

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

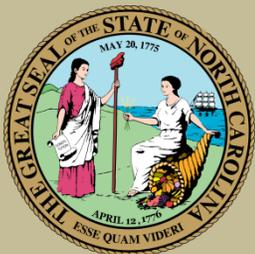


NORTH CAROLINA DEPARTMENT OF PUBLIC INSTRUCTION

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2022



NCOSA
The Taxpayers' Watchdog



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

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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The State Board of Education
The Honorable Catherine Truitt, 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 (Department) for the year ended June 30, 2022.

We conducted our audit of federal 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). Our audit objective was to express an opinion on the State of North Carolina's compliance for each of its major federal programs. However, 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. The State Auditor expresses an opinion on the State of North Carolina's compliance with requirements applicable to its major federal programs in the State's *Single Audit Report*.

Our federal compliance audit scope at the Department included the following:

- Coronavirus State and Local Fiscal Recover Fund (Assistance Listing Number 21.027)
- Supporting Effective Instruction State Grants (Assistance Listing Number 84.367)
- Governor's Emergency Education Relief (GEER) Fund (Assistance Listing Number 84.425C)
- Elementary and Secondary School Emergency Relief (ESSER) Fund and the American Rescue Plan - ESSER Fund (Assistance Listing Numbers 84.425D and 84.425U)

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

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 are described in the Findings, Recommendations, and Views of Responsible Officials of the Auditee section.

Internal Control Over Compliance

In planning and performing our audit of federal compliance, we considered the Department's 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 the Department's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's 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.

Our consideration of 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. Therefore, material weaknesses may exist that have not been identified. However, we consider the deficiencies described in findings 1 and 2 in the Findings, Recommendations, and Views of Responsible Officials of the Auditee section to be material weaknesses in internal control over compliance.

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 Views of Responsible Officials of the Auditee 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 responses.

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 Department based on the requirements of the Uniform Guidance. Accordingly, this transmittal is not suitable for any other purpose.

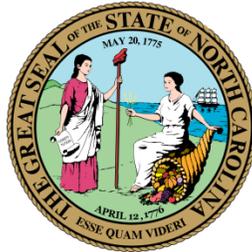
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this transmittal.

A handwritten signature in black ink that reads "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 24, 2023



**FINDINGS,
RECOMMENDATIONS, AND
VIEWS OF RESPONSIBLE
OFFICIALS OF THE
AUDITEE**

Matters Related to Federal Compliance Audit Objectives

1. INCOMPLETE MONITORING

The Department of Public Instruction (Department) did not complete all planned monitoring activities for 329 public school units (PSUs) that received \$1.77 billion¹ in federal funding from three programs during the audit period.

Auditors reviewed the Department's fiscal monitoring plan over all three programs which required site visits at 20 PSUs. However, auditors found that the Department did not complete site visits for 10 (50%) PSUs that received \$34.1 million² in funding.

Inadequate monitoring increases the risk that federal funds may not be used in accordance with the federal requirements, which may reduce the funding available for addressing the impacts of the COVID-19 pandemic on public education and providing services to public educators to improve student academic achievement.

According to Department management, monitoring activities could not be completed as originally planned due to prioritizing other activities such as assisting external agencies with investigations of PSU's and performing additional work related to closeout reviews for multiple Charter Schools that closed during the year. Furthermore, staffing issues continued to be a concern and vacancies required management to prioritize the investigations and Charter School closings over fiscal monitoring.

Federal regulations³ require 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.

This finding was previously reported in the 2021 Statewide Single Audit as finding number 2021-016.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; Assistance Listing Number (title): 84.425C (Governor's Emergency Education Relief Fund); Federal Award Identification Number (award period): S425C200034 (COVID-19) (June 1, 2020 - September 30, 2021) and S425C210034 (COVID-19) (January 8, 2021 - September 30, 2022).

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; Assistance Listing Number (title): 84.425D (Elementary and Secondary School Emergency Relief Fund); Federal Award Identification Number (award period): S425D200037 (COVID-19) (May 11, 2020 - September 30, 2021) and S425D210037 (COVID-19) (January 5, 2021 - September 30, 2022).

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; Assistance Listing Number (title): 84.425U (American Resuce Plan - Elementary and

¹ During the audit period, the Department awarded \$1.68 billion in Education Stabilization Fund – Elementary and Secondary School Emergency Relief (ESSER) funds, \$37.23 million in Governor's Emergency Education Relief (GEER) funds, and \$54.45 million in Supporting Effective Instruction (SEI) funds to PSUs.

² \$29.9 million in ESSER funds, \$0.7 million in GEER funds, and \$3.5 million in SEI funds.

³ 2 CFR 200.332(d).

Secondary School Emergency Relief Fund); Federal Award Identification Number (award period): S425U210037 (COVID-19) (March 24, 2021 - September 30, 2023).

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; Assistance Listing Number (title): 84.367 (Supporting Effective Instruction State Grants); Federal Award Identification Number (award period): S367A210032 (July 1, 2021 - September 30, 2022).

Recommendation: Department management should review and revise monitoring procedures as necessary in response to changes in operations.

In addition, Department management should prioritize the development of a contingency plan to ensure monitoring is completed when employee turnover occurs.

Views of Responsible Officials of the Auditee: See pages 7-8 for the North Carolina Department of Public Instruction's response to this finding.

2. ERRORS IN FFATA REPORTING

The Department of Public Instruction (Department) did not submit complete, accurate, and timely Federal Funding Accountability and Transparency Act (FFATA) reporting for the Education Stabilization Fund - Elementary and Secondary School Emergency Relief (ESSER) and Supporting Effective Instruction (SEI) programs.

Auditors reviewed all 298 SEI subawards totaling \$60.9 million that were required to be reported to the FFATA Subaward Reporting System (FSRS) during the audit period and found that none were reported as required.

Auditors also reviewed all 1,716 ESSER subawards totaling \$3.3 billion that were required to be reported to the FSRS during the audit period and found that the Department stopped FFATA reporting on ESSER in December 2021. As a result, 1,291 subawards totaling \$230.1 million made during 2022 were not reported.

Auditors then tested a sample of 60 ESSER subawards that were reported and found one or more errors. Specifically:

- 51 subawards totaling \$760.1 million did not include required information on how the funds were utilized.
- 30 subawards totaling \$732 million were reported 47-61 days late.
- 6 subawards totaling \$8.2 million were reported with either the wrong subrecipient or federal award information.
- 5 subawards totaling \$1.1 million were reported twice.
- 9 subawards totaling \$1.1 million were not reported at all.
- 38 subawards totaling \$757 million did not agree to supporting documentation by a total of \$805 thousand.

The FFATA was enacted to help reduce wasteful spending in government by empowering every American citizen with the ability to hold the government accountable for each spending decision. When subaward information is not reported to the FSRS or when it is

reported incorrectly, citizens do not have complete and accurate information about how federal funds are being used in their communities.

According to Department management:

- The errors found in the ESSER subawards that were reported occurred due to limited staffing resources.
- Additionally, Department management stopped entering ESSER subawards into FSRs in December 2021 due to technical difficulties experienced.
- Lastly, due to the difficulties experienced with entering the ESSER subawards into FSRs, the Department did not attempt to report any subawards for the SEI program.

The FFATA⁴ requires direct recipients of grants or cooperative agreements to report first-tier subawards of \$30,000 or more to the FSRs no later than the end of the month following the month in which the obligation was made.

This finding was previously reported in the 2021 Statewide Single Audit as finding number 2021-015.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; Assistance Listing Number (title): 84.425D (Elementary and Secondary School Emergency Relief Fund); Federal Award Identification Number (award period): S425D200037 (COVID-19) (May 11, 2020 - September 30, 2021) and S425D210037 (COVID-19) (January 5, 2021 - September 30, 2022).

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; Assistance Listing Number (title): 84.425U (American Resuce Plan - Elementary and Secondary School Emergency Relief Fund); Federal Award Identification Number (award period): S425U210037 (COVID-19) (March 24, 2021 - September 30, 2023).

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; Assistance Listing Number (title): 84.367 (Supporting Effective Instruction State Grants); Federal Award Identification Number (award period): S367A210032 (July 1, 2021 - September 30, 2022).

Recommendation: Department management should prioritize seeking solutions from the federal oversight agency on technical difficulties.

In addition, Department management should ensure staff are available to complete FFATA reporting as required.

Views of Responsible Officials of the Auditee: See pages 8-9 for the North Carolina Department of Public Instruction's response to this finding.

⁴ 2 CFR 170 Appendix A



NORTH CAROLINA DEPARTMENT OF PUBLIC INSTRUCTION

Catherine Truitt, *Superintendent of Public Instruction*
www.dpi.nc.gov

March 20, 2023

The Honorable Beth A. Wood, State Auditor
Office of State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Auditor Wood:

The North Carolina Department of Public Instruction (DPI) is pleased to submit our response to your findings in connection with the 2022 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). In our responses below, you will find actions we have taken or are currently taking to resolve the issues noted.

Finding 1: Incomplete Monitoring

OSA Recommendation: Department management should review and revise monitoring procedures as necessary in response to changes in operations. In addition, Department management should prioritize the development of a contingency plan to ensure monitoring is completed when employee turnover occurs.

The Department of Public Instruction concurs with the Auditor’s finding and recommendation.

As noted in the finding, ongoing investigations involving external agencies and reviews requiring expanded scope have demanded significantly more time than anticipated by any of the parties involved. Some of this work is ongoing and will continue to impact fiscal monitoring work for the Monitoring and Compliance section within the Office of School Business Services.

Other factors impacted the ability of Monitoring and Compliance to complete fiscal monitoring reviews during fiscal year 2022, including staffing issues and multiple Charter School closings, which added complexity to the closure workload and necessitated additional resources. Staffing has been an issue at DPI, but also within the PSUs (Public School Units) selected for monitoring.

OFFICE OF THE NORTH CAROLINA STATE SUPERINTENDENT

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AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

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Vacancies and turnover within PSU positions such as CFO and Director of Federal Programs, resulted in delays throughout the monitoring process.

The complexity of various Pandemic Relief funding streams has burdened other agencies with additional audit procedures which required interaction with the monitoring team as they serve as a conduit for other state agencies unfamiliar with PSUs. Monitoring and Compliance serves in this role to lessen the burden and help to facilitate audit work.

During fiscal year 2023 management updated fiscal monitoring policies and procedures to incorporate the need for review and revision of the monitoring plan in response to changes in operations during the year. Department management will consider additional resources, scope changes, and adjusting the number and type of monitoring events as part of the contingency planning to ensure monitoring is completed when employee turnover occurs. Monitoring and Compliance continues to strive to provide high quality fiscal monitoring of PSUs.

Finding 2: Errors in FFATA Reporting

OSA Recommendation: Department management should prioritize seeking solutions from the federal oversight agency on technical difficulties. In addition, Department management should ensure staff are available to complete FFATA reporting as required.

The Department of Public Instruction concurs with the Auditor's finding and recommendation.

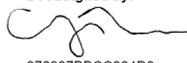
While additional resources were commissioned to complete FFATA reporting requirements, technical considerations in the FFATA system remain problematic. The system restricts the number of entries per month, which makes it impossible for DPI to report awards within the required time limit. The Office of Federal Programs has continued to make requests to the federal oversight agency for technical assistance with the system.

The Office of Federal Programs will continue to interface with the federal agency regarding the technical difficulties of the system. A data entry plan will be developed and implemented to input required data as quickly as possible with system constraints. Staff will enter and track subaward information in accordance with the plan.

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We believe implementation of these corrective actions will address the deficiencies noted. Please feel free to contact Jeani Rousseau or me if you have any questions about our response. We appreciate the effort and professionalism of your staff in conducting audits of the Department of Public Instruction.

Sincerely,

DocuSigned by:

972337BBCC384D9...
Catherine Truitt

CT/jr

- c: Eric Davis, State Board of Education Chairman
- Alan Duncan, SBE Audit Committee Chair
- Wendell Hall, SBE Audit Committee Member
- Jerry Oates, Deputy Superintendent of District and School Support Services
- Alexis Schauss, Chief Financial Officer
- Jeani Rousseau, Director of Internal Audit

ORDERING INFORMATION

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North Carolina Office of the State Auditor at:

919-807-7666



This audit required 1662 hours at an approximate cost of \$199,440.