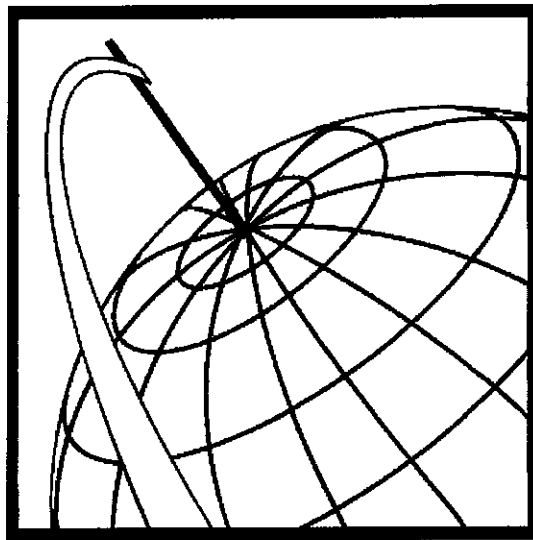


SINGLE AUDIT SECTION



COMPLIANCE SECTION

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Rives & Associates, LLP

Certified Public Accountants

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Durham Public Schools Board of Education
Durham, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, budget to actual comparison for the General, State Public School, and Federal Grants Funds, and the aggregate remaining fund information of Durham Public Schools Board of Education, as of and for the year ended June 30, 2009, which collectively comprises the Durham Public Schools Board of Education's basic financial statements, and have issued our report thereon dated December 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Durham Public Schools Board of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Durham Public Schools Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Durham Public Schools Board of Education's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Durham Public Schools Board of Education's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Durham Public Schools Board of Education's financial statements that is more than inconsequential will not be prevented or detected by Durham Public Schools Board of Education's internal control. We consider the deficiency in controls described in the accompanying schedule of findings and questioned costs as finding 2009-1 to be a significant deficiency.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Durham Public Schools Board of Education's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as we discussed above, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency, as defined.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Durham Public Schools Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Durham Public Schools Board of Education in a separate letter dated December 4, 2009.

This report is intended solely for the information and use of the Board of Education, management, others within the organization, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rives & Associates, LLP

December 4, 2009



Rives & Associates, LLP

Certified Public Accountants

Report On Compliance With Requirements Applicable To Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 And The State Single Audit Implementation Act

Durham Public Schools Board of Education
Durham, North Carolina

Compliance

We have audited the compliance of Durham Public Schools Board of Education, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2009. Durham Public Schools Board of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Durham Public Schools Board of Education's management. Our responsibility is to express an opinion on Durham Public Schools Board of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Durham Public Schools Board of Education's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Durham Public Schools Board of Education's compliance with those requirements.

In our opinion, Durham Public Schools Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

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Internal Control Over Compliance

The management of Durham Public Schools Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Durham Public Schools Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Durham Public Schools Board of Education's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Durham Public Schools Board of Education's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Durham Public Schools Board of Education's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management, others within the organization, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rives & Associates, LLP

December 4, 2009



Rives & Associates, LLP

Certified Public Accountants

**Report On Compliance With Requirements Applicable To Each
Major State Program And Internal Control Over Compliance
In Accordance With Applicable Sections of OMB Circular A-133 And The
State Single Audit Implementation Act**

Durham Public Schools Board of Education
Durham, North Carolina

Compliance

We have audited the compliance of Durham Public Schools Board of Education, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2009. Durham Public Schools Board of Education's major State programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of Durham Public Schools Board of Education's management. Our responsibility is to express an opinion on Durham Public Schools Board of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about Durham Public Schools Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Durham Public Schools Board of Education's compliance with those requirements.

In our opinion, Durham Public Schools Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Durham Public Schools Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered Durham Public Schools Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Durham Public Schools Board of Education's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a State program such that there is more than a remote likelihood that noncompliance with a type of a compliance requirement of a State program that is more than inconsequential will not be prevented or detected by Durham Public Schools Board of Education's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2009-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a State program will not be prevented or detected by Durham Public Schools Board of Education's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management, others within the organization, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rives & Associates, LLP

December 4, 2009

**DURHAM PUBLIC SCHOOLS BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009**

**Schedule 5
(Continued)**

SECTION I - SUMMARY OF AUDITOR'S RESULTS (Continued)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 959,799

Auditee qualified as low-risk auditee? X yes no

State Awards

Internal control over major State programs:

Material weaknesses identified? yes X no

Significant deficiencies identified that are not considered to be material weaknesses? yes X none reported

Type of auditors' report issued on compliance for major state programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act? yes X no

Identification of major State programs:

- Program Name**
- State Public School Fund
 - Textbooks
 - Driver Training
 - School Technology Fund

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2009-1

Significant Deficiency

Criteria: The Board's system of internal control should include policies and procedures necessary to provide reasonable assurance that transactions are recorded, and disclosures prepared as required to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Such controls include:

- Controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger, initiate, authorize, record, and process journal entries into the general ledger, and
- Controls over the reporting and monitoring of capital assets, including controls over procedures used to enter transactions into the system and determining that proper depreciation methods and reporting is performed in a timely manner.

Condition: The Board's internal controls system were not properly followed to prevent improper reporting of transactions, capital assets and of journal entries.

Effect: The Board did not detect the material errors and omissions that occurred in the Board's recording of year-end accruals and balances of capital assets prior to discovery by the independent auditor.

Recommendation: We recommend that the Board develop and implement policies and procedures to ensure the internal controls related to reporting and documenting period-end transactions and capital assets are completed and performed on a timely basis.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

DURHAM PUBLIC SCHOOLS BOARD OF EDUCATION
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2009

Schedule 6

Finding 2008-1

Description: State sources were used to pay the legislated bonus for employees not being paid at the top of their State pay scale.

Status: Corrected.

Finding 2008-2

Description: Durham Public Schools Board of Education expended more for support services than appropriated in the annual budget ordinance.

Status: Corrected.

DURHAM PUBLIC SCHOOLS BOARD OF EDUCATION
CORRECTIVE ACTION PLAN
Year Ended June 30, 2009

Schedule 7

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2009-01

Name of contact person: Carolyn L. Olivarez, Executive Director of Financial Services

Corrective action: Management understands the importance of using a proper accounting system for period-end transactions and capital assets and will implement an internal control system to ensure the proper recording of these transactions.

Proposed completion date: Immediately

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

DURHAM PUBLIC SCHOOLS BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2009

Schedule 8

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/Pass- Through Grantor's Number	Expenditures
Federal Grants:			
<u>U. S. Department of Agriculture</u>			
Passed-through the N.C. Department of Public Instruction:			
Child Nutrition Cluster:			
Non-Cash Assistance (Commodities):			
National School Lunch Program	10.555	-	\$ 621,914
Cash Assistance:			
School Breakfast Program	10.553	-	1,948,354
National School Lunch Program	10.555	-	6,747,764
Passed through the N. C. Department of Health and Human Services:			
Summer Food Program for Children	10.559	-	465,964
Cash Assistance Subtotal			9,162,082
Total Child Nutrition Cluster			9,783,996
Total U.S. Department of Agriculture			9,783,996
<u>U.S. Department of Defense:</u>			
Direct program:			
ROTC	12.000	-	179,311
<u>U.S. Department of Education:</u>			
Direct programs:			
Emergency Response and Crisis Management Grant	84.184E	342	3,125
Fund for the Improvement of Education - Teaching American History	84.215	340	4,582
Carol White Physical Grant	-	-	206,224
National Science Foundation Grant	-	-	4,477
			218,408
Passed through the N. C. Department of Public Instruction:			
Special Education Cluster:			
Special Education - Grants to the States	84.027	44, 60	5,527,956
Special Education - Preschool Grants	84.173	49	263,608
Total Special Education Cluster			5,791,564
Children With Disabilities - Risk Pool	84.027	114	16,605
Title I:			
Grants to Local Educational Agencies	84.010	50	10,334,193
School Improvement	84.010	105	451,640
Vocational Education - Basic Grants to States	84.048	17	499,048
Safe and Drug-Free Schools and Communities - State Grants	84.186	48	179,110
Education for Homeless Children and Youth	84.196	26	48,147
21st Century - Federal	84.287	110, 113	170,260
Educational Technology Program	84.318	107	80,283
Reading First Grant	84.357	106	1,097,504
English Language Acquisitions Grant	84.365	104	501,846
Math and Science Partnerships	84.366	112	177,460
IDEA VI-B Children with Disabilities - Targeted Assistance	84.323A	70	610,709
School Improvement Grant 1003 (g)	84.377A	117	195,292
State Improvement Grant	84.323A	82	3,767
Improving Teacher Quality	84.367	103	1,619,471
Total U.S. Department of Education			21,995,307

DURHAM PUBLIC SCHOOLS BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2009

Schedule 8
(CONTINUED)

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/Pass- Through Grantor's Number	Expenditures
Federal Grants (Continued):			
<u>U.S. Department of Health and Human Services</u>			
Passed through the N.C. Department of Public Instruction:			
Abstinence Education	93.235	57	\$ 31,599
Total U.S. Department of Health and Human Services			<u>31,599</u>
<u>Corporation for National Community Service</u>			
Passed through the N. C. Department of Public Instruction:			
Learn and Serve America - School Based Programs	94.004	64	3,088
Total federal awards			<u>31,993,301</u>
State Grants:			
<u>North Carolina Department of Public Instruction:</u>			
State Public School Fund	-	-	168,540,039
Driver Training	-	12	763,508
Accelerated School Grant	-	-	143,362
Fresh Fruit and Vegetable Grant	-	-	21,636
Dropout Prevention Grant	-	-	265,809
Model Teacher Education Grant	-	-	68,086
Vocational Education			
State Months of Employment	-	13	6,921,428
Program Support Funds	-	14	687,062
School Technology Fund	-	15	878,333
Textbooks	-	-	703,497
Total North Carolina Department of Public Instruction			<u>178,992,760</u>
<u>Office of the Governor:</u>			
Passed through Durham County:			
Public School Building Capital Fund	-	74	721,100
Total Office of the Governor			<u>721,100</u>
Total State awards			<u>179,713,860</u>
Total federal and State awards			<u>\$ 211,707,161</u>

Notes to the Schedule of Expenditures of Federal and State Awards:

Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the Durham Public School Board of Education and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State Single Audit Implementation Act*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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