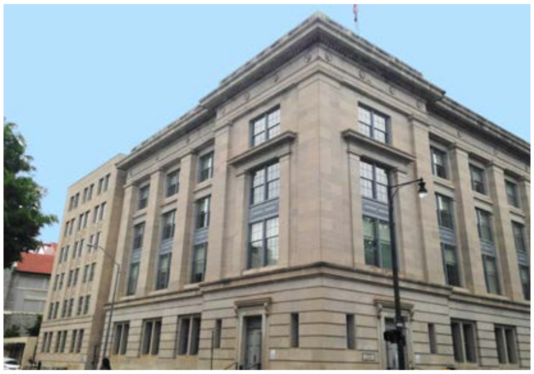
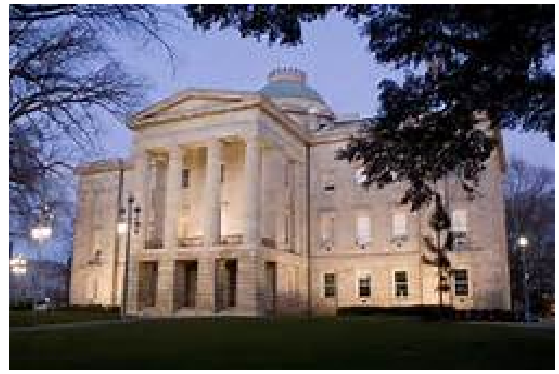
State of North Carolina

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, 2019

NCOSA
The Taxpayers' Watchdog

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

PAGE

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.

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Mark Johnson, Superintendent
North Carolina Department of Public Instruction

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs, we have completed certain audit procedures at the North Carolina Department of Public Instruction for the year ended June 30, 2019.

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. However, the results included herein are 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.*

Our federal compliance audit scope at the North Carolina Department of Public Instruction included the following:

- 84.010 – Title I, Part A - Grants to Local Education Agencies
- 84.287 – Twenty-First Century Community Learning Centers
- 84.367 – Title II, Part A - Supporting Effective Instruction
- 84.377 – School Improvement Grants

Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

We conducted our audit of compliance in accordance with the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

Other Matters

Compliance

The results of our audit procedures at the North Carolina Department of Public Instruction disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of Findings, Recommendations, and Responses section. These include the following findings:

Finding Number	Type of Compliance Requirement	CFDA	Major Federal Program
4	Reporting	84.010	Title I, Part A – Grants to Local Education Agencies
5	Period of Performance	84.027	Special Education – Grants to States
6	Subrecipient Monitoring	84.287	Twenty-First Century Community Learning Centers
7	Cash Management	84.377	School Improvement Grants

Internal Controls

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 the Uniform Guidance, 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 and significant deficiencies may exist that were not identified.

However, as discussed in the Findings, Recommendations and Responses section, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

We consider the deficiency for the following findings described in the Findings, Recommendations, and Responses section of this report to be material weaknesses in internal control over compliance.

Finding Number	Type of Compliance Requirement	CFDA	Major Federal Program
4	Reporting	84.010	Title I, Part A – Grants to Local Education Agencies
6	Subrecipient Monitoring	84.287	Twenty-First Century Community Learning Centers
7	Cash Management	84.377	School Improvement Grants

We consider the deficiencies for the following findings described in the Findings, Recommendations, and Responses section of this report to be significant deficiencies in internal control over compliance.

Finding Number	Type of Compliance Requirement	CFDA	Major Federal Program
1	Subrecipient Monitoring	84.010	Title I, Part A – Grants to Local Education Agencies
		84.367	Title II – Supporting Effective Instruction
		84.377	School Improvement Grants
2	Subrecipient Monitoring	84.010	Title I, Part A – Grants to Local Education Agencies
		84.287	Twenty-First Century Community Learning Centers
		84.367	Title II – Supporting Effective Instruction
3	Period of Performance	84.010	Title I, Part A – Grants to Local Education Agencies
5	Period of Performance	84.027	Special Education – Grants to States

North Carolina Department of Public Instruction's Response to Findings

The Department's responses to the findings identified in our audit are included in the Findings, Recommendations, and Responses section of this transmittal. The Department's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Purpose of This Transmittal

The purpose of this transmittal is solely to describe the scope of our testing of internal control over compliance and testing of compliance and the results of that testing at the North Carolina Department of Public Instruction based on the requirements of the Uniform Guidance. Accordingly, this transmittal is not suitable for any other purpose.

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 transmittal.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 20, 2020

Findings, Recommendations, and Responses

Matters Related to Federal Compliance Audit Objectives

VARIOUS PROGRAMS

1. FISCAL MONITORING RESULTS WERE NOT COMMUNICATED TIMELY

The Department did not timely communicate fiscal monitoring[1] results of local school districts and charter schools, collectively referred to as subrecipients. Auditors noted deficiencies in three federal programs: Title I, Part A;[2] Title II, Part A;[3] and School Improvement Grants (SIG). In total the Department awarded approximately $486 million for these programs to 257 subrecipients during the fiscal year.

The Department uses monitoring reports to communicate results of fiscal monitoring to the subrecipients. Auditors reviewed fiscal monitoring documentation for subrecipient site visits performed during the year[4] and found the following:

- For a sample of six out of 40 Title I, Part A site visits, five (83%) monitoring reports were issued between 15 to 137 days after the due date
- For a sample of six out of 37 Title II, Part A site visits, four (67%) monitoring reports were issued between 15 to 45 days after the due date
- For all three SIG site visits, two reports were issued 51 and 137 days after the due date, and the third report was never issued.

All of the monitoring reports, which were due for issuance 60 days after the site visit, had identified deficiencies. Examples of subrecipient deficiencies noted in the reports included:

- Missing support for time and effort records
- Written policies and procedures that did not include all components required by federal Uniform Guidance [5]
- Noncompliance with federal cash management requirements.

As a result, corrective actions by subrecipients may have been delayed, allowing noncompliance with federal program regulations, and possible misuse of funds, to continue.

According to the Department, monitoring reports were not issued in accordance with established policy for two reasons.

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1 Fiscal monitoring includes reviewing subrecipients' expenditures to ensure federal funds are used for allowable costs in accordance with approved budgets and program guidelines. In addition, fiscal monitors evaluate subrecipients' compliance with equipment, procurement, and cash management requirements.
2 Title I, Part A is also referred to as "Grants to Local Educational Agencies."
3 Title II, Part A is also referred to as "Supporting Effective Instruction State Grants."
4 The Department consolidates monitoring efforts to cover multiple programs in a single subrecipient visit. Auditors executed samples separately by program. Aggregation of results would not result in an accurate projection due to overlap of subrecipients in the populations.
5 Per 2 CFR 200, Uniform Guidance, written procedures are required for specific compliance objectives including allowability of costs, cash management, and procurement.

First, management did not timely identify key monitoring personnel duties that had fallen behind. Duties included overall tracking of the monitoring progress.

Second, the monitoring plan in place for the year did not adequately use monitoring resources or tailor monitoring activities to efficiently respond to risk assessed for each subrecipient.

In accordance with Uniform Guidance,[6] the Department is required to ensure subrecipients take timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient as detected through audits, on-site reviews, and others means. The Uniform Guidance[7] also states that subrecipient risk of noncompliance should be evaluated for the purpose of determining appropriate monitoring.

Departmental written policy establishes internal control over fiscal monitoring activities to align with federal subrecipient monitoring requirements including:

- Communication of fiscal monitoring results in a written report to subrecipients within 60 days of the final site visit day
- Maintenance of the fiscal monitoring log to track progress of each subrecipient's monitoring visit, report, required response, and closure
- Development of a fiscal monitoring risk assessment.

Federal Award Information:

Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.010A (Title I Part A, Basic Grants to LEAs); Federal Award Number (award period): S010A180033 (7/1/2018 – 9/30/2019)

Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.367 (Title II, Supporting Effective Instruction); Federal Award Number (award period): S367A180032 (7/1/2018 – 9/30/2019)

Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.377 (School Improvement Grants); Federal Award Number (award period): S377A160034 (7/1/2016 – 9/30/2021, as extended)

Recommendation: The Department should implement management oversight procedures to operate throughout the year. The Department should also revise risk assessment procedures to clarify planning of the response to identified risks and prioritization of monitoring resources.

Agency Response: See pages 14-15 for the North Carolina Department of Public Instruction's response to this finding.

[6] 2 CFR 200.331(d)(2)
[7] 2 CFR 200.331(b)

2. INADEQUATE AWARD COMMUNICATION

The Department did not timely notify subrecipients[8] of federal award information for three audited federal programs including Title I, Part A;[9] Title II, Part A;[10] and 21st Century Community Learning Centers (CCLC). In total, subrecipients of these programs received approximately $500 million during the fiscal year.

Per federal guidance, award information includes, but is not limited to, award start and end dates, total amount of the award, and all requirements imposed on the subrecipient.

Specifically, auditors found the following:

- In a sample of 33 out of 216 Title I, Part A subrecipients, 21 (64%) were sent the award information one to seven months after they began spending the funds.
- In a sample of 28 out of 185 Title II, Part A subrecipients, 14 (50%) were sent the award information one to two months after they began spending the funds.
- In a sample of 31 of 94 21st CCLC subrecipients, 2 (6%) had no evidence of any award information being communicated.

As a result, there is an increased risk that federal funds were not used in accordance with federal requirements.

According to Department management, there was turnover in the administrative personnel that were responsible for sending the correspondence, but management did not timely reassign their duties.

Federal regulations[11] require the Department to clearly identify every subaward to the subrecipient and include specific federal award information at the time of the award.

Federal Award Information:

Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.010A (Title I Part A, Basic Grants to LEAs); Federal Award Number (award period): S010A180033 (7/1/2018- 9/30/2019)

Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.367 (Title II, Supporting Effective Instruction); Federal Award Number (award period): S367A180032 (7/1/2018- 9/30/2019)

Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.287 (Twenty-First Century Community Learning Centers); Federal Award Number (award period): S287C180033 (7/1/2018 – 9/30/2019)

[8] Subrecipients include local public school districts, charter schools, and nonprofits that receive federal program funds from the Department of Public Instruction.
[9] Title I, Part A is also referred to as "Title I Grants to Local Educational Agencies."
[10] Title II, Part A is also referred to as "Supporting Effective Instruction State Grants."
[11] 2 CFR section 200.331(a)

Recommendation: Department management should implement contingency planning, including timely reassignment of responsibilities, to reduce the risk that staff turnover could lead to delayed communication to subrecipients.

Agency Response: See page 15 for the North Carolina Department of Public Instruction's response to this finding.

TITLE I, PART A – GRANTS TO LOCAL EDUCATION AGENCIES

3. INEFFECTIVE MONITORING OF TITLE I SPENDING

The Department did not effectively monitor spending of the Title I, Part A[12] subawards provided to local education agencies (LEA)[13] and charter schools (collectively called subrecipients). During the audit period, the Department provided $434 million in subawards to the subrecipients.

The Department has the responsibility to monitor subaward spending to ensure compliance with federal carryover limits and approve spending waivers as appropriate.[14] The subrecipient must spend at least 85% of the award in the first 15 months. If more than 15% of an award remains at the beginning of the carryover period,[15] the Department must grant a waiver to allow the excess carryover.

The 2017 initial award period ended during the audit period. This award began on July 1, 2017, with the initial award period of 15 months ending on September 30, 2018, and the carryover period beginning October 1, 2018 and continuing through September 30, 2019.

Auditors examined the Department's monitoring tool for calculating subrecipient carryover amounts as of September 30, 2018. All expenditures that occurred during the 15-month period July 1, 2017 through September 30, 2018 were counted without determining if they were applicable to the award period. Federal award periods overlap creating the potential for expenditures to apply to any of three open awards.

As a result of the monitoring tool errors, noncompliance with carryover limitations by two LEAs and one charter school were not addressed until revisions were prompted by the audit. Overall, ineffective monitoring puts LEA and charter school funding at risk of reversion if not spent within the federally required timeframes.

According to Department management, the errors in the carryover calculation occurred because the Department's accounting system does not clearly assign the award year to expenditure transactions. This increases the complexity of applying expenditures to the correct award when there are multiple awards with overlapping award periods. Further, there was a lack of monitoring of the subaward balances during the year.

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[12] Title I, Part A provides funding to support the education of children at risk of not meeting academic standards and who reside in areas with high concentrations of low-income families.
[13] Synonymous with a local school district, a Local Education Agency, is a public authority, such as a board of education, with administrative control of public schools within a city or county. The Department allocates funds to the LEAs to carry out the objectives of the program.
[14] Section 1127 of the Elementary and Secondary Education Act (20 USC 6339).
[15] Carryover is defined as the amount of funds left after the initial 15 months and available for spending in the remainder of the 27-month award.

Uniform Guidance[16] requires the Department to monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Such requirements include award carryover limitations at the subrecipient level.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.010A (Title I Grants to Local Education Agencies); Federal Award Number (award period): S010A170033 (July 1, 2017 – September 30, 2018).

Recommendation: Department management should assess the feasibility of tracking expenditures by award year within their accounting records. If not feasible, Department management should develop additional tools to track or monitor subaward balances by award year.

Agency Response: See page 15-16 for the North Carolina Department of Public Instruction's response to this finding.

4. ERRORS IN REPORTED STATE PER PUPIL EXPENDITURES

The Department submitted incomplete and inaccurate data in their 2018 annual National Public Education Financial Survey (Survey) to the National Center for Education Statistics. During the audit period, the Department reported $15.7 billion in federal, state, and local education expenditures.

Auditors obtained the supporting data and recalculated amounts reported for the State Per Pupil Expenditure (SPPE) included in the Survey submitted in March 2019. The Department excluded $53.2 million in worker's compensation paid on behalf of local education agencies[17] and $25.2 million in residential school expenditures[18] from total expenditures. Further, required exclusions from the total expenditures were overstated by $15.3 million.

Inaccurate reporting of SPPE data could affect federal education funding allocated to the Department. The reported data is used by the U.S. Department of Education to make allocations under several Elementary and Secondary Education Act of 1965 (ESEA) Programs, including Title I, Part A, Grants to Local Education Agencies.[19]

According to Department management, errors in the report occurred for two reasons.

First, management's review process did not detect a keying error made by the preparer.

Second, the Department did not recognize the need to reconcile reporting data with accounting records to ensure it was accurate and complete.

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[16] 2 CFR 200.331(d)

[17] Synonymous with a local school district, a Local Education Agency, is a public authority, such as a board of education, with administrative control of public schools within a city or county. The Department allocates funds to the LEAs to carry out the objectives of the program.

[18] North Carolina has three residential schools for students with hearing and visual impairments.

[19] United States Department of Education Cross-Cutting Section of the 2019 OMB Compliance Supplement, "Special Reporting."

Federal regulations[20] require the Department to submit their average State per pupil expenditure (SPPE) data to the National Center for Education Statistics. Federal instructions[21] for the report state that "Total Expenditures" on the report should include all expenditures for public education including "Direct Program Support," defined as expenditures made by state education agencies for, or on behalf of, local education agencies.

The instructions also direct states to include finance data for all publicly funded schools, including special service schools, such as schools for the deaf, blind, and mentally disabled.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.010A (Title I Part A, Basic Grants to LEAs); Federal Award Number (award period): S010A170033 (7/1/2017 – 9/30/2018)

Recommendation: Department management should strengthen existing report review procedures to ensure keying errors are detected and corrected. Further, management should implement a reconciliation procedure to validate the accuracy and completeness of data used for reporting.

Agency Response: See page 16 for the North Carolina Department of Public Instruction's response to this finding.

SPECIAL EDUCATION – GRANTS TO STATES (IDEA, PART B)

5. UNALLOWABLE AWARD LIQUIDATION

The Department improperly charged $18.3 million of expenditures to a Special Education – Grants to States award that was no longer available for obligations.[22] For the fiscal year, the Department spent $347.9 million to provide for the education of children with disabilities.

The 2016 award obligation period ended during our audit year. This award began on July 1, 2016, and ended on September 30, 2018. The Department had 90 days to liquidate obligations made during the award period.

Auditors found the Department had reclassified $18.3 million in Local Education Agency (LEA)[23] and charter school expenditures charged to subsequent period awards to the expired 2016 award without evidence that the expenditures were obligated.

As a result, the Department may be required to pay $18.3 million back to the United States Department of Education. Further, improper adjustments of expenses can skew data used to monitor and budget for program activities, putting funding that could be used for additional program activities at risk for reversion to the federal government.

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[20] The National Public Education Financial Survey is authorized in Section 153(a)(1)(I) of the Education Sciences Reform Act of 2002 (P.L. 107-279), 20 U.S.C. 9543.

[21] Instructions for the National Public Education Financial Survey can be obtained from https://surveys.nces.ed.gov/ccdnpefs/Resources.aspx.

[22] When used in connection with the Department's utilization of funds under a Federal award, 'obligations' means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-federal entity during the same or a future period.

[23] Synonymous with a local school district, a Local Education Agency, is a public authority, such as a board of education, with administrative control of public schools within a city or county. The Department allocates funds to the LEAs to carry out the objectives of the program.

According to Department management, there have been multiple changes in financial, budget, and program personnel over the course of recent years. This has limited the number of staff who have knowledge and experience with the period of performance requirements. This has also delayed the monitoring of grant spending.

Federal regulations[24] require the Department to charge the federal award for allowable costs incurred during the period of performance (award period). The U.S. Department of Education specifies this period as the 27 months extending from July 1 of the fiscal year for which the funds were appropriated through September 30 of the second following year.

Federal Award Information:

Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.027(Special Education – Grants to States); Federal Award Number (award period): H027A160092 (July1, 2016- September 30, 2017)

Recommendation: Department management should:

- Ensure responsible staff receive proper training on the period of performance requirements.
- Implement contingency planning in periods of vacancies to ensure that monitoring of grant spending is performed.

Agency Response: See pages 16-17 for the North Carolina Department of Public Instruction's response to this finding.

TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS

6. INCOMPLETE FISCAL MONITORING

The Department did not adequately conduct its fiscal monitoring[25] of subrecipients receiving $25.4 million in federal pass-through funding for the 21st Century Community Learning Centers (21st CCLC) program.

During the audit period, the Department did not perform 12 of the 18 (67%) planned fiscal monitoring visits.[26]

Additionally, the Department did not communicate the results of any fiscal desk reviews[27] performed during the audit period to the subrecipients. Auditors reviewed results of all 33 fiscal desk reviews that were performed and found that fiscal monitors had identified various issues in 31 of 33 (94%) reviews. Examples of issues identified in the desk reviews included:

- Insufficient time sheet documentation for reimbursed payroll costs

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[24] 2 CFR 200.309
[25] Fiscal monitoring includes two types of monitoring: on-site monitoring visits and desk reviews.
[26] On-site monitoring visits are conducted for the fiscal year and monitors review subrecipients' expenditures to ensure federal funds are used for allowable costs in accordance with approved budgets and program guidelines. In addition, they evaluate subrecipients' compliance with equipment, procurement, and cash management requirements.
[27] Desk reviews entail examining supporting documentation for a sample of subrecipient reimbursement requests to determine whether program funds provided were valid and used for allowable purposes.

- Individuals signing their own checks
- Double counting expenses in reimbursement requests.

Inadequate fiscal monitoring increases the risk of undetected funding misuse and reduces the funding availability to effective 21st CCLC subrecipients.

According to Department management, the new Director of Federal Program Monitoring and Support directed updates to the fiscal monitoring policies and procedures during the year but did not clearly assign duties and ensure timely implementation during the transition period.

The procedural weaknesses occurred despite multiple Office of the State Auditor investigative reports[28] citing the Department's inadequate monitoring of 21st CCLC subrecipients over recent years.

In accordance with federal Uniform Guidance regulations,[29] the Department is required to:

Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

The regulations also require the Department to ensure "…the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award…detected through audits, on-site reviews, and other means."

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.287 (Twenty-First Century Community Learning Centers); Federal Award Number (award period): S287C180033 (7/1/2018 – 9/30/2019)

Recommendation: Department management should clearly assign compliance responsibilities and monitor for timely performance of those responsibilities during periods of change.

Agency Response: See pages 17-18 for the North Carolina Department of Public Instruction's response to this finding.

SCHOOL IMPROVEMENT GRANTS

7. DEFICIENCIES IN CASH MANAGEMENT PROCEDURES

The Department held $752,764 in federal funds that were not needed to immediately pay expenditures of the program. During the fiscal year ended June 30, 2019, the Department requested approximately $10.5 million in federal funds.

Auditors reviewed the daily cash balances of federal funds for the program and determined that the Department began the fiscal year with $752,764 of federal cash on hand. To pay for expenditures incurred, additional federal funds were drawn routinely throughout the first two quarters of the fiscal year without consideration of the cash on hand.

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28 Office of the State Auditor investigative reports citing inadequate 21st CCLC monitoring include: "Kinetic Minds" (November 2019), "Area Day Reporting Program for Youth, Inc" (February 2019), "Department of Public Instruction-21st Century Community Learning Center" (June 2015), and "Real G.I.R.L.S.,Inc." (December 2012).

29 2 CFR 200.331(d)

As a result, the Department diminished cash balances at the federal level that could have been available to pay for other states' programs for raising student achievement in their lowest performing schools.

According to the Department, the staff responsible for monitoring the cash balances relied on the database tool used to calculate federal funds requests which was not designed to require use of cash on hand prior to requesting additional funds.

Further, there are no written policies that outline specific procedures for federal cash on hand.

The School Improvements Grant is subject to subpart B of the Treasury regulations in 31 CFR part 205, which dictate that a State should minimize the time between the drawdown of federal funds from the federal government and their disbursement for approved program purposes, keeping them as close as administratively feasible to the State's actual cash outlay.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.377 (School Improvement Grants); Federal Award Number (award period): S377A160034 (7/1/2016 – 9/30/2021, as extended).

Recommendation: Department management should implement policies and procedures to define how to handle cash on hand before drawing down additional federal funds. Further, management should ensure that the database used to monitor cash balances is accurately taking cash on hand into consideration before drawing additional federal fund.

Agency Response: See pages 18-19 for the North Carolina Department of Public Instruction's response to this finding.

PUBLIC SCHOOLS OF NORTH CAROLINA
DEPARTMENT OF PUBLIC INSTRUCTION | Mark Johnson, *Superintendent of Public Instruction*
WWW.DPI.NC.GOV

February 28, 2020

The Honorable Beth A. Wood, State Auditor
Office of State Auditor
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The North Carolina Department of Public Instruction (DPI) is pleased to submit our response to your findings in connection with the 2019 federal compliance audit. We agree with the findings and recommendations contained in the report and appreciate the assistance provided by the Office of State Auditor (OSA) as DPI leadership continues working to identify and mitigate deficiencies throughout the Department. As you know, DPI leadership has been working hard to correct many long-standing challenges resulting from previous management styles at DPI. In our responses below you will find actions we have taken or are currently taking to resolve the issues noted.

Finding 1: Fiscal Monitoring Results Were Not Communicated Timely - Title I (Part A), Title II (Part A), School Improvement Grants

OSA Recommendation: The Department should implement management oversight procedures to operate throughout the year. The Department should also revise risk assessment procedures to clarify planning of the response to identified risks and prioritization of monitoring resources.

The Department of Public Instruction (DPI) concurs with the Auditor's finding and recommendation. School Business within DPI has taken several steps to address this deficiency in Fiscal Year 2020. The Assistant Director for School Business now has direct responsibility for ensuring that monitoring reports are issued timely, which will enable proper managerial oversight of the monitoring report process.

In addition, School Business developed a revised risk assessment to identify districts for monitoring during Fiscal Year 2020 and better prioritize monitoring resources. Finally, School Business will evaluate its existing monitoring procedures identifying changes needed to

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AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

Auditor Wood
2019 Federal Compliance Response
Page 2
February 28, 2020

reporting timelines or templates to provide timely and actionable feedback for districts who have been subject to monitoring.

Finding 2: Inadequate Award Communication – Title I (Part A), Title II (Part A), Twenty-First Century Community Learning Centers

OSA Recommendation: Department management should implement contingency planning, including timely reassignment of responsibilities, to reduce the risk that staff turnover could lead to delayed communication to subrecipients.

The Department of Public Instruction concurs with the Auditor's finding and recommendation. The Federal Programs Monitoring and Support (FPMS) Division utilizes the approval within the application system (Continuous Comprehensive Improvement Program – CCIP) as the authoritative approval for fund expenditures. A formal award letter was issued at a later date but did not hold or provide the authority to expend funds. The FPMS division will update and revise its protocol to ensure that all required information is provided to the subrecipients prior to expending funds. This will be accomplished in one of two ways.

- FPMS will incorporate all required information in the CCIP system, so that one approval meets all requirements, or;
- FPMS will create a combined award letter for all federal funds received by the organization, which will be issued in conjunction with the approval of CCIP application

The corrective action will be implemented beginning in the 2020-21 school year and will adhere to all Uniform Guidance requirements, ensuring approval and spending parameters are provided to the organization prior to them expending their federal funds.

Finding 3: Ineffective Monitoring of Title I Spending

OSA Recommendation: Department management should assess the feasibility of tracking expenditures by award year within their accounting records. If not feasible, Department management should develop additional tools to track or monitor subaward balances by award year.

The Department of Public Instruction (DPI) concurs with the Auditor's finding and recommendation. School Business within DPI has already taken several steps to address this deficiency in Fiscal Year 2020. After receiving guidance from the U.S. Department of Education, School Business developed a new tool for calculating Title I carryover amounts to ensure subrecipient compliance with applicable carryover limitations. In order to compensate for

Auditor Wood
2019 Federal Compliance Response
Page 3
February 28, 2019

the fact that DPI's accounting system does not clearly assign subrecipient expenditures to specific award years, the new Title I carryover calculation tool will allow DPI to carefully allocate program expenditures to the oldest award year to ensure an effective attribution of expenditures to a single award year when there are multiple award years open. DPI utilized the new tool to recalculate LEA Title I carryover amounts for DPI's 2017 Title I award and identified the three additional subrecipients that failed to meet carryover requirements that were not previously identified. School Business sought and received approval from the U.S. Department of Education to issue retroactive waivers to the three subrecipients resulting in no impact. School Business will continue to evaluate its existing Title I carryover monitoring procedures to identify any changes needed to the tool or process.

Finding 4: Errors in Reporting State Per Pupil Expenditures

OSA Recommendation: Department management should strengthen existing report review procedures to ensure keying errors are detected and corrected. Further, management should implement a reconciliation procedure to validate the accuracy and completeness of data used for reporting.

The Department of Public Instruction (DPI) concurs with the Auditor's finding and recommendation. School Business within DPI pursued additional guidance from the U.S. Department of Education and U.S. Census Bureau regarding inclusion of worker's compensation and residential school expenditure data in the National Public Education Financial Survey's (NPEFS) State Per Pupil Expenditure (SPPE) calculations. Once additional guidance is received, DPI will update the NPEFS's SPPE calculation process to include the data, if required by the Federal government. Additional controls have already been implemented to enhance the review process for the NPEF's SPPE calculations and identify any potential keying errors as part of the calculation process. The duplicated amounts were reported within 'Net Current Expenditures' as $13.6654 billion. The correct amount was $13.6808 billion, a difference of $15.349 million or 0.112% of the 'Net Current Expenditures'. Finally, DPI has already discussed the NPEFS's SPPE calculation process and the estimated impact (for both the error and potential additions to the report) of less than $30 per pupil with the U.S. Department of Education. DPI has been advised that there will be no adverse implications or penalties to North Carolina's Federal funding as a result of the reporting discrepancies.

Finding 5: Unallowable Award Liquidation – Special Education (IDEA, Part B)

OSA Recommendation: Department management should:

- *Ensure responsible staff receive proper training on the period of performance requirements.*
- *Implement contingency planning in periods of vacancies to ensure that monitoring of grant spending is performed.*

Auditor Wood
2019 Federal Compliance Response
Page 4
February 28, 2020

The Department of Public Instruction (DPI) concurs with the Auditor's finding and recommendation. After notification of the issue by the auditors, DPI management investigated further and learned that accounting adjustments had been utilized to carry the expiring funds forward into subsequent years' grants, with the entire amount now maintained as unallotted funding within DPI's IDEA FY 2018 grant award balance. DPI is currently working with the U.S. Department of Education to determine how to address the unexpended funds. The management staff members that were involved in the oversight of this transaction are no longer employed with the Department. The new management team has implemented the following corrective actions in order to minimize errors moving forward.

- The Financial Services Division is working closely with the School Business Division and all federal programs to improve processes throughout cash management and grant monitoring to mitigate issues.
- The 208 report is being reviewed by both the cash management staff and the appropriate manager to ensure the correct federal grant year(s) are drawn. In addition, the cash management staff are being thoroughly trained to complete the drawdown calculation manually and ensure they are not solely dependent on the automated systems.
- The Department has formed a grant section which consists of a Grant Accountant and two General Accountants. The major objective for this section is to monitor, review, approve and reconcile all federal fund draws. This section will also communicate regularly with grant program areas to ensure better tracking and utilization of grant funds throughout the grant cycle. Transfers of grant funds will continue to require documented approval from the program responsible for the grant. This section will also continue to work closely with the School Business Division and the budget section to ensure allocations align to amounts budgeted.

Finding 6: Incomplete Fiscal Monitoring – Twenty-First Century Community Learning Centers

OSA Recommendation: Department management should clearly assign compliance responsibilities and monitor for timely performance of those responsibilities during periods of change.

The Department of Public Instruction concurs with the Auditor's finding and recommendation. Fiscal monitoring of Twenty-First Century Community Learning Centers (21st CCLC) grantees has been an evolution of improvement over many years. Federal Programs Monitoring and Support (FPMS) previously contracted with an external vendor for fiscal monitoring reviews of 21st CCLC grantees. In Fiscal Year 2018, FPMS increased staffing to add a full-time Fiscal Monitor position, which allocated 1.5 FTEs to the monitoring of 21st CCLC.

A new division reporting structure was adopted in Fiscal Year 2019 which has the 21st CCLC fiscal monitors reporting to the Section Chief and State Coordinator of the 21st CCLC program. This allowed the entire 21st CCLC team to work closely together in developing risk assessments and scheduling and conducting fiscal reviews. To strengthen the written procedures around all types of fiscal and programmatic monitoring, FPMS has revised and updated the 21st CCLC Subgrantee Monitoring Standard Operating Procedures Manual (SOP). This revised manual will detail roles and responsibilities, steps of both onsite and desk reviews, expectations for management review, and details for reporting review results to subrecipients.

Finding 7: Deficiencies in Cash Management Procedures – School Improvement Grants

OSA Recommendation: Department management should implement policies and procedures to define how to handle cash on hand before drawing down additional federal funds. Further, management should ensure that the database used to monitor cash balances is accurately taking cash on hand into consideration before drawing additional federal funds.

The Department of Public Instruction concurs with the Auditor's finding and recommendation. Financial Services within the Department of Public Instruction researched this transaction and found several issues. The initial transaction took place at the beginning of Fiscal Year 2019 as a result of the Local Educational Agencies' (LEAs) zero-out process when unused funds were returned for the month of June 2018. The "in house" system used by the cash management team to assist with federal drawdowns was having technical issues at this time. DPI created this database program in 2010 to assist the cash management team in processing drawdowns, during the Fiscal Year 2019 year-end processing the system was not recognizing the "cash on hand" funds. Thus, not including these funds for the purpose of the next draw. Cash management staff did not follow proper procedures to review the 208 report, which generates and tracks the available federal funds by federal program. Also, at the time this issue occurred, drawdowns were not being approved by a manager prior to processing.

The following corrective actions have been taken in order to minimize errors moving forward.

- The system issues were corrected shortly after the beginning of Fiscal Year 2019. Steps have been put in place to evaluate this system to ensure accuracy moving forward.
- The 208 report is now being reviewed by both the cash management staff and the appropriate manager to ensure the correct federal grant year(s) and amounts are drawn. In addition, the cash management staff are being thoroughly trained to complete the drawdown calculation manually and ensure they are not solely dependent on the

Auditor Wood
2019 Federal Compliance Response
Page 6
February 28, 2020

automated systems. This training will allow the staff to recognize system issues moving forward.

- A new process will be put in place starting March 2020 to return unused federal funds as part of the monthly zero-out process with the LEAs. These returned funds will go back into the federal system and will be included in the available balance to be drawn down at a later date. This is a common practice with other state agencies, and it will streamline the process and eliminate "cash on hand" for federal grants.
- The Department has formed a grant section which consist of a Grant Accountant and two General Accountants. The major objective for this section is to monitor, review, approve and reconcile all federal fund draws.

We believe implementation of these corrective actions will address the deficiencies noted. DPI and the State Board of Education have also submitted budget requests to add positions for both Financial Services and Internal Audit to strengthen those areas within the Department. Please feel free to contact Jeani Rousseau or me if you have any questions about our response. As always, we appreciate the effort and professionalism of your staff in conducting audits of the Department of Public Instruction.

Sincerely,

Mark Johnson

c: Eric Davis, State Board of Education Chairman
Alan Duncan, SBE Audit Committee Chair
Todd Chasteen, Audit Committee Member
Beverly Emory, Deputy Superintendent of District Support
David Stegall, Deputy Superintendent of Innovation
Kathryn Johnston, Deputy Superintendent of Operations
Jeani Rousseau, Director of Internal Audit

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This audit was conducted in 4,237.5 hours at an approximate cost of $440,700.