



# **STATE OF NORTH CAROLINA**

**DEPARTMENT OF PUBLIC INSTRUCTION**

**FISCAL CONTROL AUDIT**

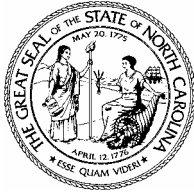
**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**DEPARTMENT OF PUBLIC INSTRUCTION**  
**FISCAL CONTROL AUDIT**

**THE HONORABLE DR. JUNE ST. CLAIR ATKINSON**  
**STATE SUPERINTENDENT**



STATE OF NORTH CAROLINA  
Office of the State Auditor

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

## AUDITOR'S TRANSMITTAL

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
The Honorable Dr. June St. Clair Atkinson, State Superintendent  
Department of Public Instruction

This report presents the results of our fiscal control audit of the Department of Public Instruction. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of a fiscal control audit is to gather and evaluate evidence about internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Recommendations section of this report. We also noted certain matters that we reported to management of the Department of Public Instruction in a separate letter dated June 13, 2006.

*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

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## **BACKGROUND INFORMATION**

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The North Carolina Department of Public Instruction is responsible for the supervision and administration of the public school system comprising pre-kindergarten through 12th grade public education. With approximately 600 positions, the Department manages the annual public school funds that include both state and federal funds and provides services to 115 local educational agencies. The elected State Superintendent of Public Instruction heads the Department and functions under the policy direction of the State Board of Education.

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## OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

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### OBJECTIVES

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes* and in accordance with the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we have conducted a fiscal control audit at the Department of Public Instruction.

The objective of a fiscal control audit is to gather and evaluate evidence about internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources. Our audit does not provide a basis for issuing an opinion on internal control, and consequently, we have not issued such an opinion.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

### SCOPE

Our audit scope covered the period July 1, 2005, through January 31, 2006. During our audit, we considered internal control related to the following accounts and control objectives:

*Contracted Personal Services* – These are expenditures incurred for services purchased from independent contractors and/or external organizations for contracted professional and consultative personal services. These services are needed for maintenance and/or ongoing operations and cannot be provided by current staff. This includes legal services, financial/audit services, information technology services, personal computer and printer support services, administrative services, and academic services. During our audit period, the Department reported approximately \$19 million of expenditures in contracted personal services. We examined internal control designed to ensure that the Department properly accounted for the expenditures and that purchases were made in compliance with State purchase and contract regulations.

*Travel* – This includes reimbursement of travel and subsistence (lodging, meals and miscellaneous) for employees and for members of the State Board of Education, the Board of Governors for the Governor's Schools, and non-state employees (e.g., independent contractors, consultants, school administrative unit personnel and committee members). On January 31, 2006, the Department reported a total of about \$2 million of travel expenditures. We examined internal control designed to ensure that the travel reimbursements complied with State and Department policies and that the Department properly accounted for travel reimbursements.

## **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)**

*Educational Supplies*– These are expenditures incurred for purchase of materials and supplies used exclusively for instructional and training purposes. These expenditures also relate to educational supply costs associated with producing or hosting a workshop or conference. The Department reported educational supply purchase of approximately \$1.9 million. We examined internal control designed to ensure that the Department properly accounted for the expenditures and that purchases were made in compliance with State purchase and contract regulations.

*Capital Outlay/Property, Plant, & Equipment* – These expenditures are payments for acquiring legal ownership to real property, to construct additions to buildings, and to furnish buildings with equipment, furniture, furnishings, and machinery. The Department reported capital outlay expenditures of approximately \$1.7 million. We examined internal control designed to ensure that the Department properly accounted for the expenditures and that purchases were made in compliance with State purchase and contract regulations.

### **METHODOLOGY**

To accomplish our audit objectives, we gained an understanding of internal control, performed tests of control effectiveness, and/or performed direct tests of the accounts and transactions as we considered necessary in the circumstances. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records and examining documentation supporting recorded transactions and balances.

### **RESULTS**

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Recommendations section of this report. We also noted certain other matters that we have reported to management in a separate letter dated June 13, 2006.



## AUDIT FINDINGS AND RECOMMENDATIONS

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### 1. REQUIRED STATE PURCHASING RULES WERE NOT FOLLOWED

The Department did not follow State rules for purchasing from agency employees. Title 1 North Carolina Administrative Code section 05B.1509 requires that every reasonable effort be made to avoid making purchases from or through employees of any agency. It also requires that prior written approval from the State Purchasing Officer (SPO) be obtained in the event of doing business with such personnel.

The Department paid a total of \$5,465 to an employee for services without prior written approval from the SPO. Purchasing from employees may create conflict of interest that could foster favoritism and undermine the integrity of the purchasing process.

*Recommendation:* The Department should avoid making purchases from its employees, if possible. However, if the Department deems it practicable to do business with its employees, the Department should seek prior approval from the SPO.

*Agency's Response:* We agree with the finding. In the future, DPI will avoid making purchases from employees, if possible. However, if DPI deems it practical to do business with an employee, we will seek and obtain prior approval from the State Purchasing Officer.

### 2. NONCOMPLIANCE WITH STATE PURCHASING RULES

The Department did not comply with state rules for the procurement of goods and services. Title 1 NCAC section 05B.0301 requires the solicitation of competition for purchases made by State agencies involving an expenditure of public funds over \$5,000. We found that the Department made multiple requisitions for the same product/services within minutes or hours apart. Since the individual requisitions were less than \$5,000 each, they did not believe that competitive bids were required. Splitting purchases is likely to increase costs; however, it is unknown if the failure to seek competitive bids cost the Department additional funds in all cases.

Our analysis of all purchases less than \$5,000 revealed the following:

- The Department entered into the procurement system two requisitions for the same services for \$4,600 and \$4,735 within nine minutes apart on June 8, 2005.
- The Department entered into the procurement system six requisitions for the same services for \$4,069, \$4,069, \$4,960, \$3,795, \$3,795 and \$3,795, within two hours apart on July 1, 2005.
- The Department entered into the procurement system two requisitions for the same product for \$4,659 and \$1,553 within four hours apart on September 8, 2005.

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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- The Department entered into the procurement system three requisitions for the same product for \$3,837, \$3,500, and \$3,500, within 45 minutes on September 8, 2005. An additional requisition for \$4,480 for the same product was made five days later. In this case, the Department did pay more per unit by splitting the order. The unit cost was \$1,279 for three items, but only \$875 per unit when four items were purchased.

The failure to seek competitive bids increases the risk that the Department may have paid excessive costs for these goods and services.

*Recommendation:* The Department should ensure that all appropriate personnel are aware of and comply with all state and department purchasing rules, regulations, and policies. The Department should consider a process where the best product prices can be obtained.

*Agency's Response:* We agree with the finding. DPI provided agency staff with training on purchasing rules, regulations, and policies on May 15, 2006, and June 14, 2006. A third training session is planned on August 23, 2006 for any staff that was unable to attend the first two sessions. In addition, DPI has designed a new report that will allow DPI's Purchasing and Contracts Section to efficiently research all procurements for services under \$5,000 to ensure purchases are not being split to avoid the \$5,000 threshold that would require competitive bidding.

## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://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:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647