

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## DEPARTMENT OF PUBLIC INSTRUCTION

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2014



**NC**  **OSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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## AUDITOR'S TRANSMITTAL

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The Honorable Pat McCrory, Governor  
Members of the North Carolina General Assembly  
The State Board of Education  
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, 2014. 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 was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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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**Beth A. Wood, CPA**  
State Auditor

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Article V, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



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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**

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

**Report on Compliance for Each Major Federal Program**

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, 2014, 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:

- CFDA 84.010: Title I Grants to Local Educational Agencies
- CFDA 84.048: Career and Technical Education – Basic Grants to States
- CFDA 84.287: Twenty-First Century Community Learning Centers
- CFDA 84.367: Improving Teacher Quality State Grants
- CFDA 84.395: State Fiscal Stabilization Fund (SFSF)-Race-to-the-Top Incentive Grants, Recovery Act
- Child Nutrition Cluster
  - CFDA 10.553: 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

- School Improvement Grants Cluster  
CFDA 84.377: School Improvement Grants  
CFDA 84.388: School Improvement, 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.

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 instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described in findings 2, 4, and 6 in the Findings, Recommendations, and Responses section of this report.

**Report on Internal Control Over Compliance**

Management of Department of Public Instruction 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 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 deficiencies described in findings 2, 4, 5, and 6 in the Findings, Recommendations, and Responses section of this report to be material weaknesses in internal control over compliance. Furthermore, we consider the deficiencies described in findings 1 and 3 in the Findings, Recommendations, and Responses section of this report to be significant deficiencies in internal control over compliance.

### **Department of Public Instruction's Responses to Audit Findings**

The Department's responses to the findings identified in our audit are included in the Findings, Recommendations, and Responses section of this report. The Department's 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.

### **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.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 24, 2015



# **FINDINGS, RECOMMENDATIONS, AND RESPONSES**



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## MATTERS RELATED TO FEDERAL COMPLIANCE OBJECTIVES

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### 1. REQUIRED VERIFICATION OF GRADUATION RATES WAS NOT PERFORMED

The Department did not monitor Local Education Agencies (LEAs) and charter high schools to verify that the adjustments to the regulatory adjusted cohort<sup>1</sup> and the resulting adjustments to graduation rates were appropriate. The graduation rate is a measure of a school's success that when computed incorrectly could mislead parents when making decisions on where to relocate and choosing schools to enroll their children.

As a result, the lack of verification may have allowed inaccurate graduation rates<sup>2</sup> to have gone undetected by the Department. Although there is a risk of inaccuracy, a large number of students would have to be improperly removed from the student count to significantly change the graduation rate. For example, approximately 1300 students would have to be improperly removed from the total student count to increase the graduation rate by 1% based on statewide calculations.

Although the Department was aware of the documentation verification requirement, it did not implement changes in its monitoring procedures to verify written documentation was maintained to support the removal of a student from the graduation rate calculation. The Department has the final number of students and graduation rates, but it does not have readily available data on the number of students removed prior to the graduation rate calculation to aid in evaluating the accuracy of the graduation rate.

Federal regulations (34 CFR 200.19(b)) require the Department to verify that LEAs and charter high schools maintain appropriate written documentation<sup>3</sup> supporting the removal of a student from the calculation to ensure that the graduation rate is accurate and consistently calculated. The process for calculating the graduation rate was established by the U.S. Department of Education to provide parents, educators and community members with a more accurate standardized calculation that would allow for meaningful comparisons across states and school districts.

#### **Federal Award Information**

Title I Grants to Local Education Agencies: Federal Funding Period: July 1, 2013 – September 30, 2014 (S010A130033A).

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<sup>1</sup> A cohort is made up of a group of first-time 9th graders which form a future graduating class in a specific school, district or state.

<sup>2</sup> The graduation rate is calculated based on the number of students who graduate in 4 years or less with a regular high school diploma divided by the number of students who form the adjusted cohort.

<sup>3</sup> Appropriate written documentation to support adjustments to a cohort may include an obituary or written statement from the parent when a student dies or a request for student records from the public or private high school when a student transfers to another state or emigrates to another country.

### Recommendation

The Department should develop and implement monitoring procedures to verify that LEAs and charter high schools maintain appropriate written documentation to support the removal of students from the calculation of the graduation rate.

### Agency Response

The Department concurs with the Auditor's finding and recommendation regarding the verification of graduation rates. Currently, schools enter an exit code into PowerSchool to denote students who should be removed from the denominator of the graduation rate. Also, the Department provides the CGRAUDIT (cohort graduation audit) file and the CGREXIT (cohort graduation rate exit) file to LEAs and charter schools. Any students withdrawn from the cohort are flagged for confirmation. The Department will require LEAs and charter schools to maintain evidence/documentation for each withdrawal to include, but not limited to, certifications of death, transfers to private schools, transfers to homeschools, certifications of the student(s) leaving the state or country, and certifications of the student(s) being in a detention center. The LEA or school accountability director/test coordinator and the respective superintendent will verify the evidence/documentation and sign and date the required End of Year Data Collection Sign Off, which is provided to the Department's Division of Accountability Services. The Department will inform LEAs and charter schools of the evidence/documentation requirements effective with the 2015-16 school year.

## 2. INACCURATE SCHOOL STATUS REPORTING COULD IMPACT PARENTAL SCHOOL DECISION

The Department of Public Instruction (Department) incorrectly reported the Elementary and Secondary Education Act (ESEA) school status for 156 schools on its public website for North Carolina School Report Cards. The 2012-2013 state school year statuses, released in January 2014, were found to have the following errors:

- 105 schools were incorrectly reported as reward<sup>4</sup> schools.
- 51 schools were not reported as reward schools.

Additionally, the listing of charter schools on the Departments website incorrectly reported 10 charter schools without a status and should have reported them as follows:

- Four should have been listed as reward schools.
- Four should have been listed as priority<sup>5</sup> schools.
- Two should have been listed as focus<sup>6</sup> schools.

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<sup>4</sup> A reward school has demonstrated high student achievement or high student progress over a three year period

<sup>5</sup> A priority school has been identified among the lowest performing schools in the State

<sup>6</sup> A focus school is contributing to the achievement gap in the State or with a graduation rate less than 60 percent over a three year period and is not a priority school

The failure to accurately report school statuses could mislead parents when making decisions about relocating to or within the state and choosing a school to enroll their children.

The Department failed to verify the accuracy of the 2012-2013 school status information and loaded the wrong year's data on the public website. The inaccurate data remained uncorrected until October 2014.

The U.S. Department of Education's ESEA Flexibility requires the preparation and dissemination of an annual report card that includes the names of schools identified as reward, priority, or focus schools.

#### **Federal Award information**

Title I Grants to Local Education Agencies: Federal funding period: July 1, 2013 – September 30, 2014 (S010A130033A).

#### **Recommendation**

The Department should ensure procedures are in place to verify the accuracy of school status data prior to the annual release on the public website.

#### **Agency Response**

The Department concurs with the Auditor's finding regarding inaccurate school status reporting. The finding was partially a result of a coding error in the old School Report Cards (SRC) website, which failed to display charter schools. Once identified, the error was immediately corrected. In addition, NCDPI moved to a new technology platform and reworked the SRC website for the 2013-14 school year. The new website allows more opportunity for review by the SRC data providers and LEA staff, which strengthens the review and quality assurance effort. Prior to release, the 2013-14 School Report Cards were reviewed by the DPI staff responsible for the reported data. The SRC coordinators in every LEA and charter school in the state were given over a week to review the data as well. For the 2014-15 release, a test environment for the SRC is being built, which will allow for an even more robust quality assurance and a longer data preview period.

Corrective action occurred in October of fiscal year 2014-15.

### **3. TITLE I PROGRAM MONITORING VISITS NOT TIMELY REVIEWED FOR COMPLETENESS**

The Department's Title I Grants to Local Education Agencies (Title I) program monitors failed to complete and review monitoring tracking forms. The forms track monitoring procedures from the on-site monitoring visit to the receipt of subrecipients' corrective action plans. The Title I program is used to develop and implement instructional programs designed to help low-income, at risk, students meet the State's challenging academic achievement standards required to move up grade levels and graduate. During the audit period, the Department paid 188 subrecipients approximately \$389 million in Title I funds. The Department monitors subrecipients at least once every three years.

Auditors reviewed documentation for 11 out of 51 subrecipient monitoring visits and identified four errors as follows:

- For three out of 11 (27%) tracking forms, the Department failed to review timely. The reviews were seven to twelve months late.
- One out of 11 (9%) tracking forms was incomplete which questions the integrity of the monitoring procedures.

As a result, monitoring procedures may not be completed and a subrecipient may not take timely corrective action to address monitoring findings. The lack of timely review allowed findings for one subrecipient to go uncorrected for a year. Types of findings include failure to provide parents, upon request, information about the professional qualifications of classroom teachers or failure to make the school's instructional program plans for ensuring students meet academic standards available for parental review.

Although Departmental procedures require monitoring procedures to be tracked, supervisory review was not consistently performed to ensure completeness of the monitoring process. The critical procedures being tracked include that the visit occurred, the report was sent to the subrecipient, and the subrecipient took appropriate and timely corrective action on all findings.

OMB Circular A-133 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, regulations, and the provisions of contracts or grant agreements and performance goals are achieved.

Aspects of this finding were reported in the prior year.

### **Federal Award Information**

Title I Grants to Local Education Agencies: Federal funding period: July 1, 2013 – September 30, 2014 (S010A130033A).

### **Recommendation**

The Department should promptly review tracking forms to ensure all monitoring procedures are completed and subrecipients take timely corrective action.

### **Agency Response**

The Department concurs with the Auditor's finding and recommendation regarding federal program monitoring tracking forms. The Federal Program Monitoring and Support Services' monitoring policies and procedures are in the process of being revised to reflect the implementation of a comprehensive tracking log that will replace individual hard copy tracking forms. The updated policies and procedures will incorporate utilization of a centralized federal program monitoring tracking log that captures many internal steps occurring between the site visit and closure of the monitoring report by subrecipient. Significant dates the log will capture include, but are not limited to, the date the monitoring site visit occurs, the date supervisory review of the report occurs, the date the final report is issued, the date a response/corrective action is due back to the agency if applicable, the date the response/corrective action is submitted and finally the date the monitoring cycle for each subrecipient is closed. The

tracking log will be updated in an ongoing basis throughout the fiscal year. Implementation of the tracking log and revision of existing federal program monitoring policies and procedures should significantly reduce the risk of timeliness or incompleteness issues.

Expected date of completion: June 30, 2015.

#### **4. DEPARTMENT FAILED TO FULLY DOCUMENT SUBRECIPIENT MONITORING VISITS**

The Department's Twenty-First Century Community Learning Center (Twenty-First) program monitors failed to adequately complete monitoring reports. The Twenty-First grant is used to establish or expand academic enrichment opportunities that complement the students' regular academic program. During the audit period, the Department paid 139 subrecipients \$24.6 million in Twenty-First Century Community Learning Center funds. The Department monitors new subrecipients in the first year and in subsequent years subrecipients are monitored based on risk.

The Department's monitoring reports contain 47 specific performance indicators, covering five compliance categories, which are: Program Management; Program Implementation; Family Involvement; Federal, State, and Local Health Safety and Civil Rights Laws; and Fiscal Management.

Examples of indicators include:

- Criminal background checks are completed for each program employee and volunteer prior to employment.
- Program has process for recruiting, hiring, and retaining high-quality staff including volunteers.
- Program operates in a facility that meets State and Federal safety guidelines for schools or places where children gather.
- Ongoing student assessments are utilized to determine individual student growth and accountability.

Auditors reviewed 20 of the 99 on-site monitoring visits performed during the audit period and identified the following issues:

- In 20 of 20 (100%), there was no evidence of supervisory review on the monitoring reports to ensure documentation was complete and supported whether the subrecipients met the required performance indicators.
- In 15 of the 20 (75%), the monitoring reports were incomplete with most indicators having no notation of what documents the monitor reviewed or who was interviewed to conclude that the indicator was met. For the most part, only one or two short sentences were written for performance indicators that were not met and no documentation for performance indicators identified as met.

As a result, the Department's failure to document the evidence reviewed and procedures performed could allow noncompliance to go undetected and lead to the possible misuse of federal funds.

The Department's monitoring procedures do not require the staff to complete the supporting documentation unless a performance indicator was not met. This procedure leads to insufficient evidence to support all monitoring conclusions about performance. The Department also failed to follow through with their prior year corrective action plan which said they would update their monitoring procedures to ensure all performance indicators were documented.

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 performance goals are achieved.

Significant aspects of this finding have been reported previously in years 2011 and 2012.

### **Federal Award Information**

Twenty-First Century Community Learning Centers: Federal funding periods: 1) July 1, 2012- September 30, 2013 (S287C120033); and 2) July 1, 2013 – September 30, 2014 (S287C130033).

### **Recommendations**

The Department should revise and implement procedures to ensure its monitoring instruments are adequately completed and reviewed.

The Department should complete and retain adequate supporting documentation for the monitoring procedures performed.

### **Agency Response**

The Department concurs with the Auditor's finding and recommendations regarding incompleteness of the actual monitoring reports issued to subrecipients. Federal Program and Monitoring Support Services' policies and procedures do require each monitor to fully document and maintain said documentation for each of the 47 specific performance indicators covering five compliance categories for the Twenty-First Century Community Learning Center (21st CCLC) grants for both indicators met and not met. However, the policies and procedures did not address including documentation or reference to the documentation on the actual report itself. The Federal Programs Monitoring and Support Services' policies and procedures related to monitoring 21st CCLC subrecipients have been revised to be consistent with those for Title I, including a revised report format, which will eliminate the potential for confusion caused by blank data fields for indicators met. In addition, 21st CCLC program monitoring efforts will be tracked utilizing a centralized tracking log that captures many internal steps occurring between the site visit and closure of the monitoring report by subrecipient.

Significant dates the log will capture include, but are not limited to, the date the monitoring site visit occurs, the date supervisory review of the report occurs, the date the final report is issued, the date a response/corrective action is due back to the agency if applicable, the date the response/corrective action is submitted and finally the date the monitoring cycle for each subrecipient is closed. The tracking log will be

updated in an ongoing basis throughout the fiscal year. Implementation of the tracking log and revision of existing 21st CCLC program monitoring policies and procedures should significantly reduce the risk of timeliness or incompleteness issues.

Expected date of completion: June 30, 2015.

## **5. FISCAL MONITORING RESULTS WERE NOT COMMUNICATED TIMELY**

The Department did not report the results of its fiscal monitoring to subrecipients in a timely manner, preventing subrecipients from taking corrective action. Also, the Department did not ensure subrecipients took corrective action on issues noted during fiscal monitoring visits in a timely manner. Fiscal monitoring includes reviewing subrecipients' expenditures to ensure federal funds are used for allowable costs in accordance with approved budgets and program guidelines.

Auditor's reviewed 10 out of 49 fiscal monitoring reports which indicated reports were not completed and communicated timely as well as delays in subrecipients' responses to issues identified. The errors were as follows:

- Nine out of 10 (90%) reports reviewed were issued between 67 and 134 business days after the date of the visit.
- For three out of 10 (30%) reports reviewed, the subrecipients did not submit corrective action plans until 39, 67 and 121 business days after the plan was due to the Department.

As a result, corrective action by subrecipients to monitoring issues was delayed allowing noncompliance with federal program regulations and possible misuse of funds to continue.

As of June 2014, the Department did not have a comprehensive policy with a timeline for preparing monitoring reports and communicating results to the subrecipients. However, as of July 2014, the Department has adopted an internal policy to require fiscal monitoring reports be completed and communicated to subrecipients within 45 business days.

The Department's policy requires subrecipients to respond to findings within 30 business days of receipt of the report.

OMB Circular A-133 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, regulations, and the provisions of contracts or grant agreements and performance goals are achieved. In addition, it requires pass-through entities to ensure subrecipients took appropriate and timely corrective action on its findings.

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



### Federal Award Information

This finding impacts these federal programs:

- a. Special Education – Grants to States: Federal funding periods: 1) July 1, 2012 – September 30, 2013 (H027A120092A); and 2) July 1, 2013 – September 30, 2014 (H027A130092A).
- b. Special Education – Preschool Grants: Federal funding periods: 1) July 1, 2012 – September 30, 2013 (H173A120096); and 2) July 1, 2013 – September 30, 2014 (H173A130096).
- c. Title I Grants to Local Education Agencies: Federal funding periods: 1) July 1 2012 – September 30, 2013 (S010A120033A); and 2) July 1 2013 – September 30, 2014 (S010A130033A).
- d. Improving Teacher Quality State Grants: Federal funding periods: 1) July 1, 2012 – September 30, 2013 (S367A120032A); and 2) July 1, 2013 – September 30, 2014 (S367A130032A).
- e. Race to the Top: Federal funding period September 24, 2010 – September 23, 2014 (S395A100069).
- f. Career and Technical Education: Federal funding period: July 1, 2013 – September 30, 2014 (V048A130033-12A).
- g. School Improvement Grant: Federal funding periods: 1) July 1, 2012 – September 30, 2013 (S377A120034); and 2) July 1, 2013 – September 30, 2014 (S377A130034).
- h. School Improvement Grant, Recovery Act: Federal funding period: February 17, 2009 – September 30, 2010 (S388A090034).

### Recommendations

The Department should ensure compliance with the new policy for completing and communicating fiscal monitoring results.

The Department should ensure that subrecipients respond with corrective action for noncompliance issues within 30 business days of receipt of their report.

### Agency Response

The Department concurs with the Auditor's finding and recommendations related to fiscal monitoring. As noted in the auditor's finding, fiscal monitoring policies and procedures establishing appropriate timelines for issuance of monitoring reports and submission of corrective action/responses by subrecipients were implemented effective July 1, 2014. Subrecipient response rate and timeliness improved since the February 2014 implementation of a standard fiscal monitoring cover letter/report that includes language regarding potential consequences for failure to respond. Fiscal monitoring efforts are tracked in a comprehensive tracking log that captures many internal steps occurring between the site visit and closure of the monitoring report by individual subrecipient. Significant dates the log captures include, but are not limited to, the date the monitoring site visit occurs, the date supervisory review of the report occurs, the date the final report is issued, the date a response/corrective action is due



back to the agency if applicable, the date the response/corrective action is submitted and finally the date the monitoring cycle for each subrecipient is closed. The tracking log is updated in an ongoing basis throughout the fiscal year. Utilization of the fiscal monitoring cover letter/report templates and the tracking log should continue to significantly reduce the risk of timeliness or incompleteness issues.

Corrective action was implemented July 1, 2014.

## **6. DOCUMENTATION DID NOT SUPPORT SALARY PAYMENTS**

The Department did not have adequate documentation to show that temporary and contract employees' salaries charged to the Race to the Top grant were based on actual time and effort spent working on the grant. Department records indicate that 52 temporary and contract employees worked on the grant.

The Department did not have time and effort certifications for any of the 52 temporary and contract employees to support that the salaries charged were for work performed on the Race to the Top grant. As a result, the \$1.46 million in temporary and contract employees' salaries could have been improperly charged to the Race to the Top grant.

The error occurred because the Department considered temporary and contract employees to be vendors and therefore did not require time and effort reports.

In accordance with Federal Regulations 2 CFR 225, the Department is required to maintain adequate documentation that confirms on an after-the-fact basis that employee compensation charged to federal programs represents a reasonable distribution of employees' actual time and effort worked.

### **Federal Award Information**

Race to the Top: Federal funding period: September 24, 2010 – September 23, 2014 (S395A100069).

### **Recommendation**

The Department should implement procedures to ensure all salaries charged to the Federal grant are supported by approved documentation that reflects work performed for the program.

### **Agency Response**

The Department concurs with the Auditor's finding and recommendations related to documentation to support salary payments. As stated in the Auditor's finding, the Department considered temporary and contract employees as vendors and therefore did not require time and effort reports to be submitted. The Department already has procedures in place to ensure that permanent employees paid from federal funds submit approved time and effort reports. However, the Department will implement procedures that will ensure temporary and contract employees whose salaries are paid from federal funds submit approved time and effort reports for work performed. The procedures will include working with human resource personnel and agency supervisors to ensure that temporary and contract employees who are paid from federal funds are made aware of and provided training in federal time and effort reporting requirements upon initial

employment. A review of the temporary and contract employees' list will be performed on a monthly basis in order to determine those employees who are being paid with federal funds. Also on a monthly basis, Personnel Action Request forms for each of these federally funded temporary and contract employees will be requested from agency human resource personnel. The Department's Personnel Action Request form outlines the employment beginning and ending dates and supervisory information. A tracking system will be developed using names, employment dates, and supervisory data to ensure that temporary and contract employees do not end their employment without submitting the required approved time and effort reports.

Implementation of these procedures will be completed during fiscal year 2014-15.

# ORDERING INFORMATION

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For additional information contact:  
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This audit was conducted in 4898.5 hours at an approximate cost of \$460,459.