

North Carolina Department of Public Instruction

Raleigh, North Carolina

Statewide Federal Compliance Audit Procedures

For the Year Ended June 30, 2023

UNBIASED. IMPACTFUL. IRREFUTABLE.



A Department of the
State of North Carolina



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Chapter 147, Article 5A 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.



North Carolina Office of the State Auditor

Jessica N. Holmes, J.D., State Auditor

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, 2023.

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:

- Title I Grants to Local Education Agencies (ALN 84.010)
- Special Education Cluster (ALN 84.027, 84.173)
- Career and Technical Education - Basic Grants to States (ALN 84.048)
- Supporting Effective Instruction State Grants (ALN 84.367)
- Governor's Emergency Education Relief Fund (ALN 84.425C)
- Elementary and Secondary Emergency Relief Fund (ALN 84.425D)
- American Rescue Plan - Elementary and Secondary Emergency Relief Fund (ALN 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 no instances of noncompliance that are required to be reported in accordance with the Uniform Guidance.

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. 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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses. 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 significant deficiencies in internal control over compliance.

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.

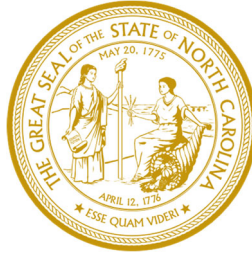
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this transmittal.

A handwritten signature in cursive script that reads "Jessica N. Holmes, J.D.".

Jessica N. Holmes, J.D.
State Auditor

Raleigh, North Carolina

March 18, 2024



Findings, Recommendations, and Views of Responsible Officials of the Auditee

Matters Related to Federal Compliance Audit Objectives

1. 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 School Emergency Relief (ESSER), Supporting Effective Instruction (SEI), and Title I Grants to Local Educational Agencies (Title I) programs.

Auditors reviewed all the subawards for the ESSER and SEI programs 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. Specifically:

- 394 ESSER subawards totaling \$85.8 million were not reported.
- 140 SEI subawards totaling \$63.0 million were not reported.

During the audit period, the Department made 240 Title I subawards totaling \$527.9 million. Auditors tested a sample of 36 Title I subawards that were reported to the FSRS and found errors in all of the subawards. Specifically:

- 10 subawards totaling \$1.5 million were not reported at all.
- 26 subawards totaling \$89.4 million were reported 34-146 days late, lacked sufficient project descriptions on how the funds were utilized, and did not agree to supporting documentation by a total of \$1.3 million. In addition, 7 subawards totaling \$39.2 million were reported twice.

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

According to Department management:

- Due to continued technical difficulties experienced with entering subawards into FSRS, the Department did not attempt to report any subawards for the ESSER and SEI programs.
- Due to technical difficulties experienced with entering the Title I subawards into FSRS, and a lack of designated staff with experience, the Department did not complete all entries into the system and duplicated others.

The FFATA¹ 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.

¹ 2 CFR 170 Appendix A.

This finding was previously reported in the 2022 Statewide Single Audit as finding number 2022-008.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; Assistance Listing Number (title): 84.425U (American Rescue 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): 84.367A (Supporting Effective Instruction State Grants); Federal Award Identification Number (award period): S367A220032 (July 1, 2022 - September 30, 2023).

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; Assistance Listing Number (title): 84.010A (Title I Grants to Local Education Agencies); Federal Award Identification Number (award period): S010A220033 (July 1, 2022 - September 30, 2023).

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

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

Views of Responsible Officials of the Auditee: See page 7 for the Department of Public Instruction's response to this finding.

2. Inaccurate Annual Reporting

The Department of Public Instruction (Department) did not accurately report Education Stabilization Fund - Elementary and Secondary School Emergency Relief (ESSER) data to the U.S. Department of Education. During the annual reporting period,² 272 public-school units (PSUs) incurred \$1.5 billion in expenditures related to the program.

Auditors reviewed the expenditures reported in the ESSER Annual Report for a sample of 60 PSU's and found the following errors:

- 20 PSUs (33%) were included with inaccurate expenditure amounts, resulting in total errors of \$69 million.
- 29 PSUs (48%) were included without required information, including the number of full-time equivalent (FTE) positions funded and/or the criteria used to allocate funds.

Inaccurate reporting of ESSER data prevents the U.S. Department of Education from monitoring the state's progress on preventing, preparing for, and responding to coronavirus impacts on education. Additionally, any subsequent use of the data for public transparency could provide an inaccurate view of ESSER program spending to citizens.

² July 1, 2021, through June 30, 2022.

According to Department management, the ESSER Annual Report was prepared using data from several sources and the data was not reconciled to ensure accuracy.

Federal regulations³ require that the Department submit an annual report describing how the State and subrecipients used the awarded funds.

Federal regulations⁴ also require the Department to establish and maintain effective internal control over federal awards that provide reasonable assurance that the Department is managing the program in compliance with federal statutes, regulations, and the terms and conditions of the federal award. The federal regulations define internal control to include the processes for achieving reliable reporting.

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

Recommendation: Department management should prioritize developing and implementing detailed review procedures over the ESSER Annual Report data to ensure accuracy.

In addition, Department management should monitor the procedures to ensure corrective action takes place.

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

³ U.S. Department of Education's ESSER Recipient Data Collection Form (OMB:1810-0749).

⁴ 2 CFR 200.303 - Internal Controls.



NORTH CAROLINA DEPARTMENT OF PUBLIC INSTRUCTION

Catherine Truitt, Superintendent of Public Instruction

www.dpi.nc.gov

March 12, 2024

The Honorable Jessica N. Holmes, State Auditor
Office of State Auditor
20601 Mail Service Center
Raleigh, North Carolina 27699

Dear Auditor Holmes:

The North Carolina Department of Public Instruction (DPI) is pleased to submit our response to your findings in connection with the 2023 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. In our responses below, you will find actions we have taken or are currently taking to resolve the issues noted.

Finding 1: 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 properly trained and available to complete FFATA reporting as required.

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

We strive to comply with FFATA reporting requirements; however, we continue to struggle due to system limitations. Ongoing conversation and support are sought from the U. S. Department of Education to aid in a more complete reporting within the FFATA system.

Finding 2: Inaccurate Annual Reporting

OSA Recommendation: Department management should prioritize developing and implementing detailed review procedures over the ESSER Annual Report data to ensure accuracy.

In addition, Department management should monitor the procedures to ensure corrective action takes place.

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

OFFICE OF THE NORTH CAROLINA STATE SUPERINTENDENT

Catherine Truitt, Superintendent of Public Instruction | statesuperintendent@dpi.nc.gov
6301 Mail Service Center, Raleigh, North Carolina 27699-6301 | (984) 236-2200

The Honorable Jessica N. Holmes, State Auditor
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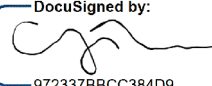
The data inaccuracies noted have been corrected and were submitted via email to the U. S. Department of Education on December 12, 2023. We received a response to this email indicating that this data should be corrected during the upcoming correction window, scheduled for July 29, 2024, through August 15, 2024. We will upload the corrected files into the submission portal during the correction period.

We have strengthened the reporting process in the following areas to ensure data integrity in reporting moving forward.

- We have created a cross-divisional team to gather, compile, and report required data.
- We are implementing an internal data quality review prior to report submission.

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
John Blackburn, SBE Audit Committee Member
Alexis Schauss, Chief Financial Officer
Jeremy Gibbs, Deputy Superintendent of District and School Support Services
Jeani Rousseau, Director of Internal Audit

Ordering Information

Copies of this report may be obtained by contacting:

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Raleigh, North Carolina 27699

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