

STATE OF NORTH CAROLINA

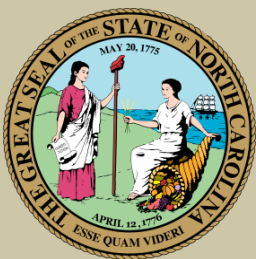
OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



EXTRA CREDIT GRANT PROGRAM

DEPARTMENT OF REVENUE

PERFORMANCE AUDIT
APRIL 2021



NCOSA
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The purpose of this audit was to determine whether the Department of Revenue (Department) awarded the Extra Credit Grant to eligible individuals in compliance with North Carolina Session Law 2020-4 Sections 4.12.(a)–(d).¹ If not in compliance, identify the causes and the effect of noncompliance.

BACKGROUND

On May 4, 2020, the North Carolina General Assembly enacted the 2020 COVID-19 Recovery Act.² The Recovery Act established the State's Coronavirus Relief Fund³ for the purpose of providing necessary and appropriate relief and assistance from the effects of COVID-19. The Fund provided approximately \$3.6 billion in federal assistance to various entities across the State.

Of the \$3.6 billion from the CARES Act, approximately \$441 million was allocated to the Department through the Coronavirus Relief Fund to administer the Extra Credit Grant Program.⁴

The Extra Credit Grant Program used funds from the Coronavirus Relief Fund to help families with qualifying children⁵ in North Carolina by awarding a one-time \$335 payment to assist with virtual schooling and child-care costs during the COVID-19 pandemic.

KEY FINDING

Some low-income families⁶ did not receive Extra Credit Grant Program payments from the State. These families did not receive the payments because of the additional steps the Department needed to take in order to award payments to low-income families in a short timeframe. These steps included,

- Creating an application
- Providing outreach
- Processing applications

KEY RECOMMENDATION

The General Assembly should consider requiring entities that administer relief payment programs in the future to use any and all information available to the State to provide **automatic payments** to all eligible individuals or families.

For example, the State could use available information from public assistance programs such as Medicaid, Supplemental Nutrition Assistance Program (SNAP), and Temporary Assistance for Needy Families (TANF) to identify eligible low-income families and make **automatic payments**.

¹ As enacted by Session Law 2020-97 Section 1.3.

² Session Law 2020-4.

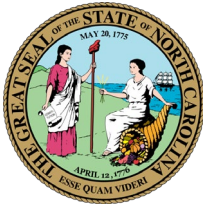
³ Session Law 2020-4 Section 2.2.

⁴ Session Law 2020-4 Sections 4.12.(a)–(d), as enacted by Session Law 2020-97 Section 1.3.

⁵ In order to be eligible for the grant, a child had to be a "qualifying child" for purposes of the federal child tax credit for tax year 2019. See Internal Revenue Code Section 24 or federal Publication 972.

⁶ Citizens of the State that had a gross income below the North Carolina individual income tax filing threshold in tax year 2019 (Generally, \$10,000 per year if single and \$20,000 per year if married).

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Ronald G. Penny, Secretary, Department of Revenue

Ladies and Gentlemen:

We are pleased to submit this performance audit report titled *Extra Credit Grant Program*. The audit objective was to determine whether the Department of Revenue awarded the Extra Credit Grant to eligible individuals in compliance with North Carolina Session Law 2020-4 Sections 4.12.(a)–(d).⁷ If not in compliance, identify the causes and the effect of noncompliance.

The Department of Revenue Secretary, Ronald Penny, reviewed a draft copy of this report. His written comments are included starting on page 10.

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 the Department of Revenue during our audit.

Respectfully submitted,

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

Beth A. Wood, CPA
State Auditor

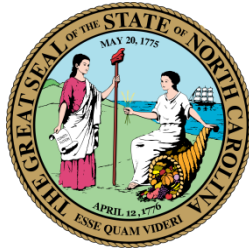
⁷ As enacted by Session Law 2020-97 Section 1.3.



Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
BACKGROUND	1
OBJECTIVE, SCOPE, AND METHODOLOGY	3
RESULTS AND CONCLUSIONS	5
FINDING, RECOMMENDATION, AND RESPONSE	
SOME LOW-INCOME FAMILIES DID NOT RECEIVE ASSISTANCE PAYMENTS FROM THE STATE.....	6
APPENDIX.....	9
RESPONSE FROM DEPARTMENT OF REVENUE.....	10
ORDERING INFORMATION	12



BACKGROUND

On March 27, 2020, the President of the United States signed into law the Coronavirus Aid, Relief and Economic Security (CARES) Act.⁸ The CARES Act established the federal Coronavirus Relief Fund and appropriated \$150 billion to this fund for distribution to state, local, and tribal governments.⁹ The State of North Carolina received a total of \$3.6 billion in financial assistance through the federal Coronavirus Relief Fund. The purpose of these funds was to provide financial assistance to cover costs that:

- 1) Are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19)
- 2) Were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government
- 3) Were incurred during the period that begins on March 1, 2020, and ends on December 31, 2021¹⁰

The North Carolina General Assembly enacted the 2020 COVID-19 Recovery Act¹¹ (Recovery Act) on May 4, 2020, to assist local governments, communities, families, workers and other individuals, and businesses in accessing federal relief and recovery funds from the CARES Act.

The Recovery Act established a Coronavirus Relief Fund that was to be maintained as a special fund, administered by the North Carolina Office of State Budget and Management to carry out the provisions of the law. The funds were 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.”¹²

Of the \$3.6 billion from the CARES Act, approximately \$441 million was allocated to the Department of Revenue (Department) through the Coronavirus Relief Fund to administer the Extra Credit Grant Program.¹³

The Extra Credit Grant Program used funds from the Coronavirus Relief Fund to help families with qualifying children¹⁴ in North Carolina by awarding a one-time \$335 payment to assist with virtual schooling and child-care costs during the COVID-19 pandemic.

According to legislation, payments were to be awarded **automatically** to eligible families¹⁵ that filed a 2019 state tax return in calendar year (CY) 2020. However, eligible families who did not file a 2019 state tax return because their gross income was low enough¹⁶ needed to **apply for payment**.

⁸ U.S. Public Law 116-136.

⁹ <https://home.treasury.gov/system/files/136/Payments-to-States-and-Units-of-Local-Government.pdf>.

¹⁰ 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.

¹¹ North Carolina Session Law 2020-4.

¹² Session Law 2020-4 Section 1.3.

¹³ Session Law 2020-4 Sections 4.12.(a)–(d), as enacted by Session Law 2020-97 Section 1.3.

¹⁴ In order to be eligible for the grant, a child had to be a “qualifying child” for purposes of the federal child tax credit for tax year 2019. See Internal Revenue Code Section 24 or federal Publication 972.

¹⁵ In general, families were eligible to receive the grant if they were a resident of North Carolina for the entire 2019 calendar year and reported at least one qualifying child for calendar year 2019.

¹⁶ Generally, \$10,000 per year if single and \$20,000 per year if married (for tax year 2019).

Since state law required payments to be made to low-income families through an application process, the Department needed to take additional steps in order for low-income families to apply for and receive payment.

These additional steps included:

- Creating an application
- Providing outreach
- Processing applications

Further, even though the state law was not enacted until September 4, 2020, applications had to be received no later than October 15, 2020. This provided only six weeks for the Department to create the application, provide outreach, and for low-income families to apply for payment.

As of December 31, 2020, the Department awarded \$366 million to 1.1 million families **automatically** and \$8.2 million to 25,000 families who **applied for payment**.

According to the original legislation, the Department was required to make payments to eligible families no later than December 15, 2020. The Department returned \$62.6 million allocated to the Extra Credit Grant Program after payments were provided to all eligible families identified prior to this deadline.

Subsequent legislation¹⁷ extended the application period for the Extra Credit Grant Program through May 31, 2021. Events that occurred as a result of this legislation were **not included** in the scope of this audit.

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 Act¹⁸ 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.

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.

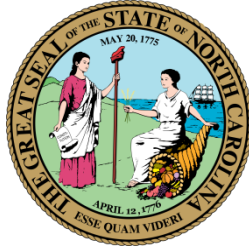
Responsible parties discussed in this report include:

Department of Revenue - the North Carolina Department of Revenue is a cabinet-level executive agency charged with administering tax laws and collecting taxes on behalf of the people of the State.

North Carolina General Assembly - the North Carolina General Assembly is comprised of the Senate and the House of Representatives and makes the law for the State of North Carolina.

¹⁷ Session Law 2021-1, enacted on February 10, 2021.

¹⁸ Session Law 2020-4.



OBJECTIVE, SCOPE, AND METHODOLOGY

The audit objective was to determine whether the Department of Revenue (Department) awarded the Extra Credit Grant to eligible individuals in compliance with North Carolina Session Law 2020-4 Sections 4.12.(a)–(d).¹⁹ If not, identify the causes and the effect of noncompliance.

The audit scope included the period of September 4, 2020,²⁰ through December 31, 2020.

To accomplish the audit objective, auditors:

- Reviewed relevant laws and regulations
- Interviewed Department personnel
- Reviewed the Department's policies and procedures for awarding the Extra Credit Grant for those automatically eligible for payment and for those that submitted an application for payment
- Observed operations
- Examined Department systems, financial information, and documentation supporting the Department's policies for awarding the Extra Credit Grant
- Reviewed Department communication including reports, memos, and emails

There were two areas of focus considered in this audit. Whether,

- Ineligible families received payments when they should not have
- Eligible families²¹ did not receive payments when they should have

In performing procedures to gain an understanding of the Department's policies, procedures, and controls for awarding Extra Credit Grant payments to eligible individuals, auditors assessed the risk that ineligible families received payments to be low.²² Therefore, auditors did not perform further procedures to identify whether payments were made to ineligible families and it **was not included** in the audit scope.

However, auditors assessed the risk that low-income families who did not file a 2019 state tax return receive Extra Credit Grant payments to be high. Therefore, the **audit focused on this area**.

Additionally, the North Carolina General Assembly enacted Session Law 2021-1 on February 10, 2021. This legislation extended the application deadline for the Extra Credit Grant Program to May 31, 2021. Events that occurred as a result of this legislation **were not included** in the scope of this audit.

¹⁹ As enacted by Session Law 2020-97 Section 1.3.

²⁰ The date Session Law 2020-4 was amended by Session Law 2020-97 Section 1.3 to add the Extra Credit Grant Program.

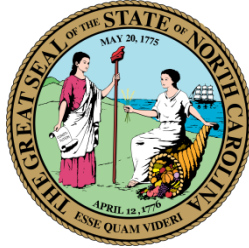
²¹ In general, families were eligible to receive the grant if they were a resident of North Carolina for the entire 2019 calendar year, had at least one qualifying child for calendar year 2019, and either filed a 2019 state tax return or submitted an application because their gross income was low enough.

²² Assessed as low due to payments being awarded automatically using electronic tax return information already maintained by the Department that was previously subject to various edits, checks, and audits.

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 objective.

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.

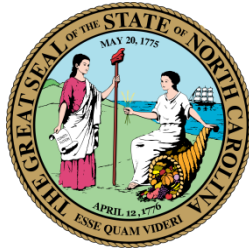


RESULTS AND CONCLUSIONS

Some low-income families²³ did not receive Extra Credit Grant Program payments from the State. As a result, families most in need did not receive economic assistance for virtual schooling and child-care costs during the COVID-19 pandemic. These families did not receive the payments because of additional steps the Department needed to take in order to award payments to low-income families in a short timeframe. These steps included,

- Creating an application
- Providing outreach
- Processing applications

²³ Citizens of the State that had a gross income below the North Carolina individual income tax filing threshold in tax year 2019 (Generally, \$10,000 per year if single and \$20,000 per year if married).



FINDING, RECOMMENDATION, AND RESPONSE

SOME LOW-INCOME FAMILIES DID NOT RECEIVE ASSISTANCE PAYMENTS FROM THE STATE

Some low-income families²⁴ did not receive Extra Credit Grant Program (Program) payments from the State. As a result, families most in need did not receive economic assistance for virtual schooling and child-care costs during the COVID-19 pandemic. These families did not receive the payments because of additional steps the Department needed to take in order to award payments to low-income families in a short timeframe. These steps included, (1) creating an application, (2) providing outreach, and (3) processing applications. State law stated that all families with qualifying children were entitled to receive the funds.

Some Low-Income Families Did Not Receive Payments

Some low-income families did not receive Program payments from the State during the COVID-19 pandemic.

The Program was administered by the Department of Revenue (Department) and used funds from the Coronavirus Relief Fund²⁵ to help families with qualifying children²⁶ in North Carolina. The Program issued one-time \$335 payments that were intended to assist families with the costs associated with virtual schooling and child-care during the COVID-19 pandemic.

Department records indicate that approximately 25,000 payments were provided to low-income families that applied and were eligible for the \$335 Program payment.

The Department was unable to provide an estimate of the number of low-income families that did not apply for and receive Program payments,²⁷ but the number could be significant.

For example, of the 25,000 payments, only approximately 9,000 were provided to low-income families who applied by the state law's original deadline of October 15, 2020.

An additional 16,000 payments were provided to low-income families that applied **only after** the application deadline was extended to December 7, 2020, as a result of a lawsuit filed by the Charlotte Center for Legal Advocacy.

As the additional payments provided after the deadline extension exhibited, there could be many more low-income families that did not receive Program payments through the application process.

Resulted in Families in Need Not Receiving Economic Assistance

As a result, the families most in need during the COVID-19 pandemic did not receive available economic support to assist with increased virtual learning and child care costs.

²⁴ Citizens of the State that had a gross income below the North Carolina individual income tax filing threshold in tax year 2019 (Generally, \$10,000 per year if single and \$20,000 per year if married).

²⁵ A fund administered by the North Carolina Office of State Budget and Management to carry out the provisions the COVID-19 Recovery Act. 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."

²⁶ In order to be eligible for the grant, a child had to be a "qualifying child" for purposes of the federal child tax credit for tax year 2019. See Internal Revenue Code Section 24 or federal Publication 972.

²⁷ According to the Department, approximately 140,000 low-income families filed 2019 state tax returns and therefore likely received payments automatically.

Due to the COVID-19 pandemic, North Carolina public schools moved in large part to virtual schooling. This transition created child care difficulties for families. Without in-person schooling, some parents may not have been able to maintain employment or were forced to work less hours in order to care for their children. Further, virtual schooling required computers and internet access, the cost of which may have reduced a family's resources.

Receiving assistance from the Program would have helped these families.

Caused by Additional Steps Required to Award Payments to Low-Income Families in a Short Timeframe

Some low-income families did not receive Program payments because of additional steps the Department needed to take in order to award payments to low-income families in a short timeframe. These steps included, (1) creating an application, (2) providing outreach, and (3) processing applications.

State law²⁸ directed the Department to award payments automatically to eligible families that filed a 2019 state tax return in calendar year 2020. Low-income families may not have filed a 2019 state tax return if their gross income was low enough.²⁹ State law required the Department to issue payments to these families only after an application was received.

Therefore, while the Department was able to award payment to some families automatically based on information it already had, the Department needed to take additional steps in order for low-income families to apply for and receive payment.

These additional steps included:

- **Creating an application.** In order for low-income families to apply to receive Program payments, the Department needed to create an application.

According to the Department, the online and paper applications were developed based on the statutory requirements to determine eligibility as directed by state law. Therefore, the application and accompanying instructions were written using tax terminology that may have been unfamiliar to individuals who do not typically file a tax return.

According to the "Federal Plain Language Guide," the language used to inform the public should be written in a manner that can be understood and used to meet their needs.

- **Providing Outreach.** In order to apply to receive Program payments, low-income families needed to be aware of the Program.

The Department made several efforts to publicize the Program including:

- Information on the Department's website³⁰
- Social media posts
- Print and radio ads
- Billboards
- Coordination with the North Carolina Association of County Directors of Social Services
- Coordination with the Superintendent of the Department of Public Instruction

²⁸ Session Law 2020-4 Sections 4.12.(a)-(d), as enacted by Session Law 2020-97 Section 1.3.

²⁹ Generally, \$10,000 per year if single and \$20,000 per year if married (for tax year 2019).

³⁰ Included general information about the program, eligibility requirements, links to apply online, phone number to call, etc.

However, each of these efforts were inherently limited. No matter the extent of outreach, there was no assurance that all low-income families would become aware of the program and apply for payment.

- **Processing applications.** In order to provide payment to low-income families, the Department needed to process and review both online and paper applications submitted by low-income families.

For the paper applications received, the Department had to manually enter the information into its electronic system. Then information from all applications was electronically verified to ensure that the applications were complete and that applicants had not already received payments through the automatic process used for higher-income families.

Further, the Department stated that it was a challenge to create the application and provide outreach in the timeframe required by state law. According to the state law, applications had to be received no later than October 15, 2020, even though the state law was not enacted until September 4, 2020. This provided only six weeks for the Department to create the application, provide outreach, and for low-income families to apply for payment.

The Department made the application available and began outreach to low-income families on September 17, 2020, less than a month before the deadline.

Subsequently, the deadline for low-income families was extended to December 7, 2020, as a result of the lawsuit filed by the Charlotte Center for Legal Advocacy on October 28, 2020.

However, even with the extended deadline, low-income families still had less than two months to apply for Program payments from the time the application was made available and outreach began.

If state law prescribed a method to automatically provide payments to eligible low-income families as was used to provide payments to eligible higher-income families, these additional steps would have been unnecessary and the time constraints would have been relieved.

State Law Entitled All Families with Qualifying Children to Receive Funds

Session Law 2020-4 Section 4.12.(a) stated:³¹

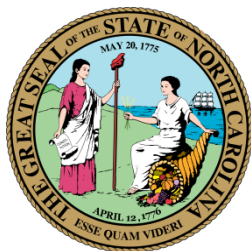
The purpose of this section is to use funds from the Coronavirus Relief Fund to help **families with qualifying children** in North Carolina by providing economic support to assist with virtual schooling and child-care during the COVID-19 pandemic. (*Emphasis Added*)

Recommendation

The General Assembly should consider requiring entities that administer relief payment programs in the future to use any and all information available to the State to provide **automatic payments** to all eligible individuals or families.

For example, the State could use available information from public assistance programs such as Medicaid, Supplemental Nutrition Assistance Program (SNAP), and Temporary Assistance for Needy Families (TANF) to identify eligible low-income families and make **automatic payments**.

³¹ As enacted by Session Law 2020-97 Section 1.3.



APPENDIX

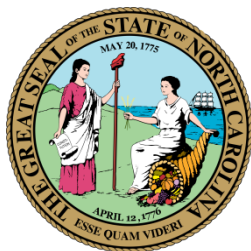
Internal Control Components and Principles Significant to the Audit Objective

Our audit objective was to determine whether the Department of Revenue awarded the Extra Credit Grant to eligible individuals in compliance with North Carolina Session Law 2020-4, Sections 4.12(a)–(d).³² If not in compliance, identify the causes and the effect of noncompliance.

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

COMPONENTS AND PRINCIPLES	SIGNIFICANT
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.	
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.	
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.	
CONTROL ACTIVITIES	
10. Management should design control activities to achieve objectives and respond to risks.	X
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.	X
12. Management should implement control activities through policies.	X
INFORMATION AND COMMUNICATION	
13. Management should use quality information to achieve the entity's objectives.	
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
MONITORING ACTIVITIES	
16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.	
17. Management should remediate identified internal control deficiencies on a timely basis.	

³² As enacted by Session Law 2020-97 Section 1.3.



RESPONSE FROM DEPARTMENT OF REVENUE



Roy Cooper
Governor

Ronald G. Penny
Secretary

April 21, 2021

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Dear Auditor Wood:

Thank you for providing the Department of Revenue an opportunity to respond to the performance audit titled *Extra Credit Grant Program*.

The Department agrees that the program designed in the statute authorizing the Extra Credit Grant placed an additional burden on some low-income families to become eligible to receive the Extra Credit Grant. The burden impacted low-income families that did not file a 2019 North Carolina individual income tax return solely because their gross income did not exceed the filing requirement. Under the statute, these families were not eligible for a Grant unless they filed an application with the Department of Revenue. In contrast, families who filed a 2019 North Carolina individual income tax return automatically qualified for the Grant if they met the statutory requirements.

The Department also agrees that the short time between the law's enactment and the statutorily-defined application deadline contributed to the burden on and severely limited the outreach to low-income families who did not file tax returns.

You have recommended, "the General Assembly should consider requiring entities that administer relief payment programs in the future to use any and all information available to the state to provide automatic payments to all eligible individuals or families." The Department will convey the recommendation to the General Assembly.

Despite the additional burden on some low-income families, a total of approximately 165,000 families who did not meet the state filing requirement received an Extra Credit Grant in 2020. For tax year 2019, over 140,000 low-income families filed a North Carolina individual income tax return claiming a child deduction despite reporting an income below the State filing requirement. The Department automatically issued an Extra Credit Grant to these families if they met the other statutory requirements. In addition, the Department issued approximately 25,000 Extra Credit Grants to low-income families who applied to receive the Grant.

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More low-income families will receive an Extra Credit Grant before the program is complete. As your audit notes, the General Assembly extended the Extra Credit Grant Program through May 31, 2021 in Session Law 2021-1. Pursuant to the extension, the Department is continuing to make sure all families that can receive a Grant by applying are able to apply for an Extra Credit Grant and focusing on more outreach specific to low-income North Carolinians that time did not allow during the original 2020 program. We are working with statewide nonprofits, particularly those working in community and human services, trade associations, legislators, cabinet agencies, and advocacy groups to share information about the Extra Credit application extension. Additionally, the Department is holding online community meetings with childcare providers, county commissioners, and school board members to further share and distribute information and providing materials to community action associations for direct distribution. The Department is working with United Way of North Carolina on distribution of grant application information to United Way's statewide network of human service providers, along with social media advertising and targeted outreach.

Again, thank you for the opportunity to respond. Despite the challenges you outlined, we believe the Department successfully administered the Extra Credit Grant Program as designated by the General Assembly by sending more than a million checks to North Carolinians in only a matter of weeks, notwithstanding that it is a grant program and not a tax program within the Department's statutory purpose.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Penny', with a stylized flourish at the end.

Ronald G. Penny
Secretary, Department of Revenue

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