



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
Chicago/Kansas City Audit Region

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Control Number
ED-OIG/A05O0005

Dr. June St. Clair Atkinson
State Superintendent
North Carolina Department of Public Instruction
301 North Wilmington Street
Raleigh, NC 27601

Dear Dr. Atkinson:

This final audit report, “The North Carolina Department of Public Instruction’s Administration of its Race to the Top Grant,” presents the results of our audit of selected aspects of how the North Carolina Department of Public Instruction (North Carolina) administered its \$399 million Race to the Top grant. We audited two of the seven educational topic areas on which North Carolina spent Race to the Top funds: Area C, “Data Systems to Support Instruction” (Area C), and Area D, “Great Teachers and Leaders” (Area D).¹

The objectives of our audit were to determine whether North Carolina

1. accurately and completely reported Area D grant performance data to the U.S. Department of Education (Department),²
2. spent Race to the Top funds only on allowable activities and in accordance with program requirements and North Carolina’s approved grant application for Areas C and D, and
3. ensured that each local educational agency (LEA) and charter school receiving Race to the Top subgrants from North Carolina spent the funds only on allowable activities and in accordance with program requirements and North Carolina’s approved grant application for Areas C and D.

¹ See a list of all [seven areas](#) in the [Background](#) section of this report.

² The Department did not require North Carolina to report any Area C performance data.

We audited North Carolina and one judgmentally selected LEA: Winston-Salem Forsyth County Schools (Forsyth County).³ For the first objective, our audit covered North Carolina's 2012–2013 annual performance report only for Area D. For the second and third objectives, our audit covered July 1, 2010, through September 30, 2013, only for Areas C and D.

Except for one minor error, we found that North Carolina accurately and completely reported Area D grant performance data to the Department in its 2012–2013 annual performance report. We also found that North Carolina generally spent Race to the Top funds on allowable activities and in accordance with program requirements and North Carolina's approved grant application. However, North Carolina paid about \$1.4 million of a \$2.4 million amendment to a contract for help desk and implementation support to schools involved in North Carolina's reading and diagnostic assessment program without sufficiently documenting that employees obtained all required approvals. Additionally, North Carolina did not design its review and approval processes so that they provided reasonable assurance that employees could not bypass legal review of purchases greater than \$100,000. Also, North Carolina did not provide documentation sufficient to show that the pay rates it paid for two employees were reasonable. Therefore, we concluded that North Carolina did not adequately document \$31,458 charged to the Race to the Top grant.

Finally, North Carolina did not ensure that Forsyth County spent Race to the Top funds only on allowable activities and in accordance with program requirements, North Carolina's approved grant application, and Forsyth County's detailed scope of work.⁴ We found that North Carolina did not ensure that Forsyth County (1) minimized the amount of time elapsing between the receipt and disbursement of Race to the Top funds, (2) spent \$12,532 in Race to the Top funds only on allowable activities, and (3) adequately documented \$3,518 in Race to the Top expenditures.⁵

North Carolina could improve the administration of its Race to the Top grant by strengthening its systems of internal control over contracting and by more closely monitoring the fiscal activity of participating LEAs and charter schools to ensure that they comply with all applicable Federal requirements.⁶

On April 7, 2015, we provided the draft of this report to North Carolina for comment. In comments dated May 7, 2015, North Carolina neither agreed nor disagreed with the two findings

³ We selected Forsyth County based on the amount of funds that it received and selected risk factors (see "[Sampling Methodology](#)" in the [Objectives, Scope, and Methodology](#) section of this report).

⁴ To participate in Race to the Top, the Department required North Carolina to obtain detailed scopes of work from its participating LEAs and charter schools. The detailed scopes of work outlined the Race to the Top initiatives that the LEAs and charter schools planned to implement, the timelines for implementing the initiatives, key personnel responsible for implementing the initiatives, and amounts budgeted to implement the initiatives.

⁵ Because we did not statistically select the LEA or expenditures, our results might not be representative of the entire universes and, therefore, cannot be projected to the universes (see the "[Sampling Methodology](#)" in the [Objectives, Scope, and Methodology](#) section of this report).

⁶ Participating LEAs and charter schools means LEAs and charter schools that chose to work with the State to implement all or significant portions of the State's Race to the Top plan, as specified in each LEA's and charter school's agreement with the State.

but stated that it agreed with five of our six recommendations. North Carolina did not agree that it charged unreasonable employee pay rates to the Race to the Top grant. North Carolina stated that it used the contracting practices in place at that time, and the Human Resources Director at the time deemed that the pay rates were appropriate for the work specified in the initial agreements with the two employees. Therefore, North Carolina disagreed that it should repay the \$31,458 to the Department. We summarized North Carolina's comments after each finding and included the full text of North Carolina's comments as [Attachment 2](#).

We considered North Carolina's comments. However, North Carolina did not provide any additional evidence to demonstrate that the employee compensation paid to the two individuals was reasonable. We clarified Finding No. 1 to state that we did not conclude that the rates were unreasonable. Rather, we could not determine whether the rates were reasonable because North Carolina did not provide sufficient documentation, such as salary qualification worksheets, to demonstrate the reasonableness of employee compensation. We did not revise our recommendations.

BACKGROUND

The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided \$4.35 billion for the Race to the Top fund, a competitive grant program designed to encourage and reward States that are

1. creating the conditions for education innovation and reform;
2. achieving significant improvement in student outcomes, including making substantial gains in student achievement, closing achievement gaps, improving high school graduation rates, and ensuring student preparation for success in college and careers; and
3. implementing ambitious plans in four core education reform areas: (a) adopting standards and assessments that prepare students to succeed in college and the workplace and to compete in the global economy; (b) building data systems that measure student growth and success and inform teachers and principals about how they can improve instruction; (c) recruiting, developing, rewarding, and retaining effective teachers and principals, especially where they are needed most; and (d) turning around the lowest achieving schools.

The Department made awards to 11 States and the District of Columbia (Phase 1 and Phase 2 awards) from the \$4.35 billion appropriated under the Recovery Act. The Department also used funds appropriated under the Recovery Act to make two awards totaling about \$330 million under the Race to the Top Assessment program to the Partnership for the Assessment of Readiness for College and Careers and the Smarter Balanced Assessment Consortium.

The Department made about \$200 million in awards to seven States (Phase 3 awards) from funds appropriated for fiscal year 2011.

Section 14006(c) of the Recovery Act requires each State that is awarded a Race to the Top grant to allocate at least 50 percent of the funds to participating LEAs and charter schools. The State must allocate these funds according to the percentage of funding that each participating LEA and charter school received under Part A of Title I of the Elementary and Secondary Education Act of 1965, as amended, for the most recent year. States have considerable flexibility in allocating the remaining 50 percent of their Race to the Top funds. The funds may be used for State-level activities, supplemental disbursements to participating LEAs, and other purposes as the State proposed in its approved application.

Each State receiving a Race to the Top grant must validate and certify the accuracy of the data in annual performance reports submitted by the State to the Department. According to the Department, before the end of the annual reporting period (July 1 through June 30), each State submits information about outcomes to date, the State's performance against the measures established in the State's application, and other relevant data. The Department reviews each State's preliminary data for completeness and reasonableness. A State must address the Department's comments, if any, and then resubmit and validate sections of the annual performance report in the Department's annual performance report collection system. The State then must certify the accuracy of the entire annual performance report and submit the final version through the annual performance report collection system.

The Department awarded North Carolina's Office of the Governor a \$399,465,769 Race to the Top grant. The North Carolina's Office of the Governor's application included the following seven educational topic areas on which the State of North Carolina planned to spend Race to the Top funds:

- Area A, "State Success Factors;"
- Area B, "Standards and Assessments;"
- Area C, "Data Systems to Support Instruction;"
- Area D, "Great Teachers and Leaders;"
- Area E, "Turning Around North Carolina's Lowest-Achieving Schools;"
- Area F, "General State Reform Conditions Criteria;" and
- Priority area, "STEM."

According to the Director of Regional Leads for North Carolina, six regional leads provided guidance and assistance to each LEA and charter school that had a Race to the Top participation agreement with North Carolina. In addition, North Carolina required its participating LEAs and charter schools to submit annual progress reports. The regional leads reviewed the progress

reports to ensure that the participating LEAs and charter schools were making sufficient progress toward accomplishing their Race to the Top initiatives and were using Race to the Top funds only for the purposes outlined in their participation agreements. The regional leads would follow up on any issues, such as insufficient progress toward accomplishing Race to the Top initiatives or use of funds for purposes other than those outlined in their participation agreements, disclosed during their reviews of the progress reports.

As of September 30, 2013, North Carolina and the participating LEAs and charter schools had spent about \$233 million of the approximately \$399.5 million awarded to North Carolina's Office of the Governor. Table 1 shows the allocations and expenditures for the two entities covered by our audit: North Carolina and Forsyth County.

Table 1. Race to the Top Allocations and Expenditures as of September 30, 2013

Entity	Total Allocation	Total Expenditures for Educational Topic Areas C and D	Total Expenditures for All Educational Topic Areas
North Carolina	\$199,465,769	\$45,729,680	\$109,008,466
Forsyth County	\$9,685,633	\$2,385,185	\$6,411,883
Total	\$209,151,402	\$48,114,865	\$115,420,349

From North Carolina's \$199 million allocation, Forsyth County received about \$151,000 for a recruitment incentive grant and managed about another \$4.2 million that other LEAs and charter schools spent on training programs related to a leadership academy grant.⁷ These two grants were in addition to the allocations shown in Table 1.

AUDIT RESULTS

The objectives of our audit were to determine whether North Carolina (1) accurately and completely reported Area D grant performance data to the Department, (2) spent Race to the Top funds only on allowable activities and in accordance with program requirements and North Carolina's approved grant application for Areas C and D, and (3) ensured that LEAs and charter schools receiving Race to the Top subgrants from North Carolina spent the funds only on allowable activities and in accordance with program requirements and North Carolina's approved grant application for Areas C and D.

Except for one minor error, we found that North Carolina accurately and completely reported Area D grant performance data to the Department in its 2012–2013 annual performance report.

⁷ We could not determine what specific educational topic areas the recruitment incentive and leadership academy grants related to. Therefore, we included them in the scope of our audit (see "[Sampling Methodology](#)" and "[Comparative and Verification Procedures](#)" in the [Objectives, Scope, and Methodology](#) section of this report).

Of the seven reported Area D performance measures, North Carolina reported zero percent for all three of the performance measures that related to principal preparation programs and reported making progress on the remaining four Area D performance measures. However, when we requested supporting documentation for the performance measures, North Carolina noticed that it made an error when reporting the results for 1 of the 4 Area D performance measures. North Carolina reported to the Department that it had 49 teacher preparation programs and that 48 (98 percent) of the 49 teacher preparation programs had publically available data on the achievement and growth of the students being taught by the teachers who graduated from the teacher preparation programs. We found that the public could access these data for only 46 (94 percent) of the 49 programs. After noticing the error, North Carolina submitted a request to the Department to update its 2012-2013 annual performance report with the corrected information. North Carolina's 2012-2013 annual performance report is now correct, showing that 46 (94 percent) of the 49 teacher preparation programs had publically available data on the achievement and growth of the students being taught by the teachers who graduated from the teacher preparation programs.

We also found that North Carolina generally spent Race to the Top funds on allowable activities and in accordance with program requirements and North Carolina's approved grant application. However, we found a weakness in North Carolina's system of internal control that resulted in North Carolina paying about \$1.4 million of a \$2.4 million amendment to a contract for help desk and implementation support to schools involved in North Carolina's reading and diagnostic assessment program without sufficiently documenting that employees obtained all required approvals. Additionally, North Carolina did not design its review and approval processes so that they provided reasonable assurance that employees could not bypass legal review of purchases greater than \$100,000. Also, North Carolina did not provide documentation, such as salary qualification worksheets, sufficient to show that the pay rates it paid two employees were reasonable. Therefore, we concluded that North Carolina did not adequately document \$31,458 charged to the Race to the Top grant.

Finally, North Carolina did not ensure that Forsyth County spent Race to the Top funds only on allowable activities and in accordance with program requirements, North Carolina's approved grant application, and Forsyth County's detailed scope of work. We found that North Carolina did not ensure that Forsyth County (1) minimized the amount of time elapsing between the receipt and disbursement of Race to the Top funds, (2) spent \$12,532 in Race to the Top funds only on allowable activities, and (3) adequately documented \$3,518 in Race to the Top expenditures.

North Carolina could improve the administration of its Race to the Top grant by strengthening its system of internal control over contracting and by more closely monitoring the fiscal activity of participating LEAs and charter schools to ensure that they comply with all applicable Federal requirements.

FINDING NO. 1 – North Carolina Could Strengthen Its Systems of Internal Control Over Contracting and Should Justify the Reasonableness of Employee Compensation

North Carolina could strengthen its processes for approving procurements. We reviewed \$8,599,164 (22 percent) of \$39,345,706 of Race to the Top nonpersonnel expenditures that North Carolina charged to the Race to the Top grant for Areas C and D from July 1, 2010, through September 30, 2013. We found that North Carolina paid about \$1.4 million of a \$2.4 million amendment to a contract for help desk and implementation support to schools involved in North Carolina's reading and diagnostic assessment program without sufficiently documenting that employees obtained the required sole-source justification approvals. Additionally, North Carolina did not design its review and approval processes so that they provided reasonable assurance that employees could not bypass legal review of purchases greater than \$100,000.

We also reviewed \$99,299 (2 percent) of \$6,383,974 of the Race to the Top personnel expenditures that North Carolina charged to the Race to the Top grant for Areas C and D from July 1, 2010, through September 30, 2013. We found that North Carolina paid one employee \$30,383 without documentation sufficient to show that the compensation was reasonable. We also found that North Carolina paid another Race to the Top employee who was not included in our sample \$1,075 without documentation sufficient to show that the compensation was reasonable. Therefore, we concluded that North Carolina did not adequately document \$31,458 charged to the Race to the Top grant.

Procurement Approval Process Could Be Strengthened

North Carolina could strengthen its procurement approval process. On September 1, 2010, the State Superintendent and Chief Financial Officer signed a contract with a vendor to provide about \$6 million worth of diagnostic assessments and other services from September 1, 2010, through October 31, 2011.⁸ North Carolina gave students diagnostic assessments to determine their current levels, progression, and strengths and weaknesses in certain subject areas. On September 26, 2011, North Carolina amended the original contract, adding \$2.4 million worth of services for help desk and implementation support to schools involved in the reading and diagnostic assessment program. As of December 12, 2011, North Carolina had paid about \$1.4 million for these additional services using Race to the Top funds and planned to use Race to the Top funds for the remaining balance. This amendment extended the service period for the original contract from October 31, 2011, to August 31, 2012.

Approvals for Sole-Source Justification Not Adequately Documented

According to Title 34, Code of Federal Regulations (C.F.R.), Section (§) 80.36(a), a State must follow its procurement policies and procedures when procuring services under a Federal grant. According to Office of Management and Budget, Circular A-87, Attachment A, (C), costs must be adequately documented to be allowable under Federal awards. North Carolina's contracts policy, effective August 2009, provided that if North Carolina requested a sole source for a

⁸ North Carolina used State funds to pay for this original contract.

contract, the Section Chief for Purchasing and Contracts and the North Carolina Department of Administration's Division of Purchasing and Contracts must approve a "Memorandum of Sole Source Justification" form that includes a detailed justification for that request.

North Carolina did not provide us with documentation showing that it obtained two of the required approvals when amending the original \$6 million contract. North Carolina prepared a sole-source justification memorandum for the \$2.4 million worth of services described in the amendment, dated August 29, 2011, addressed to the Section Chief for Purchasing and Contracts. Although it provided documentation showing that the State Superintendent and Chief Financial Officer approved the amendment, North Carolina did not provide documentation showing that the Section Chief for Purchasing and Contracts or the North Carolina Department of Administration's Division of Purchasing and Contracts approved the sole-source justification for the amendment. The memorandum included a field in which the Section Chief for Purchasing and Contracts was to sign for approval. However, the approval section was blank. As a substitute, North Carolina provided us with an electronic approval record from its procurement system. The electronic record showed that the Section Chief for Purchasing and Contracts had made changes related to the amendment on August 30, 2011, but the electronic approval record did not clearly show whether the Section Chief for Purchasing and Contracts approved the amendment. North Carolina did not provide us with any evidence that the Section Chief for Purchasing and Contracts delegated the authority to approve the amendment.

State of North Carolina Attorney General's Office Signature Not Required for Contract Amendments

The contract for the \$6 million purchase and the \$2.4 million amendment to the contract did not have the signature of a representative of the State Attorney General's office. North Carolina's contracts policy in effect at the time that the original contract and amendment were signed stated that a representative from the State Attorney General's office must sign contracts exceeding \$100,000. However, this policy did not explicitly state that the requirement applied to contract amendments. As a result, North Carolina could use amendments to purchase more than \$100,000 of goods or services and bypass the internal control. If North Carolina created a new contract for the \$2.4 million purchase, instead of amending the original contract, it would have had to obtain the signature of a representative from the State Attorney General's office.

By not designing and implementing effective internal control over its contracting process, North Carolina increased the risk that Federal funds would be misused or not used to accomplish the goals set forth in North Carolina's approved grant application. For example, North Carolina increased the risk that it would not (1) acquire suitable goods and services at the lowest possible cost, (2) select vendors using established and equitable methods, and (3) select vendors based on appropriate selection criteria.

Compensation Rates Paid to Employees Not Always Adequately Documented

According to Appendix A of 2 C.F.R. Part 225, to be allowable under Federal awards, costs must be reasonable and adequately documented. A cost is reasonable if "it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost."

We found that North Carolina did not provide sufficient documentation to show that the pay rates for two employees paid with Race to the Top funds were reasonable. We reviewed time and effort documentation (see the [Other Matters](#) section of this report) for 11 (14 percent) of the 79 North Carolina employees working on Areas C or D during our audit period. North Carolina hired 1 (9 percent) of the 11 as a Race to the Top specialized skill worker on November 21, 2011. At that time, the State of North Carolina's Office of State Human Resources had granted North Carolina the authority to determine the salaries of employees. North Carolina signed a contract with one employee at a pay rate of \$42 per hour. However, North Carolina did not provide documentation, such as a salary qualification worksheet, sufficient to show how it determined that the pay rate was reasonable. When the employee's manager submitted a request to extend the employee's contract, North Carolina had a different Director of Human Resources and, according to North Carolina, a new process for approving pay rates. As required by this new process, a classification and compensation analyst reviewed the duties of the position and completed a salary qualification worksheet that supported a \$24 per hour pay rate. After this review, North Carolina extended the employee's contract, effective September 1, 2012, at a pay rate of only \$24 per hour—\$18 per hour less than the rate previously paid. As a result, North Carolina paid the employee \$30,383 more than it would have paid at the lower pay rate for the time period.

North Carolina identified another employee, not included in our sample, who began working for North Carolina on January 23, 2012, and whose hourly pay rate was reduced after a review of the duties of the position. North Carolina originally signed a contract with the employee at a pay rate of \$37.50 per hour. North Carolina did not provide documentation sufficient to show how it determined that the pay rate was reasonable. When the employee's manager submitted a request to extend the employee's contract, North Carolina had a different Director of Human Resources and, according to North Carolina, a new process for approving pay rates. As required by this new process, a classification and compensation analyst reviewed the duties of the position and completed a salary qualification worksheet that supported a \$30 per hour pay rate. After this review, North Carolina extended the employee's contract, effective September 1, 2012, at a pay rate of only \$30 per hour—\$7.50 per hour less than the pay rate previously paid. As a result, North Carolina paid the employee \$1,075 more than it would have paid at the lower pay rate for the time period.

Because it did not provide documentation sufficient to show that the original hourly pay rates for the two employees were reasonable, we concluded that North Carolina inappropriately charged \$31,458 to the Race to the Top grant.

Recommendations

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Elementary and Secondary Education, require North Carolina to—

- 1.1 Retain sufficient documentation to show that it obtained all required approvals for any procurement of goods and services using Federal funds.

- 1.2 Strengthen its procurement policy by requiring amendments to contracts for purchasing goods and services exceeding \$100,000 using Federal funds to receive the same approvals as original contracts.
- 1.3 Justify the pay rates for the two employees paid with Race to the Top funds without adequate documentation of the reasonableness of the pay rates, find another allowable use for the funds, or return \$31,458 to the Department.

North Carolina's Comments

North Carolina agreed with Recommendations 1.1 and 1.2, stating that it has begun implementing new policies and procedures to ensure that all contracts and contract amendments receive the appropriate approvals and that North Carolina maintains contract documentation.

North Carolina did not agree with Recommendation 1.3. North Carolina stated that the Director of Human Resources at the time had the authority to set salaries and that the pay rates for the two employees were reasonable. North Carolina negotiated lower pay rates as part of contract extensions using a new process that was put in place after the initial contract. Therefore, the Race to the Top grant was not improperly charged.

OIG Response

Based on North Carolina's comments, we clarified the finding to state that North Carolina did not provide documentation, such as the salary qualification worksheets it currently uses, sufficient to demonstrate the reasonableness of the pay rates paid to the two employees. While we agree that the Director of Human Resources had the authority to set pay rates, North Carolina did not provide any additional evidence to show that the higher pay rates that the two employees initially received were reasonable. Even though North Carolina stated that it changed its process for reviewing pay rates after it approved the initial employee contracts, it should still be able to justify that the pay rates approved under the initial employee contracts were reasonable. Therefore, we did not change Recommendation 1.3.

FINDING NO. 2 – North Carolina Could More Closely Monitor LEAs' and Charter Schools' Compliance With Federal Fiscal Requirements

We found that North Carolina did not ensure that Forsyth County (1) minimized the amount of time elapsing between Forsyth County's receipt and use of Race to the Top funds, (2) spent Race to the Top funds only on allowable activities, and (3) adequately documented all Race to the Top expenditures. We reviewed the amount of Race to the Top funds that Forsyth County drew down and the amount of month-end balances that North Carolina required Forsyth County to return from June 2011 through September 2013. We found that Forsyth County consistently maintained Race to the Top funds in excess of immediate needs.

We also reviewed records for \$986,730 (54 percent) of the \$1,839,987 in nonpersonnel expenditures that Forsyth County charged to its main Race to the Top LEA grant for Areas C and D from July 1, 2010, through September 30, 2013. We found that Forsyth County used \$12,458

(1 percent) of the \$986,730 for unallowable activities.⁹ Additionally, Forsyth County did not provide sufficient documentation to show that it used another \$3,518 only for allowable activities.

Funds Maintained in Excess of Immediate Needs

We found that Forsyth County regularly requested and then maintained more Race to the Top funds than needed to meet its immediate needs. We reviewed the amount of Race to the Top main LEA, leadership academy, and recruitment incentive grant funds that Forsyth County drew down and all of the month-end balances that North Carolina required Forsyth County to return for the 28 months from June 2011 through September 2013.¹⁰ We found that North Carolina required Forsyth County to return \$5,882,919 (49 percent) of the main LEA grant, \$4,675,722 (53 percent) of the leadership academy grant, and \$16,530 (10 percent) of the recruitment incentive grant funds that Forsyth County drew down during the period.

Main Grant

During the 28 months from June 2011 through September 2013, Forsyth County drew down \$12,094,000 for its Race to the Top main LEA grant. Forsyth County maintained balances in excess of its immediate needs at the end of 24 of the 28 months. The excess balances reached a high of \$1.28 million at the end of November 2011 (see Table 2).

Leadership Academy Grant

During the 26 months from July 2011 through August 2013, Forsyth County drew down \$8,774,500 for its Race to the Top leadership academy grant. Forsyth County maintained balances in excess of its immediate needs at the end of 23 of the 26 months. The excess balances reached a high of \$1.42 million at the end of November 2011 (see Table 2).

Recruitment Incentive Grant

During the 18 months from December 2011 through May 2013, Forsyth County drew down \$167,261 for its Race to the Top recruitment incentive grant. North Carolina reviewed cash balances at the end of only 3 of the months. North Carolina found that Forsyth County maintained excess balances at the end of all 3 of those months and required Forsyth County to return \$16,530 in recruitment incentive grant funds—\$15,977 for December 2011, \$1 for December 2012, and \$552 for May 2013 (see Table 2).

⁹ We also found that Forsyth County spent an additional \$74 on unallowable travel that was not included in the \$986,730 that we sampled, bringing the total unallowable charges to \$12,532.

¹⁰ We did not request data at a level of detail needed to determine the exact number of days during each month that Forsyth County maintained excess balances because we did not need such detailed information to address our audit objectives.

Table 2. Race to the Top Fund Balances Required to Be Returned

Month and Year	Balances Required to Be Returned— Main Grant	Balances Required to Be Returned— Leadership Academy Grant	Balances Required to Be Returned— Recruitment Incentive Grant
June 2011	\$325,479	N/A	N/A
July 2011	\$24,309	\$0	N/A
August 2011	\$0	\$76,714	N/A
September 2011	\$379,211	\$626,473	N/A
October 2011	\$182,254	\$42,298	N/A
November 2011	\$1,280,326	\$1,418,445	N/A
December 2011	\$485,192	\$7,921	\$15,977
January 2012	\$372,835	\$210,761	N/A
February 2012	\$236,772	\$180,094	N/A
March 2012	\$330,581	\$81,435	N/A
April 2012	\$187,484	\$93,852	N/A
May 2012	\$254,389	\$118,930	N/A
June 2012	\$488,595	\$540,424	N/A
July 2012	\$120,730	\$99,674	N/A
August 2012	\$375,416	\$497,170	N/A
September 2012	\$138,280	\$113,084	N/A
October 2012	\$234,328	\$37,802	N/A
November 2012	\$0	\$0	N/A
December 2012	\$24,456	\$0	\$1
January 2013	\$78,066	\$132,451	N/A
February 2013	\$10,668	\$3,042	N/A
March 2013	\$0	\$156,068	N/A
April 2013	\$150,587	\$105,692	N/A
May 2013	\$0	\$61,072	\$552
June 2013	\$62,640	\$18,239	N/A
July 2013	\$22,090	\$5,362	N/A
August 2013	\$93,725	\$48,719	N/A
September 2013	\$24,506	N/A	N/A
Total Required to be Returned	\$5,882,919	\$4,675,722	\$16,530

Grantees Should Draw Down Federal Funds Only to Meet Immediate Needs

North Carolina used the advance method of funding when providing Race to the Top funds to participating LEAs and charter schools. From July 1, 2010, through June 30, 2013, the State of North Carolina did not include the Race to the Top grant in its Treasury-State Agreement. A Treasury-State Agreement documents the accepted funding techniques and methods agreed upon by the U.S. Department of the Treasury and a State for calculating interest for the Federal assistance programs governed by the Treasury-State Agreement. A Treasury-State Agreement

remains in effect until terminated unless the U.S. Department of the Treasury and a State agree to a specific termination date (31 C.F.R. § 205.6).

When a program is not included in a Treasury-State Agreement, the regulations at 34 C.F.R. Part 80 state the requirements for grant funds management. According to 34 C.F.R. § 80.21(b), grantees and subgrantees must use methods and procedures for payment that minimize the time elapsing between the transfer of funds from the U.S. Department of the Treasury and the State's payout of funds for Federal assistance purposes. The Department defines this requirement as maintaining a level of cash that is not in excess of immediate (usually 3 days) needs ("Recipients of ED Grants and Cooperative Agreements Frequently Asked Questions," June 2010). According to 34 C.F.R. § 80.37(a)(4), a State must substantially conform any advances of grant funds to subgrantees to the same standards of timing and amount that apply to cash advanced to the State by Federal agencies.

From July 1, 2013, through June 30, 2014, the State of North Carolina included the Race to the Top grant in its Treasury-State Agreement. The Treasury-State Agreement required North Carolina to request funds in such a manner that the funds would be deposited in a State account not more than 3 days before the day the State makes a disbursement to an LEA. The "Recipients of ED Grants and Cooperative Agreements Frequently Asked Questions," June 2010, states that if a State draws funds under a program in its Treasury-State Agreement to make payments to a subrecipient, then the payment request to the Department should only be as needed to pay for program costs. The guidance states that subrecipients must make draw requests to the State as required under the requirements in 34 C.F.R. Part 80. As noted above, those regulations require States to monitor their subrecipients' payment requests and to ensure that those requests conform to the same payment requirements that apply to the recipient.

Forsyth County maintained fund balances in excess of its immediate needs, in part, because North Carolina did not have a mechanism in place to estimate the amount of funds that each LEA and charter school needed to meet immediate needs. In addition, North Carolina reviewed fund balances only as they existed as of the end of a month. If an LEA or a charter school did not spend all the funds by the end of a month, North Carolina required the LEA or charter school to return those funds. Reviewing fund balances only at the end of the month did not allow North Carolina to determine whether its LEAs were in compliance with the 3-day rule throughout the entire month.

When a State does not ensure that LEAs minimize the time elapsing between the receipt and use of Race to the Top funds, the U.S. Department of the Treasury might incur additional borrowing costs, including interest. In addition, the Federal program is potentially harmed because the risk of theft or misuse of the excess funds increases.

Funds Used for Unallowable Activities

We found that Forsyth County spent \$12,532 in Race to the Top funds for a workshop on systems thinking and related travel costs for people who were not listed as key personnel as outlined in Forsyth County's Race to the Top detailed scope of work. Forsyth County charged to its main Race to the Top grant \$8,550 for registration fees for six students, one companion of an employee, and a board member to attend the workshop in Tucson, Arizona. Forsyth County

charged to the main Race to the Top grant another \$3,982 for the associated travel expenses for the six students: hotel-related charges of \$2,659, daily meals and a cash advance fee totaling \$1,051, baggage fees of \$125, and shuttle charges of \$147.¹¹

The detailed scope of work for fiscal years 2011 through 2014 stated that Forsyth County would use Race to the Top funds to send key personnel to a national conference on systems thinking. The detailed scope of work identified teachers, the superintendent, the Race to the Top project director, and principals at participating schools as key personnel. According to 2 C.F.R. Part 225, Appendix A, to be allowable, costs must “be necessary and reasonable for proper and efficient performance and administration of Federal awards. . . A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.” The six students, the companion of one employee, and the one board member were not listed in the detailed scope of work as key personnel. Therefore, the costs associated with sending the eight people to the systems thinking workshop were not chargeable or assignable to the Race to the Top grant. When Forsyth County uses funds for unallowable activities, Federal programs are harmed because Forsyth County will not have all the funds needed to accomplish the goals indicated in its approved scope of work.

Costs Not Adequately Documented

Forsyth County did not adequately document \$3,518 of its Race to the Top expenditures. The expenditures were all charged to credit cards and appeared on credit card statements. However, Forsyth County did not provide us with receipts supporting \$1,868 for hotel charges related to a workshop in Tucson, Arizona; \$1,260 for hotel accommodations in Stowe, Vermont; \$347 for airfare to New Haven, Connecticut; and \$44 for airport parking.

According to Appendix A of 2 C.F.R. Part 225, to be allowable under Federal awards, costs must be adequately documented. According to Forsyth County’s policy, AR 4133 “Travel Compensation and the Use of School Vehicles,” employees must attach original receipts to travel expense reimbursement forms. According to “A Guide to The Winston-Salem Forsyth County Schools Out-Of-County Travel Expense Reimbursement Policy,” employees must submit a travel expense reimbursement form to obtain reimbursement for travel expenses for which they have written receipts. Forsyth County’s Online Travel Form, “How To Get Reimbursed For Your Work-Related Travel,” states that an employee must complete an “Out-Of-County Travel Reimbursement Form” within 30 days of returning from a trip and must attach to the form all required receipts. The form explains that required receipts are copies of itemized receipts for gasoline and all expenses other than food. Receipts must be attached to the travel reimbursement forms or Forsyth County will not reimburse the employees.

Failing to follow its own policies for obtaining and maintaining sufficient documentation to support Race to the Top expenditures increased the risk that Forsyth County’s Race to the Top funds would be misused. When funds are misused, Federal programs are harmed because

¹¹ Forsyth County paid half (\$73) of the shuttle charges in advance. For nonpersonnel expenditures, we selected the transaction that included the \$73. We did not select the transaction that included the second installment (\$74) for our sample of nonpersonnel expenditures.

Forsyth County will not have all the funds needed to accomplish the goals indicated in its approved scope of work.

Recommendations

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Elementary and Secondary Education, require North Carolina to—

- 2.1 More closely monitor the fiscal activity of LEAs and charter schools to ensure that the amount of time elapsing between the LEAs' and charter schools' receipt of Race to the Top funds from North Carolina and the LEAs' and charter schools' uses of the funds is minimized in accordance with Federal cash management requirements.
- 2.2 Instruct Forsyth County to identify allowable uses of funds consistent with North Carolina's approved Race to the Top application or return to North Carolina the \$12,532 in Race to the Top funds that Forsyth County used for unallowable activities.
- 2.3 Instruct Forsyth County to provide documentation sufficient to support the \$3,518 in expenditures that we sampled but could not verify. If Forsyth County cannot provide sufficient documentation for the \$3,518, then North Carolina should instruct Forsyth County to identify allowable uses of funds consistent with North Carolina's approved Race to the Top application or return to North Carolina the amount of the expenditures that Forsyth County cannot adequately support.

North Carolina's Comments

North Carolina agreed with all three recommendations. North Carolina stated that, during the period under review, its policies and procedures for minimizing the time between drawdown and disbursement of Race to the Top funds were not finalized or fully implemented. However, it has made significant progress by implementing an online cash management system that enables it to identify noncompliance with Federal cash management requirements and also allows for LEAs to self-monitor compliance. North Carolina also includes cash management monitoring in North Carolina's on-site fiscal monitoring procedures. Additionally, North Carolina implemented a new accounting procedure that enables it to use excess cash balances more expeditiously.

OIG Response

We commend North Carolina on designing corrective actions intended to improve its ability to ensure subgrantee compliance with Federal cash management requirements. We would like to emphasize that North Carolina needs to fully implement these enhancements, or it will not be able to ensure subgrantee compliance and fully address our recommendations. Specifically, by designing system enhancements that allow North Carolina to identify subgrantee noncompliance and also allow subgrantees to self monitor, North Carolina has put in place tools that should enhance subgrantee compliance with the 3-day rule. However, the timing of the monitoring will be critical for North Carolina to ensure these new tools enhance subgrantee compliance.

OTHER MATTERS

North Carolina could strengthen its control activities to provide reasonable assurance that it retains adequate documentation of its employees' time and effort certifications. Additionally, Forsyth County could strengthen its control activities to provide reasonable assurance that it adequately records the purchase and tracks the location of all portable computing devices.

Control Over Time and Effort Certifications Could Be Strengthened

We reviewed time and effort documentation for 11 (14 percent) of the 79 North Carolina employees assigned to work on Areas C or D during our audit period. North Carolina did not provide us with time and effort certifications for 5 (45 percent) of the 11 employees. We interviewed 4 of the 5 employees and confirmed that they worked solely on Race to the Top grant activities during the periods covered by our audit. The fifth employee no longer worked at North Carolina.

Office of Management and Budget Circular A-87, Attachment B, 8.h(3) states that employees who work solely on a single Federal award should at least semi-annually prepare certifications that they worked solely on the award for the period covered by the certification.

Control Over Portable Computing Devices Could Be Strengthened

Forsyth County did not ensure that it adequately recorded the purchase and tracked the location of all portable computing devices purchased with Race to the Top funds. Forsyth County spent \$302,977, about 3 percent of its total Race to the Top allocation, on laptop and tablet computers. We reviewed records for 3 purchases of laptop and tablet computers: one of 674 laptop computers, one of 42 laptop computers, and one of 60 tablet computers. We found that Forsyth County did not record in its fixed asset database 735 of the 776 laptop and tablet computers: 633 from the purchase of 674 laptop computers and none from the purchases of 42 laptop computers and 60 tablet computers.

We also found that Forsyth County could not easily locate all the portable computing devices. To ensure that the laptop and tablet computers actually existed and were located where indicated in Forsyth County's records, we randomly selected 15 laptop computers from the purchase of 674 laptop computers and compared the serial numbers on the laptop computers to Forsyth County's records. Initially, we found 1 of the 15 laptop computers on a pallet in a warehouse along with 1,535 other laptop computers waiting to be reimaged. Forsyth County employees had to search through all 1,535 laptop computers until they found the remaining 14 for which we were looking.

We also attempted to locate all 42 laptop computers from another purchase. Forsyth County provided us with documentation showing that it distributed 30 of the laptop computers to 1 elementary school and 12 to the corporate office. However, we found 32 of the laptop computers at the elementary school and none at the corporate office. Forsyth County

subsequently searched for and found the other 10 laptop computers at a different elementary school than shown in Forsyth County's records.

Finally, we judgmentally selected a sample of 30 tablet computers from the purchase of 60 tablet computers and attempted to locate them. Forsyth County told us that it distributed the 60 tablet computers to one high school and two elementary schools. However, we found that the high school did not have any of the 60 tablet computers. Instead, the two elementary schools each had 30 of the tablet computers.

According to the U.S. Government Accountability Office's "Internal Control Management and Evaluation Tool," physical control to secure and safeguard assets can be accomplished by developing, implementing, and communicating to all employees policies and procedures to secure and safeguard assets; periodically counting and reconciling assets, such as cash, securities, supplies, inventories, and equipment; and affixing identification plates and numbers to office furniture and fixtures, equipment, and other portable assets.

To minimize the risk of theft and the risk that the portable computing devices will not be used as intended, we suggest that Forsyth County locate the remaining 659 laptop computers from the purchase of 674 that we did not ask it to locate, ensure that its fixed asset database accurately reflects the 735 laptop and tablet computers that were not originally recorded, and strengthen and then follow its policies and procedures for recording, tracking, and safeguarding portable computing devices.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether North Carolina

1. accurately and completely reported Area D grant performance data to the Department,
2. spent Race to the Top funds only on allowable activities and in accordance with program requirements and North Carolina's approved grant application for Areas C and D, and
3. ensured that LEAs and charter schools receiving Race to the Top subgrants from North Carolina spent the funds only on allowable activities and in accordance with program requirements and North Carolina's approved grant application for Areas C and D.

For the first objective, our audit covered North Carolina's 2012–2013 annual performance report only for Area D. For the second and third objectives, our audit covered July 1, 2010, through September 30, 2013, only for Areas C and D.

To gain an understanding of the Race to the Top program requirements, we reviewed information posted on the Department's Web site; the Recovery Act, Sections 14005-14006, Title XIV (Public Law 111-5); Federal regulations at 2 C.F.R. Part 225, 31 C.F.R. § 205.11, and 34 C.F.R. Parts 75 and 80; 70 Federal Register 51910 (August 31, 2005); 74 Federal Register 59688 (November 18, 2009); and 75 Federal Register 19496 (April 14, 2010).

To gain an understanding of how North Carolina administered its Race to the Top program and the environment in which North Carolina operated, we reviewed North Carolina's Race to the Top grant application, 2012–2013 annual performance report, Web site, and organizational charts. We also reviewed prior Office of Management and Budget Circular A-133 compliance audits for North Carolina to identify areas of potential internal control weaknesses related to our audit objectives.

To achieve our third objective, we judgmentally selected Forsyth County for review from the 142 LEAs and charter schools that were participating in North Carolina's Race to the Top program as of April 2014 (see "[Sampling Methodology](#)"). To gain an understanding of how Forsyth County administered its Race to the Top program and the environment in which Forsyth County operated, we reviewed Forsyth County's Race to the Top scope of work, Web site, and organizational charts. We also reviewed prior Office of Management and Budget Circular A-133 compliance audits for Forsyth County to identify areas of potential internal control weaknesses related to our audit objectives.

Internal Control

To gain an understanding of North Carolina's system of internal control over reporting Race to the Top performance data to the Department, we interviewed North Carolina and Forsyth County officials. To gain an understanding of North Carolina's and Forsyth County's systems of internal control over spending and North Carolina's system of internal control for ensuring that participating LEAs and charter schools spent Race to the Top funds only on allowable activities and in accordance with applicable Federal requirements, we interviewed North Carolina and Forsyth County officials and reviewed North Carolina's and Forsyth County's written policies and procedures for purchasing and contracting. Our review disclosed weaknesses in North Carolina's and Forsyth County's systems of internal control over spending Race to the Top funds (see [Finding No. 1](#) and [Finding No. 2](#)).

Data Reliability

To achieve our first objective, we relied on third-party data, such as graduation reports from institutions of higher education and reports showing whether teachers contributed to the academic success of their students. We assessed the reliability of these data by looking for duplicate entries, invalid identifiers, missing data, inappropriate relationships to other data, values outside a designated range, or values outside valid periods. We determined that these data were sufficiently reliable for our intended use.

To achieve our second and third objectives, we relied, in part, on expenditure data from the North Carolina Accounting System and Forsyth County's financial system. We reviewed the data for completeness by comparing North Carolina's expenditure totals to the total drawdowns shown in the Department's G5 system and comparing Forsyth County's expenditure totals to

the total expenditures shown in the North Carolina Accounting System. We also analyzed the records from the North Carolina Accounting System and Forsyth County's financial system, looking for duplicate entries, invalid identifiers, missing data, inappropriate relationships to other data, values outside a designated range, or values outside valid periods.

Based on the results of our comparison and analyses, we concluded that the data provided by both North Carolina and Forsyth County were sufficiently reliable for our intended use.

Sampling Methodology

We used sampling to achieve our audit objectives. We judgmentally selected one LEA; Race to the Top expenditures incurred by North Carolina and Forsyth County from July 1, 2010, through September 30, 2013, only for Areas C and D;¹² and tablet computers purchased with Race to the Top funds that were included in our sample of Forsyth County's expenditures.¹³ In addition, we randomly selected 15 laptop computers that were part of a transaction included in our sample of Forsyth County's expenditures. Because we judgmentally selected our samples, the sampling results might not be representative of the entire universes and, therefore, cannot be projected to the universes.

Selection of LEA

We judgmentally selected 1 (less than 1 percent) of the 142 LEAs and charter schools that were participating in North Carolina's Race to the Top program as of April 2014. We selected Forsyth County because its allocation of Race to the Top funds was relatively large (fifth highest in the State of North Carolina) and prior audit reports on Forsyth County identified findings that we considered significant within the context of our audit objectives.

Selection of Expenditures

We selected 79 expenditures totaling \$9,790,896 from the 13,286 expenditures totaling \$48,265,595 that North Carolina and Forsyth County charged to their Race to the Top grants from July 1, 2010, through September 30, 2013, only for Areas C and D (see Tables 3 and 4, respectively). For personnel expenditures charged by North Carolina, we judgmentally selected the highest charges to each of the two areas. We limited our selection of nonpersonnel expenditures charged by North Carolina to those for contractual services, educational supplies, food services, instructional improvement, software, technology services, and travel expenses. For personnel expenditures charged by Forsyth County, we judgmentally selected charges for salaries and benefits for personnel working on assessments and for bonuses paid to any employee working on Areas C and D Race to the Top initiatives. We limited our selections of nonpersonnel expenditures charged by Forsyth County to those for computers, membership dues and fees, software, supplies and materials, wireless receivers, and workshop expenses. Additionally, Forsyth County received a recruitment incentive grant from North Carolina's allocation of Race to the Top funds. Because we could not determine to which Race to the Top

¹² We did not limit our sample of expenditures for Forsyth County's recruitment incentive grant to only Areas C and D because we could not determine which Race to the Top application areas the expenditures applied to.

application areas the recruitment incentive grant applied, we selected the two highest charges to the grant.

Table 3. North Carolina Expenditures

Expenditure Type	Number of Items Sampled	Total Items in Universe	Percentage	Amount Sampled	Amount in Universe	Percentage
Area C Personnel	15	218	7	\$28,420	\$375,020	8
Area D Personnel	26	3,988	less than 1	\$70,879	\$6,008,954	1
Area C Nonpersonnel	5	992	less than 1	\$5,351,067	\$9,979,024	54
Area D Nonpersonnel	10	7,189	less than 1	\$3,248,096	\$29,366,681	11
Total	56	12,387	less than 1	\$8,698,462	\$45,729,679	19

Table 4. Forsyth County Expenditures

Expenditure Type	Number of Items Sampled	Total Items in Universe	Percentage	Amount Sampled	Amount in Universe	Percentage
Area C Personnel	5	290	2	\$34,724	\$524,740	7
Area D Personnel	1	20	5	\$4,794	\$20,458	23
Area C Nonpersonnel	12	404	3	\$931,232	\$1,766,795	53
Area D Nonpersonnel	3	49	6	\$55,499	\$73,192	76
Subtotal	21	763	3	\$1,026,249	\$2,385,185	43
Recruitment Incentive Grant	2	136	2	\$66,185	\$150,731	44
Total	23	899	3	\$1,092,434	\$2,535,916	43

Selection of Laptop and Tablet Computers

We also verified the existence of a random selection of laptop computers and a judgmental selection of tablet computers that Forsyth County purchased with Area C funds. We randomly selected 15 (2 percent) of 674 laptop computers from one purchase and judgmentally selected 30 (50 percent) of 60 tablet computers from another purchase. We had no reason to believe that inventory at one location was any more susceptible to loss or theft than inventory at any other location. Therefore, we judgmentally selected these 30 tablet computers because Forsyth County's records showed that they were located in a high school and two elementary schools that were near Forsyth County's administrative offices.

Comparative and Verification Procedures

To achieve our first objective, we verified the accuracy of the results that North Carolina reported in its 2012–2013 annual performance report for the four Area D performance measures by reviewing information from third parties.

To achieve our second and third objectives, we reviewed North Carolina’s and Forsyth County’s contracts, invoices, and payroll records to verify the amount and appropriateness of the selected expenditures. We also verified the existence of laptop and tablet computers that Forsyth County purchased with Area C funds. For 87 (11 percent) of 776 laptop and tablet computers that Forsyth County obtained through three purchases, we verified the existence of the laptop and tablet computers by comparing the serial numbers on the laptop and tablet computers to Forsyth County’s inventory records. In addition, we reviewed Race to the Top fund balances to determine whether North Carolina and Forsyth County only drew down grants funds necessary for their immediate needs.

Forsyth County was the fiscal agent for a \$4,216,760 leadership academy grant from North Carolina’s allocation of Race to the Top funds. We did not select expenditures charged to the leadership academy grant for review because other LEAs, not Forsyth County, spent those funds. However, we reviewed the fund balances for this grant because Forsyth County was responsible for drawing down and distributing the grant funds to the other LEAs.

We conducted this audit from March 2014 through February 2015 in Raleigh and Winston-Salem, North Carolina, and at our offices in Atlanta, Georgia; Chicago, Illinois; and Dallas, Texas.

We discussed the results of our audit with North Carolina officials on February 2, 2015, and with Forsyth County officials on January 9, 2015.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence that we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken, including the recovery of funds, will be made by the appropriate Department of Education officials in accordance with the General Education Provisions Act.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education officials, who will consider them before taking final departmental action on this audit:

Thomas P. Skelly
Chief Financial Officer
U.S. Department of Education
Office of the Chief Financial Officer
550 12th Street, SW
Washington, DC 20202

Ann Whalen
Delegated the Duties of the Assistant Secretary
U.S. Department of Education
Office of Elementary and Secondary Education
400 Maryland Ave., SW
Washington, DC 20202

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 calendar days would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us during this audit. If you have any questions or require additional information, please do not hesitate to contact me or Jon Enslen, Assistant Regional Inspector General for Audit, at (312) 730-1620.

Sincerely,

/s/

Gary D. Whitman
Regional Inspector General for Audit

Attachments

Attachment 1

Acronyms, Abbreviations, and Short Forms Used in this Report

Area C	Application Area C, “Data Systems to Support Instruction,” of North Carolina’s Grant Application
Area D	Application Area D, “Great Teachers and Leaders,” of North Carolina’s Grant Application
C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
Forsyth County	Winston-Salem Forsyth County Schools
LEA	Local Educational Agency
North Carolina	North Carolina Department of Public Instruction
Recovery Act	American Recovery and Reinvestment Act of 2009

Attachment 2

North Carolina's Comments on the Draft Report



PUBLIC SCHOOLS OF NORTH CAROLINA

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

WWW.NCPUBLICSCHOOLS.ORG

May 7, 2015

Mr. Gary D. Whitman, Regional Inspector General for
Audit U.S. Department of Education, Office of Inspector
General Citigroup Center
500 West Madison Street, Suite 1414
Chicago, IL 60661

Mr. Whitman:

The North Carolina Department of Public Instruction (NCDPI) appreciates the opportunity to respond to the draft audit report, "The North Carolina Department of Public Instruction's Administration of its Race to the Top Grant". NCDPI 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.

Recommendation 1.1 Retain sufficient documentation to show that it obtained all required approvals for any procurement of goods and services using Federal funds.

AND

Recommendation 1.2 Strengthen its procurement policy by requiring amendments to contracts for purchasing goods and services exceeding \$100,000 using Federal funds receive the same approvals as original contracts.

OFFICE OF THE STATE SUPERINTENDENT

June St. Clair Atkinson, Ed.D., *State Superintendent* 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

NCDPI concurs with the recommendation to improve our process for documenting contracts and the various approvals required to execute them. We have already begun implementing new policies and procedures to ensure that all contracts receive the requisite approvals internally and externally, and that we maintain appropriate contract files. NCDPI has also implemented enhanced procedures for approval of contract amendments. These procedures will supplement the electronic procedures for purchasing approval that were already in place.

Recommendation 1.3 Justify the pay rates for the two employees paid with Race to the Top funds without adequate documentation of the reasonableness of the pay rates, find another allowable use for the funds, or return \$31,458 to the Department.

NCDPI feels that pay rates for the two employees in question were reasonable at the time the determination was made. NCDPI utilized contracting practices in place at that time to contract with the individuals identified above at the rates deemed appropriate for the work specified in the initial agreements. The Personnel Action Requests for both contract employees were signed by the Human Resources Director at the time, who had authority from the State Office of Personnel to set such salaries. At the later date when a contract extension was proposed for each of the two contractors in question, NCDPI Human Resources (HR) employed the current process (one that had been updated since the initial contract date) to determine proposed terms for the contract extension offer; as a result of that process, HR recommended a lower rate for each contract going forward, and in both cases the contractor agreed to the contract extension at a renegotiated/lower hourly rate. All of the contracts in question were appropriate expenditures of RttT funds. The Race to the Top grant was not improperly charged. NCDPI therefore does not believe it is necessary or reasonable to reimburse the RttT grant.

Recommendation 2.1 More closely monitor the fiscal activity of LEAs and charter schools to ensure that the amount of time elapsing between the LEAs' and charter schools' receipt of Race to the Top funds from North Carolina and the LEAs' and charter schools' uses of the funds is minimized in conformance with the State of North Carolina's Treasury-State Agreement.

NCDPI concurs that during the period under review that the agency's policies and procedures for minimizing the time between drawdown and dispersal of RttT funds were not finalized or fully implemented. We have, however, made significant progress in that direction.

In March of 2013 NCDPI went live with the online cash Management Monitoring System (CMMS). Implementation of the CMMS better enables the LEAs to self-monitor for compliance with state and federal cash management requirements.

As of April 2014, LEAs had been trained in the use of the system and had subscribed to the CMMS and obtained access to the data. The CMMS produces reports comparing the date funds were received and the amount of funds expended within three days of receipt. The system is able to generate two reports that clearly identify individual instances of noncompliance with the 3-day rule. Any funds not expended within three days are marked as "out of compliance" with the "three-day rule." In May 2014, the State provided reports to show that its efforts to address cash management issues were helping decrease the number of LEAs being out of compliance

with cash management rules. The CMMS continues to be available to LEAs as a tool for self-monitoring of compliance with the “three-day rule.”

The NCDPI Division of School Business included cash management monitoring in its on-site fiscal monitoring policy and procedures effective September 1, 2014. Language in the fiscal monitoring report template cites the appropriate requirements for cash management monitoring and adherence and includes notification that, “Recipient must promptly remit (at least quarterly) interest earned on advances of grant funds in excess of \$100. Recipients are allowed to retain \$100 annually to offset costs of maintaining the account.” Corrective action for cash management deficiencies identified during fiscal monitoring adheres to the following protocol:

Required Actions: *If the recipient earned interest on funds in violation of CMIA then we request corrective action (example – policy and procedures revised, provided to us, etc.) and remittance of calculated interest earned (but leave the calculation up to the LEA) to us.* The address for interest remittances to NCDPI:

NC Department of Public Instruction
6334 Mail Service Center
Raleigh, NC 27699-6334

The remittance should be accompanied by a letter stating that the remittance is for “interest earned on Federal funds (identified by PRC)” and the LEA/charter school’ DUNS number.

The fiscal monitoring report cover letter also notifies the LEA/charter school that failure to respond to the fiscal monitoring report and address identified deficiencies will result in enforcement action for noncompliance. School Business will communicate to the LEA/charter school the specific remedies for sub-grantee non-compliance in the Education Department General Administrative Regulations (EDGAR) Title 34 Code of Federal Regulations (specifically CFR 80.43 and 34 CFR 81.30). School Business will communicate that NCDPI is within its rights to:

- Withhold cash payments temporarily, pending correction of the deficiency by the subgrantee
- Deny the use of funds for all or a portion of the cost associated with the non-compliant activity
- Terminate all or a portion of the sub-grantee’s current award
- Withhold further rewards for the program or take other legal remedies.

NCDPI put a new accounting procedure in place at 2013-14 fiscal year end, enabling the agency to use excess cash balances more expeditiously. After final reconciliation of the cash balances, the agency returned all unused cash to the appropriate federal awarding agency as required by the CMIA.

Recommendation 2.2 *Instruct Forsyth County to identify allowable uses of funds consistent with North Carolina's approved Race to the Top application or return to North Carolina the \$12,532 in Race to the Top funds that Forsyth County used for unallowable activities.*

NCDPI agrees with the recommendation and will take appropriate action.

Recommendation 2.3 *Instruct Forsyth County to provide documentation sufficient to support the \$3,518 in expenditures that we sampled but could not verify. If Forsyth County cannot provide sufficient documentation for the \$3,518, then North Carolina should instruct Forsyth County to identify allowable uses of funds consistent with North Carolina's approved Race to the Top application or return to North Carolina the amount of the expenditures that Forsyth County cannot adequately support.*

NCDPI agrees with the recommendation and will take appropriate action.

NCDPI 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. Again, we thank you for bringing the issues to our attention and for offering us the opportunity to respond.

Sincerely,



Adam Levinson
Director, NC Race to the Top Program
NC Department of Public Instruction

cc: Philip Price, Chief Financial Officer
Sarah Harris, Director of Financial Services
Jeani Allen, Director of Internal Audit and Assurance Services