

STATE OF NORTH CAROLINA

DEPARTMENT OF PUBLIC INSTRUCTION

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

DEPARTMENT OF PUBLIC INSTRUCTION

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2013

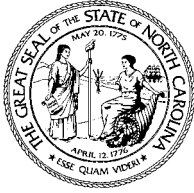
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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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

As part of our audit of the State of North Carolina's compliance with requirements applicable to its major federal programs, we have completed certain audit procedures at the Department of Public Instruction for the year ended June 30, 2013. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*. We conducted the audit 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 United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

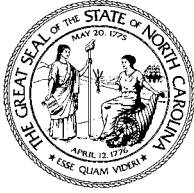
Our audit objective was to render an opinion on the State of North Carolina's, and not the Department's, administration of major federal programs. However, the report included herein is in relation to our audit scope at the Department and not to the State of North Carolina as a whole. The State Auditor expresses an opinion on the State's compliance with requirements applicable to its major federal programs in the State's *Single Audit Report*.

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 OMB Circular A-133, 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



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**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Report on 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 could have a direct and material effect on each of its major programs for the year ended June 30, 2013, we have performed audit procedures at the Department of Public Instruction. Our report on the State of North Carolina's compliance with requirements that could have a direct and material effect on 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 10.553: School Breakfast Program

CFDA 10.555: National School Lunch Program

CFDA 10.556: Special Milk Program for Children

- Title I Cluster

CFDA 84.010: Title I Grants to Local Educational Agencies

CFDA 84.389: Title I Grants to Local Educational Agencies, Recovery Act

- Special Education Cluster

CFDA 84.027: Special Education – Grants to States

CFDA 84.173: Special Education – Preschool Grants

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
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IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

- CFDA 84.367: Improving Teacher Quality State Grants
- CFDA 84.048: Career and Technical Education – Basic Grants to States
- CFDA 84.410: Education Jobs Fund
- CFDA 84.395: State Fiscal Stabilization Fund (SFSF)-Race-to-the-Top Incentive Grants, Recovery Act
- School Improvement Grants Cluster
 - CFDA 84.377: School Improvement Grants
 - CFDA 84.388: School Improvement Grants, Recovery Act

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.

Management's Responsibility

Management is responsible for compliance with laws, regulations, contracts, and grants applicable to federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State of North Carolina's major federal programs based on our audit of the types of compliance requirements referred to above, which we issue in the State's *Single Audit Report*. 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 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.

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
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IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

We believe that our audit provides a reasonable basis for our opinion. However, our audit does not provide a legal determination of the Department's compliance with those requirements.

Opinion on Each Major Federal Program

As stated above, our opinion on compliance for each of the State of North Carolina's major federal programs is included in the State's *Single Audit Report*.

Other Matters

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 1 in the Audit Findings and Responses section of this report.

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less

**INDEPENDENT AUDITOR'S REPORT ON
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severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we consider the deficiency described in finding 1 in the Audit Findings and Responses section of this report to be a material weakness in internal control over compliance. Furthermore, we consider the deficiencies described in findings 2 through 7 in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over compliance.

Purpose of Report on Internal Control Over Compliance

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.

Management's Responses to Audit Findings

Management's responses to the findings identified in our audit are included in the Audit Findings and Responses section of this report. The responses were not subjected to the auditing procedures applied in the audit of compliance or consideration of internal control over compliance, and accordingly, we express no opinion on them.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 14, 2014

AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

1. NONCOMPLIANCE WITH MAINTENANCE OF EFFORT REQUIREMENTS

The Department did not maintain its required maintenance of effort from state sources for the Career and Technical Education grant. Expenditures from state sources in fiscal year 2012 were approximately \$12.7 million less than those provided in fiscal year 2011.

Section 311(b)(1)(A) of the Carl D. Perkins Career and Technical Education Act of 2006 requires the State to maintain its fiscal effort in the preceding year from state sources for career and technical education on either an aggregate or a per-student basis when compared with such effort in the second preceding year.

The Department's current procedures require staff to review expenditures from state sources for career and technical education on a quarterly basis to ensure compliance with this requirement. However, the Department did not request a waiver when it became evident that the requirement would not be met. The Secretary of Education may grant a waiver for one fiscal year only after determining that the waiver would be equitable due to exceptional or uncontrollable circumstances affecting the ability of the agency to meet the requirements.

The Department grants a portion of the award to the North Carolina Community College System Office (NCCCS) each year. The NCCCS expenditures from state sources are also used in the calculation to determine if the maintenance of effort requirement is met. The Department and NCCCS provided approximately \$3.6 million and \$9.1 million, respectively, less in 2012 than 2011.

Federal Award Information: This finding impacts federal funding period July 1, 2012 - September 30, 2013 (V048A120033).

Recommendation: The Department should take action to ensure that the maintenance of effort requirement is met in accordance with federal regulations or request a waiver.

Agency Response: The Department concurs with the Auditor's finding and recommendation. The Department will continue to review and analyze the level of effort on a quarterly basis. A formal review and discussion regarding the level of effort will be scheduled annually with the North Carolina Community College System effective with fiscal year ending June 30, 2014. If it is determined that the circumstances related to maintenance of effort noncompliance meet the Perkins Act waiver requirements, the Department will request a waiver. The Perkins Act states that waivers are granted for 1(one) fiscal year only due to exceptional or uncontrollable circumstances (such as a natural disaster or an unforeseen and precipitous decline in financial resources) that would have affected the ability of the eligible agency to meet the maintenance of effort

AUDIT FINDINGS AND RESPONSES (CONTINUED)

requirement. It should be noted that the Department met the maintenance of effort requirement at the Secondary and Post-Secondary Recipient level for the FY 2013-14 reporting.

2. NONCOMPLIANCE WITH CASH MANAGEMENT REQUIREMENTS

The Department did not have adequate monitoring procedures to ensure subrecipients disbursed federal funds in a timely manner as required by federal and state cash management requirements. As a result, there is an increased risk that the Department and/or its subrecipients could accumulate federal funds and fail to disburse them in a timely manner. During the year, the Department disbursed approximately \$1.3 billion in federal funds to subrecipients for all grants.

The Treasury-State Agreement requires the State to request funds such that they are deposited in a state account not more than three days prior to the actual disbursement of those funds. In addition, 34 CFR section 80.20 requires the State to monitor cash drawdowns by its subrecipients to ensure that they conform substantially to the same standards as the State.

The Department's cash management monitoring procedures in place during the majority of the year did not ensure that subrecipients expended federal funds within three days of receipt. During its fiscal monitoring visits, the Department determined if the subrecipients had policies and procedures over their cash management process, but did not verify that the procedures were actually being followed. At the end of each month, the Department determined whether subrecipients had requested funds in excess of actual expenditures for the month. This procedure was inadequate as it did not determine whether funds were spent within three days of receipt. The Department began the implementation of an online cash management monitoring system in March 2013, but not all subrecipients were participating in the monitoring system by year-end.

The Department's year-end closeout process for the 2013 fiscal year revealed that excess funds had been drawn down and disbursed to subrecipients for a number of grants. The Department recovered these funds from the subrecipients which caused the Department to have excess cash on hand. For example, the Department recovered:

- \$8 million for the Special Education – Grants to State program on July 9, 2013.
- \$3.5 million for the Title I Cluster on July 9, 2013.
- \$1.3 million for the Improving Teacher Quality grant on July 9, 2013.

In addition to the issues noted above, the Department did not eliminate excess cash balances on hand before drawing down additional federal funds. During the 2012 year-end closeout process, the Department had recovered approximately \$16.2 million from its subrecipients in July 2012, which caused the Department to have excess cash on hand. The Department continued to draw down federal funds daily for more than two weeks

AUDIT FINDINGS AND RESPONSES (CONTINUED)

before using any of the recovered funds. The recovered funds were held by the Department from 21 to 30 business days before being used.

Significant aspects of this finding were reported in the prior year.

Federal Award Information: This finding impacts these federal programs:

- a. Title I Grants to Local Education Agencies: Federal funding periods: 1) July 1, 2011 - September 30, 2012 (S010A110033A); and 2) July 1, 2012 - September 30, 2013 (S010A120033A).
- b. Special Education - Grants to States: Federal funding periods: 1) July 1, 2010 - September 30, 2011 (H027A100092A); 2) July 1, 2011 - September 30, 2012 (H027A110092A); and 3) July 1, 2012 - September 30, 2013 (H027A120092-11B).
- c. Special Education - Preschool Grants: Federal funding periods: 1) July 1, 2010 - September 30, 2011 (H173A100096); 2) July 1, 2011 - September 30, 2012 (H173A110096); and 3) July 1, 2012 - September 30, 2013 (H173A120096).
- d. Improving Teacher Quality State Grants: Federal funding periods: 1) July 1, 2010 - September 30, 2011 (S367A100032A); 2) July 1, 2011 - September 30, 2012 (S367A110032A); and 3) July 1, 2012 - September 30, 2013 (S367A120032A).
- e. Race to the Top: Federal funding period September 24, 2010 - September 23, 2014 (S395A100069).
- f. Education Jobs Fund: Federal funding period August 10, 2010 - September 30, 2011 (S410A100034).
- g. Career and Technical Education: Federal funding periods July 1, 2011 - September 30, 2012 (V048A110033-11B); and July 1, 2012 - September 30, 2013 (V048A120033-12A).
- h. School Improvement Grants: Federal funding periods 1) July 1, 2009 - September 30, 2010 (S377A090034A); 2) July 1, 2010 - September 30, 2011 (S377A100034); and 3) July 1, 2012 - September 30, 2013 (S377A120034).
- i. School Improvement Grants, Recovery Act: Federal funding period February 17, 2009 - September 30, 2010 (S388A090034A).

Recommendation: The Department should ensure subrecipients draw down and disburse federal funds in accordance with federal and state cash management requirements. In addition, the Department should ensure excess federal cash balances are returned to the federal awarding agency or disbursed in a timely manner.

Agency Response: The Department concurs with the Auditor's finding and recommendation. Effective March 28, 2013, the Department went "live" with the online Cash Management Monitoring System (CMMS). Implementation of CMMS enables the LEAs to perform self-monitoring of compliance with federal and state cash management

AUDIT FINDINGS AND RESPONSES (CONTINUED)

requirements. CMMS provides users with cash and expenditure activity, ending cash balances and any out of compliance amounts via two key reports, the Audit Compliances Report and Daily Report (Summary). To date, communication to the LEAs included two separate Finance Officer Newsletters dated March 28, 2013 and May 3, 2013, respectively, as well as direct emails. In addition, the Department presented this information as well as a live demonstration of the system at the Finance, Business, and Technology Services Summer Conference on July 25, 2013, the Cash Management and Management Systems Administration training December 18, 2013 and the Region 2 Finance Officers' meeting February 28, 2014. The Department's ongoing communication regarding the implementation of the system and emphasis on compliance with Federal and State cash management requirements should increase the LEAs awareness of the significance of compliance.

The Department is in the process of developing effective policies and procedures for monthly monitoring of CMMS for LEA compliance and appropriate notification, consequences, etc. for identified instances of noncompliance. In addition, the Monitoring and Compliance Section's policies and procedures for on-site fiscal monitoring, also in the process of being revised, will include an update of fiscal monitoring procedures and the fiscal monitoring tool to include verification of subrecipients' compliance with federal and state cash management requirements. The estimated date to have these monitoring procedures revised and implemented is by July 1, 2014.

The Department will develop a year end accounting procedure to eliminate excess cash balances on hand before drawing down additional funds. If funds cannot be disbursed within three business days, the Department will return the excess cash balances to the appropriate federal awarding agency. The procedure will be effective with the fiscal year 2013-2014 year end close.

3. NONCOMPLIANCE WITH PERIOD OF AVAILABILITY REQUIREMENTS

The Department did not reduce amounts awarded to subrecipients that had carryover balances exceeding 15% of the Title I awards as required by federal regulations. As a result, subrecipients did not comply with the period of availability requirement by carrying over approximately \$2.36 million in unobligated funds into the following fiscal year.

We reviewed 12 out of 31 subrecipients that received \$50,000 or more in Title I funds and had a carryover balance on September 30, 2012, that exceeded 15% of the original Title I funds awarded. Our review showed that eight of the 12 subrecipients did not request a waiver from the Department but carried over Title I funds. The Department did not comply with the federal requirement to reduce the excess awards for the eight subrecipients.

Section 1127 of the Elementary and Secondary Education Act provides that subrecipients that receive \$50,000 or more in Title I, Part A funds may not carry over beyond the initial

AUDIT FINDINGS AND RESPONSES (CONTINUED)

15 months of availability more than 15% of its Title I, Part A funds. A State Education Agency may grant a waiver of the percentage limitation for a subrecipient.

Federal Award Information: This finding impacts federal funding period July 1, 2011 - September 30, 2012 (S410A110033A).

Recommendation: The Department should ensure awards are reduced for subrecipients of Title I funds that have a carryover balance that exceeds the 15% threshold and do not obtain a waiver.

Agency Response: The Department concurs with the Auditor's finding and recommendation. The Department's Monitoring and Compliance Section is in the process of developing effective policies and procedures to monitor period of availability requirements and ensure compliance as well as identify appropriate methods of notification or required reductions for identified instances of noncompliance. The estimated date to have these monitoring policies and procedures revised and implemented is by July 1, 2014

4. DEFICIENCIES IN SPECIAL EDUCATION CLUSTER MONITORING

The Department did not have procedures in place to ensure that monitoring reports were reviewed or that monitoring results were communicated to subrecipients. As a result, there is an increased risk that noncompliance at the subrecipient level could not be corrected timely. During the year, subrecipients received approximately \$342 million in Special Education Cluster funds.

The Department has multiple processes in place to monitor the use of the Special Education funds at the subrecipient level. These activities range from reviewing improvement plans prepared by the subrecipients, to performing onsite visits. The deficiencies identified during our tests are described below.

- There was no evidence that four of the 33 continuous improvement plans received from the subrecipients had been reviewed by the Department. The Department has developed a routing form that indicates the date received, the date reviewed and date approved for these plans but this form was not completed for these four subrecipients.
- There was no evidence of approval to ensure that the monitoring report clearly reflected the results of the review for one of the eight onsite program compliance reviews tested.
- The Department did not provide a monitoring report communicating the results of the visit to the subrecipient for one of the two onsite targeted visits in our sample. The Department's policy states that a formal report will be issued within 60 calendar days of the targeted visit. Failure to issue reports increases the

AUDIT FINDINGS AND RESPONSES (CONTINUED)

likelihood that the subrecipient will not address noncompliance issues or take timely corrective action.

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 these federal programs:

- a. Special Education - Grants to States: Federal funding periods: 1) July 1, 2011 - September 30, 2012 (H027A110092A) and 2) July 1, 2012 - September 30, 2013 (H027A120092A).
- b. Special Education - Preschool Grants: Federal funding periods: 1) July 1, 2011 - September 30, 2012 (H173A110096) and 2) July 1, 2012 - September 30, 2013 (H173A120096).

Recommendation: The Department should follow its procedures to ensure that monitoring reports are reviewed and each subrecipient receives a monitoring report. In addition, the Department should complete and retain routing forms to document monitoring procedures performed.

Agency Response: The Department concurs with the Auditor's finding and recommendation. The Exceptional Children's Division will put cross-check procedures in place to ensure that monitoring reports are reviewed and each subrecipient receives a monitoring report. These cross-check procedures will include a procedure to ensure that routing forms are completed and retained to document the status of the monitoring process. These procedures will be effective by July 1, 2014.

5. SUBRECIPIENTS NOT NOTIFIED OF BUDGET OVERRUNS

The Department did not provide evidence that it communicated noncompliance issues identified during the monitoring process to Education Jobs Fund subrecipients. As a result, there is an increased risk that noncompliance with federal requirements could continue if the subrecipient is not aware of the monitoring results.

The Department's current procedures require staff to contact subrecipients that overspent more than 10%, for any line item of their approved budget, and request that the approved budget be revised or reclassify expenditures to another funding source. We examined a sample of 18 monitoring reviews and noted four subrecipients exceeded certain line items within their approved budget by more than 10%. These overruns totaled approximately \$472,000. However, there was no evidence that the Department notified the four subrecipients to revise their budgets.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Title 34 CFR section 80.30 provides that subrecipients obtain prior approval of the awarding agency whenever programs, projects, functions, or activities exceed or are expected to exceed 10% of the current total approved budget.

Federal Award Information: This finding impacts federal funding period August 10, 2010 - September 30, 2013 (S410A100034).

Recommendation: The Department should notify all subrecipients that exceeded by 10% any line item in their approved budget and require a revision of their budgets.

Agency Response: The Department concurs with the Auditor's finding and recommendation. As stated in the response, the Monitoring and Compliance Section's fiscal monitoring policies and procedures are in the process of being revised. Updated policies will incorporate procedures to ensure adequate monitoring of budget vs expenditures for applicable programs, timely notification to subrecipients of identified budget overruns, implementation of a tracking mechanism for notifications and verification of the subrecipients' corrective action taken.

6. MONITORING RESULTS NOT REPORTED TIMELY

The Department did not review fiscal monitoring reports in a timely manner, which resulted in the late communication of monitoring results to the subrecipients. Also, the Department did not ensure subrecipients took timely corrective action on issues identified during the fiscal monitoring visits. As a result, there is an increased risk that subrecipients did not take timely corrective actions on noncompliance issues identified.

We selected 11 sample items out of 53 fiscal monitoring visits performed during the year and reviewed the fiscal monitoring documentation. Our test revealed that:

- The Department did not review the reports and communicate the results of the fiscal monitoring visits to 11 subrecipients in a timely manner. The monitoring reports were issued between 59 and 201 business days after the date of the monitoring visit.
- The Department did not ensure that four subrecipients took timely corrective action on the issues noted during the monitoring visits that occurred in October and November of 2012. As of October 31, 2013, three of the subrecipients had not yet provided the documentation requested by the Department to show that corrective actions were taken. One subrecipient did not take corrective action until August 21, 2013.

The Department's policy does not specify a timeline for reviewing monitoring reports and communicating results to the subrecipients. The Department does have a policy that requires subrecipients to respond to report findings within 30 business days of receipt of the report.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

OMB Circular A-133 requires pass-through entities to monitor the subrecipient's use of federal awards through reporting, site visits, regular contact or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws and regulations. In addition, it requires pass-through entities to ensure subrecipients took appropriate and timely corrective action on its findings.

Aspects of this finding were reported in the prior year.

Federal Award Information: This finding impacts these federal programs:

- a. School Breakfast Program, National Lunch Program, & Special Milk Program for Children: Federal funding periods: 1) October 1, 2011 - September 30, 2012 (5NC300327); and 2) October 1, 2012 - September 30, 2013 (5NC300327).
- b. Title I Grants to Local Education Agencies: Federal funding periods: 1) July 1, 2011 - September 30, 2012 (S010A110033A); and 2) July 1, 2012 - September 30, 2013 (S010A120033A).
- c. Career and Technical Education: Federal funding periods July 1, 2011 - September 30, 2012 (V048A110033-11B); and July 1, 2012 - September 30, 2013 (V048A120033-12A).
- d. Special Education - Grants to States: Federal funding periods: 1) July 1, 2011 - September 30, 2012 (H027A110092A); and 2) July 1, 2012 - September 30, 2013 (H027A120092A).
- e. Special Education - Preschool Grants: Federal funding periods: 1) July 1, 2011 - September 30, 2012 (H173A110096); and 2) July 1, 2012 - September 30, 2013 (H173A120096).
- f. Improving Teacher Quality State Grants: Federal funding periods: 1) July 1, 2011 - September 30, 2012 (S367A110032A); and 2) July 1, 2012 - September 30, 2013 (S367A120032A).
- g. Education Jobs Fund: Federal funding period August 10, 2010 - September 30, 2011 (S410A100034).
- h. Race to the Top: Federal funding period September 24, 2010 - September 23, 2014 (S395A100069).
- i. School Improvement Grants: Federal funding periods 1) July 1, 2009 - September 30, 2010 (S377A090034A); 2) July 1, 2010 - September 30, 2011 (S377A100034); and 3) July 1, 2012 - September 30, 2013 (S377A120034).
- j. School Improvement Grants, Recovery Act: Federal funding period February 17, 2009 - September 30, 2010 (S388A090034A).

Recommendation: The Department should develop and implement policies and procedures that ensure fiscal monitoring reports are reviewed and results are communicated to the subrecipient within a reasonable period of time. In addition, the

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Department should comply with its policy by ensuring that subrecipients respond to noncompliance issues within 30 business days of receipt of the report.

Agency Response: The Department concurs with the Auditor's finding and recommendation. As stated in the responses, Monitoring and Compliance Section's fiscal monitoring policies and procedures are in the process of being revised. Updated policies and procedures will include a reasonable period from the actual on-site visit date for the completion, review and issuance of the final monitoring report as well as include noncompliance consequences for those subrecipients who fail to submit requested corrective action plans within the time allotted. The Department implemented formal monitoring report cover letter and report templates in February 2014 for use with all 2013-2014 fiscal monitoring visits which includes language for potential consequences if the LEA or Charter School fails to respond to the request for a formal response, corrective action plan and documentation when applicable.

7. DEFICIENCIES IN TITLE I PROGRAM MONITORING

The Department did not maintain documentation to support its monitoring visits for the Title I program. As a result, there is an increased risk that subrecipient monitoring was not adequately performed and/or monitoring results were not supported.

Our review of the documentation for a sample of 11 subrecipient monitoring visits revealed the Department issued reports and ensured findings were addressed. However, we noted the following deficiencies:

- The Department did not maintain the completed monitoring tool for eight subrecipient monitoring visits.
- The Department did not maintain the completed monitoring tracking form for three subrecipient visits. A tracking form is used to ensure the monitoring process is completed in its entirety (i.e. the visit occurred, the report was sent to the subrecipient, and the subrecipient took appropriate and timely corrective action on all findings).
- The Department provided one incomplete monitoring tracking form.

These deficiencies were attributed to the lack of centralized filing of monitoring supporting documentation and the lack of review and approval of monitoring tracking forms to ensure all phases of the monitoring process were completed. The Department's current procedures require Title I Program Consultants to complete a monitoring tool and monitoring tracking form for each subrecipient monitored during the year.

Federal regulations require 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 and regulations and performance goals are achieved.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Federal Award Information: This finding impacts federal funding periods 1) July 1, 2011 - September 30, 2012 (S010A110033A) and 2) July 1, 2012 - September 30, 2013 (S010A120033A).

Recommendation: The Department should develop and implement policies and procedures that ensure subrecipient monitoring documentation is centrally filed and available to Department personnel. Monitoring tracking forms should be reviewed and approved to ensure all monitoring phases are completed.

Agency Response: The Department concurs with the Auditor's finding and recommendation. The Department's Federal Program Monitoring and Support Division initiated an internal audit of the Title I subrecipient monitoring procedures including documentation to support subrecipient monitoring. In fiscal year 2013-14, the Department implemented procedures to include organizing documentation in files for planning, fieldwork, reporting and maintenance of files in Dropbox; revising the monitoring instrument adding a section to provide detailed documentation of evidence reviewed and recommendations made; developing common practices and providing staff training for documenting reviews; and, revising the monitoring report to include additional information and space for action taken and the final report status. The Title I monitoring staff were trained on monitoring and documentation procedures in August and September of 2013. The Department's Federal Program Monitoring and Support Division will maintain all documentation, including tracking forms, in a web-based format to provide management with easy access to monitoring procedures throughout the subrecipient monitoring process.

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