



# PUBLIC SCHOOLS OF NORTH CAROLINA

STATE BOARD OF EDUCATION William W. Cobey Jr., Chairman

DEPARTMENT OF PUBLIC INSTRUCTION Mark Johnson, Superintendent of Public Instruction

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March 27, 2017

Dr. Steven Hill, Superintendent  
Bertie County Schools (080)  
P.O. Box 10, 715 US Highway 13 North  
Windsor, NC 27983

Dear Dr. Hill:

Review of the Bertie County Board of Education's 2016 audit, management letter and accompanying auditor memorandum revealed serious negative financial issues, internal control weaknesses, and violations of State law which result in the school district exhibiting potential financial insolvency. This letter transmits the North Carolina Department of Public Instruction's (Department) position on key financial issues and required corrective action with the intent to ensure Bertie Local Education Agency (LEA) enacts adequate fiscal procedures to assure fiscal integrity and avoid future fiscal decline.

## 2016 KEY FINANCIAL ISSUES

- General Fund Balance Deficit of \$704,995
- Special Restricted Fund Balance Deficit of \$135,078
- Negative Net Position of \$45,992
- Expenditures in Excess of Revenues by \$1,332,614

## OTHER ISSUES

### Overpayments and/or unrealized income issues totaling more than \$1,000,000

- \$339,000 in outstanding checks to Bertie LEA not deposited
- \$250,000 in payments to Blue Cross Blue Shield (BCBS) more than related withholding and employer matching amounts
- \$200,000 (approximate) in unrealized collection of indirect costs for federally funded programs
- \$180,000 reversion of unexpended State allotments
- \$60,000 in unutilized State position allotments
- \$55,067 net overpayments to employees related to outstanding salary exceptions
  - \$71,648 in overpayments of employees with State funds
  - \$16,580.62 in underpayments employees
- \$833.36 overpayment for contracted services in excess of agreement.
- Unrealized income due to failure to request NC Sales Tax refunds as allowed by State law for the 2012, 2013, 2014, and 2015 fiscal years.

### Budget Resolution and Amendments issues

- The Board of Education failed to adopt the initial budget for the Federal Grants Fund in the 2015-16 budget resolution.
- Budget Amendments not properly keyed into the Board's General Ledger software program.

## OFFICE OF FINANCIAL AND BUSINESS SERVICES DIVISION OF SCHOOL BUSINESS

Alexis Schauss, Director | [Alexis.Schauss@dpi.nc.gov](mailto:Alexis.Schauss@dpi.nc.gov)

6326 Mail Service Center, Raleigh, North Carolina 27699-6326 | (919) 807-7001 | Fax (919) 807-3704

AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

### Internal Control Weakness issues

- Comingling of restricted and unrestricted funds in one bank account
- Numerous outstanding checks up to 20 years' old
- Miscalculations of payments of State funds to terminated employees totaling \$1,793 underpayment
- Internal Control weaknesses related to School Nutrition Program in the following areas:
  - Inventory management and asset tracking
  - Prepaid meal balances,
  - Local match for State Public School Fund paid school nutrition supervisors, and
  - Cash receipts
- Improper payroll installment accruals
- Individual Schools Account not being reconciled properly
- Failure to complete and submit the Federal Data Collection Forms since FY 2010
- Absence of adequate compensating controls for Payroll and Accounts Payable Transaction Cycles Segregation of Duty issues

The numerous significant deficiencies, material weaknesses, and material legal noncompliance instances referenced above have the aggregate effect of a significant impact on the financial condition of the district. As such, the Department requires the submission of a comprehensive written financial recovery plan designed to ensure the LEA accomplishes fiscal solvency.

The financial recovery plan must address, but is not limited to, the following:

- Elimination of the current deficit,
- Development and implementation of an effective financial accounting and reporting system designed to balance the budget, achieve and maintain long-term fiscal stability including the following:
  - Cash management
  - Revenue maximization
  - Reduction of costs
  - Staffing levels, changes and provision of financial training
- Proposed plan for the development of effective Financial Policies and Procedures designed to ensure adequate oversight by the local Board of Education, especially with regards to budget practices and compliance with State law.
- Compliance with both State and Federal regulations.
- Timeline for implementation for each of the above items.

Please submit the requested documentation on or before April 15, 2017 to Alexis Schauss, Director, Division of School Business, at [Alexis.Schauss@dpi.nc.gov](mailto:Alexis.Schauss@dpi.nc.gov). Upon receipt, the plan will be evaluated and the LEA will be notified if the plan is accepted, disapproved or if additional information is required.

We appreciate your cooperation and assistance in the resolution of these issues. If we can assist you during this process, please contact me at (919) 807-3701.

Sincerely,



Alexis Schauss

AS/LCK

c: Bobby Occena, Bertie Board Chair  
Sharon Edmundson, Director, Fiscal Management Section, LGC