

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



OVERSIGHT OF CORONAVIRUS RELIEF FUNDS

OFFICE OF STATE BUDGET AND MANAGEMENT

PANDEMIC RECOVERY OFFICE

PERFORMANCE AUDIT

MAY 2021



NCOSA
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The purpose of this audit was to determine whether the North Carolina Office of State Budget and Management's (OSBM) North Carolina Pandemic Recovery Office (NCPRO) designed and implemented procedures to **ensure** that:

- (1) Coronavirus Relief Funds were being spent in accordance with the 2020 COVID-19 Recovery Act and subsequent amendments.
- (2) Programs that received Coronavirus Relief Funds were achieving their legislatively intended result.

BACKGROUND

On May 4, 2020, the North Carolina General Assembly enacted the 2020 COVID-19 Recovery Act (Recovery Act).¹ The Recovery Act established the State's Coronavirus Relief Fund² for the purpose of providing necessary and appropriate relief and assistance from the effects of COVID-19. It provided approximately \$3.6 billion in federal assistance to various entities across the State.

The Recovery Act required OSBM to administer the Coronavirus Relief Fund to carry out the provisions of the law and to ensure the proper reporting and accounting of the Coronavirus Relief Fund.³

The Recovery Act also directed OSBM to create a temporary NCPRO to oversee and coordinate funds made available under Recovery Act legislation.⁴ NCPRO is responsible for providing technical assistance, ensuring coordination of federal funds received by state agencies and local governments, and ensuring proper reporting and accounting of all funds.

KEY FINDINGS

- \$3.1 billion of Coronavirus Relief Funds distributed with limited monitoring.
- \$3.1 billion of Coronavirus Relief Funds distributed without ensuring all recipients had a method to measure results.

KEY RECOMMENDATIONS

- NCPRO should perform independent verification of recipients' self-reported Coronavirus Relief Fund spending to ensure funds are being spent in accordance with the Recovery Act.
- NCPRO should develop policies and procedures to ensure all recipients (1) have objectives for what they will do with the funds to achieve legislatively intended results, (2) have goals for how they will accomplish their objectives, and (3) measure their **progress** towards meeting their goals.
- The North Carolina General Assembly should consider including specific monitoring requirements (including requirements for independent verification, measurement of progress towards intended results, and timeliness of monitoring activities) in future legislation regarding the spending of Coronavirus Relief Funds or other emergency relief funds.

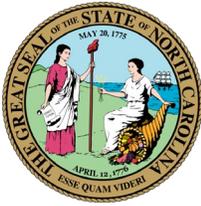
¹ Session Law 2020-4.

² Session Law 2020-4 Section 2.2.

³ Session Law 2020-4 Section 4.3.

⁴ Ibid.

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.auditor.nc.gov>

AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Charles Perusse, State Budget Director, Office of State Budget and Management
Stephanie McGarrah, Executive Director, NC Pandemic Recovery Office

Ladies and Gentlemen:

We are pleased to submit this performance audit report titled *Oversight of Coronavirus Relief Funds*. The audit objectives were to determine whether the North Carolina Office of State Budget and Management's (OSBM) North Carolina Pandemic Recovery Office (NCPRO) designed and implemented procedures to **ensure** that:

- (1) Coronavirus Relief Funds were being spent in accordance with the 2020 COVID-19 Recovery Act and subsequent amendments.
- (2) Programs that received Coronavirus Relief Funds were achieving their legislatively intended result.

The State Budget Director reviewed a draft copy of this report. His written comments are included starting on page 15.

This audit was conducted in accordance with Chapter 147, Article 5A of the *North Carolina General Statutes*.

We appreciate the courtesy and cooperation received from management and the employees of OSBM and NCPRO during our audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Beth A. Wood".

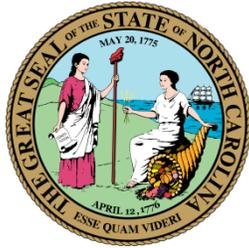
Beth A. Wood, CPA
State Auditor



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State Auditor**

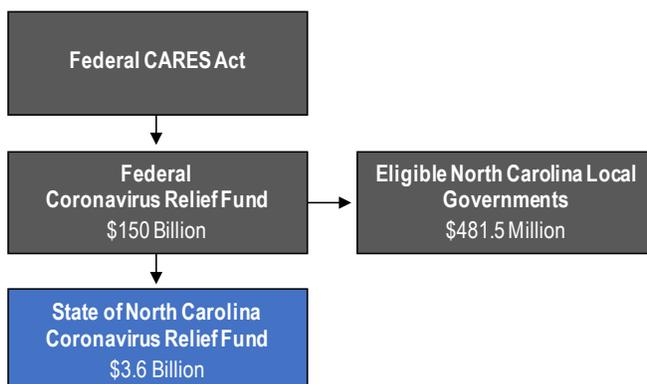
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BACKGROUND

On March 27, 2020, the President of the United States signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act.⁵ The CARES Act established the federal Coronavirus Relief Fund and appropriated \$150 billion to this fund for distribution to state, local, and tribal governments.⁶ The State of North Carolina received approximately \$3.6 billion in financial assistance through the federal Coronavirus Relief Fund. In addition, eligible North Carolina local governments also received approximately \$481.5 million in CARES Act assistance directly from the U.S. Department of the Treasury.⁷



The purpose of these funds was to provide financial assistance to cover costs that were:

- 1) Necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19)
- 2) Not accounted for in the budget most recently approved as of March 27, 2020, (the date the CARES Act was enacted) for the State or local governments
- 3) Incurred during the period that begins on March 1, 2020, and ends on December 31, 2021⁸

The North Carolina General Assembly enacted the 2020 COVID-19 Recovery Act⁹ (Recovery Act) on May 4, 2020, to assist local governments, communities, families, workers and other individuals and businesses by providing federal relief and recovery funds from the CARES Act.

The Recovery Act established the State's Coronavirus Relief Fund that is to be maintained as a special fund, administered by the North Carolina Office of State Budget and Management (OSBM), to carry out the provisions of the law. The funds are to be used "in a manner that is consistent with the authorizing federal legislation and that responsibly provides for the public health and economic well-being of the State."¹⁰ The State's Coronavirus Relief Fund does not include amounts received directly from the U.S. Department of the Treasury by eligible North Carolina local governments, and accordingly, these funds are **not included** within the scope of this audit.

⁵ U.S. Public Law 116-136.

⁶ <https://home.treasury.gov/system/files/136/Payments-to-States-and-Units-of-Local-Government.pdf>.

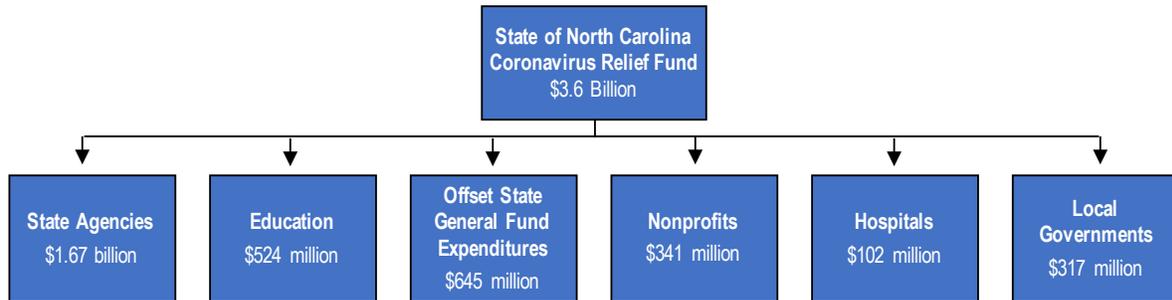
⁷ Eligible local governments included the City of Charlotte (\$154.6 million), Guilford County (\$93.7 million), Mecklenburg County (\$39.2 million), and Wake County (\$194 million).

⁸ The President of the United States signed H.R. 133 (Consolidated Appropriations Act, 2021) into law on December 27, 2020. One of the provisions of this law (Section 1001) extended the period during which allowable costs could be incurred from December 30, 2020, to December 31, 2021.

⁹ Session Law 2020-4.

¹⁰ Session Law 2020-4 Section 1.3.

Through a series of legislation, the State appropriated approximately \$3.6 billion to various state, local, and private entities through the Coronavirus Relief Fund as shown in the following illustration:



The Recovery Act required OSBM to administer the Coronavirus Relief Fund to carry out the provisions of the law and to ensure the proper reporting and accounting of the Coronavirus Relief Fund. Specifically, OSBM is required to:

- Allocate and disburse Coronavirus Relief Funds as directed by the Recovery Act.
- Ensure adherence with the compliance requirements established by the U.S. Department of the Treasury.
- Account for the Coronavirus Relief Fund in accordance with generally accepted accounting principles and the requirements established by the North Carolina Office of the State Controller.¹¹
- Adhere to the reporting requirements established by the Recovery Act.

The Recovery Act also directed OSBM to create a temporary North Carolina Pandemic Recovery Office (NCPRO) to oversee and coordinate funds made available under Recovery Act legislation.¹² NCPRO is responsible for:

- Providing technical assistance
- Ensuring coordination of federal funds received by state agencies and local governments
- Ensuring proper reporting and accounting of all funds

Key terms discussed in this report include:

CARES Act - The federal Coronavirus Aid, Relief, and Economic Security Act (U.S. Public Law 116-136) that created the federal Coronavirus Relief Fund.

Recovery Act - The 2020 COVID-19 Recovery Act¹³ and subsequent legislation enacted by the State of North Carolina to establish the Coronavirus Relief Fund and assist local governments, communities, families, workers and other individuals and businesses by providing federal relief and recovery funds from the CARES Act.

¹¹ North Carolina Office of the State Controller, [Memorandum 20-30](#).

¹² Session Law 2020-4 Section 4.3.

¹³ Session Law 2020-4.

Coronavirus Relief Fund - The fund established by the State to provide necessary and appropriate relief from the effects of COVID-19.

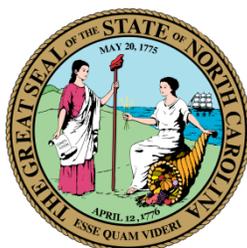
COVID-19 - The severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) that emerged in December 2019.

Monitoring - Activities management establishes and operates to **assess** the quality of performance **over time** and promptly resolve identified issues.

Responsible parties discussed in this report include:

North Carolina Office of State Budget and Management (OSBM) - OSBM delivers budget development and management services for the State. The Recovery Act established a Coronavirus Relief Fund that is to be maintained as a special fund, administered by OSBM, to carry out the provisions of the law.

North Carolina Pandemic Recovery Office (NCPRO) - The temporary North Carolina Pandemic Recovery Office created to oversee and coordinate funds made available under Recovery Act legislation.



OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to determine whether the North Carolina Office of State Budget and Management's (OSBM) North Carolina Pandemic Recovery Office (NCPRO) designed and implemented procedures to **ensure** that:

- (1) Coronavirus Relief Funds were being spent in accordance with the 2020 COVID-19 Recovery Act and subsequent amendments.
- (2) Programs that received Coronavirus Relief Funds were achieving their legislatively intended result.

The audit scope included the period of March 1, 2020, through November 30, 2020.

The audit scope **did not include**:

- Funds received by eligible North Carolina local governments directly from the U.S. Department of the Treasury.
- Whether OSBM accounted for, allocated, and disbursed amounts appropriated to the State of North Carolina's Coronavirus Relief Fund in accordance with 2020 COVID-19 Recovery Act legislation (Recovery Act).¹⁴

To achieve the audit objectives, auditors:

- Reviewed relevant laws and regulations
- Interviewed NCPRO personnel
- Reviewed financial data for Coronavirus Relief Fund disbursements
- Reviewed NCPRO's policies and procedures for monitoring the recipients of the Coronavirus Relief Fund
- Reviewed monthly program performance reports¹⁵ submitted by Coronavirus Relief Fund recipients

Auditors also performed the following tests:

1. *Risk Assessment* - Auditors examined NCPRO's risk assessment of Coronavirus Relief Fund recipients to determine whether it complied with NCPRO's chosen criteria for conducting risk assessments, which was the National Institute of Standards and Technology's "Guide for Conducting Risk Assessments."¹⁶
2. *Monitoring Procedures* - Auditors tested NCPRO's policies and procedures for monitoring recipient spending to determine whether the procedures complied with the United States Treasury, Office of the Inspector General, Prime Recipient Desk Reviews guidance and the AICPA Sampling Guide. Auditors also reviewed the nature, timing, and extent of monitoring procedures performed or planned to be performed by NCPRO.

¹⁴ This was the objective of the *Office of State Budget and Management Coronavirus Relief Fund Preliminary Financial Audit* released in March 2021.

¹⁵ NCPRO required all entities that received Coronavirus Relief Funds to report on their use of the funds (including how much was spent, what the funds were spent on, and how relief would be provided) each month until all funds were spent.

¹⁶ The National Institute of Standards and Technology is a physical sciences laboratory and a non-regulatory agency of the United States Department of Commerce.

3. *Monthly Program Performance Reports* - Auditors tested all (100%) reports submitted during July 2020 - November 2020¹⁷ from the 490 (100%) recipients of Recovery Act allocations through October 2020¹⁸ to determine whether the recipients:
- Had objectives for what they would do with the funds
 - Had goals for how they would accomplish their objectives
 - Measured their progress towards meeting their goals

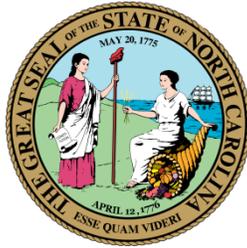
Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or instances of noncompliance.

As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. However, our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion. See the Appendix for internal control components and underlying principles that were significant to our audit objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹⁷ The period during our audit scope for which Monthly Program Performance Reports were available. Recipients were not required to report prior to July 2020.

¹⁸ Monthly Program Performance Reports were submitted in the month following the previous month's recipient activities. For example, recipient November 2020 reports covered activities through October 2020.



RESULTS AND CONCLUSIONS

The North Carolina Office of State Budget and Management's (OSBM) North Carolina Pandemic Recovery Office (NCPRO) did not design and implement procedures to **ensure** that Coronavirus Relief Funds were being spent in accordance with the 2020 COVID-19 Recovery Act (Recovery Act) or that programs that received Coronavirus Relief Funds were achieving their legislatively intended results. Specifically, NCPRO:

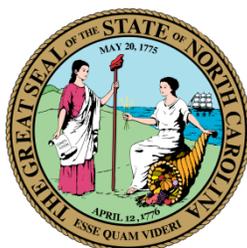
- Performed limited monitoring¹⁹ to ensure that federal funds distributed to provide economic support in the wake of COVID-19 were being spent in accordance with the Recovery Act. Specifically, it did not independently verify spending until November 2020.
- Distributed approximately \$3.1 billion²⁰ of Coronavirus Relief Funds to provide economic support in the wake of COVID-19 without ensuring that all recipients²¹ (1) had objectives for what they would do with the funds, (2) had goals for how they would accomplish their objectives, and (3) measured their progress towards meeting their goals.

As a result, there was an increased risk that recipients could have misused the funds without the misuse being detected and corrected timely. Additionally, NCPRO was limited in its ability to know whether funds were achieving legislatively intended results and take timely corrective action if necessary.

¹⁹ Monitoring activities are established and operated by management to **assess** the quality of performance **over time** and promptly resolve identified issues.

²⁰ According to NCPRO records as of October 31, 2020.

²¹ Recipients include state agencies, colleges, universities, local governments, hospitals, and nonprofits.



FINDINGS, RECOMMENDATIONS, AND RESPONSES

1. \$3.1 BILLION OF CORONAVIRUS RELIEF FUNDS DISTRIBUTED WITH LIMITED MONITORING

The North Carolina Pandemic Recovery Office (NCPRO) performed limited monitoring²² to ensure that federal funds distributed to provide economic support in the wake of COVID-19 were being spent in accordance with the 2020 COVID-19 Recovery Act (Recovery Act). Specifically, it did not independently verify spending until November 2020. As a result, there was an increased risk that recipients²³ could have misused the funds without the misuse being detected and corrected timely. NCPRO did not independently verify spending because it stated it prioritized (1) coordinating and distributing funds and (2) providing technical assistance to recipients instead. However, federal regulations required NCPRO to monitor recipient spending of Coronavirus Relief Funds.

Limited Monitoring of Coronavirus Relief Fund Spending for Six Months

NCPRO's limited monitoring procedures did not ensure that recipients were spending approximately \$3.1 billion²⁴ of Coronavirus Relief Funds in accordance with the Recovery Act. NCPRO required recipients to submit monthly spending reports with supporting documentation.

However, NCPRO did not independently verify recipient spending by comparing the supporting documents (i.e. invoices, receipts, payroll records) to expenditures reported by recipients until November 2020, after the majority of funds were already spent.

Before November 2020, NCPRO performed some monitoring procedures and other activities including:

- Providing guidance to recipients on allowable uses of the funds using Frequently Asked Questions documents (FAQs)
- Executing contracts with non-state entity recipients (included hospitals, not-for-profits, etc.)
- Reviewing required spending plans²⁵ before distribution of funds to recipients
- Requiring recipients to submit monthly spending reports to NCPRO with supporting documentation
- Reconciliation of reported spending to accounting records and legislative allocations
- Review of reported spending for obvious errors in expense categories and for expenditures that appeared unreasonable

However, all of the information that NCPRO used for monitoring was self-reported by recipients. NCPRO did not independently verify that the spending information was accurate²⁶ and in accordance with the Recovery Act. While the above activities performed by NCPRO were necessary, the procedures were limited in their ability to ensure that federal funds were being spent in accordance with the Recovery Act.

²² Monitoring activities are established and operated by management to **assess** the quality of performance **over time** and promptly resolve identified issues.

²³ Recipients include state agencies, colleges, universities, local governments, hospitals, and non-profits.

²⁴ According to NCPRO records as of October 31, 2020.

²⁵ Some allocations in legislation were for specific purposes. For those that were not explicitly defined, plans were required.

²⁶ Meaning the spending information would agree to supporting documents (i.e. invoices, receipts, payroll records).

Resulted in Increased Risk of Undetected and Uncorrected Misuse

Without independent verification, NCPRO could not detect misuse of the funds that could occur due to misunderstandings, errors, or omissions.

For example, NCPRO could not ensure that recipients were only using funds for:

- Necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19)
- Expenditures that were not accounted for in the budget most recently approved as of March 27, 2020 for the State or government
- Expenditures incurred during the period that begins on March 1, 2020, and ends on December 30, 2020²⁷
- Activities and programs to meet the requirements specified by legislators in the Recovery Act. For example,
 - \$14 million for the development of a COVID-19 vaccine and a low-cost COVID-19 test for active infections
 - \$12.6 million to expand a COVID-19 study
 - \$10.5 million for the distribution of COVID-19 tests and personal protective equipment to skilled nursing facilities in the state

And since independent verification was not completed before November 2020, it increased the risk that NCPRO would not identify misuse and take timely corrective action. Performing monitoring activities, such as independent verification of spending, while funds were being spent would have allowed for:

- More timely detection and correction of misuse
- Training opportunities for recipients that misused funds
- The potential that future misuse is reduced

Caused by NCPRO Prioritizing Funds Distribution and Technical Assistance

NCPRO stated it did not independently verify spending prior to November 2020 because it chose to prioritize (1) coordinating and distributing funds and (2) providing technical assistance to recipients instead.

Additionally, NCPRO stated that it took longer than expected to complete the above activities because of subsequent Recovery Act legislation that updated the distribution of the funds and constantly changing guidance received from the U.S. Treasury on allowable uses of the funds.

²⁷ Subsequent legislation extended the deadline for expending Coronavirus Relief Funds to December 31, 2021.

Federal Regulations Required NCPRO to Monitor Spending

Federal regulations required NCPRO to monitor recipient spending of Coronavirus Relief Funds.²⁸ Specifically, NCPRO must:

Monitor the activities of the subrecipient²⁹ 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; and that subaward performance goals are achieved.

RECOMMENDATIONS

NCPRO should perform independent verification of recipients' self-reported Coronavirus Relief Fund spending timely to ensure funds are being spent in accordance with the Recovery Act.

The North Carolina General Assembly should consider including specific monitoring requirements (including requirements for independent verification and timeliness of monitoring activities) in future legislation regarding the spending of Coronavirus Relief Funds or other emergency relief funds.

AGENCY RESPONSE

See page 16 for the agency's response to this finding.

2. \$3.1 BILLION OF CORONAVIRUS RELIEF FUNDS DISTRIBUTED WITHOUT ENSURING ALL RECIPIENTS HAD A METHOD TO MEASURE RESULTS

The North Carolina Pandemic Recovery Office (NCPRO) distributed approximately \$3.1 billion³⁰ of Coronavirus Relief Funds to provide economic support in the wake of COVID-19 without ensuring that all recipients³¹ (1) had objectives for what they would do with the funds, (2) had goals for how they would accomplish their objectives, and (3) measured their progress towards meeting their goals. As a result, NCPRO was limited in its ability to know whether Coronavirus Relief Funds were achieving legislatively intended results and to take timely corrective action if necessary. NCPRO did not ensure all recipients had a method to measure results because it stated it prioritized (1) coordinating and distributing funds and (2) providing technical assistance to recipients instead. However, best practices required NCPRO to determine whether legislatively intended results were achieved.

²⁸ 2 CFR 200.332(d).

²⁹ State agencies, colleges, universities, local governments, hospitals, and non-profits are considered subrecipients.

³⁰ According to NCPRO records as of October 31, 2020.

³¹ Recipients include state agencies, colleges, universities, local governments, hospitals, and nonprofits.

Limited Procedures Established to Ensure Recipients Measured Results of Spending

NCPRO distributed approximately \$3.1 billion of Coronavirus Relief Funds without ensuring that all recipients had a way to measure whether the funds distributed by NCPRO were achieving legislatively intended results.

The North Carolina General Assembly enacted the 2020 COVID-19 Recovery Act (Recovery Act) to assist local governments, communities, families, workers and other individuals, and businesses by providing federal relief and recovery funds.

Examples include:³²

- **\$562 million disbursed to the Department of Health and Human Services** to support the COVID-19 recovery effort such as COVID-19 testing, contact tracing, behavioral health crisis services, and early childhood initiatives.
- **\$307.8 million disbursed to local governments** for medical, public health, and economic support expenses.
- **\$84.9 million disbursed to hospitals** to offset expenses incurred to provide patient care including those related to personnel, personal protective equipment, and medical supplies.

NCPRO required recipients to submit monthly program performance reports that provided updates on:

- How much was spent
- What the funds were spent on
- How relief would be provided

However, NCPRO did not establish procedures to ensure that all recipients **planned for** and **measured the results** of their spending. Specifically, NCPRO did not ensure all recipients (1) had objectives for what they would do with the funds, (2) had goals for how they would accomplish their objectives, and (3) measured their progress towards meeting their goals. Auditors tested all (100%) of the Recovery Act disbursements to 490 recipients through October 2020 and found:

- 43 of 490 (9%) recipients did not report objectives for what they would do with the funds.
- 302 of 447 (68%) recipients reported objectives for what they would do with the funds but not goals for how they would accomplish their objectives.
- 57 of 145 (39%) recipients reported objectives for what they would do with the funds and goals for how they would accomplish their objectives, but did not measure their progress towards meeting their goals.

³² According to NCPRO records as of October 31, 2020.

Resulted in Limited Ability to Know Whether Intended Results Were Being Achieved

Since NCPRO did not ensure that all recipients **planned for** and **measured the results** of their spending, it was limited in its ability to know whether funds were achieving legislatively intended results.

For example, based on audit tests,³³ NCPRO has no way to know whether:

- **\$423 million (75%) of the \$562 million disbursed to the Department of Health and Human Services** were supporting the COVID-19 recovery effort such as COVID-19 testing, contact tracing, behavioral health crisis services, and early childhood initiatives.
- **\$101.8 million (33%) of the \$307.8 million disbursed to local governments** were providing aid related to medical, public health, and economic support expenses.
- **\$33.6 million (40%) of the \$84.9 million disbursed to hospitals** were providing an offset to expenses incurred to provide patient care including those related to personnel, personal protective equipment, and medical supplies.

And since NCPRO was limited in its ability to know whether funds were achieving legislatively intended results, it could not take timely corrective action. If NCPRO ensured that recipients **planned for** and **measured the results** of their spending, it would be able to monitor and:

- Detect and correct poor performance timely
- Train recipients that were not achieving results
- Improve the chance that funds were achieving legislatively intended results

Caused by NCPRO Prioritizing Funds Distribution and Technical Assistance

NCPRO stated it did not ensure all recipients had a method to measure results because it chose to prioritize (1) coordinating and distributing funds and (2) providing technical assistance to recipients instead.

Additionally, NCPRO stated that it took longer than expected to complete the above activities because of subsequent Recovery Act legislation that updated the distribution of the funds and constantly changing guidance received from the U.S. Treasury on allowable use of the funds.

³³ Based on review of monthly program performance reports for disbursements from May 2020 – October 2020, auditors calculated the percentage of each total disbursement for which recipients did not provide an objective for what they would do to provide relief, how they would accomplish their objective, and how they would measure their progress toward doing so.

Best Practices Required NCPRO to Determine Whether Results Were Achieved

Best practices identified by the Government Accountability Office (GAO) required management to determine whether legislatively intended results were being achieved. The GAO states:

Legislators, oversight bodies, those charged with governance, and the public need to know whether... government programs are achieving their objectives and desired outcomes.³⁴

Management determines whether performance measures for the defined objectives are appropriate for evaluating the entity's performance in achieving those objectives.³⁵

Management establishes activities to monitor performance measures and indicators. These may include comparisons and assessments relating different sets of data to one another so that analyses of the relationships can be made and appropriate actions taken.³⁶

RECOMMENDATIONS

NCPRO should develop policies and procedures to ensure all recipients (1) have objectives for what they will do with the funds to achieve legislatively intended results, (2) have goals for how they will accomplish their objectives, and (3) measure their **progress** towards meeting their goals.

The North Carolina General Assembly should consider including specific monitoring requirements (including requirements for measurement progress towards intended results) in future legislation regarding the spending of Coronavirus Relief Funds or other emergency relief funds.

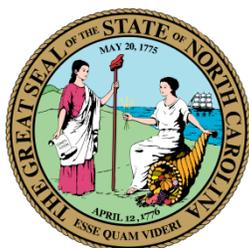
AGENCY RESPONSE

See page 17 for the agency's response to this finding.

³⁴ United States Government Accountability Office, Government Auditing Standards, July 2018.

³⁵ United States Government Accountability Office, Standards for Internal Control in the Federal Government, September 2014.

³⁶ Ibid.



APPENDIX

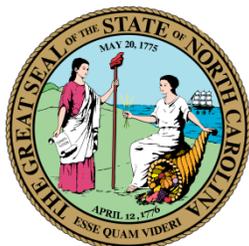
Internal Control Components and Principles Significant to the Audit Objective

Our audit objectives were to determine whether the Office of State Budget and Management's North Carolina Pandemic Recovery Office designed and implemented procedures to **ensure** that:

- 1) Coronavirus Relief Funds were being spent in accordance with the 2020 COVID-19 Recovery Act and subsequent amendments.
- 2) Programs that received Coronavirus Relief Funds were achieving their legislatively intended result.

Internal control components and underlying principles that were significant to our audit objective are identified in the table below.

COMPONENTS AND PRINCIPLES	OBJECTIVE 1	OBJECTIVE 2
CONTROL ENVIRONMENT		
1. The oversight body and management should demonstrate a commitment to integrity and ethical values.		
2. The oversight body should oversee the entity's internal control system.		
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.		
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.		
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.		
RISK ASSESSMENT		
6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.	X	X
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.	X	X
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.		
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.	X	X
CONTROL ACTIVITIES		
10. Management should design control activities to achieve objectives and respond to risks.	X	X
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.		
12. Management should implement control activities through policies.	X	X
INFORMATION AND COMMUNICATION		
13. Management should use quality information to achieve the entity's objectives.	X	X
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.		
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.	X	X
MONITORING ACTIVITIES		
16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.	X	X
17. Management should remediate identified internal control deficiencies on a timely basis.	X	X



STATE AUDITOR'S RESPONSE

The Office of the State Auditor (OSA) is required to provide additional explanation when an agency's response could potentially cloud an issue, mislead the reader, or inappropriately minimize the importance of the auditor findings.

Generally Accepted Government Auditing Standards state,

When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement.

In its response, the Office of State Budget and Management (OSBM) agreed with the results of this audit. However, OSBM stated in its response:

To combat the disadvantages associated with inadequate staffing to monitor the federal funds, NCPRO established a nine-part monitoring process as outlined below that balanced the legislative intent of disbursing over \$3.3 billion in CRF Funds to all intended recipients in a timely manner with monitoring the expenditures of 490 recipients each month.

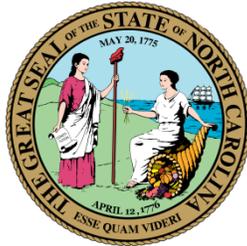
1. Control 1 – *Independent Verification and Validation of Self-Reported Documentation*

Recipients were required to submit expenditure information with supporting documentation on the first of each month starting July 1, 2020.

This response could **mislead the reader** to believe that OSBM independently verified and validated self-reported documentation starting in July 2020.

It did not. As the report states, NCPRO did not independently verify recipient spending by comparing the supporting documents (i.e. invoices, receipts, payroll records) to expenditures reported by recipients until November 2020, after the majority of funds were already spent.

As a result, there was an increased risk that recipients could have misused the funds without the misuse being detected and corrected in a timely manner.



RESPONSE FROM OFFICE OF STATE BUDGET AND MANAGEMENT



STATE OF NORTH CAROLINA
OFFICE OF STATE BUDGET AND MANAGEMENT



Employment First State for Individuals with Disabilities

ROY COOPER
GOVERNOR

CHARLES PERUSSE
STATE BUDGET DIRECTOR

April 27, 2021

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,

We have reviewed the Performance Audit report for the Coronavirus Relief Funds (CRF). Ensuring that the Coronavirus Relief Funds are used efficiently, equitably, and appropriately by the State of North Carolina to help our people, communities and businesses recover from the COVID-19 pandemic is essential to our mission. We take the findings presented in this report very seriously, and we have already begun making the changes to address them and to ensure that the North Carolina Pandemic Recovery Office will be well-equipped to handle the additional federal recovery dollars that the State will receive to recover from the pandemic.

Please find the Office of State Budget and Management (OSBM) and the North Carolina Pandemic Recovery Office's (NCPRO) response to your findings in connection with the performance audit of Coronavirus Relief Funds.

The following represents our response and the corrective actions taken and planned regarding the Audit Findings and Recommendations.

Mailing address:
20320 Mail Service Center
Raleigh, NC 27699-0320

www.osbm.state.nc.us
984-236-0600 ** FAX: 984-236-0630
An EEO/AA Employer

Office location:
116 West Jones Street
Raleigh, NC 27603

Audit Findings, Recommendations and Responses

Finding #1: Performed limited monitoring to ensure that federal funds distributed to provide economic support in the wake of COVID-19 were being spent in accordance with the Recovery Act. Specifically, it did not independently verify spending until November 2020.

Agency Response:

The North Carolina General Assembly (NCGA) funded the NC Pandemic Recovery Office at half of the requested amount, which left the office understaffed and led to the delay of independent verification of recipients' spending of Coronavirus Relief Funds. In addition to being understaffed, NCPRO was established with the passage of Session Law 2020-4 on May 4, 2020 and was not fully staffed until July of 2020.

The Recovery Act required the distribution, coordination, expenditure, and monitoring of the CRF funds to occur within a seven-month period from the passage of Session Law 2020-4 (May 4, 2020) to the program end date (December 30, 2020). To combat the disadvantages associated with inadequate staffing to monitor the federal funds, NCPRO established a nine-part monitoring process as outlined below that balanced the legislative intent of disbursing over \$3.3 billion in CRF Funds to all intended recipients in a timely manner with monitoring the expenditures of 490 recipients each month.

1. Control 1 – *Independent Verification and Validation of Self-Reported Documentation*
2. Control 2 – *Development of Training and Frequently Asked Questions (FAQ) for Recipients*
3. Control 3 – *Preliminary Budgets and/or Plans from Recipients Prior to Disbursement of Funds*
4. Control 4 – *Contracts and MOUs to recoup funds if misused by recipients*
5. Control 5 – *Ongoing Monitoring of Nongovernmental Recipients*
6. Control 6 – *Ongoing Monitoring of Governmental Recipients*
7. Control 7 – *Reconciliations of Disbursement and Expenditures*
8. Control 8 – *Full Audits*
9. Control 9 – *Corrective Action Procedures if deficiencies are identified.*

Distribution of funds had to occur prior to verification of self-reported documents and conducting full audits. Steps taken prior to distribution of funds included training all recipients on the appropriate use of funds and publishing FAQs (May and June), contracting¹ with the highest-risk nongovernmental organization recipients (May through October for most recipients with final hospital signing its contract in January 2021), and requiring spending plans from local governments (June). Counties received funds in May and June, while nongovernmental organizations received funds after execution of contracts which began in June 2020 with the final contract executed in January 2021.

¹ Contracts contained provisions that would allow for the recoupment and repayment of funds if misuse of funds is discovered by NCPRO.

Recipients were required to submit expenditure information with supporting documentation on the first of each month starting July 1, 2020.

In response to the auditor's finding, NCPRO is hiring additional staff, strengthening the processes associated with the nine controls previously implemented, and increasing the frequency of expenditure verification. NCPRO plans to apply these changes to the CRF dollars as well as to the additional federal pandemic recovery funds that it will manage for the State of North Carolina with the passage of additional federal legislation.

Finding #2: Distributed approximately \$3.1 billion of Coronavirus Relief Funds to provide economic support in the wake of COVID-19 without ensuring that all recipients (1) had objectives for what they would do with the funds, (2) had goals for how they accomplish their objectives, and (3) measured their progress towards meeting their goals.

Agency Response:

NCPRO acknowledges that a lack of staffing and funding and the temporary nature of NCPRO contributed to the State Auditor's finding that the recipients' performance measures were not as robust as they could have been to measure legislative intent and take remedial action with recipients when necessary. NCPRO and OSBM have taken steps to add additional staff and seek additional longer-term funding from the NC General Assembly for the NC Pandemic Recovery Office to improve these functions. At present, NCPRO is statutorily required to dissolve on December 31, 2021.

Despite the lack of robust performance measurements for all recipients, NCPRO was able to collect and has highlighted the success stories from recipients and subrecipients in using the CRF to help North Carolina's people, communities and businesses begin their recovery from the pandemic. These success stories can be accessed on the NCPRO website.

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

Sincerely,



Charles Perusse, State Budget Director



Stephanie McGarr, Executive Director,
North Carolina Pandemic Recovery Office

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State of North Carolina
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North Carolina Office of the State Auditor at:
919-807-7666



This audit required 1,666 hours of auditor effort at an approximate cost of \$173,264.