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OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES  
Sacramento Audit Region

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**Control Number**  
**ED-OIG/A09P0005**

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, “North Carolina Department of Public Instruction’s Oversight of Local Educational Agency Single Audit Resolution,” presents the results of our audit. The purpose of the audit was to determine whether the North Carolina Department of Public Instruction (DPI) provided effective oversight to ensure that local educational agencies (LEAs) took timely and appropriate action to correct single audit findings. Our review covered DPI’s processes and activities related to the resolution of LEA single audit findings that occurred in fiscal years (FYs) 2012 through 2014.<sup>1</sup> In this report, we use the term “audit resolution” to refer to all activities required to ensure that LEA single audit findings are fully and appropriately corrected. The specific requirements of the audit resolution process are described in the Background section of this report.

DPI improved its oversight of LEA single audit resolution during the period covered by our review and several aspects of DPI’s oversight were effective. However, we also identified specific aspects of DPI’s oversight that need to be improved to correct control weaknesses and ensure DPI and LEA compliance with regulatory requirements.

We made a variety of recommendations that would require DPI to improve internal controls over its oversight of LEA single audit resolution and ensure that its oversight processes meet all applicable Federal requirements. Specifically, DPI should (1) finish developing and implementing written policies and procedures for overseeing LEA single audit resolution, (2) establish an integrated tracking system for individual LEA findings across the State, (3) implement a periodic quality assurance process to assess DPI’s effectiveness in this area of oversight responsibility, and (4) ensure that DPI’s management decisions meet Federal content requirements. DPI concurred with three of the four recommendations and described steps it had taken or planned to take to implement associated corrective actions. DPI did not concur with the recommendation to modify its management decisions to include all content required by Federal regulations because it believed its management decisions already contained the required content.

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<sup>1</sup> North Carolina LEAs operate on a fiscal year that begins on July 1 and ends on June 30.

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## BACKGROUND

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The Single Audit Act of 1984 established uniform audit requirements for State and local governments (recipients and subrecipients)<sup>2</sup> that receive Federal financial assistance. Many of these recipients receive annual grant awards from multiple Federal agencies. Before the Single Audit Act, the grant-by-grant audit processes of Federal agencies were not coordinated. This resulted in overlapping audits in some cases, which increased costs to the Federal government and placed an undue administrative burden on recipients. In other cases, recipients were not subject to any grant audits for multiple fiscal years.

In 1985, the Office of Management and Budget (OMB) issued Circular A-128 to provide implementing guidance for the Single Audit Act. In 1990, OMB issued Circular A-133 to extend the single audit process to nonprofit organizations. Then, in 1997, OMB revised Circular A-133 pursuant to the Single Audit Act Amendments of 1996 to extend Circular A-133's coverage to audits of State and local governments and to rescind Circular A-128. For fiscal years ending after December 31, 2003, recipients that spent \$500,000 or more in Federal awards during a fiscal year were required to have a single audit or program-specific audit conducted in accordance with Circular A-133.

In December 2013, OMB published final regulations for Uniform Grant Guidance (Title 2 of the Code of Federal Regulations), which consolidated and superseded requirements from eight OMB Circulars, including A-133. Part 200 of the Uniform Grant Guidance streamlined the administrative requirements, cost principles, and audit requirements for Federal awards, and increased the single audit expenditure threshold to \$750,000. Uniform Grant Guidance requirements became effective for recipients' fiscal years beginning on or after December 26, 2014.

As pass-through entities, State educational agencies (SEAs) are responsible for distributing U.S. Department of Education (Department) grant funds to subrecipients. Circular A-133 specifies the responsibilities of pass-through entities related to the administration of Federal awards.<sup>3</sup> In their oversight role, SEAs are responsible for advising LEAs of the requirements associated with the use of Federal funds; monitoring LEAs' use of Federal funds to ensure they comply with laws, regulations, and grant agreements; and ensuring that LEAs achieve program goals. SEAs must also ensure that all LEAs that meet the expenditure threshold for a given fiscal year have a single audit performed.

As part of the single audit resolution process, the SEA must issue a management decision<sup>4</sup> to the LEA stating whether the SEA sustains each audit finding and the reasons why the SEA does or does

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<sup>2</sup> In the remainder of this report, the term "recipient" is inclusive of subrecipients unless otherwise noted.

<sup>3</sup> Although Circular A-133 has been superseded by the Uniform Grant Guidance, the SEA requirements described in this report continue to be in effect under the new regulations. We cite Circular A-133 requirements in this report because the Uniform Grant Guidance was not in effect during the period covered by the audit.

<sup>4</sup> Under Section 105 of Circular A-133, the SEA must evaluate LEA audit findings and the LEA's corrective action plan and issue a written decision describing necessary corrective actions.

not sustain each finding.<sup>5</sup> The management decision must also describe the corrective actions that the LEA is required to take. According to Circular A-133, Section 400(d)(5), SEAs must ensure that LEAs take timely and appropriate action to correct any control weaknesses or instances of noncompliance identified through the single audit process. Circular A-133 includes detailed requirements for the content of the management decision, the timeframe for its issuance, and related SEA responsibilities.

During the audit period, the Department did not directly monitor the LEA single audit resolution practices of SEAs.<sup>6</sup> Instead, it relied on statewide single audits to identify SEAs that had incomplete or ineffective oversight processes for LEA single audit resolution. The Department is responsible for overseeing the resolution of single audit findings at SEAs that involve Federal education programs.

According to Circular A-133, the auditee (SEA or LEA) holds primary responsibility for following up on its audit findings and ensuring that corrective action is taken. This responsibility includes the development of a corrective action plan to address each current-year finding and a schedule of prior-year findings that details the status of each prior finding. For unresolved prior-year findings, the SEA or LEA must describe any corrective action that has been taken to date and what remaining corrective actions are planned. For subrecipient audits, the SEA has an oversight role and must ensure that the LEA's planned corrective actions are appropriate and implemented timely. LEA and SEA officials must have a shared commitment to correcting LEA audit findings for the audit resolution process to be successful.

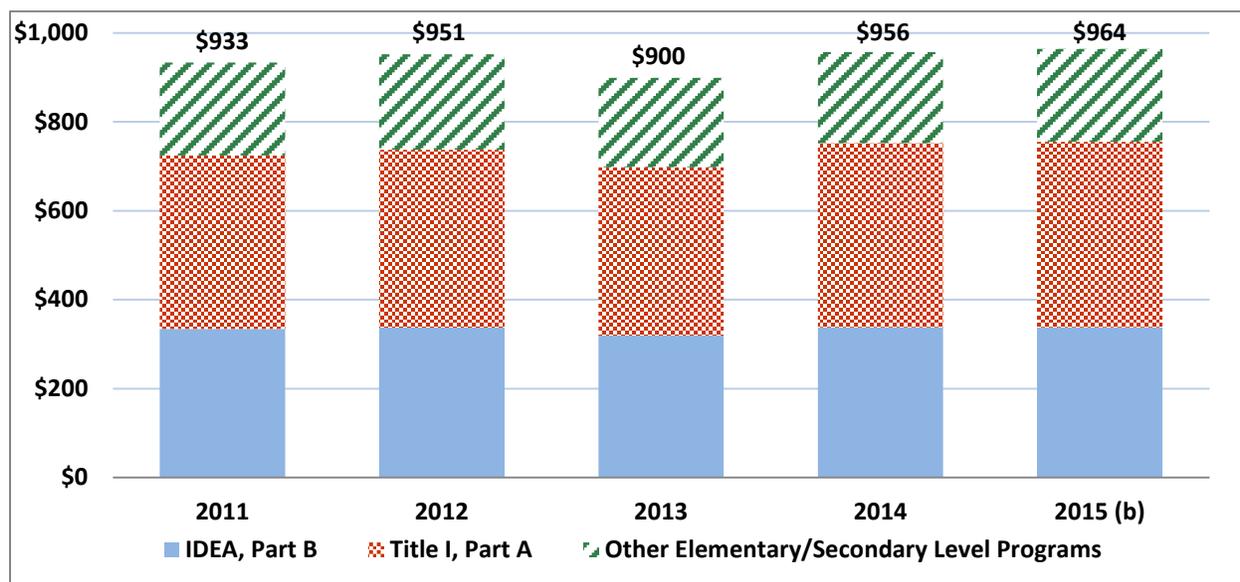
North Carolina has received, on average, more than \$900 million in Federal educational assistance each year since 2011. The two largest Federal elementary and secondary education grant programs are Title I, Part A of the Elementary and Secondary Education Act (Title I), which assists LEAs and schools with high numbers or high percentages of children from low-income families, and Part B of the Individuals with Disabilities Education Act (IDEA), which assists States and LEAs in meeting the needs of children with disabilities. Figure 1 shows the total amounts of Federal elementary and secondary education funds that the Department awarded to North Carolina from FYs 2011–2015 for Title I, IDEA, and all other Federal elementary and secondary education programs combined.

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<sup>5</sup> In this report, “audit finding” refers to a compliance finding for a Federal education program reported in the single audit, unless otherwise stated.

<sup>6</sup> Recently, Department officials informed us that they were in the process of expanding their monitoring to include reviews of SEA oversight of LEA audit resolution.

**Figure 1. Federal Elementary and Secondary Education Program Funds Awarded to North Carolina in Millions (a)**



(a) Source: State formula grant allocation tables from the Department’s Web site. Award totals do not include Federal education funds awarded directly by the Department on a competitive basis.

(b) 2015 grant totals are estimated.

According to DPI records, North Carolina had 115 LEAs in FY 2014. All North Carolina LEAs met the Federal expenditure threshold requiring a single audit during our audit period (FYs 2012–2014). We judgmentally selected four LEAs that had at least one audit finding during the audit period for review.<sup>7</sup> Table 1 provides details about the four LEAs selected for review. We assessed DPI’s oversight of the resolution of the LEAs’ audit findings in part by interviewing LEA officials and obtaining relevant documentation, including the six management decisions that DPI had issued to the four LEAs during the audit period. We also reviewed eight additional management decisions that DPI had issued to seven other LEAs during the audit period. The 14 total management decisions that we reviewed covered 22 audit findings at 11 LEAs.

**Table 1. North Carolina LEAs Selected for Review**

Selected LEA	Enrollment (a)	Audit Finding(s)
Cumberland County Schools	51,119	Noncompliance with cash management and procurement requirements. Charged incorrect indirect cost rate for Federal education grants.
Public Schools of Robeson County	23,362	Noncompliance with procurement requirements and period of availability of Federal funds.
Rowan-Salisbury Schools	19,705	Noncompliance with procurement requirements. Not all paraprofessionals were “highly qualified” as required.
Carteret County Public Schools	8,352	Noncompliance with cash management requirements.

(a) Student enrollment totals according to the 2013–2014 Average Daily Membership Report obtained from DPI’s Web site.

<sup>7</sup> See the Objective, Scope and Methodology section of this report for more information on LEA selection.

In North Carolina, the Local Government Commission within the Department of State Treasurer was responsible for identifying subrecipients that were required to have a single audit performed, collecting the single audit reports, reviewing the reports for completeness, and then distributing the reports to applicable State agencies (such as DPI) for finding resolution. The Monitoring and Compliance Section (Monitoring and Compliance) within DPI's School Business Division was primarily responsible for oversight of LEA single audit resolution for DPI, including issuing management decisions to LEAs. After Monitoring and Compliance received LEA audit reports from the Local Government Commission, it evaluated any findings and associated corrective action plans developed by the LEAs. In cases where DPI determined that it should issue a management decision to the LEA, Monitoring and Compliance would either independently issue the management decision or confer internally with DPI program officials before issuing the management decision.<sup>8</sup> Generally, DPI program officials would advise Monitoring and Compliance on whether DPI should collect any questioned costs associated with their programs. Program officials might also provide feedback to Monitoring and Compliance, as necessary, regarding the appropriateness of LEAs' planned corrective actions.

The North Carolina statewide single audit reports contained findings related to DPI's oversight of LEA single audit resolution from FY 2009 through FY 2011. The findings stated that DPI was not issuing management decisions for all LEA findings as required by Circular A-133. According to the audit reports, DPI did not issue any management decisions for LEA findings in FYs 2009 or 2010. In FY 2011, DPI began issuing management decisions for LEA findings classified as material weaknesses but still did not issue management decisions for findings classified as significant deficiencies. The findings for FYs 2009 and 2010 stated that DPI was communicating with LEA officials about resolving their findings even when it was not issuing formal management decisions. For example, in FY 2009, DPI contacted LEAs if their corrective action plans were not adequate. In FY 2010, DPI began communicating by email or phone with all LEAs that had a finding to ensure that the LEAs took appropriate corrective action. DPI's findings related to not issuing management decisions were reported as resolved in the FY 2012 statewide single audit, which covered DPI's audit resolution activities for LEA findings that occurred in FY 2011. Thus, DPI's findings for not issuing management decisions were reported as having been corrected before our audit period.

DPI officials told us that DPI has made personnel changes and placed officials that are knowledgeable about compliance requirements into management positions to improve oversight of LEA fiscal compliance. In 2011, DPI appointed a new director of the School Business Division with an audit and compliance background. The director subsequently hired an assistant director with a similar background to overhaul DPI's LEA oversight processes, including audit resolution and fiscal monitoring. Finally, DPI hired a section chief with a compliance background to oversee the day-to-day activities of the Monitoring and Compliance Section and implement the new processes designed by the assistant director.

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<sup>8</sup> As discussed in the finding, DPI did not issue all required management decisions during our audit period.

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## AUDIT RESULTS

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We determined that DPI improved its oversight of LEA single audit resolution during the period covered by our review. DPI continued to improve and enhance its oversight of LEA audit resolution in the years after its findings related to not issuing management decisions were reported as fully resolved. DPI officials stated that they placed a special emphasis on improving DPI's oversight of LEA audit resolution as part of a larger effort to improve the effectiveness and efficiency of DPI's internal controls over Federal, State, and local funds.

We found that selected aspects of DPI's oversight of LEA audit resolution were effective. However, other aspects of DPI's oversight require improvement to correct control weaknesses and ensure compliance with regulatory requirements. DPI made significant changes to its audit resolution processes during FYs 2013 and 2014.<sup>9</sup> As a result, DPI's processes in the latter half of our audit period were more effective than its earlier processes.

We provided a draft of this report to DPI for review and comment on May 5, 2016. DPI provided its comments on June 30, 2016. DPI concurred with three of the four recommendations included in our report and described steps it had taken or planned to take to implement associated corrective actions. DPI did not concur with the recommendation to modify its management decisions to include all content required by Federal regulations because it believed its management decisions already contained the required content. We modified our finding but did not change our recommendations based on DPI's comments to the draft audit report. We summarized DPI's comments at the end of the finding and provided responses to its comments as warranted. We also included the full text of DPI's comments as Attachment 2 to our report.

### **FINDING – DPI Improved Its Oversight of LEA Audit Resolution in Recent Years but Further Improvements are Needed**

DPI has implemented several effective oversight practices, including requiring LEAs to take appropriate corrective actions to resolve audit findings, placing extra emphasis on repeat findings to ensure they are resolved promptly, engaging in proactive communication with LEAs related to audit resolution, issuing management decisions for both Federal program findings and financial statement findings, and enhancing management oversight over the audit resolution process. DPI was also able to expedite the audit resolution process as a result of another North Carolina State agency's requirement that LEAs submit single audit reports 5 months before the deadline specified in Circular A-133. Despite these effective practices, DPI should take additional action in several areas to ensure its oversight processes and practices meet all Federal requirements and function effectively. For example, DPI did not have adequate written policies and procedures describing all aspects of its oversight of the LEA audit resolution process. DPI also did not have an adequate system for tracking LEA findings across audit periods or across the State, nor did it have a quality assurance process for its oversight of LEA audit resolution. Finally, even though DPI issued

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<sup>9</sup> Our audit covered DPI's audit resolution oversight activities for LEA audit findings reported in FYs 2012–2014. DPI's audit resolution activities generally took place in the year following the year that the finding was reported. Unless otherwise stated, the year cited in the report refers to the year the finding was reported.

management decisions for all LEA audit findings in the last year of our audit period, its management decisions did not meet all Federal content requirements.

### **Strengths in DPI's Oversight of LEA Audit Resolution**

**Required appropriate corrective actions.** Based on our review of 14 management decisions that covered 22 audit findings, we concluded that DPI generally identified and required corrective actions that were appropriate to resolve the underlying problem described in the finding. DPI significantly revised and improved the content and format of its management decisions during FY 2013. Our analysis showed that all of DPI's revised FY 2013 management decisions and all of its FY 2014 management decisions that were included in our review required LEAs to take appropriate corrective actions. The three management decisions covered by our review that did not require appropriate corrective actions were all issued before DPI revised its management decisions.

**Placed extra emphasis on repeat findings.** DPI added a new step to its audit resolution process for FY 2014 that required LEAs to provide additional information about corrective actions taken for all repeat findings. This new process placed extra emphasis on correcting repeat findings in a prompt manner and prevented LEAs from proposing the same corrective actions year after year without taking steps to implement them. Below is an excerpt from a management decision that DPI issued for a repeat finding reported in FY 2014 that illustrates DPI's new approach:

**This is a repeat of the condition noted in Finding 2013-03 from the prior year single audit and thus prior corrective action has been ineffective at eliminating this condition.** For this reason, [DPI] requests that the LEA respond in writing to describe what efforts or plans have been made or will be made to eliminate future occurrences of this condition in addition to those described in the audit report. The LEA's response must (1) describe the additional corrective action proposed or taken since January 7, 2015 (i.e., the date of the Auditor's report) and (2) be signed by the Board Chair or designee. The LEA should provide documentation where available to support the claim that corrective action was implemented.

DPI officials stated that although this was a new initiative, LEAs were complying with the additional requirements and providing the requested information. Our review covered the management decisions issued to six LEAs with FY 2014 audit findings. One of the six LEAs had repeat audit findings. We confirmed that DPI issued the enhanced management decision described above to the LEA. The LEA responded, describing additional corrective actions that it had taken to address the findings.

For FY 2014, DPI also added a statement to its management decisions covering nonrepeat findings to advise LEAs of DPI's new process for repeat findings. The statement informed all LEAs with a FY 2014 finding that if the finding repeated in the subsequent fiscal year, DPI would require additional information and evidence of implemented corrective action.

**Engaged in proactive communication with LEAs.** DPI usually engaged in proactive communication with LEA officials responsible for audit resolution for the 19 management decisions covered by our review. The communication occurred throughout the audit resolution process, as appropriate. For example, in some instances, DPI contacted LEA officials to gain more information about their planned corrective actions. In another instance, DPI informed LEA officials that their planned actions were not sufficient and requested a revised corrective action plan.

DPI also contacted LEAs to determine whether the LEA had implemented agreed on corrective actions so that DPI could close the findings. As part of this contact, DPI obtained evidence that the LEA had taken corrective actions or confirmation from LEA officials that the findings had been corrected and would not repeat. We interviewed officials responsible for audit resolution at four LEAs that had audit findings during our audit period. Officials at three of the LEAs were familiar with DPI's management decisions and officials at two of the LEAs stated that DPI had contacted them by phone or email related to the resolution of the audit findings included in our review.<sup>10</sup>

We also noted that DPI issued management decision letters directly to LEA officials responsible for ensuring corrective actions were implemented (typically the finance officer), which helped to ensure that LEA officials were actively engaged with DPI during the audit resolution process. DPI officials stated that for FY 2014, they also began copying the superintendent on management decisions to help ensure appropriate management oversight at the LEA level.

**Enhanced management oversight.** DPI officials stated that DPI enhanced its management oversight over the LEA single audit resolution process during our audit period. Under this process, the assistant director of the School Business Division reviewed all management decisions before DPI issued them to LEAs. DPI also told us that during the FY 2014 review process, DPI added a preliminary review of management decisions that the Monitoring and Compliance section chief conducted before the assistant director's review. Based on the information that DPI provided, this resulted in multiple levels of review for at least half of management decisions issued for FY 2014 findings.

For FY 2014, the assistant director of the School Business Division implemented a monitoring tool to enhance visibility over the performance of DPI's audit resolution oversight activities. The tool provides visibility over the full lifecycle of actions taken for each LEA audit report and finding, including the date that the report was received; the dates that the management decision was drafted, reviewed, and issued to the LEA; the dates that the LEA's response was due and received; and the date that the audit resolution activities were closed for the LEA. This monitoring tool should promote more effective oversight to help ensure that DPI's audit resolution activities are performed timely and in accordance with policies and procedures.

**Issued management decisions for financial statement findings.** Although not required to, DPI issued management decisions to LEAs that covered both financial statement findings and Federal award findings. Each single audit finding is classified in the audit report as either a financial statement finding or a Federal or State award finding.<sup>11</sup> Circular A-133 requires the SEA to issue management decisions for findings applicable to the Federal awards that it makes to subrecipients, but does not require the SEA to oversee the resolution of financial statement findings. However, in some cases, financial statement findings can affect Federal program funds at the LEA. For example, internal control weaknesses related to accounting processes, such as a lack of proper segregation of duties, can be reported as a financial statement finding even though it may put Federal grant funds at risk. DPI officials stated that they issued management decisions for financial statement findings because it was a good practice. This practice may help safeguard Federal funds

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<sup>10</sup> The official responsible for audit resolution at the fourth LEA was new to her position and the LEA had not had any audit findings during her tenure. Thus, she could not comment on DPI's communications related to audit resolution activities.

<sup>11</sup> Our review did not cover findings related to State awards.

from misuse or fraud by ensuring that financial statement findings are also corrected timely and appropriately.

**Required early submission of single audit reports from LEAs.** The Federal regulatory deadline for submitting single audit reports is 9 months after the end of the LEA's fiscal year (March 31 for North Carolina LEAs). However, the Local Government Commission required that single audit reports be submitted only 4 months after LEAs' fiscal year-end (October 31). Based on our analysis of available data, the Local Government Commission had completed its review of almost 75 percent of LEA audit reports and provided them to DPI at least 3 months before the regulatory deadline for submitting single audit reports. The expedited collection and distribution of LEA audit reports resulted in LEAs receiving more timely guidance from DPI on the appropriateness of proposed corrective actions and may have resulted in more timely correction of audit findings in some cases.

### **Weaknesses in DPI's Oversight of LEA Audit Resolution**

Despite DPI's efforts to enhance and improve its oversight processes, parts of the process still require improvement to correct control weaknesses and minor areas of noncompliance.

**Lack of adequate written policies and procedures.** During our audit period, DPI did not have written policies or procedures covering all processes and practices needed to effectively oversee LEA single audit resolution. At the time we conducted our audit work at DPI, the written policies that were available provided only a high-level description of DPI audit resolution activities for FY 2009 and did not reflect current practices. As a result, personnel responsible for carrying out DPI's oversight of LEA audit resolution did not have written instructions describing the activities that they should perform. The assistant director of the School Business Division told us that DPI's focus was on developing and implementing revised audit resolution oversight practices, and that it wanted to complete that process before updating its written policies and procedures. The assistant director stated that new written policies and procedures for overseeing the LEA audit resolution process were under development at the time of our audit fieldwork. This official also said that DPI was awaiting completion of its new audit tracking system so that steps pertaining to its use could be incorporated into the policies before they are finalized. However, DPI should not delay implementation of policies and procedures while waiting for the tracking system to be completed. Doing so could result in DPI's audit resolution oversight activities being implemented incorrectly or ineffectively if key personnel leave the organization and comprehensive written policies are not available for replacement personnel to follow.

Written policies and procedures are an essential component of effective internal control. The "Internal Control-Integrated Framework," (Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a widely accepted standard for internal control in organizations. The Framework identifies five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring) that must all be adequately designed, implemented, and operating in an integrated manner for internal control to be effective. The Government Accountability Office's "Standards for Internal Control in the Federal Government" (Green Book) adapts the COSO Framework for the government environment. According to the Green Book, management is responsible for designing policies and procedures to fit the organization's circumstances and incorporating them as an integral part of its operations. An organization's control activities are the actions management establishes

through policies and procedures to achieve objectives and respond to risks in the internal control system.

To ensure that the policies and procedures that DPI implements will result in effective oversight of LEA audit resolution activities, the policies and procedures should:

- address all aspects of DPI's process for overseeing LEA audit resolution activities,
- clearly identify which DPI personnel are responsible for the activities,
- contain specific instructions on how to perform required tasks, including a description of the order in which the oversight activities should be performed,
- contain templates for any forms that are used during the process, and
- include a requirement that the policies and procedures be reviewed periodically and updated to reflect any changes to the process.

**Tracking system for LEA findings was not adequate.** DPI should improve its process for tracking LEA findings to enhance its ability to effectively oversee LEA audit resolution activities. DPI maintained a statewide tracking log for each fiscal year that listed all LEAs and included high-level information such as the number of findings at each LEA. However, the tracking log did not include detailed information on individual LEA findings. DPI also maintained a separate tracking log with detailed information for each LEA by fiscal year that included a description of individual findings. However, DPI did not have an integrated system or process to track individual LEA findings or the status of related corrective actions on a statewide basis or across multiple fiscal years. Monitoring and Compliance personnel initially told us that they would have to manually search more than 100 separate LEA tracking logs to determine which LEAs had repeat findings or analyze the frequency of specific findings across the State. Monitoring and Compliance officials later said that they could use an automated process to consolidate the tracking logs and generate reports that identified the desired information. However, DPI did not perform any process of this type during our audit period.

Neither DPI's current tracking system nor the assistant director's monitoring tool discussed earlier provides the comprehensive tracking functionality that would enable DPI to ensure that individual findings were resolved timely and appropriately or track multiyear trends or other relevant data across the State. DPI officials acknowledged that their current tracking system had limitations and stated that they were developing a more sophisticated tracking system using database software. Use of a database to track the resolution of LEA audit findings would provide many benefits over DPI's current tracking process, which uses spreadsheets. Database software offers enhanced functionality for large datasets, including improved data integrity, ease of querying the data and generating reports, and simultaneous access by multiple users.

Tracking the status of LEA findings is an important part of multiple components of an SEA's internal control over LEA audit resolution, including risk assessment, control activities, and monitoring. Without a comprehensive multiyear tracking system for individual findings, DPI cannot easily track the resolution of LEA findings, including repeat findings, across the more than 100 LEAs operating in the State. In addition, DPI lacks a valuable control mechanism that would allow it to periodically assess the pervasiveness of LEA risks of noncompliance with Federal requirements, the existence of systemic control weaknesses across LEAs, and the risk of improper payments.

**Lack of a quality assurance process.** Although DPI had implemented certain management oversight processes, such as performing multiple reviews of management decisions before they were issued, DPI had not instituted a quality assurance process to assess its oversight of LEA audit resolution activities. DPI officials stated that they did not have a quality assurance process because they were continuing to refine and improve audit resolution oversight activities and further develop associated policies and procedures. Quality assurance is an important part of the monitoring component of internal control. According to the Green Book, monitoring includes activities that management establishes and operates to assess the quality of performance over time, such as separate evaluations performed by both internal and external sources to provide feedback on the effectiveness of internal controls. Without a quality assurance process for its audit resolution oversight activities, DPI lacks a mechanism to systematically detect and correct errors, control weaknesses, and noncompliance with regulatory requirements. Once DPI has finalized its oversight processes, it should implement a quality assurance process to periodically evaluate its effectiveness.

**Management decisions lacked required content and were not always issued as required.** We reviewed 14 management decisions that DPI issued for 22 LEA audit findings reported in FYs 2012 through 2014 and determined that none of the decisions contained all required content. According to Section 405(a) of OMB Circular A-133,

[t]he management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. ... The management decision should describe any appeal process available to the auditee.

We concluded that DPI had improved the content of its management decisions over the course of our audit period. Management decisions that DPI issued for FY 2012 audit findings did not identify the required corrective actions or include a timetable for follow-up. However, DPI began adding this information to its management decisions during FY 2013. While all of the FY 2014 management decisions covered by our review identified the required corrective actions and included a timetable for follow-up, when appropriate, none of them clearly stated whether or not the audit finding was sustained, the reasons for the decision, or the appeal process available to the auditee.

We also found that DPI did not issue a management decision for nine FY 2012 and 2013 audit findings covered by our review, as shown in Table 2.

**Table 2. FY 2012 and 2013 Audit Findings for Which Management Decisions Were Not Issued**

LEA	Auditor's Finding Reference Number
Stanly County Schools	2012-6, 2012-7
Wilson County Schools	2012-2, 2012-3
Cumberland County Schools	2013-1
Rowan-Salisbury Schools	2013-2
Winston Salem/Forsyth County Schools	2013-3, 2013-4, 2013-5

According to Section 400(d)(5) of OMB Circular A-133, DPI was required to issue a management decision for each LEA finding related to the Federal grant awards that it made.

DPI officials explained that it was DPI's policy for FYs 2012 and 2013 to not issue a management decision under certain circumstances. For example, DPI did not issue a management decision when DPI program officials had determined that the LEA's corrective action plan was sufficient and the finding had no associated questioned costs. DPI officials stated that DPI had not issued a management decision for the nine audit findings above in accordance with this policy. DPI revised its policy for FY 2014 and began issuing management decisions for every applicable LEA finding as required. Our analysis showed that DPI issued management decisions for all of the FY 2014 audit findings covered by our review.

Although DPI did not issue formal management decisions for the nine audit findings shown above, it provided evidence that, in some cases, it had taken other actions to ensure that the findings were properly resolved. For example, DPI performed program reviews at two of the LEAs, and during that process obtained documentation from the LEAs to verify that they had implemented appropriate corrective actions.

DPI officials attributed the deficiencies related to its earlier management decisions to a lack of understanding of compliance requirements by audit resolution staff. DPI officials stated that DPI's later management decisions met the content requirement to sustain the finding and provide the reasons for the decision. However, DPI's FY 2014 management decisions covered by our review stated that DPI concurred with the auditor's recommendation and management's response but did not clearly state whether the finding itself was sustained and the reasons for the decision as required by Section 405(a) of Circular A-133. DPI officials also questioned whether there was a need for an appeal process statement in their management decisions because DPI did not have a policy that would enable LEAs to appeal DPI's determinations on findings. However, Section 405(a) of Circular A-133 requires any appeal process available to LEAs to be noted in the management decision. This includes any State-level general administrative appeal process. North Carolina has a general appeal process.<sup>12</sup>

By not always issuing formal management decisions and not including all necessary content in its management decisions, DPI did not comply with regulatory requirements. In addition, DPI may not have provided the information needed by LEA officials to timely and appropriately implement corrective actions.

## **Recommendations**

We recommend that the Director of the Office of the Chief Financial Officer's Post Audit Group require DPI to—

- 1.1 Finalize the development and implementation of comprehensive written policies and procedures for DPI's oversight of LEA single audit resolution. The policies and procedures should cover the entire audit resolution process, including DPI's review of each LEA finding and corrective action plan, preparation of management decisions, use of a finding status tracking system, follow-up activities with LEAs, and steps to effectively resolve repeat findings.

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<sup>12</sup> G.S. Gen. Stat. Ann. 150B-23.

- 1.2 Establish an integrated tracking system for individual LEA findings across the State that includes data for current and prior years to facilitate effective oversight. Once DPI enters a finding into the tracking system, it should not close the finding until the LEA has fully implemented all required corrective actions.
- 1.3 Implement a periodic quality assurance process for the oversight of LEA single audit resolution to detect and correct errors, control weaknesses, and noncompliance with regulatory requirements in DPI's oversight processes.
- 1.4 Ensure that all management decisions issued by DPI meet Federal regulatory requirements for content.

### **DPI Comments and OIG Responses**

We summarize DPI's comments and provide our responses, when necessary, in the following sections. See Attachment 2 for a copy of the full text of DPI's comments.

#### Recommendation 1.1

##### *DPI Comments*

DPI concurred with our recommendation on comprehensive policies and procedures for oversight of the LEA audit resolution process and stated that it had finalized all procedures effective July 1, 2015. DPI also said that it planned to review the procedures on an annual basis and make any necessary revisions.

##### *OIG Response*

As stated in the report, DPI did not have current policies and procedures applicable to its audit resolution activities during the audit period. The only policies and procedures available at the time of our audit fieldwork provided a high-level description of DPI's audit resolution activities for FY 2009 but did not reflect current practices. In December 2015, 6 months after we began fieldwork, DPI provided a revised document titled "Audit Resolution for Local Education Agencies and Charter Schools" with an effective date of July 1, 2015. The document included high-level policies for audit resolution but did not include procedures specifically describing activities that DPI personnel should perform to ensure that LEAs correct their findings timely and appropriately. The document stated that DPI would develop procedures for the implementation of the policies. We did not evaluate DPI's revised policies and procedures because they were still under development at the time of our fieldwork. The Director of the Post Audit Group should assess the sufficiency of DPI's policies and procedures for the oversight of LEA audit resolution. The final policies and procedures should, at a minimum, include the elements listed on page 10 of this report and contain sufficient detail to allow someone unfamiliar with DPI's oversight responsibilities related to LEA audit resolution to monitor or complete the associated activities.

## Recommendation 1.2

### *DPI Comments*

DPI concurred with our recommendation to establish a statewide integrated tracking system for LEA findings that includes data for current and prior years. DPI stated that its existing tracking log captured information such as whether a finding was a State or Federal program finding and whether it was classified as a material weakness or a significant deficiency. However, DPI agreed that there would be value in tracking additional data elements in the log, such as finding number and title, and an indication of whether the finding was a repeat. DPI stated that it would add the additional data elements to its existing tracking log by September 30, 2016. DPI also stated that it would research all available technology options for developing the most comprehensive and efficient integrated tracking system.

In comments related to its tracking system, DPI stated that its existing practice is to not close a finding until DPI is satisfied with the LEA's management response and corrective action plan from the audit report or the LEA has provided additional documentation and evidence of implementation.

### *OIG Response*

DPI officials told us on several occasions during our audit that they planned to develop a tracking system using database software, and in its comments to our draft report, DPI stated that it would research available technology options for its tracking system. We believe that a database would be a more effective mechanism than DPI's existing tracking process, which uses spreadsheets. We added statements to the report describing the advantages of a database system for tracking LEA audit resolution (see section on tracking system weaknesses).

In its comments to our draft report, DPI stated that under its existing practice, DPI may close a finding in its tracking system if it is satisfied with the LEA's planned corrective actions even if the LEA has not completed the actions. As stated in our recommendation, it is important that the LEA has implemented all corrective actions before DPI closes the finding in its tracking system. Otherwise, the SEA will lose visibility over the actual status of the finding and the risk of repeat findings will increase.

Because DPI's integrated tracking system is not yet complete, we were not able to assess its effectiveness. An effective tracking system would enable DPI to track the status of corrective actions, including those associated with repeat findings; ensure that individual findings are resolved timely and appropriately; and identify other issues such as increasing frequency of specific types of findings across the State or growth in the number of findings that repeat for multiple years.

## Recommendation 1.3

### *DPI Comments*

DPI concurred with our recommendation to implement a periodic quality assurance process for its oversight of LEA audit resolution activities and stated that it would add a description of the new quality assurance process to its audit resolution policy by September 30, 2016.

## Recommendation 1.4

### *DPI Comments*

DPI did not concur with our recommendation to modify the content of its management decisions to ensure that they meet all Federal requirements for content. DPI said that its FY 2014 management decisions already met all content requirements and had standard language that clearly stated whether DPI concurred with the auditor's finding. DPI further stated that the management decisions clarify that DPI's decision is based on its review of the audit report, including management's response and corrective action plan, as well as review of any additional documentation it obtains from the LEA.

DPI also stated that its interpretation of the requirement to include an appeal process in the management decision differed from the OIG's interpretation. DPI stated that it believes it is not required to describe an appeal process in the management decision because its policy does not provide for appeals on audit determinations. However, DPI said it will follow up with its legal counsel as well as the North Carolina Office of Administrative Hearings to determine whether inclusion of an appeal process in its management decisions based on the State-level general administrative appeal process is warranted.

### *OIG Response*

All of the FY 2014 management decisions covered by our review stated that DPI concurred with the auditor's recommendation and management's response. However, none of these decisions explicitly stated whether DPI concurred with the audit finding itself and the reason for its decision, as required by Section 405(a) of OMB Circular A-133.<sup>13</sup>

Also, as stated in our report, the management decision should describe "any appeal process available to the auditee." This requirement is not exclusive to an appeal process established by the SEA for its determinations related to audit resolution. The requirement also includes any means of appeal that may be available to the auditee through the State's general administrative appeal process, and North Carolina has such a process. DPI should include information on this general administrative appeal process in its management decisions.

The Director of the Post Audit Group should ensure that DPI adds all required content to its management decisions, including a clear statement as to whether DPI concurs with the audit finding, the reasons for the decision, and a description of any appeal process available to the LEA.

## DPI Responses to Specific Statements in the Report

### *DPI Comments*

DPI disagreed with two statements in the draft report because it believed they were inaccurate, as follows.

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<sup>13</sup> According to Section 405(a) of OMB Circular A-133, the management decision must clearly state whether the finding is sustained. We recognize that other words that convey the same meaning as "sustain," such as "concur" or "agree," may be used instead.

1. “Monitoring and Compliance personnel told us that they would have to manually search more than 100 separate LEA tracking logs to determine which LEAs had repeat findings or analyze the frequency of specific findings across the State” (see section on tracking system weaknesses). DPI said that it was not accurate to credit this statement to DPI officials. DPI stated that it had attempted to correct this inaccuracy at the time of our fact-checking and in later conversations with the OIG audit team. DPI also stated that it had the ability to use the existing audit tracking logs to identify multi-year trends in the finding data by consolidating the spreadsheet files or using another system to generate reports.
2. “Regarding the deficiencies in the later management decisions, DPI officials did not understand that explicit statements regarding whether each finding was sustained and the reason for that decision were required.” DPI said that this statement was inaccurate. DPI said that its interpretation of the Federal requirements differed from that of the OIG, but that DPI officials had not misunderstood the requirements.

*OIG Response*

1. This statement is correctly attributed to DPI officials. DPI officials made this statement during a conference call on November 5, 2015, when we asked whether DPI could identify repeat findings and other trend information using its current tracking process.

We included the statement in the summary of our audit results that we discussed with DPI officials during our exit conference on February 11, 2016, and officials did not tell us that it was inaccurate. In its response to our fact-checking inquiry on March 18, 2016, DPI deleted the statement in question from the fact-checking document and added alternate language describing a different method that it could use to identify repeat findings. However, DPI did not inform us that it believed that the statement it had deleted was inaccurate and did not provide support documentation for the changes it made. Our instructions at the beginning of our fact-checking document were to identify any incorrect statements and provide documentation to support any changes. We interpreted DPI’s change as a wording preference because DPI made many other line edits to our fact-checking document that appeared to reflect DPI wording preferences and clearly identified other cases where it thought a statement was not correct in the fact-checking document. We did not have any conversations with DPI regarding the statement between the time of the fact-checking activity and receipt of DPI’s formal comments to the draft audit report.

We added DPI’s description of the method it says it could use to identify repeat findings and other multi-year trends to the section of the report discussing tracking system weaknesses. We still believe that use of database software would provide a more effective way to track the status of LEAs’ audit findings.

2. We modified our characterization of this matter, which included removing this statement from the report, adding additional details to the section on management decision deficiencies to explain DPI’s position that its decisions met all requirements, and contrasting the content of DPI’s FY 2014 decisions with the requirements of Circular A-133.

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## OBJECTIVE, SCOPE, AND METHODOLOGY

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The objective of our audit was to determine whether DPI provided effective oversight to ensure that LEAs took timely and appropriate action to correct single audit findings. Our audit covered DPI's processes and activities related to the resolution of LEA single audit findings that occurred in FYs 2012–2014.

To achieve our audit objective, we performed the following procedures:

1. Reviewed applicable sections of the Single Audit Act of 1984, Circular A-133, the Circular A-133 Compliance Supplement dated March 2014, and the Uniform Grant Guidance to gain an understanding of the oversight responsibilities of the Department and SEAs related to LEA single audit resolution.
2. Reviewed reports issued by the Department's Office of Inspector General and the U.S. Government Accountability Office that addressed various aspects of SEA oversight of LEAs, including the resolution of LEA audit findings.
3. Judgmentally selected four North Carolina LEAs for review (see "Sampling Methodology" below).
4. Reviewed DPI's FYs 2010–2014 single audit reports to identify information relevant to the audit objective, including the details of DPI's prior-year audit findings and potential areas of internal control weakness at the SEA.
5. Reviewed selected single audit reports from FYs 2012–2014 for the four LEAs included in our review to identify information relevant to the audit objective, including the details of the LEAs' audit findings. We also reviewed selected FY 2012–2014 single audit reports for nine additional LEAs to identify the details of the audit findings covered by our review of DPI's management decisions (see procedure 8 below).
6. Interviewed DPI officials and reviewed DPI's written policies and procedures to gain an understanding of DPI's oversight processes related to LEA single audit resolution and other areas relevant to the audit objective.
7. Interviewed officials at each of the four LEAs to obtain information about their processes related to single audit resolution and to evaluate the nature and extent of DPI's interaction with the LEAs related to the resolution of their findings.
8. Obtained 14 management decisions that DPI issued to 11 LEAs for 22 audit findings (see "Sampling Methodology" below) and reviewed the letters for adherence to regulatory requirements for content and timeliness. We also obtained and reviewed other available documentation regarding DPI communications with the LEAs related to the resolution of audit findings.

9. Evaluated DPI's internal control over LEA single audit resolution by reviewing DPI's policies and procedures, internal audit tracking sheets, and other relevant documentation; interviewing DPI and LEA officials; and testing the content and timeliness of management decision letters.

### **Sampling Methodology**

Selection of LEAs. From the 115 North Carolina LEAs, we judgmentally selected four LEAs with at least one audit finding during the audit period (FY 2012–2014) for review. We extracted and analyzed data from the Federal Audit Clearinghouse to identify LEAs with audit findings, reviewed the LEAs' single audit reports, and selected the four LEAs on the basis of the nature and significance of their audit findings and their size in terms of student enrollment. The LEAs selected for review were Carteret County Public Schools, Cumberland County Schools, Public Schools of Robeson County, and Rowan-Salisbury Schools. The results of our work at the four LEAs cannot be projected to the population of all North Carolina LEAs.

Selection of Management Decision Letters. We requested the management decision letters that DPI issued to 13 LEAs for 31 audit findings reported in FYs 2012–2014. DPI provided 14 management decisions that it had issued to 11 of the LEAs for 22 of the audit findings. DPI had not issued management decisions for the remaining nine audit findings. The results of our review of the 14 management decision letters cannot be projected to the population of all management decision letters issued by DPI.

We selected management decisions for review in two steps, as described below.

1. We requested the management decisions that DPI had issued to each of the four LEAs included in our review (Carteret County Public Schools, Cumberland County Schools, Public Schools of Robeson County, and Rowan-Salisbury Schools) for audit findings reported in FYs 2012–2014.
2. To increase the number of management decisions covered by our review, we requested the management decisions that DPI had issued to nine additional LEAs for audit findings reported in FYs 2012–2014.
  - a. We reviewed the listing of LEAs with audit findings in FYs 2013 and 2014 that we had identified during the LEA selection process and judgmentally selected four of the LEAs based on the number and significance of their audit findings and their size in terms of student enrollment. Based on this work, we requested the management decisions issued to Alamance-Burlington Schools and Winston Salem/Forsyth County Schools for audit findings reported in FYs 2013 and 2014 and to Buncombe County Schools and Guilford County Schools for audit findings reported in FY 2014.
  - b. We reviewed DPI's finding tracking logs and judgmentally selected five LEAs shown as having audit findings in FY 2012 or 2013, focusing on LEAs with multiple audit findings or high questioned costs. Based on this work, we requested the management decisions issued to Rockingham County Schools, Stanly County Schools, and Wilson County Schools for audit findings reported in FY 2012 and to

Clay County Schools and Warren County Schools for audit findings reported in FY 2013.

Because DPI did not have an integrated tracking process to facilitate tracking individual findings across the State or across multiple fiscal years, we did not analyze DPI's tracking logs or other computer-processed data to support our finding or conclusions regarding DPI's effectiveness in overseeing LEA audit resolution. We did not perform a reliability assessment for DPI's computer-processed data because we did not use it to support our audit results.

We held an entrance conference with DPI officials and performed audit work at DPI's offices in Raleigh, North Carolina, in June 2015. We interviewed officials at Carteret County Schools, Cumberland County Schools, Public Schools of Robeson County, and Rowan-Salisbury School System at their offices or by telephone in June 2015. We discussed the results of our audit with DPI officials on February 11, 2016.

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 that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

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## ADMINISTRATIVE MATTERS

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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 will be made by the appropriate Department of Education officials.

This report incorporates the comments that you provided in response to the draft audit report. 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 official, who will consider them before taking final Departmental action on this audit:

Charles Laster  
Director, Post Audit Group  
Office of the Chief Financial Officer  
U.S. Department of Education  
550 12th Street SW  
6th Floor  
Washington, D.C. 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 and assistance extended by your employees during our audit. If you have any questions or require additional information, please do not hesitate to contact me at (916) 930-2399.

Sincerely,

/s/

Raymond Hendren  
Regional Inspector General for Audit

Attachments

**Attachment 1**

**Abbreviations, Acronyms, and Short Forms Used in this Report**

Audit finding	Compliance finding for a Federal education program reported in an OMB Circular A-133 single audit
Circular A-133	Office of Management and Budget Circular A-133
Department	U.S. Department of Education
DPI	North Carolina Department of Public Instruction
FY	Fiscal Year
Green Book	Government Accountability Office's "Standards for Internal Control in the Federal Government"
LEA	Local Educational Agency
Monitoring and Compliance	DPI Monitoring and Compliance Section
OMB	Office of Management and Budget
SEA	State Educational Agency
Uniform Grant Guidance	Title 2 of the Code of Federal Regulations

## **Auditee Comments on the Draft Audit Report**



# PUBLIC SCHOOLS OF NORTH CAROLINA

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

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June 30, 2016

Raymond Hendren  
Regional Inspector General for Audit  
U.S. Department of Education  
Office of Inspector General  
501 I Street, Suite 9-200  
Sacramento, CA 95814-2559

Reference: Audit Control Number ED-OIG/A09P0005

Dear Mr. Hendren:

The North Carolina Department of Public Instruction (NCDPI) appreciates the opportunity to respond to the draft audit report, "North Carolina Department of Public Instruction's Oversight of Local Educational Agency Single Audit Resolution." We understand that the objective of the audit was to determine whether DPI provided effective oversight to ensure that local educational agencies (LEAs) took timely and appropriate action to correct single audit findings.

While NCDPI oversees a wide range of oversight efforts for LEAs' expenditure of federal education funding, the agency placed a special emphasis on improving the agency's oversight of LEA audit resolution. This emphasis was part of a larger effort to improve the effectiveness and efficiency of DPI's internal controls over Federal, State, and local funds. DPI appreciates the insights the report provides regarding its oversight of LEA audit resolution and would like to thank the USDE Inspector General audit team for the courtesy extended to DPI and district staff during the audit process.

DPI is pleased that the audit team recognized that the agency has implemented several effective oversight practices and noted the following strengths of the agency's audit resolution process:

- Required appropriate corrective actions.
- Placed extra emphasis on repeat findings.
- Engaged in proactive communication with LEAs.
- Enhanced management oversight.
- Issued management decisions for financial statement findings.
- Required early submission of single audit reports from LEAs.

## OFFICE OF FINANCIAL AND BUSINESS SERVICES

Philip W. Price, *Chief Financial Officer* | Philip.Price@dpi.nc.gov  
6326 Mail Service Center, Raleigh, North Carolina 27699-6326 | (919) 807-3600  
| Fax (919) 807-3604

AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

We also appreciate the help provided by your office to identify areas for improvement in our audit resolution process. The report noted one finding, “*DPI Improved Its Oversight of LEA Audit Resolution in Recent Years but Further Improvements are Needed,*” regarding areas for improvement including written policies and procedures, the tracking system for LEA audit findings, a formal quality assurance process and management decision required content.

DPI’s comments and anticipated completion dates with respect to the specific recommendations made in the report are as follows:

**Recommendation 1.1:** *Finalize the development and implementation of comprehensive written policies and procedures for DPI’s oversight of LEA single audit resolution. The policies and procedures should cover the entire audit resolution process, including DPI’s review of each LEA finding and corrective action plan, preparation of management decisions, use of a finding status tracking system, follow-up activities with LEAs, and steps to effectively resolve repeat findings.*

DPI concurs with the recommendation and has finalized all procedures. DPI’s Division of School Business Monitoring and Compliance Section policy “Audit Resolution” and “Procedures for LEA, Charter School and Nongovernmental Audit Resolution” were finalized effective July 1, 2015. Review, evaluation, and revisions (applicable) for these documents will occur on an annual basis to ensure the agency’s audit resolution efforts are clearly documented and sufficient in nature.

**Recommendation 1.2:** *Establish an integrated tracking system for individual LEA findings across the State that includes data for current and prior years to facilitate effective oversight. Once DPI enters a finding into the tracking system, it should not close the finding until the LEA has fully implemented all required corrective actions.*

DPI concurs with the recommendation for an integrated tracking system for LEA findings across the State including current and prior years’ information. The existing tracking log captures detailed finding information such as the identification of the nature of a finding as to whether it is one of the following:

- Child Nutrition federal program finding
- State award finding
- Federal program funding finding
- Internal control finding

The current tracking log also identifies whether the finding is a Material Weakness, Significant Deficiency or Immaterial. We agree that the addition of certain data elements such as those listed below would ensure all pertinent criteria are documented in one location.

- Finding number and title
- Indication of a repeat finding

We will be adding the additional detail to the LEA and charter school audit tracking log for the FY 2016 audits by September 30, 2016. Research into all technology options available will be ongoing in an effort to develop the most comprehensive and efficient integrated tracking system possible.

DPI's existing practice, as indicated in the audit resolution policy, is that no finding is closed until the agency is satisfied with the LEA's management response and stated corrective action plan (CAP) as documented in the audit or with additional documentation and evidence of implementation of CAP (if applicable) provided upon request.

**Recommendation 1.3:** *Implement a periodic quality assurance process for the oversight of LEA single audit resolution to detect and correct errors, control weaknesses, and noncompliance with regulatory requirements in DPI's oversight processes.*

DPI concurs with the recommendation to implement a periodic quality assurance process for the oversight of audit resolution activities. Detailed description of the determined quality assurance process will be added to the existing Audit Resolution Policy by September 30, 2016.

**Recommendation 1.4:** *Ensure that all management decisions issued by DPI meet Federal regulatory requirements for content.*

As communicated during the audit, our position is that all DPI-issued management decisions (beginning in FY 2014 and going forward) meet the Federal regulatory requirements for content as identified in Section 405(a) of OMB Circular A-133, "[t]he management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given."

DPI-issued determination letters include standard language clearly stating whether we "concur" or "agree" with the auditor's finding and management's response as included in the audit report. Audit determination letters standard language clarifies that our determination is based on our review of the audit, including management's response and corrective action plan as well as review of documentation provided at our request. Expected actions of the grantee, up to and including repayment of disallowed costs, are duly noted in each determination letter with the due date for response and provision of supporting documentation clearly stated.

We acknowledge that DPI's interpretation of the requirement for language regarding an appeal process differs from that expressed by the audit team. DPI's position continues to be that no appeal process is included in determination letters as neither DPI nor the State Board of Education (SBE) policy provides for appeals for audit determination. However, we will provide due diligence and follow-up with legal counsel as well as the North Carolina Administrative Office of Hearings (AOH) staff to determine if the audit team's proposed use of GS § 150B-23. *Commencement; assignment of administrative law judge; hearing required; notice; intervention* is merited. If so determined by counsel and agreed upon by NC AOH, DPI will evaluate the inclusion in audit determination policy and procedures.

**DPI Response to Certain Specific Comments Made in the Audit:**

In addition to the responses provided above, we respectfully submit the following observations regarding certain statements contained in the draft report for consideration:

- On page 10 of 16, under **Tracking system for LEA findings was not adequate**, the report reads, “Monitoring and Compliance personnel told us that they would have to manually search more than 100 separate LEA tracking logs to determine which LEAs had repeat findings or analyze the frequency of specific findings across the State.” Crediting this comment to Monitoring and Compliance staff is inaccurate. The OIG audit team included the following sentence in Item 14 of the OIG’s “Fact Checking Document, “As a result, Monitoring and Compliance personnel would have to manually search more than 100 separate LEA tracking logs to determine which LEAs had repeat findings or analyze the frequency of specific findings across the State.” DPI staff attempted to correct this inaccuracy in its response to the “Fact Checking Document” and in later conversations with the OIG Audit team. DPI staff explained that DPI has always had the ability to implement a process utilizing existing audit tracking logs and/or individual files to identify multi-year trends. Consolidation of the excel file format annual audit logs or use of another system by any of School Businesses’ Data Analysts could have created reports for this information in a short amount of time.
- On page 12 of 16, under the **Management decisions lacked required content and were not always issued as required section**, the report reads, “Regarding the deficiencies in the later management decisions, DPI officials did not understand that explicit statements regarding whether each finding was sustained and the reason for that decision were required.” This statement is inaccurate. While our interpretation of the federal requirements differs from that of the OIG Audit Team, at no time did DPI officials misunderstand the requirements.

The Department appreciates the opportunity to offer these responses, and welcomes any questions or feedback.

Sincerely,

*Signature on file*

Philip W. Price

PWP/LAK/tm

c: June Atkinson, State Superintendent  
Alexis Schauss, Director of School Business  
Leigh Ann Kerr, Assistant Director of School Business