



# **STATE OF NORTH CAROLINA**

## **INVESTIGATIVE REPORT**

**NORTH CAROLINA DEPARTMENT OF PUBLIC INSTRUCTION**

**FEDERAL PROGRAM MONITORING AND SUPPORT SERVICES DIVISION**

**RALEIGH, NORTH CAROLINA**

**AUGUST 2013**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

## **EXECUTIVE SUMMARY**

### **PURPOSE**

The Office of the State Auditor investigated allegations that a Department of Public Instruction (DPI) employee received a pay raise in the form of travel reimbursement funds and that a former division director discussed her subsequent DPI contract prior to the mandatory six-month waiting period following her retirement.

### **BACKGROUND**

DPI is charged with implementing the State's public school laws and the State Board of Education's policies and procedures governing pre-kindergarten through 12th grade public education. The mission of the Federal Program Monitoring and Support Services Division is to ensure that federal education funds contribute to the goal that all children meet or exceed state standards.

### **KEY FINDINGS**

- An analyst for DPI submitted false travel reimbursement claims totaling about \$3,400 even though the job required no travel.
- The Division Director acknowledged that no one reviewed the details of the reimbursement requests and that the payments would not have been approved if they had been properly scrutinized.
- A former Division Director for DPI engaged in activity and discussions regarding a return to service within six months of her effective retirement date in violation of state law.

### **KEY RECOMMENDATIONS**

- DPI should take action to recover funds inappropriately paid to the analyst in accordance with state law and take disciplinary action against the analyst for knowingly submitting false statements.
- DPI should thoroughly review details of all travel reimbursement claims before authorizing payment.
- DPI should ensure all retirees are made aware of and provided guidance on the North Carolina Retirement Systems' Return-to-Work laws.
- The State Retirement Systems Division should determine whether the former Division Director should forfeit retirement pay and state health plan coverage already received.

The key findings and recommendations in this summary are not inclusive of all the findings and recommendations in the report.

# Office of the State Auditor



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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

## AUDITOR'S TRANSMITTAL

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The Honorable Pat McCrory, Governor  
Dr. June St. Clair Atkinson, State Superintendent,  
North Carolina Department of Public Instruction  
Members of the North Carolina General Assembly

Ladies and Gentlemen:

Pursuant to *North Carolina General Statute § 147-64.6(c)(16)*, the Office of the State Auditor has completed an investigation of allegations concerning the North Carolina Department of Public Instruction. The results of the investigation, along with recommendations for corrective action, are contained in this report.

Copies of this report have been provided to the Governor, the Attorney General and other appropriate officials in accordance with *North Carolina General Statute §147-64.6 (c) (12)*. We appreciate the cooperation received from the management and employees of the Department of Public Instruction during the investigation.

Respectfully submitted,

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

August 28, 2013

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## INTRODUCTION

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The Office of the State Auditor received a complaint through the *State Auditor's Hotline* concerning two employees in the North Carolina Department of Public Instruction's (DPI) Federal Program Monitoring and Support Services Division. Allegedly, an employee received a pay raise in the form of travel reimbursement funds and the former Division Director had discussions about her subsequent DPI contract prior to the mandatory six-month waiting period following her retirement.

Our investigation included the following procedures:

- Review of applicable *North Carolina General Statutes*
- Examination of relevant DPI documents and records
- Interviews with personnel from DPI, Sampson County Schools, the North Carolina Department of Administration's Motor Fleet Management Division, the North Carolina General Assembly's Fiscal Research Division, and the North Carolina Department of State Treasurer's Retirement Systems Division

This report presents the results of our investigation. The investigation was conducted pursuant to *North Carolina General Statute § 147-64.6 (c) (16)*.

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## **ORGANIZATION AND PROGRAM OVERVIEW**

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The North Carolina Department of Public Instruction (DPI) is charged with implementing the State's public school laws and the State Board of Education's policies and procedures governing pre-kindergarten through 12<sup>th</sup> grade public education. The elected State Superintendent of Public Instruction leads DPI under the policy direction of the State Board of Education. DPI administers state and federal public school funds totaling approximately \$8.2 billion annually and licenses the approximately 120,000 teachers and administrators that serve public schools.<sup>1</sup>

The mission of the Federal Program Monitoring and Support Services Division (Division) is to ensure that federal education funds contribute to the goal that all children meet or exceed state standards. The Division accomplishes this mission through activities designed to ensure that schools spend federal funds in accordance with federal requirements and for the intended purposes of the grants.

Title I, Part A (Title I) of the Elementary and Secondary Education Act (the Act) provides financial assistance to local educational agencies (LEAs) and schools with high numbers or high percentages of children from low-income families to help ensure that all children meet state academic standards. Federal funds are currently allocated through four statutory formulas based primarily on census poverty estimates and the cost of education in each state.

Section 1003(g) of Title I of the Act established School Improvement Grants. The grants are awarded to the State, which in turn provides sub-grants to LEAs to provide assistance for school improvement. Currently, 77 "Priority Schools"<sup>2</sup> receive federal funds as authorized under section 1003(g) of the Act. DPI conducts on-site visits (known as Priority School Quality Reviews) to evaluate the implementation of interventions in each Priority School. The DPI Quality Reviewers work with the LEA Priority School Coordinator designated by each school.

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<sup>1</sup> <http://www.ncpublicschools.org/>

<sup>2</sup> North Carolina schools that were identified under the North Carolina Elementary and Secondary Education Act Flexibility Request.

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## **FINDINGS AND RECOMMENDATIONS**

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### **1. ANALYST SUBMITTED IMPROPER TRAVEL REIMBURSEMENTS**

From October 2011 through June 2012, the Federal Program Monitoring and Support Services Division's (Division) Technology Support Analyst (Analyst) knowingly filed false travel reimbursement claims. As a result, the Analyst received \$3,403.03 for travel that never occurred.

The Analyst submitted travel reimbursement forms indicating she traveled from Raleigh, N.C., to Dunn, N.C., and back to Raleigh at least twice per week. The stated purpose for these trips was: "Visit to Midway High School for Title I technical assistance." The forms also listed Midway Middle School, Midway Elementary School, and Plain View Elementary School as travel destinations. The administrators at each of these schools were unaware of any Title I technical assistance being provided by the Analyst. The administrators did not even recognize her name.

A review of the Analyst's job description did not indicate the need for travel or direct communication with any school. The Analyst's manager said that there was no reason for the employee to travel to any school. As noted in the job description, the main purpose of the Technical Support Analyst was to perform data collection and prepare reports for submission to the federal department administering the Title I program.

The Analyst admitted that she never visited any of the schools noted on the reimbursement forms. The Analyst said she was informed that her work station was being changed from Raleigh-based to home-based but could not provide investigators with the specific date the change occurred. The change would have qualified the Analyst for reimbursement for her travel from home to Raleigh. However, because the home-based designation was not official, the Analyst claimed that a Division Program Assistant told her to list a school near her residence for justification for travel expenses claimed. The Division Program Assistant denied making that statement.

Although the Analyst's duty station may have changed as of March 1, 2012 or earlier (See Finding 2), the Analyst still filed travel reimbursement requests that intentionally contained incorrect data by listing local schools as her travel destination. The Analyst stopped requesting travel reimbursements for visits to local schools after June 2012.

The employee's signature on the travel reimbursement form certifies that "Under penalties of perjury, . . . this is a true and accurate statement of expenses and allowances incurred in the service of the state and that none of these expenses have been or will be reimbursed to me from any other source." Therefore, the Analyst knowingly provided false information on travel reimbursement forms.

**RECOMMENDATIONS**

Management should take any action necessary to recover funds that were inappropriately paid to the Analyst in accordance with state law.<sup>3</sup>

Management should take disciplinary action against the Analyst for knowingly submitting false statements.

**2. NONCOMPLIANCE WITH DPI TRAVEL AND DUTY STATION POLICIES**

Management of the Federal Program Monitoring and Support Services Division (Division) failed to follow Department of Public Instruction (DPI) policies for travel reimbursement and duty station assignments.

Travel Reimbursement Approvals

Management did not provide documentation that travel for the Technology Support Analyst (Analyst) had been pre-authorized in violation of DPI “Staff Travel, Transportation and Allowances” policies. The travel policy permits yearly blanket pre-authorizations, but no blanket authorization was maintained. The policy states that, effective July 1, 2008, all travel must be pre-authorized and documented by the State Superintendent and/or appropriate Associate Superintendent, Division Director, or Assistant Director (or their designee – at least Section Chief level).

In addition, management failed to thoroughly review the Analyst’s travel reimbursement forms covering September 2011 through June 2012. Neither the Division Director nor the supervisor detected the Analyst’s claims that she visited schools. The Division Director and the supervisor said that the Analyst “did not visit” any schools in her current job as data analyst. The Division Director indicated that, if she had reviewed the documents, she would have questioned the “purpose” of the trips and had the information corrected. As a result of not reviewing the travel details, DPI personnel processed the false travel reimbursement claims for \$3,403.03.

Furthermore, the investigation determined that there was no supervisor/director signature/review for the reimbursement form submitted for travel during the period April 1, 2012, through April 30, 2012. Even without management approval, the reimbursement request was paid.

The travel reimbursement form requires employees and their supervisors and/or division directors to sign the document. The supervisor’s/division director’s signature certifies that they “have examined this reimbursement request and certify that it is just and reasonable.”

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<sup>3</sup> *North Carolina General Statute § 143-64.80(a)*, “An overpayment of State funds to any person in a State-funded position, whether in the form of salary or otherwise, shall be recouped by the entity that made the overpayment and, to the extent allowed by law, the amount of the overpayment may be offset against the net wages of the person receiving the overpayment.”

## FINDINGS AND RECOMMENDATIONS (CONTINUED)

### Duty Station Assignment

Management did not follow DPI Human Resources policy<sup>4</sup> when the Analyst's duty station changed on March 1, 2012 and when amended on September 1, 2012. Upon change in an employee's duty station, DPI policy requires the employee's position description and work plan to be documented and filed with Human Resources. Further, DPI policy requires the Division Director to communicate the change to appropriate staff in the Financial and Business Services, the Communications Division, and all others in the employee's Division, including the respective Associate State School Superintendent or Deputy State Superintendent, as appropriate.

Review of the Analyst's position description and work plan as well as other Human Resources' documentation revealed the following:

- The Division Director claimed that the Analyst's duty station changed to home-based as of September 1, 2011. However, DPI could not provide documentation to support that claim.
- In October 2012, Financial and Business Services staff questioned why the Analyst was receiving significant travel reimbursements because the Accounts Payable section had no documentation related to the duty station change. The Division Program Assistant informed them that the Analyst's duty station changed on March 1, 2012 to home-based. As a result, Human Resources drafted a letter on October 16, 2012 acknowledging that the Analyst's duty station changed.
- The Analyst's official position description, updated and signed on February 18, 2013, indicated that the location of the workplace was still the Education Building sixth floor, not the Analyst's home.
- On February 19, 2013, the Division Director provided investigators with a copy of the Analyst's most recent work plan that showed the Analyst's duty station would be two days DPI-based and three days home-based as of September 1, 2012. The duty station information appears to have been added after the investigators' discussion with the Division Director. When this document was originally signed on July 16, 2012, and later on January 31, 2013, the information pertaining to the duty station was not included.

Investigators identified several other employees whose duty station changed from home-based to DPI-based and one other employee in the Division whose duty station changed from DPI-based to home-based. A review of the other home-based employee's personnel file revealed a letter documenting the change in duty station as required by DPI policy.

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<sup>4</sup> "Duty Station Location Assignment Policy," effective 2/11/2008.

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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### **RECOMMENDATIONS**

Management should thoroughly review details of all travel reimbursement claims before authorizing payment. Management should consider taking disciplinary action against the Division Director and the Analyst's supervisor for their failure to detect or correct the falsified information included on the Analyst's travel reimbursements.

Management should comply with the Human Resources Division's "Duty Station Location Assignment Policy" when changes in employee duty station assignments occur.

The Human Resources Division should conduct an annual review of duty station assignments to determine whether proper justification exists for any home-based assignment.

The Division Director should prepare a corrected letter regarding the Analyst's home-based status, including effective date, and resubmit it to the Human Resources Division.

### **3. FORMER DIRECTOR VIOLATED STATE'S RETURN-TO-WORK LAWS**

The former Division Director failed to comply with certain terms and conditions of the State's "Return-to-Work" laws following her retirement. Specifically, the *North Carolina General Statutes* prohibit active service or an agreement to return to work within six months of retirement.<sup>5</sup> However, the former Division Director engaged in activity and discussions regarding a return to service within six months of her effective retirement date.

The former Division Director retired from state employment effective April 1, 2012. On October 19, 2012, the former Division Director signed a contract to return to work with DPI as a Quality Reviewer using School Improvement Grant funding. She signed the contract after her required six-month waiting period.

However, OSA investigators discovered evidence of a prior intent or agreement in place for the former Division Director to return to service. For example, the former Division Director was listed in a DPI newsletter dated August 27, 2012, as a DPI Quality Review team member for 2012-13. The current Division Director reported speaking with the former Division Director during late summer 2012 about the possibilities of returning as a textbook consultant and Quality Reviewer.

In addition, the former Division Director attended a N.C. Indistar training workshop on September 6, 2012. The former Division Director remembered attending the training in Smithfield, N.C., for informational purposes only. However, an August 9, 2012, e-mail

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<sup>5</sup> *North Carolina General Statute § 135-1(20)* defines retirement as: "the termination of employment and the complete separation from active service with no intent or agreement, express or implied, to return to service." Further, *NCGS §135-1(20)* states, "in order for a member's retirement to become effective in any month, the member must render no service, including part-time, temporary, substitute, or contractor service at any time during the six months immediately following the effective date of retirement."

## **FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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announcing the class registration was sent by the DPI School Improvement Grant Coordinator to current employees of various school districts. The e-mail was also sent to current DPI employees and current DPI contract employees, including the former Division Director. This training was not available to any citizen for informational purposes.

The former Division Director attended another N.C. Indistar training workshop on September 20, 2012, titled “N.C. Priority Schools – Monitoring and Support.” The agenda for that meeting indicated that the former Division Director attended the meeting as one of only seven attendees. The meeting’s purpose was to discuss the upcoming monitoring assignments for those members in attendance.

The former Division Director did not believe that attending meetings would constitute rendering a service. The term “service” is defined in the law as “...service as a teacher or State employee as described in subdivision (10) or (25) of this section.”<sup>6</sup> Discussions with North Carolina General Assembly’s Fiscal Research staff and the North Carolina Department of State Treasurer’s Retirement Systems Division staff indicated that the actions of the former Division Director did constitute “service” and could therefore adversely affect her retirement status.

The involvement of the former Division Director with DPI within six months of her retirement date violated the State’s Return-to-Work laws and may result in forfeiture of retirement pay and state health plan coverage already received. As of June 30, 2013, the former Division Director received \$70,758.24 in retirement benefits since April 1, 2012.

### **RECOMMENDATIONS**

DPI should ensure all retirees are made aware and provided guidance on the North Carolina Retirement Systems’ Return-to-Work laws.

The North Carolina Department of State Treasurer’s Retirement Systems Division, in conjunction with the North Carolina General Assembly, should review and clarify the Return-to-Work Laws’ definition of “service.”<sup>7</sup>

The State Retirement Systems Division should determine whether the former Division Director should forfeit retirement pay and state health plan coverage already received.

**Note: Finding referred to the North Carolina Department of State Treasurer, Retirement Systems Division.**

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<sup>6</sup> NCGS §135-1(23)

<sup>7</sup> In conversation with the North Carolina Retirement Systems Division on April 30, 2013, investigators were informed that talks with the North Carolina General Assembly have started in an effort to further clarify the definition of “service.”

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## STATE AUDITOR'S NOTE

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In general, DPI management agreed with the findings and recommendations in this report and stated that it initiated both disciplinary and corrective action. However, DPI's response includes certain implications that are misleading or inaccurate.

DPI's response asserts that the problems identified in the investigative report were related to administrative deficiencies or oversights in processing the Analyst's approval for her home-based designation. During the course of the investigation, documentation provided by DPI regarding the Analyst's duty station assignment was both inconsistent and insufficient. Nevertheless, even if the duty station assignment documentation had been properly changed and approved, we would have expected travel reimbursement forms to indicate travel from Dunn to Raleigh and back to Dunn. We actually found just the opposite. Travel reimbursement forms indicated travel from Raleigh to Dunn and back to Raleigh.

The Analyst recorded travel to different schools every month from September 2011 through June 2012 even though she never visited those schools and school officials said they had never met her. Further, the Analyst, her supervisor, and her director all admitted there was no reason for her to travel to those schools. Therefore, the Analyst intentionally misrepresented her destinations as a way to receive mileage reimbursements to which she was not entitled. The supervisor's and director's failure to detect or correct the Analyst's misrepresentations indicates they were either negligent in their reviews or complicit in the approval of mileage reimbursements totaling \$3,403.03.

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# RESPONSE FROM THE DEPARTMENT OF PUBLIC INSTRUCTION



## PUBLIC SCHOOLS OF NORTH CAROLINA

DEPARTMENT OF PUBLIC INSTRUCTION | June St. Clair Atkinson, Ed.D., *State Superintendent*

WWW.NCPUBLICSCHOOLS.ORG

August 2, 2013

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 would like to thank the Office of State Auditor for their work on an investigation of the Federal Program Monitoring and Support Services Division. The Department of Public Instruction strives for excellence in all aspects of our work. We appreciate the help provided by your office to identify areas for improvement. Our response to the findings and recommendations in your report are below.

The Department of Public Instruction did not adequately document the change in duty station for the employee noted in the audit report. It is expected that the lack of documentation occurred due to turnover in management within the Federal Program Monitoring and Support Services Division as well as turnover within the Human Resources Division. Although not properly documented, the employee's duty station was changed from the Education Building to home-based. It was determined that the change in duty station occurred effective October 1, 2011. A corrected letter regarding the change in duty station, including the effective date, has been distributed to Human Resources and the employee.

The change in duty station rendered the employee eligible to receive reimbursement for work-related travel using the employee's home address. The original travel reimbursement requests incorrectly listed the starting and ending locations. It was determined that the starting and ending locations were misrepresented due to miscommunication, as a direct result of the inadequate duty station documentation. Using the audit scope, this resulted in requests for reimbursement of 7,631 miles, which totaled \$3,937. While the requests originally submitted contained incorrect information, the employee did have valid claims for travel reimbursement during the period under audit. Internal Audit reviewed and validated corrected travel reimbursement requests from the employee. The corrected travel reimbursement requests which appropriately noted the starting and ending locations resulted in 7,899 miles, which totaled \$4,326. This analysis suggests that the misrepresentation of starting and ending locations resulted in no financial gain to the employee; in fact, the result was a loss of travel reimbursement totaling \$389. The Department of Public Instruction has not yet determined appropriate action to be taken related to the travel reimbursement requests submitted.

The Department of Public Instruction requires supervisor approval of travel reimbursement requests prior to release of payment. The supervisor did review the travel reimbursement requests judgmentally (knowing the employee was eligible for reimbursement from the home-based duty station) for approximate mileage, but did not review the starting and ending locations. As a result of this audit, the Department has provided reminders of the importance of reviewing travel reimbursements in detail during management team meetings.

### OFFICE OF THE STATE SUPERINTENDENT

June St. Clair Atkinson, Ed.D., *State Superintendent* | [june.atkinson@dpi.nc.gov](mailto:june.atkinson@dpi.nc.gov)  
6301 Mail Service Center, Raleigh, North Carolina 27699-6301 | (919) 807-3430 | Fax (919) 807-3445  
AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

Prior to initiation of this audit, the supervisor determined that in the best interest of the State, the employee should be assigned dual duty stations. On July 16, 2012, the employee was notified that effective September 1, 2012 employee's duty station for each week would be three days home-based and two days based in the Education Building. Although the notice was effective September 1, 2012, Internal Audit noted that the employee terminated requests for travel reimbursement upon receipt of the notice (July 2012). Proper documentation of the change to dual duty stations, including effective dates, has been provided to Human Resources and the employee.

Management is currently consulting with Human Resources to determine appropriate disciplinary action for the issues noted in this report. The Department of Public Instruction shall take disciplinary action deemed appropriate against the employee and supervisor.

Human Resources within the Department of Public Instruction has implemented new procedures to review the list of duty station assignments annually to determine if proper justification and documentation exists for employees assigned to duty stations other than the Education Building. Human Resources completed a review of this list and related documentation in May 2013.

The Department of Public Instruction provides reminders of the North Carolina Retirement Systems' Return-to-Work laws to all employees. Human Resources within the Department has incorporated detailed explanation and printed guidance regarding these laws into the retirement consultation for each retiring employee.

The Department of Public Instruction feels that appropriate action has been taken to address the findings noted in the audit report. Procedures have been implemented to prevent future occurrence of the issues noted.

Sincerely,



June St. Clair Atkinson

c: Dr. Rebecca Garland, Chief Academic Officer  
Ms. Jeani Allen, Director of Internal Audit  
Ms. Donna Brown, Director of Federal Program Monitoring and Support Services  
Ms. Lou Ann Phillips, Director of Human Resources

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Telephone: 919-807-7500

Facsimile: 919-807-7647

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For additional information contact:

Bill Holmes  
Director of External Affairs  
919-807-7513

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This investigation required 503.5 hours at an approximate cost of \$36,252.