

STATE OF NORTH CAROLINA

DEPARTMENT OF PUBLIC INSTRUCTION

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

DEPARTMENT OF PUBLIC INSTRUCTION

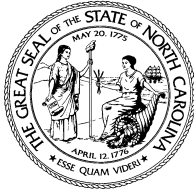
STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the 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

The Honorable Beverly E. Perdue
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 *Single Audit Report* for the year ended June 30, 2008. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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 major federal 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.

Our audit objective was to render an opinion on the State of North Carolina's administration of major federal programs and not the Department's administration of major federal programs. 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 findings referenced in the report are also evaluated to determine their 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* or the Single Audit Act, these findings are 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.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the 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>

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The State Board of Education
The Honorable Dr. June St. Clair Atkinson, State Superintendent
Department of Public Instruction

Compliance

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 2008, we have performed audit procedures at the Department of Public Instruction. Our report on the State of North Carolina's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 is included in the State's *Single Audit Report*. Our federal compliance audit scope at the Department of Public Instruction included the following:

- Child Nutrition Cluster:
 - CFDA 10.533: School Breakfast Program
 - CFDA 10.555: National School Lunch Program
 - CFDA 10.556: Special Milk Program for Children
- Special Education Cluster:
 - CFDA 84.027: Special Education – Grants to States
 - CFDA 84.173: Special Education – Preschool Grants
- CFDA 84.011: Migrant Education – State Grant Program
- CFDA 84.365: English Language Acquisition Grants
- CFDA 84.366: Mathematics and Science Partnerships

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 of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of compliance with those requirements.

The results of our audit procedures at the Department of Public Instruction disclosed an instance of noncompliance that is required to be reported in accordance with OMB Circular A-133 and which is described in finding 3 in the Audit Findings and Responses section of this report.

Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and one that we consider to be a material weakness.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in findings 1, 2, 3, and 4 in the Audit Findings and Responses section of this report to be significant deficiencies.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the Audit Findings and Responses section of this report, we consider finding 3 to be a material weakness.

We noted another matter related to internal control over financial reporting that we reported to management of the Department of Public Instruction in a separate letter dated February 11, 2009.

Management's responses to the findings identified in our audit are included in the Audit Findings and Responses section of this report. We did not audit the responses, and accordingly, we express no opinion on them.

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

February 9, 2009

[This Page Left Blank Intentionally]

AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

The following findings and recommendations were identified during the current audit and discuss conditions that represent deficiencies in internal control and/or noncompliance with laws, regulations, contracts or grants. Finding number one was also reported in the prior audit.

1. INADEQUATE SUBRECIPIENT MONITORING

As reported in the prior audit, the Department did not monitor fiscal matters for subrecipients in the Special Education – Grants to States and Special Education – Preschool Grants programs. This condition continued to exist during a significant part of the current audit period. As a result, there is an increased risk that unallowable costs at the subrecipient level would not have been detected. Subrecipients were awarded \$320 million in federal funds during the fiscal year.

During the audit year the Department included Special Education funds in its comprehensive monitoring schedule. However, the Department did not begin fiscal monitoring for Special Education subrecipients until March 2008. As a result, the Department was unable to monitor 31 out of the 37 Special Education subrecipients scheduled for monitoring.

OMB Circular A-133 requires pass-through entities to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Federal Award Information: This finding impacts federal funding periods July 2005 – September 2006 (H027A050092A and H173A050096), July 2006 – September 2007 (H027A060092A and H173A060096), and July 2007 – September 2008 (H027A070092A and H173A070096).

Recommendation: The Department should continue in its effort to monitor its Special Education subrecipients for fiscal matters.

Agency Response: As noted in your findings, the Department did begin fiscal monitoring of the Special Education subrecipients in March 2008. The fiscal monitoring of Special Education subrecipients is performed in conjunction with on-site Title I and Title III monitoring visits. There are six such monitoring visits planned for 2008-09. DPI also continues to perform desk reviews of the subrecipients' annual audit reports.

2. FAILURE TO MONITOR FOR FEDERAL LEVEL OF EFFORT REQUIREMENT

The Department did not monitor to ensure that subrecipients of the English Language Acquisition Grants comply with the federal level of effort – supplement not supplant

AUDIT FINDINGS AND RESPONSES (CONTINUED)

requirement. This requirement prevents subrecipients from using federal funds to provide program services that they provided with non-federal sources in the immediate prior years. Without monitoring this federal requirement, the risk increases that subrecipients may have used federal program funds to take the place of funds from other non-federal sources.

The Department awarded \$12.2 million in English Language Acquisition Grants funds to subrecipients in fiscal year 2008. Although the Department performed fiscal and performance monitoring, it did not monitor subrecipients for compliance with the supplement not supplant requirement for this program.

According to 20 USC section 6825, a subgrantee may only use English Language Acquisition Grants funds to supplement the level of federal, state, and local public funds that would have been expended for programs for limited English proficient children and in no case to replace such funds.

Federal Award Information: This finding impacts federal funding periods July 2005 – September 2007 (T365A050033), July 2006 – September 2008 (T365A060033), and July 2007 – September 2009 (T365A070033).

Recommendation: The Department should incorporate monitoring for level of effort - supplement not supplant into its subrecipient monitoring efforts.

Agency Response: The Title III Monitoring Instrument has been revised to include a test for compliance with the requirement that the subrecipient is using Title III funds to supplement funds already allocated for the program and not to supplant previously allocated funds.

3. FAILURE TO COMPLY WITH FEDERAL SUSPENSION AND DEBARMENT REQUIREMENTS

The Department did not ensure that the federal suspension and debarment requirements were met for subrecipients in the English Language Acquisition Grants and the Mathematics and Science Partnerships program. The failure to comply with these requirements heightens the risk that the Department may have contracted with or provided funds to suspended or debarred subrecipients.

The Department did not verify that subrecipients were not suspended or debarred for any of the subrecipients for these two federal programs. This verification may be accomplished by checking the Excluded Parties List System maintained by the General Services Administration, collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. Our review of the Excluded Parties List System revealed that none of the subrecipients tested were debarred. Subrecipients of the English Language Acquisition Grants and the Mathematics and Science Partnerships program received \$12.2 million and \$4.8 million respectively during the fiscal year.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Title 34 CFR Section 85.300 requires verification for covered transactions to ensure that the recipients of federal funds are not suspended or debarred. All non-procurement transactions (for example, subawards to subrecipients) according to 34 CFR Section 85.210 are covered transactions.

Federal Award Information: This finding impacts the federal grant numbers and years as follows:

- English Language Acquisition Grants: Federal funding periods July 2005 – September 2007 (T365A050033), July 2006 – September 2008 (T365A060033), and July 2007 – September 2009 (T365A070033).
- Mathematics and Science Partnerships: Federal funding periods July 2005 – September 2006 (S366B050034), July 2006 – September 2007 (S366B060034), and July 2007 – September 2008 (S366B070034).

Recommendation: The Department should establish and implement procedures to ensure compliance with federal suspension and debarment requirements.

Agency Response: The Title III English Language Arts application has been revised to include an assurance from the applicants that they will not do business with a vendor who has been debarred by any Federal agency. The Math and Science Partnership request for proposal will also be revised to include the debarment statement. In addition, both program areas are contacting current subrecipients requesting assurances that they will not do business with debarred vendors.

4. FAILURE TO MONITOR FOR THE PARTICIPATION OF PRIVATE SCHOOL CHILDREN REQUIREMENT

The Department did not monitor to ensure that the Local Educational Agencies (LEAs) collaborated with private school officials to ensure their participation in the Mathematics and Science Partnerships and Migrant Education – State Grant Programs. As a result, there is an increased risk that appropriate services would not have been offered.

Title 34 CFR Section 299.6 requires the State or LEAs that receive funds for Migrant Education and Mathematics and Science Partnerships programs to provide special education services or other benefits on an equitable basis to eligible children who are enrolled in private schools and to their teachers and other educational personnel. This provision of services must be done after timely and meaningful consultation with appropriate private school officials.

Federal Award Information: This finding impacts the federal grant numbers and years as follows:

- Mathematics and Science Partnerships: Federal funding periods July 2005 – September 2006 (S366B050034), July 2006 – September 2007 (S366B060034), and July 2007 – September 2008 (S366B070034).

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

- Migrant Education – State Grant Programs: Federal funding periods July 2005 – September 2006 (S011A050033), July 2006 – September 2007 (S011A060033), and July 2007 – September 2008 (S011A070033).

Recommendation: The Department should revise its monitoring procedures to include monitoring for the participation of private school children requirement.

Agency Response: The request for proposal for the Math and Science Partnerships does have an assurance statement that the LEA signs stating non-public schools will be notified of their eligibility to participate in the grant program. In the future subrecipients will also be required to send evidence of the invitation to non-public schools with their interim reports. The Migrant Education program has revised the monitoring protocol to include a compliance test in which LEA documentation is reviewed for evidence of the consultation with private school officials.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at 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