

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

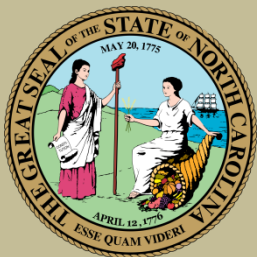


## NORTH CAROLINA DEPARTMENT OF PUBLIC INSTRUCTION

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2021



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

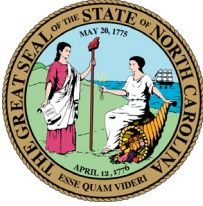
# TABLE OF CONTENTS

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	PAGE
AUDITOR'S TRANSMITTAL .....	1
FINDINGS, RECOMMENDATIONS, AND VIEWS OF RESPONSIBLE OFFICIALS OF THE AUDITEE.....	4
ORDERING INFORMATION .....	11

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.

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
[www.auditor.nc.gov](http://www.auditor.nc.gov)

## **AUDITOR'S TRANSMITTAL**

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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, 2021.

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). 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:

- Child Nutrition Cluster:
  - School Breakfast Program (Assistance Listing Number 10.553)
  - National School Lunch Program (Assistance Listing Number 10.555)
  - Special Milk Program for Children (Assistance Listing Number 10.556)
  - Summer Food Service Program for Children (Assistance Listing Number 10.559)

- Child Nutrition Discretionary Grants Limited Availability (Assistance Listing Number 10.579)
- Coronavirus Relief Fund (Assistance Listing Number 21.019)
- Elementary and Secondary School Emergency Relief Fund (Assistance Listing Number 84.425D)

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 which are described in findings 1, 2, and 3 in the Findings, Recommendations, and Views of Responsible Officials of the Auditee section.

### Internal Control Over Compliance

In planning and performing our audit of 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 or significant deficiencies. Therefore, material weaknesses and significant deficiencies may exist that have not been identified. However, we consider the deficiencies described in findings 1, 2, and 3 in the Findings, Recommendations, and Views of Responsible Officials of the Auditee section to be material weaknesses in internal control over compliance.

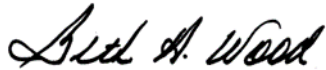
North Carolina Department of Public Instruction's Response to Findings

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.

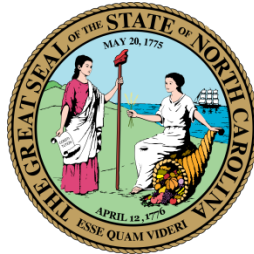
*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this transmittal.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 30, 2022



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

**Matters Related to Federal Compliance Audit Objectives**

## 1. 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 reporting period,<sup>1</sup> the Department awarded \$354.5 million to 266 public school units (PSUs) that incurred \$72.6 million in expenditures related to the program.

Auditors reviewed the awards and expenditures reported in the ESSER Annual Report and identified errors for 138 (52%) PSUs. Specifically:

- 119 PSUs were included with inaccurate amounts, resulting in total errors in awards and expenditures of \$1.89 million and \$13.89 million, respectively.
- 17 PSUs were included but had no award or expenditure activity, resulting in overreported awards and expenditures of \$1.69 million and \$234,764, respectively.
- Two PSUs were omitted, resulting in underreported awards and expenditures of \$113,266 and \$113,133, respectively.

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.

According to Department management, the ESSER Annual Report was prepared using data collected from PSU surveys, and the financial data elements were not reconciled or compared to the Department's internal records to ensure the accuracy of the PSU financial data.

In accordance with the April 30, 2020 Funding Certification and Agreement,<sup>2</sup> the Department was required to submit the ESSER Annual Report<sup>3</sup> to the U.S. Department of Education. The ESSER Annual Report included instructions for reporting the amount of PSU expenditures and awards for the period March 13, 2020 through September 30, 2020.

Federal regulations<sup>4</sup> also require the Department to establish and maintain effective internal control over the federal award that provides reasonable assurance that the Department is managing the program in compliance with federal statutes, regulations, and

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<sup>1</sup> March 13, 2020 through September 30, 2020.

<sup>2</sup> Section 15011(b)(2) of the Coronavirus Aid, Relief, and Economic Security (CARES) Act provides that federal awarding agencies may require reporting in addition to that specified by the Act. The Department was required to make specific assurance of compliance with all reporting requirements, including future additional reporting, in their executed Certification and Agreement for Funding under the ESSER Fund with the U.S. Department of Education.

<sup>3</sup> ESSER Recipient Data Collection Form (OMB:1810-0749).

<sup>4</sup> 2 CFR 200.303 - Internal Controls.

the terms and conditions of the federal award. The federal regulations<sup>5</sup> define internal control to include 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).

*Recommendation:* Department management should develop and implement review procedures over the ESSER Annual Report data received from the PSUs to ensure accuracy with internal financial records.

*Views of Responsible Officials of the Auditee:* See page 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 report complete, accurate, and timely subaward information for some subrecipients of the Education Stabilization Fund - Elementary and Secondary School Emergency Relief (ESSER) program to the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS).

During the reporting period,<sup>6</sup> the Department made ESSER subawards totaling \$1.82 billion<sup>7</sup> to public school units (PSUs). Auditors tested a sample of 60 subawards that were required to be reported to the FSRS and found the following errors:

- 30 subawards were overreported by \$140 million because they were reported twice.
- 21 subawards totaling \$39.2 million were reported 175 to 206 days late.
- 8 subawards totaling \$12.3 million were not reported at all.

In addition, auditors reviewed the 52 subawards that were reported to FSRS and found errors in one or more key data elements.<sup>8</sup>

The FFATA was enacted to empower every American citizen with the ability to hold the government accountable for each spending decision. When subaward information is not reported accurately or timely to the FSRS, citizens do not have reliable information about how federal funds are being used in their communities.

<sup>5</sup> 2 CFR 200.1.

<sup>6</sup> May 11, 2020 through June 30, 2021.

<sup>7</sup> The Department made these subawards from ESSER I and ESSER II programs funded through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA), respectively.

<sup>8</sup> Those key data elements were: Subaward Obligation Date and Subaward Project Description.



According to Department management, FFATA reporting errors occurred for two reasons:

- Department management did not assign FFATA reporting responsibilities until December 2020 and had limited resources for completing the required reporting.
- Department staff and management encountered technical difficulties with the FSRs and were unable to identify alternative solutions.

The FFATA<sup>9</sup> requires direct recipients of grants or cooperative agreements to report first-tier subawards of \$30,000 or more in the FSRs by the end of the month following the month in which the obligation was made.

*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 Numbers (award periods): S425D200037 (COVID-19) (May 11, 2020 - September 30, 2021) and S425D210037 (COVID-19) (January 5, 2021 - September 30, 2022).

*Recommendation:* Department management should prioritize assignment of reporting responsibilities and implement contingency plans to address staff shortages.

In addition, Department management should continue to seek solutions from the federal oversight agency on technical difficulties and implement revised procedures as solutions are identified to ensure complete, accurate, and timely reporting.

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

### 3. INADEQUATE MONITORING

The Department of Public Instruction (Department) did not complete all planned monitoring activities for the Education Stabilization Fund - Elementary and Secondary School Emergency Relief (ESSER) program. During the fiscal year ended June 30, 2021, the Department awarded \$387.5 million in ESSER funds to public school units (PSUs) to help mitigate the impact of the COVID-19 pandemic on public education.

Auditors reviewed the Department's monitoring plan which required various risk-based monitoring activities over both fiscal and program areas for all PSUs that received ESSER funds.

- Program monitors developed a plan<sup>10</sup> to review and determine whether the spending activity for all 319 PSUs complied with the program requirements. Auditors found that these reviews were not completed for 299 (94%) of the PSUs.

<sup>9</sup> 2 CFR Part 170 - Appendix A.

<sup>10</sup> The Department submitted its program monitoring plan in accordance with the North Carolina Certification and Agreement for Funding under the Education Stabilization Fund Program Elementary and Secondary School Emergency Relief Fund. The Certification and Agreement was signed on April 30, 2020, as an application for the ESSER award required under section 18003(a) of Division B of the CARES Act.

- Fiscal monitors developed a separate plan to review expenditure documentation for 40 PSUs. Auditors found that these reviews were not completed for 28 (70%) of the 40 PSUs.

In addition, auditors reviewed the Department's monitoring tool and found that it omitted several compliance requirements.<sup>11</sup>

Inadequate monitoring increases the risk that federal funds may not be used in accordance with the federal requirements, which may have reduced funding available to address the impacts of the COVID-19 pandemic on public education. In addition, inadequate monitoring could result in sanctions from the federal oversight agency that may reduce future federal funding in this program.

According to Department management, monitoring activities could not be completed as originally planned due to resource constraints as the Department received additional ESSER awards during the year. The additional awards required management to prioritize technical assistance and other responsibilities, resulting in staff not being available for monitoring.

Federal regulations<sup>12</sup> 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.

*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).

*Recommendation:* Department management should review and revise monitoring activities.

In addition, Department management should establish contingency plans to address staff shortages.

*Views of Responsible Officials of the Auditee:* See pages 9 - 10 for the North Carolina Department of Public Instruction's response to this finding.

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<sup>11</sup> The monitoring tool did not include reviews over procurement, equipment and inventory, and cash management compliance requirements.

<sup>12</sup> 2 CFR 200.332(d).



**PUBLIC SCHOOLS OF NORTH CAROLINA**

DEPARTMENT OF PUBLIC INSTRUCTION | Catherine Truitt, *Superintendent of Public Instruction*

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March 24, 2022

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

The North Carolina Department of Public Instruction (DPI) is pleased to submit our response to your findings in connection with the 2021 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: Inaccurate Annual Reporting (ESSER)*

*OSA Recommendation: Department management should develop and implement review procedures over the ESSER Annual Report data received from the PSUs to ensure accuracy with internal financial records.*

The Department of Public Instruction concurs with the Auditor's finding and recommendation. Processes for future reporting have been amended to ensure additional controls are in place to promote greater accuracy. Required data elements will be pulled from internal DPI data to the extent possible. Data elements still requiring the use of self-reported data from Public School Units (PSUs) will be verified for inaccuracies prior to being aggregated for state agency reporting.

*Finding 2: Errors in FFATA Reporting (ESSER)*

*OSA Recommendation: Department management should prioritize assignment of reporting responsibilities and implement contingency plans to address staff shortages. In addition, Department management should continue to seek solutions from the federal oversight agency on technical difficulties and implement revised procedures as solutions are identified to ensure complete, accurate, and timely reporting.*

OFFICE OF THE NORTH CAROLINA STATE SUPERINTENDENT

Auditor Wood  
2021 Federal Compliance Response  
Page 2  
March 24, 2021

The Department of Public Instruction concurs with the Auditor's finding and recommendation. Additional staff was employed in fall of 2021 to complete FFATA reporting requirements. Technical considerations in the FFATA system remain a concern as the system constrains the number of entries per award to 100 per month making it impossible to report awards within the required time limit. Additional requests to the federal oversight agency for technical assistance with the system have been made by DPI.

*Finding 3: Inadequate Monitoring (ESSER)*

*OSA Recommendation: Department management should review and revise monitoring activities. In addition, Department management should establish contingency plans to address staff shortages.*

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

Internal programmatic monitoring procedures were amended with the addition of ESSER II and ESSER III in 2021. A risk assessment, monitoring plan, four-element monitoring instrument, and monitoring schedule were created and approved in March 2021. The monitoring plan enables all PSUs receiving funding through ESSER I, II, and III programs to have a compliance monitoring event by September 30, 2024, the end of ESSER period of availability. In fall 2021, additional staff dedicated to ESSER program were hired to assist with grant administration and monitoring. The aforementioned documents will be formally submitted as part of an update to the initial ESSER Monitoring and Internal Control Plan that was originally submitted in fall 2020 to the U.S. Department of Education.

The Department agrees that it was not able to complete the full scope of the initial fiscal monitoring plan by June 30, 2021. This is due to lack of staffing resources, which is a challenge that is not unique to DPI, as a result of the world-wide COVID pandemic. Given the resources available, the staff prioritized those PSUs at the highest risk level. In addition to the 12 that were completed by June 30, 2021, we have since completed 23, with the remaining 5 to be completed by March 31, 2022.

We are actively addressing our staffing shortages via several avenues:

1. Contracting for specific ESSER grant programs with qualified auditing firms.
2. Actively recruiting to fill our vacant fiscal monitoring positions (2 have been filled since June 30, 2021).

As we move forward, our fiscal monitoring team will focus on our normal activities staging the highest at-risk PSUs as the priority. The contracted support track will focus on the specific

Auditor Wood  
2021 Federal Compliance Response  
Page 3  
March 24, 2021

ESSER grants and highest-risk attributes specific to the ESSER funding. We believe this approach will allow us to maximize our limited staffing resources.

We will continue to update and ensure our ESSER Fiscal Monitoring plan is current and relevant. We will ensure that updates are provided to U.S. Department of Education.

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:  
  
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Catherine Truitt

c: Eric Davis, State Board of Education Chairman  
Alan Duncan, SBE Audit Committee Chair  
Catherine Edmonds, Deputy Superintendent, Office of Equity  
David Stegall, Deputy Superintendent of Innovation  
Robert Taylor, Deputy Superintendent of School and Student Advancement  
Alexis Schauss, Chief Financial Officer  
Jeani Rousseau, Director of Internal Audit

# ORDERING INFORMATION

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State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699

Telephone: 919-807-7500  
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**919-807-7666**



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This audit required 2,139.50 hours at an approximate cost of \$226,787.