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March 6, 2017

Mr. John Trent
Chairman Bertie County Commissioners
Post Office Box 609
Lewiston-Woodville, NC 27849

Re: Concerns about Bertie County Board of Education Budget
P&B File: 16-MS-303

Dear Mr. Trent:

You have requested that we review the financial statements for the Bertie County Board of Education dated June 30, 2016 and the accompanying letter dated January 6, 2017 from Anderson Smith and Wike PLLC because of the alarming information contained in these documents. A review of these documents and particularly the summary of the auditor's results contained on pages 55 through 62 of the Financial Statement and a review of the 29 concerns raised in the letter to the Bertie County Board of Education from Anderson Smith and Wike PLLC, the board's accountants, reveal at least two outright violations of the North Carolina General Statutes. In Finding 16-02, the auditors determined that North Carolina General Statutes 115C-441 and 115C-432 have been violated as the board incurred expenditures within the General, Special Restricted and Capital Outlay funds that exceed the appropriations as detailed in note number two in the report. Also budget revenues in the board's fiscal year 2015-2016 budget resolution for general funds were \$588,176.00 higher than budget expenditures. The auditor notes, "the board was in violation of state law."

In Finding 16-03, the auditor finds that North Carolina General Statute 115C-425(a) has been violated as the school board appropriated \$491,931.00 of fund balance

in the general fund which violated state law because the board only had \$313,716.00 of fund balance available for appropriation. Again, the auditor states, "the board was in violation of state law."

In addition to these two outright stated violations of the General Statutes, it appears there are many material weaknesses which have been condoned by the present board or previous boards. By our count, there are three material weaknesses which have been pointed out to the school board in its 2015 year-end audit which were supposed to be corrected, but were found to still exist. The auditor referred to these findings as "repeat findings" and they are found in Finding 16-04, 16-05 and 16-09.

These and other material weaknesses contained in the audit report also seem to indicate a complete failure or at least a grossly negligent failure to separate and segregate funds such as the General, Capital Outlay, School Food Service and Special Restricted funds. The auditor noted in his letter of January 6, 2017, that the district has numerous old outstanding checks in its State bank account with many checks ranging anywhere from 10 to 20 years old. Frankly, this is stunning!

The auditor also notes that checks were written to Bertie County Schools which should have been deposited in the local PNC bank account where ACH payments are withdrawn. The auditor noted outstanding checks to Bertie County Schools for ACH payments for such items as hospitalization insurance, retirement and federal and FICA tax deposits totaling \$339,000.00 as of June 30, 2016 which had not been deposited into the local PNC bank account. Some of these checks dated back to 2002 and were replaced in October 2016. We have not been able to determine where these monies are of course, as we have not been asked to nor are we capable of doing a forensic evaluation or audit, but clearly there is either gross negligence or willful and criminal activity going on if these monies have not been properly reported or if they have been improperly spent or used to someone else's benefit.

We would also point out that the auditor points out the failure not only to reconcile general ledger accounts and bank accounts, but called to the reader's attention that various federal guidelines and statutes have apparently been violated as the accounting records were not properly reconciled to the federal Budget Balance Reconciliation Report. See Finding 16-05 in the audit.

The U.S. Department of Education requires management to complete an Excess Cost Computation Form (ECCF) to prove that special education federal funds are used only for the excess costs of providing special education and related services to children with disabilities. Management did not complete the required ECCF for the year under audit. See Finding 16-06.

The Uniform Grant Guidance regulations of the federal government through the U.S. Department of Education in §200.430(i) require that all salaries charged to a

Federal grant much be based on records that accurately reflect the work performed. Again, management did not complete the required time and effort reports for the year under audit. See Finding 16-07.

U.S. Department of Education passed through the N.C. Department of Public Instruction requires that if a LEA has exceeded the cumulative budgeted line items by 10% or more of their current total approved budget, then amendments are submitted through the BUD system and approved by the individual program consultant at DPI. The district overspent its PRC 060 budgeted expenditures by approximately 27% or \$206,489.67. No such requirement amendments were submitted. Please see Finding 16-08.

With the county having notice of the multiple failures of the school board to comply with certain statutes and also to have acted negligently in failing to budget, manage and expend funds, we believe that this matter must be reported to the State Board of Education. Under N.C.G.S. §115C-451(b), appears the following:

When a local Board of Education willfully or negligently fails or refused to comply with these laws and regulations, the State Board of Education shall issue a warning to the local Board of Education and direct it to take remedial action. In addition the state board may suspend the flexibility given to the local board under G.S. 115C-105.21A and may require the local school board to use funds during the term of suspension only for the purposes for which they were allotted or for other purposes with the specific approval from the state board.

N.C.G.S. 115C-451(c) provides:

If a local Board of Education, after warning, persists in willfully or negligently failing or refusing to comply with these laws and regulations, the State Board of Education shall by resolution assume control of the financial affairs of the Board of Education and shall appoint an administrator to exercise the powers assumed. The adoption of a resolution shall have the effect of divesting the local Board of Education of its powers as to the adoption of budgets, expenditure of money, and other financial powers conferred upon the local board of education by law. direct it to take remedial action. In addition the state board may suspend the flexibility given to the local board under G.S. 115C-105.21A and may require the local school board to use funds during the term of suspension only for the purposes for which they were allotted or for other purposes with the specific approval from the state board.

As you are aware, this is not the first time that the county has had to look and express concerns about the budgeting activity and expenditures by the local school

board. In reviewing the 2015-2016 audit, many of these same questions were raised and we are certain that both boards had hoped that there would be no future recurrence of these failures. Unfortunately and most dramatically, as reported in the letter of January 6, 2017 from the school board's auditor, the school board reported a fund balance at June 30, 2013, of \$2.5 million dollars in its General Fund. The fund balance reported in the General Fund at June 30, 2016 is a negative \$704,995.00. Thus, the school board has expended more than \$3.2 million dollars of its fund balance in the past three years or on an average of more than one million dollars per year. We do not understand how this could possibly happen if appropriate attention was paid to the budgeting process as the school board certainly knew the amount of money that the County was allocating to it and should have known the other streams of revenue which it had and adjusted its budget accordingly.

With this alarming information in hand, we strongly recommend that the County contact the State Board of Education and forward the audit report and this letter to the board.

Please let us know if you have any further questions.

Yours very truly,

PRITCHETT & BURCH, PLLC

Lloyd C. Smith, Jr.

LCSjr/dbf

cc: Mr. Ronald Dean Wesson (w/o enclosures)
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Mr. Stewart White (w/o enclosures)
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