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United States Government Accountability Office  
Washington, DC 20548

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July 9, 2010

June St. Clair Atkinson, Ed.D.  
State Superintendent  
North Carolina Department of Public Instruction

Subject: *GAO Review of LEA Controls over and Uses of Recovery Act Education Funds (Avery County Schools)*

Dear Dr. Atkinson:

The American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> mandates GAO to review states' and localities' use of funds made available under the act.<sup>2</sup> Since April 2009, GAO has published bimonthly reports on our findings related to federal, state, and local implementation of the Recovery Act.<sup>3</sup> Currently, we are examining the efforts of selected states and local educational agencies (LEA) to ensure appropriate uses of Recovery Act funds. In North Carolina, we have been reviewing efforts undertaken by the North Carolina Department of Public Instruction (DPI) and selected LEAs to administer and oversee the use of Recovery Act funds under the State Fiscal Stabilization Fund (SFSF) education stabilization funds; Title I of the Elementary and Secondary Education Act of 1965 (ESEA Title I), as amended; and Part B of the Individuals with Disabilities Education Act (IDEA); as amended. As part of this effort, we met with various DPI staff and, from February 1 through 3, 2010, we visited Avery County Schools (ACS) to review and test the adequacy of controls and procedures in place pertaining to Recovery Act funds for these three federal programs. During our visit, we interviewed finance and program officials regarding internal controls, procurement procedures, and use of Recovery Act education funds. We also reviewed a nonstatistical sample of 13<sup>4</sup> expenditures of Recovery Act funds for goods and services under these three programs. As of January 27, 2010, ACS spent about \$755,000 in Recovery Act funds. We primarily focused our work on two expenditures in our sample that ACS officials reported as their largest Recovery Act

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

<sup>2</sup>Recovery Act, div. A, title IX, § 901.

<sup>3</sup>For GAO bimonthly reports providing a national overview and selected state reviews of Recovery Act spending, see <http://www.gao.gov/recovery>.

<sup>4</sup>We reviewed 13 of ACS's 15 expenditures of Recovery Act funds for equipment, services, and supplies.

nonsalary expenditures. These two expenditures totaled nearly \$105,000. We conducted our work from February 1, 2010, to April 20, 2010, in accordance with generally accepted government auditing standards. The purpose of this report is to bring to your attention our findings related to ACS.

Internal control helps managers better achieve an entity's mission and accountability for results through more effective stewardship of public resources. Internal control includes management and program policies, procedures, and guidance that help ensure effective and efficient use of resources; compliance with laws and regulations; prevention and detection of fraud, waste, and abuse; and the reliability of financial reporting. According to the Office of Management and Budget (OMB) Circular No. A-133, nonfederal entities expending federal awards are required to maintain "internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs."<sup>5</sup> U.S. Department of Education (Education) regulations also require grantees and subgrantees (other than states) to maintain effective internal control over "all grant and subgrant cash, real and personal property, and other assets,"<sup>6</sup> in addition to other controls.<sup>7</sup>

Education's regulations state that grantees and subgrantees will use their own procurement procedures that reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in 34 C.F.R. § 80.36.<sup>8</sup> In May 2009, according to state officials, North Carolina's Office of Economic Recovery & Investment (OERI) issued management directives regarding the use of Recovery Act funds for procurements of goods and services.<sup>9</sup> According to state officials, OERI directives require recipients of Recovery Act funds to advertise contracts for \$5,000 or more and obtain multiple bids or price quotes for Recovery Act procurements, among other things.

In the course of our work, we observed that ACS has an internal control system in place for processing purchasing documents and payments of invoices. However, we found a weakness in the procurement processes related to the Recovery Act expenditures that we reviewed. Specifically, we found the following:

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<sup>5</sup>OMB Circular No. A-133 § \_\_.300(b). 34 C.F.R. § 80.26 requires Education's state and local government grantees and subgrantees to obtain audits in accordance with OMB Circular No. A-133.

<sup>6</sup>34 C.F.R. § 80.20(b)(3).

<sup>7</sup>See *e.g.*, 34 C.F.R. §§ 80.26 (audit) and 80.40 (monitoring).

<sup>8</sup>34 C.F.R. § 80.36(b)(1).

<sup>9</sup>North Carolina Office of Economic Recovery & Investment Directives 3 and 3(b) (May 2009 and January 2010), "Contract Provisions for the Procurement of Goods, Services, and Construction Projects Including Design Services and Internal Procurement Directives."

- For its two largest Recovery Act purchases, ACS staff could not provide documentation to show that the district obtained multiple bids or price quotes for contracts for goods and services. ACS's two largest purchases with Recovery Act funds were for student assessment software and handheld computer devices entitled "Wireless Generation" that were purchased with ESEA Title I and IDEA Part B Recovery Act funds for \$91,058.98 and a teacher planning software and professional development package entitled "Rubicon" for which the district used \$13,680.00 of its ESEA Title I Recovery Act funds. Regarding both purchases, ACS officials acknowledged that their procurement processes were not in compliance with state management directives for Recovery Act funds or with ACS's purchasing policy, at the time, to solicit bids or obtain price quotes for purchases costing \$10,000 or more.<sup>10</sup> For these two contracts, ACS officials did not maintain documentation of multiple bids or price quotes for contracts purchased with Recovery Act funds.<sup>11</sup> ACS officials provided what appeared to be two conflicting justifications for electing not to follow the above-referenced state management directives. Officials said that one reason they did not obtain multiple price bids or quotes was that they considered aspects of the contracts to be "purchased services" (i.e., software subscriptions), which are not required to be competed under the LEA's purchasing policy. However, ACS officials also said that the district did not obtain multiple price quotes for the equipment associated with the "Wireless Generation" purchase because they believed that only one vendor could provide the service and equipment.

For your information, we have presented our preliminary findings to ACS. In response, district officials said that they have implemented additional controls to ensure additional supervisory approval of purchases, required additional documentation of purchase receipt, and held training sessions with school business staff regarding purchasing procedures.

Federal regulations state that grantees are responsible for managing the operations of grant and subgrant supported activities and must monitor grant and subgrant supported activities to ensure compliance with applicable federal requirements and achievement of performance goals.<sup>12</sup> Therefore, we are referring our findings to your

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<sup>10</sup>ACS officials reported to us that, at the time of our visit, the LEA policy to obtain quotes for purchases of \$10,000 or more exceeded the state threshold. These officials later reported to us that as of April 2010, the school board modified the purchasing policy so that it is consistent with state purchasing requirements.

<sup>11</sup>Since our initial visit, ACS officials reported to us that they require school officials to maintain documentation of having obtained multiple price quotes related to purchase requests.

<sup>12</sup>34 C.F.R. § 80.40(a).

agency for follow-up. We are also sending copies of this report to the Superintendent of Avery County Schools, the North Carolina Office of the State Auditor, the U.S. Department of Education, and the U.S. Department of Education's Office of the Inspector General. In addition, this report will be available at no charge on GAO's Web site at <http://www.gao.gov>. We included the issues raised in this report, and any actions that DPI or ACS has taken to resolve them, in our report issued on May 26, 2010, and will follow up with you on the resolution of these issues.

If you or your staff have any questions about this report, please contact me at (202) 512-8403 or [ashbyc@gao.gov](mailto:ashbyc@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report include Bryon Gordon, Assistant Director; Laura Acosta; Bonnie Derby; Brian Egger; Tahra Nichols; and Kathleen Peyman.

Sincerely yours,

A handwritten signature in black ink that reads "Cornelia M. Ashby". The signature is written in a cursive style with a large, prominent "C" at the beginning.

Cornelia M. Ashby  
Director, Education, Workforce, and Income Security Issues

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