



# **STATE OF NORTH CAROLINA**

**DEPARTMENT OF PUBLIC INSTRUCTION**

**STATEWIDE FINANCIAL STATEMENT AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2010**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**DEPARTMENT OF PUBLIC INSTRUCTION**

**STATEWIDE FINANCIAL STATEMENT AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2010**

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State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly Eaves Perdue, Governor  
Members of the North Carolina General Assembly  
The State Board of Education  
The Honorable Dr. June St. Clair Atkinson, 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, 2010. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

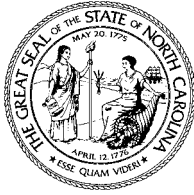
In the *CAFR*, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor presents the results of tests of internal control and compliance with laws, regulations, contracts, and grants applicable to the State's financial statements. Our audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our audit objective was to render an opinion on the State of North Carolina's financial statements and not on the Department's financial statements. However, the report included herein is in relation to our audit scope at the Department and not to the State of North Carolina as a whole.

The audit finding referenced in the report is also evaluated to determine its impact on the State's internal control and the State's compliance with rules, regulations, contracts and grants. If determined necessary in accordance with *Government Auditing Standards*, the finding is reported in the State's *Single Audit Report*.

*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.

Beth A. Wood, CPA  
State Auditor



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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The State Board of Education  
and Management of the Department of Public Instruction

As part of our audit of the State of North Carolina's financial statements, we have audited selected elements of the Department of Public Instruction's financial statements, as of and for the year ended June 30, 2010. Our report on the State of North Carolina's financial statements is included in the State's *Comprehensive Annual Financial Report*. Our financial statement audit scope at the Department of Public Instruction included the following:

- General Fund

The audit results described below are in relation to our audit scope at the Department and not to the State of North Carolina as a whole.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the State's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A *deficiency in internal control* 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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we consider the deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over financial reporting, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's response to the finding identified in our audit is included in the Audit Findings and Responses section of this report. We did not audit the response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the State Board of Education, others within the entity, the Governor, the General Assembly, 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

December 8, 2010

## AUDIT FINDINGS AND RESPONSES

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### **Matters Related to Financial Reporting**

#### INAPPROPRIATE ACCESS TO INFORMATION SYSTEMS

The Department did not maintain adequate internal control over access to its computer systems and data. As a result, there is an increased risk that unauthorized access to accounting systems and inappropriate changes to financial data could occur and go undetected.

The following deficiencies were noted:

- Two computer programmers had inappropriate database access to two information systems that process financial data, thus giving them the ability to update, alter, or delete financial data. The ability to access and change database information should be restricted to employees with the need to perform database administrative functions.
- Two former employees had access to the Department's information systems. These employees left the Department on August 31, 2009 and December 31, 2009, respectively, but continued to have access as of June 2010. The *Statewide Information Security Manual* requires access to be immediately terminated upon leaving employment.

*Recommendation:* The Department should strengthen its access security procedures. Specifically, the ability to access information systems should be restricted to a need-to-use basis and should be immediately removed from individuals no longer with the Department. Periodic reviews should be performed to ensure that employees' access is appropriate.

*Agency Response:* To strengthen security procedures, DPI will review the current security access of the Technology Services' staff and replace security to alter files with read only security. In addition, programming code will be input by the supervisor or another programmer instead of by the initiating programmer, and an audit trail of Technology Services' staff activity will be provided by a tracking report. All changes will be in place by January 1, 2011 and will be reviewed quarterly to assure compliance.

DPI requires all separating employees to complete a DPI Out-Processing Checklist by the end of their last working day. Computer security access is included on this list. To further ensure that access is terminated, beginning in December 2010 and each month thereafter, DPI's Manager of Financial Systems will review a report of separated staff and verify that access has been terminated.

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## **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:

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