

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

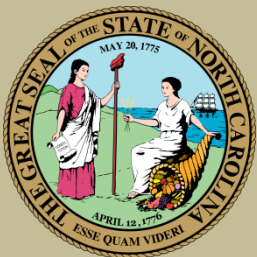


NORTH CAROLINA OFFICE OF STATE BUDGET AND MANAGEMENT

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2022



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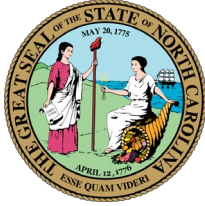
Beth A. Wood, CPA
State Auditor

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Chapter 147, Article 5A of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Kristin Walker, State Budget Director
North Carolina Office of State Budget and Management

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs, we have completed certain audit procedures at the North Carolina Office of State Budget and Management for the year ended June 30, 2022.

We conducted our audit of federal compliance in accordance with the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our audit objective was to express an opinion on the State of North Carolina's compliance for each of its major federal programs. However, the audit results described below are in relation to our audit scope at the North Carolina Office of State Budget and Management and not to the State of North Carolina as a whole. The State Auditor expresses an opinion on the State of North Carolina's compliance with requirements applicable to its major federal programs in the State's *Single Audit Report*.

Our federal compliance audit scope at the North Carolina Office of State Budget and Management included the following:

- Coronavirus Relief Fund (Assistance Listing Number 21.019)
- Emergency Rental Assistance Program (Assistance Listing Number 21.023)
- Coronavirus State and Local Fiscal Recovery Fund (Assistance Listing Number 21.027)
- Governor's Emergency Education Relief Fund (Assistance Listing Number 84.425C)

Our audit was performed by authority of Chapter 147, Article 5A of the North Carolina General Statutes.

Compliance

The results of our audit procedures at the North Carolina Office of State Budget and Management disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and which are described in the Finding, Recommendation, and Views of Responsible Officials of the Auditee section.

Internal Control Over Compliance

In planning and performing our audit of federal compliance, we considered the North Carolina Office of State Budget and Management's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the North Carolina Office of State Budget and Management's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the North Carolina Office of State Budget and Management's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. Therefore, material weaknesses may exist that have not been identified. However, we consider the deficiency described in the Finding, Recommendation, and Views of Responsible Officials of the Auditee section to be a material weakness in internal control over compliance.

North Carolina Office of State Budget and Management's Response to the Finding

The North Carolina Office of State Budget and Management's response to the finding identified in our audit is included in the Finding, Recommendation, and Views of Responsible Officials of the Auditee section of this transmittal. The North Carolina Office of State Budget and Management's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Purpose of This Transmittal

The purpose of this transmittal is solely to describe the scope of our testing of internal control over compliance and testing of compliance and the results of that testing at the North Carolina Office of State Budget and Management based on the requirements of the Uniform Guidance. Accordingly, this transmittal is not suitable for any other purpose.

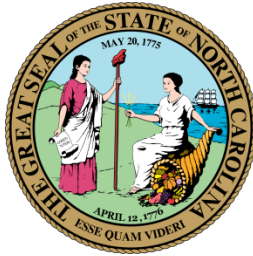
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this transmittal.

A handwritten signature in black ink, appearing to read "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 24, 2023



**FINDING,
RECOMMENDATION, AND
VIEWS OF RESPONSIBLE
OFFICIALS OF THE
AUDITEE**

Matters Related to Federal Compliance Audit Objectives**INADEQUATE MONITORING OF CORONAVIRUS RELIEF FUNDS**

The North Carolina Pandemic Recovery Office (NCPRO), a division of the Office of State Budget and Management, did not adequately monitor \$159.9 million¹ in federal funds used for expenditures incurred due to the COVID-19 pandemic.

Auditors reviewed the monitoring procedures over subrecipients of state agencies that expended coronavirus relief funds. NCPRO's monitoring procedures required monthly reviews of these subrecipients' expenditure reports. However, auditors found no evidence of this review.

In addition, auditors tested a sample of 40 direct expenditures of state agencies and found no evidence of review of supporting documentation.

Lastly, auditors reviewed the risk assessment procedures over all subrecipients. NCPRO's monitoring plan required additional monitoring activities² for all subrecipients assessed as high-risk. Auditors reviewed all 23 subrecipients that were assessed as high-risk and found that these additional monitoring activities were not completed for 9 (39%) of the subrecipients.

Inadequate monitoring increases the risk that federal funds may not be used in accordance with the federal requirements, which may have reduced funding available to respond to the COVID-19 pandemic.

According to NCPRO management, the agency did not have sufficient personnel to complete the monitoring procedures established at the inception of the program. Subsequent legislation identified NCPRO as responsible for the administration of additional federal COVID-19 programs,³ and management did not revise existing monitoring procedures to reflect these additional responsibilities. Furthermore, monitoring procedures in place did not require that the results of reviews or other monitoring activities be documented.

Federal regulations⁴ require NCPRO to:

- Establish and maintain effective internal control over the federal award that provides reasonable assurance that the entity is managing the award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.
- Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward.

¹ Federal funds included direct expenditures of \$144.8 million (funds expended by state agencies, community colleges, and members of the UNC System) and \$15.1 million passed to subrecipients (local governments, nonprofits, and other private organizations).

² Additional monitoring activities included in-depth testing of subrecipient internal controls and expenditures for compliance with federal requirements.

³ Additional federal COVID-19 programs include the Governor's Emergency Education Relief Fund and the Coronavirus State and Local Fiscal Recovery Fund.

⁴ 2 CFR 200.303(a) and 2 CFR 200.332(d)(f)

This finding was previously reported in the 2021 Statewide Single Audit as finding number 2021-001.

Federal Award Information: Federal Awarding Agency: U.S. Department of the Treasury; Assistance Listing Number (title): 21.019 (Coronavirus Relief Fund); Federal Award Identification Numbers (award periods): SLT0025 (March 1, 2020 - December 31, 2021) and SLT0237 (March 1, 2020 - December 31, 2021).

Recommendation: NCPRO management should review and revise monitoring procedures over future federal programs as necessary in response to changes in operations, including evaluating the feasibility of procedures given the available personnel.

In addition, NCPRO management should ensure that monitoring procedures over future federal programs include a requirement that personnel document completion of the procedures.



STATE OF NORTH CAROLINA
OFFICE OF STATE BUDGET AND MANAGEMENT



Employment First State for Individuals with Disabilities

ROY COOPER
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KRISTIN WALKER
STATE BUDGET DIRECTOR

March 21, 2023

The Honorable Beth A. Wood
State Auditor

Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear State Auditor Wood,

Thank you for your work on the federal compliance audit of the Coronavirus Relief Fund for the year ended June 30, 2022. The purpose of the Coronavirus Relief Fund was to assist the State of North Carolina to help our people, communities, and businesses respond to or mitigate the effect the COVID-19 pandemic. The Office of State Budget and Management and the North Carolina Pandemic Recovery Office accept this finding and have made improvements to ensure future federal funds are adequately monitored.

We appreciate the professionalism and assistance provided by your staff during this audit.

Sincerely,

A handwritten signature in cursive script, reading "Kristin Walker".

Kristin Walker, State Budget Director

A handwritten signature in cursive script, reading "Stephanie McGarrah".

Stephanie McGarrah, Executive Director,
North Carolina Pandemic Recovery Office

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