

STATE OF NORTH CAROLINA

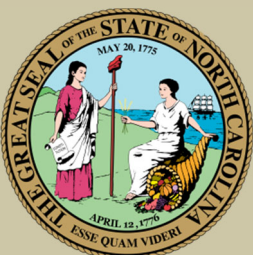
OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



DEPARTMENT OF PUBLIC INSTRUCTION

RALEIGH, NORTH CAROLINA

INVESTIGATIVE AUDIT REPORT
JUNE 2023



NC OSA
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The North Carolina Office of the State Auditor initiated an investigative audit in response to a Hotline allegation regarding the North Carolina Department of Public Instruction (DPI) and its disbursement of federal Emergency Assistance to Non-Public Schools (EANS) program funds.

BACKGROUND

In response to the COVID-19 Pandemic, the United States Department of Education (ED) implemented the EANS Program, which addresses the impact and educational disruptions COVID-19 made on non-public school students and teachers in each state.

In total, the EANS Program provided \$5.5 billion of federal funding, including \$167.7 million for the State of North Carolina.

ED awarded EANS Program funds by formula to each state Governor who applied. After accepting an EANS award from ED, Governors were responsible to designate a state educational agency (SEA) to administer the program and access EANS funds from ED. In North Carolina, DPI was selected to be responsible for distributing the EANS program funds to eligible non-public schools.

KEY FINDINGS

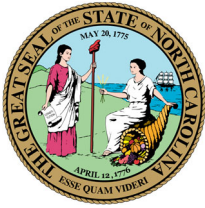
- DPI changed vendor information without proper documentation resulting in a \$165,431 disbursement to a fraudulent bank account.
- DPI disbursed \$16,569 more than requested in EANS program funds.

KEY RECOMMENDATIONS

- DPI should seek repayment for the EANS program funds that were disbursed in excess of what was requested.
- DPI should review all other EANS program disbursements and ensure they did not exceed the amounts that were requested by the non-public schools under this program.

Key findings and recommendations are not inclusive of all findings and recommendations in the report.

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
Members of the North Carolina General Assembly
Catherine Truitt, State Superintendent of Public Instruction

Ladies and Gentlemen:

Pursuant to North Carolina General Statutes § 147-64.6(c)(16) and § 147-64.6B, we have completed an investigative audit of allegations concerning the North Carolina Department of Public Instruction (DPI). The results of our investigative audit, 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 N.C.G.S. § 147-64.6(c)(12). We appreciate the cooperation received from the management and employees of DPI during our investigative audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

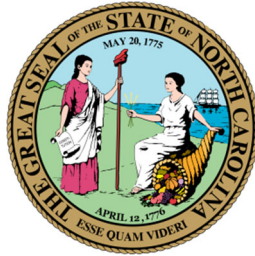


Beth A. Wood, CPA
State Auditor

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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.



BACKGROUND

The North Carolina Office of the State Auditor initiated an investigative audit in response to a Hotline allegation regarding the North Carolina Department of Public Instruction (DPI) and its disbursement of federal Emergency Assistance to Non-Public Schools (EANS) program funds.

Our investigative audit procedures included:

- Review of DPI policies and procedures.
- Examination and analysis of available documentation related to program funding.
- Interviews with DPI personnel.

This report presents the results of the investigative audit. The investigative audit was conducted pursuant to North Carolina General Statutes § 147-64.6(c)(16) and § 147-64.6B. This report does not constitute an audit or attestation engagement conducted in accordance with generally accepted government auditing standards.

North Carolina Department of Public Instruction

DPI is responsible for implementing North Carolina public school laws for pre-kindergarten through 12th grade public schools at the direction of the State Board of Education and the Superintendent of Public Instruction.¹

United States Department of Education

The United States Department of Education (ED) is responsible for establishing policies on federal financial aid for education, distributing and monitoring those funds, and other educational related initiatives.²

Emergency Assistance to Non-Public Schools Program

In response to the COVID-19 Pandemic, ED implemented the Emergency Assistance to Non-Public Schools (EANS) Program. The EANS Program addresses the impact and educational disruptions COVID-19 made on non-public school students and teachers in each state.

There are two separate acts the EANS Program is administered through:

- The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA).
- The American Rescue Plan Act (ARP).

Each of these acts provide \$2.75 billion (\$5.5 billion in total) of federal funding. In North Carolina, about \$84.8 million was awarded under CRRSA and about \$82.9 million under ARP.

Administration of the EANS Program

ED awarded EANS Program funds by formula to each state Governor with an approved CRRSA EANS Certification and Agreement or ARP EANS application. After accepting an EANS award from ED, Governors were responsible to designate a state educational agency

¹ <https://www.dpi.nc.gov/about-dpi>

² <https://www2.ed.gov/about/landing.jhtml>

(SEA) to administer the program and access EANS funds from ED. In North Carolina, DPI was selected to be responsible for distributing the EANS program funds to eligible non-public schools.

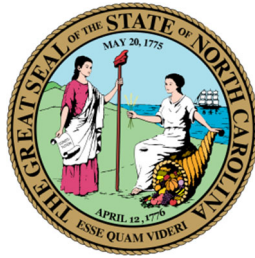
Liberty Christian Academy

Liberty Christian Academy (Academy) is a non-public school located in Richlands, North Carolina.³ It was founded in 2013 and serves students from pre-kindergarten through high school.⁴

The Academy participated in the EANS program and applied for funding under both CRRSA and ARP. The scope of the investigation involves funds DPI distributed through CRRSA for which the Academy originally applied on April 16, 2021.

³ <https://liberty-academy.net/about-us/>

⁴ Ibid.



FINDINGS AND RECOMMENDATIONS

1. DPI DISBURSED \$165,431 TO A FRAUDULENT BANK ACCOUNT

The North Carolina Department of Public Instruction (DPI) disbursed \$165,431 of Emergency Assistance to Non-Public Schools (EANS)⁵ program funds to a fraudulent bank account after changing the banking information of one of their vendors without proper documentation.

The Finance Manager at DPI failed to follow policy, which is to obtain a completed *Vendor Electronic Payment Form* and required documentation⁶ before changing the vendor's banking information.

The North Carolina Office of the State Controller's (OSC) North Carolina Accounting System (NCAS) Accounts Payable Processing Manual (Manual) requires that DPI obtain a *Vendor Electronic Payment Form* for account verification prior to making any changes.

DPI Changed Vendor Information Without Proper Documentation

DPI changed the vendor banking information for Liberty Christian Academy⁷ (Academy) without proper documentation.

In August 2021, DPI received a letter via email from an individual alleging to be the Head of School for the Academy requesting to change the Academy's bank account information.

The individual alleging to be the Head of School for the Academy created email addresses that mirrored Academy personnel to communicate with DPI personnel. The only difference was that the fake email addresses did not contain an "s" at the end of the email domain, as follows:

Email Address Comparison	
<i>Liberty Christian Academy Email Address</i>	<i>Fake Email Address</i>
@lcarichlands.org	@lcarichland.org

DPI then made the requested change to the bank account without obtaining a *Vendor Electronic Payment Form* along with a copy of a **voided check**, a **bank statement**, or a **bank authorization letter**.

Therefore, the bank account number was changed from the Academy's bank account to the bank account belonging to the individual alleging to be the Head of School for the Academy.

⁵ The EANS program was enacted under the Coronavirus Response and Relief Supplemental Appropriations Act, which provided \$2.75 billion in funding for services or assistance to eligible non-public schools. EANS program funds were awarded to individual states by the United States Department of Education. In North Carolina, DPI was responsible for distributing the EANS program funds to eligible non-public schools to assist with the impact of COVID-19.

⁶ The *Vendor Electronic Payment Form* requires the vendor to submit one of the following three verification documents: copy of a voided check, bank statement, or a bank authorization letter on bank letterhead signed by a bank representative for account verification.

⁷ Liberty Christian Academy is a non-public school located in Richlands, North Carolina. It was founded in 2013 and serves students from pre-kindergarten through high school.

Resulted in Potential and Actual Loss of Program Funds

Because DPI changed the vendor's banking information without confirming the vendor's validity, there was a potential loss of \$165,431 that was intended for the education of North Carolina students in non-public schools.

On September 13, 2021, DPI disbursed EANS program funds totaling \$165,431 to the bank account belonging to the individual alleging to be the Head of School for the Academy.

On September 25, 2021, because of an inquiry from the Academy, DPI discovered that the request to change the Academy's bank account was not legitimate and the September 13th disbursement had not been sent to the Academy.

DPI contacted the United States Department of Education to notify them of the fraudulent activity and began working with the Federal Bureau of Investigation and Bank of America to recover the EANS program funds.

On December 20, 2021, DPI recovered \$164,317 of the \$165,431 that was sent to the individual alleging to be the Head of School for the Academy, leaving the individual with \$1,114.

If the majority of the EANS program funds were not recovered, the state would have been liable for covering the total loss using state funds.

Caused by Failure to Follow Policy

The Finance Manager failed to follow policy, which was to obtain a completed *Vendor Electronic Payment Form* and required documentation⁸ before changing the Academy's bank account information.

According to the Finance Manager, DPI received an email from the individual alleging to be the Head of School stating that the Academy had changed its banking information. The Finance Manager emailed back and requested the *Vendor Electronic Payment Form*.

Instead of sending the *Vendor Electronic Payment Form* and the required supporting documentation, the individual alleging to be the Head of School sent a document requesting the change of bank account information on **Academy letterhead**.

The Finance Manager stated that she should have waited for the *Vendor Electronic Payment Form*. However, she changed the bank account information anyway, even though she never received the *Vendor Electronic Payment Form*.

The Finance Manager took full responsibility for failing to obtain the necessary *Vendor Electronic Payment Form* and documentation as required. The Finance Manager stated, "it was clearly a mistake on my part."

⁸ The *Vendor Electronic Payment Form* requires the vendor to submit one of the following three verification documents: copy of a voided check, bank statement, or a bank authorization letter on bank letterhead signed by a bank representative for account verification.

OSC NCAS Accounts Payable Processing Manual and Vendor Electronic Payment Form

The OSC *NCAS Manual* states that DPI should use the *Vendor Electronic Payment Form* when adding vendors or making changes to a vendor's existing bank account.

In addition to completing the *Vendor Electronic Payment Form*, a vendor must provide one of the following documents for account verification:

- A copy of a voided check.
- Bank statement.
- Bank authorization letter on bank letterhead signed by a bank representative.

RECOMMENDATION

DPI Management should ensure all employees follow policy, especially regarding changing vendor banking information.

2. DPI DISBURSED \$16,569 MORE THAN REQUESTED IN EANS PROGRAM FUNDS

The North Carolina Department of Public Instruction (DPI) disbursed \$16,569 more of Emergency Assistance to Non-Public Schools (EANS) program funds than were requested by Liberty Christian Academy (Academy). As a result, \$16,569 was not available for the reimbursement of legitimate EANS program expenditures.

The funds were disbursed without being requested because there was not an adequate process in place to prevent duplicate payments and no process in place to detect differences between the amounts requested and amounts disbursed.

Guidance⁹ provided by DPI required the staff processing EANS disbursements to obtain reimbursement requests and supporting documentation before DPI could disburse funds. Additionally, federal regulations required DPI to establish and maintain effective internal controls over federal funds.

DPI Disbursed \$16,569 More Than Requested

DPI disbursed \$16,569 more in EANS program funds than the Academy requested.

Investigators reviewed all requests from and payments to the Academy from July 2021, through December 2021. During that time, the Academy submitted four reimbursement requests totaling \$532,205. However, DPI disbursed \$548,774 due to errors made while processing reimbursements to the Academy.

DPI erroneously issued a duplicate payment in response to a reimbursement request from the Academy. After these funds were disbursed, the Academy would not repay the duplicate payment, so DPI elected to offset it against future requests made by the Academy.

⁹ EANS Financial Reimbursement Guidance requires supporting documentation before issuing disbursements, including invoices, receipts, and other forms of documentation that validate the requested expenditures.

However, several errors were made in an effort to correct this mistake which resulted in a \$16,569 overpayment.¹⁰

Funds Not Available for Legitimate Use

Due to DPI disbursing more than requested by the Academy, \$16,569 was unavailable for the reimbursement of legitimate EANS program expenditures at other non-public schools.

EANS program funds were meant to assist with the education of North Carolina students in non-public schools during the COVID-19 Pandemic.

Caused by Inadequate Processes

DPI disbursed more funds than were requested by the Academy because there was not an adequate process in place to prevent duplicate payments¹¹ and there was no process in place to detect differences between amounts that were being requested and amounts disbursed.

DPI had a manual process in place to detect duplicate payments of the exact same amount by comparing the amounts for payments that had already been issued to amounts to be disbursed. However, the duplicate that was issued to the Academy was combined with another reimbursement request amount. Therefore, the payment amount was not the same as the previous payment amount, and the duplicate was not detected.

Had there been an adequate process in place to detect duplicate payments, DPI would have caught the duplicate payment before it was disbursed. This would have avoided the additional errors that occurred while trying to address the duplicate payment, which resulted in the \$16,569 overpayment.

Additionally, if DPI had a process in place to compare the amounts requested by the school to the amounts disbursed, DPI would have identified the \$16,569 overpayment as there was no reimbursement form or supporting documentation such as invoices or receipts for this amount.¹²

Guidance Requires DPI Reimburse Only What is Requested

DPI guidance required the staff processing EANS disbursements to obtain reimbursement requests and supporting documentation before DPI could disburse funds.

¹⁰ The \$16,569 overpayment was split between \$1,114 for an individual alleging to be the Head of School for the Academy (see Finding 1) and \$15,455 for the Academy itself. A payment of \$165,431 intended for the Academy was disbursed to a fraudulent bank account, which was \$16,569 more than the Academy had requested. DPI was able to recover \$164,317 of the EANS program funds. However, \$1,114 was unable to be recovered and remained in the possession of the individual alleging to be the Head of School for the Academy (see Finding 1). After recovering the majority of the EANS program funds, DPI disbursed the recovered funds totaling \$164,317 to the Academy. However, since the original disbursement was more than what had been requested by the Academy, this resulted in an overpayment of \$15,455 to the Academy.

¹¹ DPI had a manual process in place to detect duplicate payments; however, the process was not adequately designed because a duplicate payment was made and not detected until after it had been issued.

¹² The EANS program funds were only supposed to be reimbursed when requested from the non-public schools. Therefore, all disbursements should be supported by a reimbursement request.

Specifically, EANS Financial Reimbursement¹³ guidance (prepared by DPI) states "no reimbursements will be processed without an accompanying invoice or other supporting documentation."

Since DPI disbursed a duplicate payment to the Academy, there was no reimbursement request or supporting documentation for the duplicate payment.

Federal Regulations Require DPI to Establish and Maintain Controls

Federal regulations¹⁴ require that when a non-Federal entity administers Federal funds, it must "establish and maintain effective internal control over the Federal award." These regulations apply to DPI as they were responsible for administering the Federal EANS program funds.

Comparing what was requested to the funds disbursed would have been an effective process to detect or prevent DPI from disbursing more than was requested.

RECOMMENDATIONS

DPI should seek repayment for the EANS program funds that were disbursed in excess of what was requested.

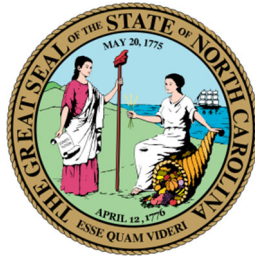
DPI should establish and enhance existing processes to ensure that duplicate payments or overpayments are not disbursed. These processes should include, but not be limited to:

- Reviewing supporting documentation before disbursements are made to ensure that all disbursements are supported by a reimbursement request.
- Performing reconciliations that detect when disbursements exceed reimbursement request amounts.

DPI should review all other EANS program disbursements and ensure they did not exceed the amounts that were requested by the non-public schools under this program.

¹³ This guidance includes the EANS Financial Reimbursement PowerPoint presentation that was prepared and presented by DPI. The PowerPoint presentation also included an embedded document called Instructions for Completing EANS Reimbursement Form.

¹⁴ 2 C.F.R. § 200.303(a).



RESPONSE FROM THE DEPARTMENT OF PUBLIC INSTRUCTION

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NORTH CAROLINA DEPARTMENT OF PUBLIC INSTRUCTION

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

June 13, 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 investigative audit of Emergency Assistance to Non-Public Schools (EANS). The EANS program, intended to provide assistance for non-public schools, was an unprecedented program for DPI to administer and was outside of the normal course of business for DPI. The program began with direct reimbursements to non-public schools and then transitioned to direct vendor payments.

DPI was made aware of the fraudulent bank and email account on September 25, 2021, and took direct action to fully investigate and recover the funds. DPI immediately notified the United States Department of Education and began working with the Federal Bureau of Investigation and Bank of America to recover the EANS program funds. On December 20, 2021, DPI recovered \$164,317 of the \$165,431 which had been sent to the fraudulent bank account. In addition, DPI repaid the remaining EANS funds of \$1,114 with state funds in December 2021 through a journal entry. To strengthen internal controls, DPI took immediate action to require the Vendor Electronic Payment Form for any change in bank account. As an additional elective control, DPI also put into place a requirement that staff verify by telephone call for any requests to change a bank account.

This issue was fully resolved, controls were strengthened, and federal funds were repaid by December 2021, which was prior to initiation of this audit.

The Office of State Auditor noted in the second finding that DPI disbursed \$15,455 more than requested to Liberty Christian Academy and was not able to recover \$1,114 from the fraudulent bank account. The \$1,114, which is also referenced in the first finding, has already been resolved as explained above. DPI has received the repayment of \$15,455 in EANS funds from

OFFICE OF THE NORTH CAROLINA STATE SUPERINTENDENT

Catherine Truitt, *Superintendent of Public Instruction* | catherine.truitt@dpi.nc.gov
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AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

RESPONSE FROM THE DEPARTMENT OF PUBLIC INSTRUCTION

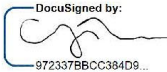
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Liberty Christian Academy. DPI has strengthened the review process to ensure any errors within these requests will be identified prior to payment. DPI is also reviewing all reimbursements to non-public schools from prior years to ensure that payments agree to requests and supporting documentation.

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
Alexis Schauss, Chief Financial Officer
Jeani Rousseau, Director of Internal Audit

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919-807-7666



This investigation required 524 hours at an approximate cost of \$62,280.