;
- Eleven files did not contain the material/supplies allocation;
- One file did not contain the Staff/Student Ratio Comparability Report;
- One LEA did not have a comparability review file and there was no explanation for why a review was not necessary.

Title I of the No Child Left Behind Act of 2001 requires that each LEA shall develop procedures for compliance with the comparability requirement and shall maintain records that are updated biennially documenting compliance. The State is responsible for monitoring the LEAs for compliance.

Recommendation: The Department should continue its efforts to design and implement procedures to ensure that comparability reviews are adequately documented, conducted and tracked to properly determine the status of all reviews. This will strengthen control procedures to ensure all comparability requirements have been met.

Agency's Response: Management concurs with the finding and recommendation. The Division of School Improvement has developed an instrument that accurately tracks the comparability status of all LEAs receiving Title I, Part A funds and ensures that quality control of the comparability process is maintained. The related procedures ensure that necessary documentation associated with comparability is solicited, transmitted, and maintained. The instrument was designed such that:

- LEA notification letters (information regarding comparability status) are appropriately transmitted and evidence of such transmissions are maintained;

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

- LEA materials/supplies reports (where applicable) are received and evidence of such receipts are maintained;
- Staff/Student Ratio Comparability Reports (where applicable) are transmitted to LEAs and evidence of the transmissions are kept on file; and
- information is maintained with regard to LEAs who are not required to comply with the comparability requirement.

The instrument was used during the current year (2004-2005) to determine compliance with the comparability requirement, and we have achieved one hundred percent accuracy.

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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April 12, 2005

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