

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

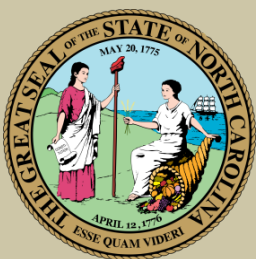
BETH A. WOOD, CPA



OVERSIGHT OF HURRICANE FLORENCE DISASTER RECOVERY FUNDS

DEPARTMENT OF PUBLIC SAFETY

PERFORMANCE AUDIT
APRIL 2022



NCOSA
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of this audit were to determine whether the Department of Public Safety (DPS) designed and implemented procedures to **ensure** that:

- (1) Hurricane Florence Disaster Recovery Funds were spent in accordance with Hurricane Florence Recovery legislation.¹
- (2) Recipients' programs funded with Hurricane Florence Disaster Recovery Funds were achieving their legislatively intended result.

BACKGROUND

In October 2018, the North Carolina General Assembly enacted the Hurricane Florence Emergency Response Act.² The Hurricane Florence Emergency Response Act established the Hurricane Florence Disaster Recovery Fund³ "to provide necessary and appropriate relief and assistance⁴ from the effects of Hurricane Florence." Through a series of legislation, the Hurricane Florence Disaster Recovery Fund allocated a total of \$942.4 million in assistance to various entities across the state.

Hurricane Florence Recovery legislation required DPS to administer the Hurricane Florence Disaster Recovery Fund, to carry out the provisions of the law,⁵ and to ensure the proper accounting of the Hurricane Florence Disaster Recovery Fund.

Hurricane Florence Recovery legislation also created the North Carolina Office of Recovery and Resiliency (NCORR) within DPS. NCORR is responsible for: (1) providing general disaster recovery coordination and public information, (2) citizen outreach and application case management, (3) program and construction management services, (4) audit, finance, compliance, and reporting on disaster recovery funds, and (5) reporting on the use, oversight, and results achieved by Hurricane Florence Disaster Recovery Funds.

KEY FINDINGS

- \$502 million of Hurricane Florence Disaster Recovery Funds were distributed with limited monitoring.
- \$783 million of Hurricane Florence Disaster Recovery Funds were distributed without ensuring all recipients had a method to measure the results.

¹ See Appendix A for details regarding legislation affecting the state's Hurricane Florence Disaster Recovery Fund.

² The Hurricane Florence Emergency Response Act, S.L. 2018-134.

³ S.L. 2018-134 § 3.1.(a).

⁴ The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purpose and uses of funds.

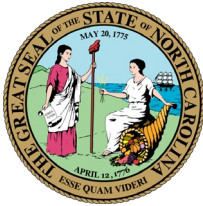
⁵ Pursuant to S.L. 2018-134, the Office of State Budget and Management, or another state agency determined by the Governor, was responsible for maintaining and administering the Hurricane Florence Disaster Recovery Fund. On November 5, 2018, the Office of State Budget and Management issued a memo transferring this responsibility to the Department of Public Safety.

EXECUTIVE SUMMARY (CONCLUDED)

KEY RECOMMENDATIONS

- DPS should monitor external recipients' Hurricane Florence Disaster Recovery Fund spending timely to ensure funds are being spent in accordance with Hurricane Florence Recovery legislation.
- DPS should develop policies and procedures to ensure **all** recipients (1) have objectives for what they will do with the funds, and (2) measure their progress towards meeting their objectives.
- The North Carolina General Assembly should consider including monitoring requirements in future legislation regarding the spending of Hurricane Florence Disaster Recovery Funds or other emergency relief funds.

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Office of the State Auditor



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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Eddie Buffaloe, Secretary, North Carolina Department of Public Safety
William Ray, Director, Emergency Management

Ladies and Gentlemen:

We are pleased to submit this performance audit report titled *Oversight of Hurricane Florence Disaster Recovery Funds*. The audit objectives were to determine whether the Department of Public Safety designed and implemented procedures to **ensure** that:

- (1) Hurricane Florence Disaster Recovery Funds were spent in accordance with Hurricane Florence Recovery legislation.
- (2) Recipients' programs funded with Hurricane Florence Disaster Recovery Funds were achieving their legislatively intended result.

The Department of Public Safety Secretary, Eddie Buffaloe, reviewed a draft copy of this report. His written comments are included starting on page 20.

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

We appreciate the courtesy and cooperation received from management and the employees of the Department of Public Safety during our audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Beth A. Wood".

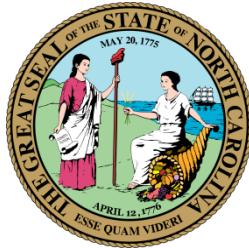
Beth A. Wood, CPA
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BACKGROUND

In September 2018, Hurricane Florence made landfall, bringing high winds, a dangerous storm surge, and record rainfall that caused historic flooding and numerous fatalities throughout North Carolina.⁶

In October 2018, the North Carolina General Assembly enacted the Hurricane Florence Emergency Response Act (Response Act)⁷ in response to the effects of Hurricane Florence on the state of North Carolina.

The Response Act established the Hurricane Florence Disaster Recovery Fund⁸ “to provide necessary and appropriate relief and assistance⁹ from the effects of Hurricane Florence.” The Fund is to be maintained as a special fund, administered by the North Carolina Department of Public Safety (DPS),¹⁰ to carry out the provisions of the law and subsequent acts needed as a result of the impact of Hurricane Florence.

Through a series of legislation,¹¹ the state appropriated approximately \$942.4 million to state agencies, institutions of higher education, and a non-profit foundation through the Hurricane Florence Disaster Recovery Fund as shown in the following illustration:

\$942.4 Million					
Hurricane Florence Disaster Recovery Fund Appropriations	Department of Agriculture	Department of Public Safety	Department of Public Instruction	Department of Transportation	Department of Environmental Quality
	\$295.0 Million	\$271.3 Million	\$91.5 Million	\$65.0 Million	\$55.4 Million
	University of North Carolina System	The Golden LEAF Foundation	Office of State Budget and Management	North Carolina Community College System	Department of Health and Human Services
	\$43.2 Million	\$34.5 Million	\$28.2 Million	\$23.4 Million	\$17.0 Million
	Housing Finance Agency	Department of Natural and Cultural Resources	Wildlife Resources Commission	Administrative Office of the Courts	Department of Insurance
	\$10.0 Million	\$5.0 Million	\$1.0 Million	\$1.0 Million	\$0.9 Million

⁶ Office of State Budget and Management’s Hurricane Florence Damage and Needs Assessment Report – Revised October 26, 2018.

⁷ The Hurricane Florence Emergency Response Act, S.L. 2018-134.

⁸ S.L. 2018-134 § 3.1.(a).

⁹ The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purpose and uses of funds.

¹⁰ Pursuant to S.L. 2018-134, the Office of State Budget and Management, or another state agency determined by the Governor, was responsible for maintaining and administering the Hurricane Florence Disaster Recovery Fund. On November 5, 2018, the Office of State Budget and Management issued a memo transferring this responsibility to the Department of Public Safety.

¹¹ See Appendix A for details regarding legislation affecting the state’s Hurricane Florence Disaster Recovery Fund.

As of January 31, 2021, **\$783 million had been distributed** from the Hurricane Florence Disaster Recovery Fund.

To receive funds, each state agency, institution of higher education, and non-profit foundation would typically spend funds on recovery efforts and later request reimbursement from DPS for qualifying expenditures. These recipients would submit reports to DPS on a quarterly basis that included a summary of program activities, how much was spent to date, and performance metrics outlined in legislation.

Hurricane Florence Recovery legislation¹² also created the North Carolina Office of Recovery and Resiliency (NCORR) within DPS. NCORR is responsible for:

- Providing general disaster recovery coordination and public information.
- Citizen outreach and application case management.
- Program and construction management services.
- Audit, finance, compliance, and reporting on disaster recovery funds.
- Reporting on the use, oversight, and results achieved by Hurricane Florence Disaster Recovery Funds.

Unless stated otherwise, references to DPS in this report also encompass the responsibilities and activities of NCORR.

Hurricane Florence Recovery legislation¹³ required DPS to administer the Hurricane Florence Disaster Recovery Fund, to carry out the provisions of the law, and to ensure the proper accounting of the Hurricane Florence Disaster Recovery Fund. Specifically, DPS is required to:

- Allocate and disburse Hurricane Florence Recovery Funds as directed by Hurricane Florence legislation.
- Ensure adherence with reporting requirements established in Hurricane Florence legislation.
- Account for the Hurricane Florence Recovery Fund in accordance with generally accepted accounting principles and the requirements established by the North Carolina Office of the State Controller (OSC).¹⁴

¹² 2018 Hurricane Florence Disaster Recovery Act, S.L. 2018-136 § 5.7.(a).

¹³ Per S.L. 2018-134, the Office of State Budget and Management was responsible for maintaining and administering the Hurricane Florence Disaster Recovery Fund. On November 5, 2018, the Office of State Budget and Management issued a memo transferring this responsibility to the Department of Public Safety.

¹⁴ Per OSC guidance provided to DPS in November 2018.

Key terms discussed in this report include:

Hurricane Florence – The hurricane that made landfall in eastern North Carolina on September 14, 2018.

Hurricane Florence Recovery legislation – The Hurricane Florence Emergency Response Act¹⁵ and subsequent legislation¹⁶ enacted by the state of North Carolina to establish the Hurricane Florence Disaster Recovery Fund and provide necessary and appropriate relief¹⁷ and assistance from the effects of Hurricane Florence.

Hurricane Florence Disaster Recovery Fund – The fund established by the state to provide necessary and appropriate relief and assistance from the effects of Hurricane Florence.

Responsible parties discussed in this report include:

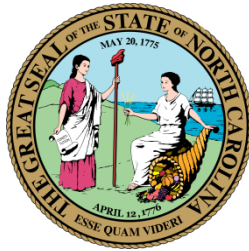
North Carolina Department of Public Safety (DPS) – DPS provides public safety services for the state including emergency management. The Hurricane Florence Emergency Response Act established the Hurricane Florence Disaster Recovery Fund that is to be maintained as a special fund and administered by DPS to carry out the provisions of the law.

North Carolina Office of Recovery and Resiliency (NCORR) – NCORR is a division of DPS that provides general disaster recovery coordination and public information and is responsible for reporting on the use, oversight, and results achieved by Hurricane Florence Disaster Recovery Funds.

¹⁵ The Hurricane Florence Emergency Response Act, S.L. 2018-134.

¹⁶ See Appendix A for details regarding legislation affecting the state's Hurricane Florence Disaster Recovery Fund.

¹⁷ The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purpose and uses of funds.



OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to determine whether the Department of Public Safety (DPS) designed and implemented procedures to **ensure** that:

- (1) Hurricane Florence Disaster Recovery Funds were spent in accordance with Hurricane Florence Recovery legislation.¹⁸
- (2) Recipients' programs funded with Hurricane Florence Disaster Recovery Funds were achieving their legislatively intended result.

The audit scope included the period of November 1, 2018, through January 31, 2021.

The audit scope **did not include**:

- Federal disaster recovery funds or other state disaster recovery funds received from sources other than the Hurricane Florence Disaster Recovery Fund.
- Disbursements to subrecipients, beneficiaries, municipalities, or other secondary entities that did not receive funds directly from Hurricane Florence Disaster Recovery Fund.
- Adherence to reporting requirements established by Hurricane Florence Recovery legislation.
- Determination of whether DPS accounted for, allocated, and disbursed amounts appropriated to the Hurricane Florence Disaster Recovery Fund in accordance with Hurricane Florence Recovery legislation.¹⁹

To gain an understanding of Hurricane Florence Recovery legislation and DPS processes for administering the Hurricane Florence Disaster Recovery Fund, auditors:

- Reviewed relevant laws and regulations.
- Interviewed DPS and North Carolina Office of Recovery and Resiliency (NCORR) personnel.
- Reviewed DPS and NCORR policies and procedures for monitoring recipients of Hurricane Florence Disaster Recovery Funds.
- Reviewed financial data for Hurricane Florence Disaster Recovery Fund disbursements.

Auditors also performed the following tests:

Auditors identified two distinct groups for testing: 1) Hurricane Florence Disaster Recovery Funds spent by DPS and 2) Hurricane Florence Disaster Recovery Funds spent by entities external to DPS (external recipients).²⁰

¹⁸ See Appendix A for details regarding legislation affecting the state's Hurricane Florence Disaster Recovery Fund.

¹⁹ This was the objective of the Office of the State Auditor's *Department of Public Safety Hurricane Florence Disaster Recovery Fund Preliminary Financial Audit* released in September 2021.

²⁰ External recipients included state agencies (not including DPS), institutions of higher education, and a non-profit foundation. See Appendix B for full list of recipients.

Funds Spent in Accordance with Hurricane Florence Recovery Legislation

DPS – From the population of 344 invoices totaling \$52 million of payments, made during the period November 1, 2018, through January 31, 2021, auditors selected a statistical sample²¹ of 52 invoices for payment totaling \$9 million. Auditors compared supporting documents (i.e., invoices, receipts, payroll records) to expenditures reported by DPS to determine whether expenditures were supported.

Auditors also tested all (100%) Hurricane Florence Disaster Recovery Fund state match²² transactions totaling \$132 million. Auditors recalculated state expenditures and compared them to the required match based on federal expenditures²³ recorded to Federal Emergency Management Agency (FEMA) grants.

*External Recipients*²⁴ – Auditors tested all 158 (100%) requests for funds totaling \$622 million submitted by external recipients of Hurricane Florence Disaster Recovery Funds during the period November 1, 2018, through January 31, 2021, to determine whether DPS independently verified external recipient spending by comparing supporting documents (i.e. invoices, receipts, payroll records) to expenditures reported by the external recipients.

Funds Achieving Legislatively Intended Results

All Recipients – Auditors tested all 9 (100%) quarterly reports submitted during November 1, 2018, through January 31, 2021, compiled by NCORR using information received from the 14 recipients and 51 programs to determine whether the recipients and programs:

- Had objectives for what they would do with the funds.
- Measured their progress towards meeting their objectives.

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 lack of compliance.

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 Appendix C for internal control components and underlying principles that were significant to our audit objective.

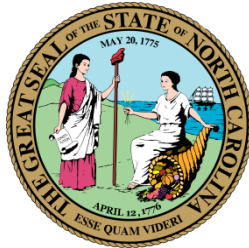
We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.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

²¹ The statistical sample was selected with a 95% confidence level indicating a high level of assurance that results can be projected to the population. Additionally, no errors were noted in the sample. Therefore, the risk that the true error rate in the population exceeds the planned sample error rate is low.

²² State Match, or cost share, means the state's portion of federally-assisted project costs not paid by federal funds or contributions.

²³ According to DPS accounting records as of January 31, 2021.

²⁴ External recipients included state agencies (not including DPS), institutions of higher education, and a non-profit foundation. See Appendix B for full list of recipients.



RESULTS AND CONCLUSIONS

The North Carolina Department of Public Safety (DPS) did not design and implement procedures to **ensure** that Hurricane Florence Disaster Recovery Funds were being spent in accordance with Hurricane Florence Disaster Recovery legislation or that programs operated by recipients of Hurricane Florence Disaster Recovery Funds were achieving their legislatively intended results. Specifically, DPS:

- Performed limited monitoring²⁵ to ensure that \$502 million²⁶ in state funds distributed to provide necessary and appropriate relief and assistance from the effects of Hurricane Florence were being spent in accordance with Hurricane Florence Disaster Recovery legislation. Specifically, DPS did not independently verify external recipient²⁷ spending.
- Distributed approximately \$783 million²⁸ of Hurricane Florence Disaster Recovery Funds to provide necessary and appropriate relief and assistance without ensuring that all recipients²⁹ (1) had objectives for what they would do with the funds and (2) measured their progress towards meeting their objectives.

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

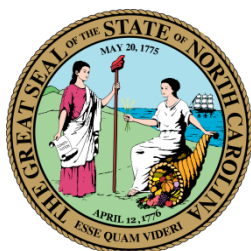
²⁵ Monitoring activities are established and operated by management to **assess** the quality of performance **over time** and promptly resolve identified issues.

²⁶ According to DPS accounting records as of January 31, 2021.

²⁷ External recipients included state agencies (not including DPS), institutions of higher education, and a non-profit foundation. DPS was allocated approximately \$175 million of Hurricane Florence Recovery Funds, for which DPS did have procedures in place to compare supporting documents to spending.

²⁸ According to DPS accounting records as of January 31, 2021.

²⁹ Recipients include state agencies, colleges, universities, local governments, and a nonprofit.



FINDINGS, RECOMMENDATIONS, AND RESPONSES

1. \$502 MILLION OF HURRICANE FLORENCE DISASTER RECOVERY FUNDS WERE DISTRIBUTED WITH LIMITED MONITORING

The North Carolina Department of Public Safety (DPS) performed **limited** monitoring³⁰ to ensure that state funds distributed to provide relief and assistance³¹ from the effects of Hurricane Florence were spent in accordance with Hurricane Florence Recovery legislation.³² Specifically, DPS did not plan to independently verify external recipient³³ spending. As a result, there was an increased risk that external recipients could have misused funds without the misuse being detected and corrected timely.

DPS management stated that it did not independently verify spending because legislation did not require monitoring of external recipient spending. Instead, DPS chose to prioritize (1) the establishment of the North Carolina Office of Recovery and Resiliency (NCORR),³⁴ (2) the coordination and distribution of funds to external recipients, and (3) reporting based on legislative requirements.³⁵

However, best practices from the Government Accountability Office (GAO) recommend monitoring recipient spending.

Limited Monitoring of External Recipient Spending of Hurricane Florence Disaster Recovery Funds

DPS's limited monitoring procedures did not ensure that external recipients were spending approximately \$502 million³⁶ of Hurricane Florence Disaster Recovery Funds in accordance with Hurricane Florence Recovery legislation. Specifically, DPS **did not** plan to verify external recipient spending by comparing supporting documents (i.e. invoices, receipts, payroll records) to expenditures reported by external recipients.

DPS required recipients to submit monthly spending reports using templates noting legislative reference, appropriation amount, and purpose. DPS also reconciled reported spending to external recipient accounting records submitted with spending reports and the legislative allocations. However, DPS **did not require** recipients to submit supporting documentation needed to verify expenditures.

³⁰ Monitoring activities are established and operated by management to **assess** the quality of performance **over time** and promptly resolve identified issues.

³¹ The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purpose and uses of funds.

³² Includes S.L. 2018-134 (Hurricane Florence Emergency Response Act) and subsequent legislation. See Appendix A for details regarding legislation affecting the state's Hurricane Florence Disaster Recovery Fund.

³³ External recipients included state agencies (not including DPS), institutions of higher education, and a non-profit foundation. DPS was allocated approximately \$175 million of Hurricane Florence Recovery Funds, for which DPS had procedures to compare supporting documents to spending.

³⁴ Created in DPS by Hurricane Florence Recovery legislation. NCORR is responsible for providing general disaster recovery coordination and public information; citizen outreach and application case management; program and construction management services; audit, finance, compliance, and reporting on disaster recovery funds.

³⁵ The 2018 Hurricane Florence Disaster Recovery Act, S.L. 2018-136 required quarterly reports that included (1) how much was spent, (2) what the funds were spent on, (3) a summary of program activities, (4) performance metrics, and (5) a summary of oversight activities and results achieved.

³⁶ According to DPS records as of January 31, 2021.

During the period November 1, 2018, through July 31, 2019, some external recipients submitted supporting documentation **despite DPS not requiring it**. During this time, DPS verified external recipient spending by comparing expenditures per the monthly spending reports to supporting documents **only if** supporting documents were received from the external recipients. Auditors determined that **\$316** million of \$437 million (72%) in external recipient spending did not include the supporting documentation necessary to verify spending during the same period.

Additionally, beginning in August 2019, DPS management stated it **did not** independently verify external recipient spending **at all**. From August 1, 2019, through January 31, 2021, **\$186** million of external recipient spending was not independently verified.

Therefore, DPS did not monitor to ensure that \$502 million of external recipient spending was accurate³⁷ and spent in accordance with Hurricane Florence Recovery legislation.

Resulted in Increased Risk of Undetected and Uncorrected Misuse

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

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

- Expenditures incurred due to the effects of Hurricane Florence.
- Activities and programs to meet the requirements specified by legislators in Hurricane Florence Recovery legislation. For example,
 - \$247 million to assist farmers with agricultural recovery activities such as hay relief, pasture renovation, reforestation efforts, and farm road repair.
 - \$123 million for the repair and renovation of facilities at public schools, universities and community colleges, counties and local governments, and volunteer fire departments.
 - \$41 million for coastal storm mitigation and infrastructure cleanup such as beach nourishment,³⁸ sand dune restoration, and other projects to remediate storm damage.
 - \$10 million to develop and repair affordable housing and single-family homes in impacted counties.
 - \$10 million to provide loans to small business impacted by Hurricane Florence.

³⁷ Meaning the spending information would agree to supporting documents (i.e. invoices, receipts, contracts, payroll records).

³⁸ Beach nourishment is the process of placing additional sand or sediment on a beach to provide storm protection for coastal structures, create new habitats, or enhance the beach for recreation.

And since DPS did not plan for and require external recipients to submit supporting documentation needed to verify spending, external recipient spending could not be verified. Therefore, there was an increased risk that DPS 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:

- Timely detection and correction of misuse.
- Training opportunities for recipients that misused funds.
- Potential that future misuse is reduced.

Caused by DPS Prioritizing NCORR Establishment, Funds Distribution, and Legislative Reporting Requirements

DPS management stated that it did not independently verify spending because legislation did not specifically require monitoring of recipient spending. DPS management stated it instead chose to prioritize (1) the establishment of the North Carolina Office of Recovery and Resiliency, (2) the coordination and distribution of funds to external recipients, and (3) reporting based on legislative requirements.³⁹

Best Practices Recommend Monitoring Recipient Spending

Legislation did not explicitly require DPS to monitor recipients to ensure funds were spent in accordance with Hurricane Florence Recovery legislation. However, DPS was required to **administer** the Hurricane Florence Disaster Recovery Fund to carry out the provisions of Hurricane Florence Recovery legislation. Merriam-Webster's dictionary defines administer as "to manage or supervise the execution, use, or conduct of".

Without monitoring the spending of fund recipients, it would be difficult to ensure that the funds were used for authorized purposes or that the provisions and legislative intent of the Hurricane Florence Recovery legislation were carried out.

In addition, best practices identified by the Government Accountability Office (GAO) state that management should establish internal controls to provide reasonable assurance of effective **operations**. The GAO states:

Legislators, monitoring bodies, those charged with governance, and the public need to know whether... government services are provided effectively.⁴⁰

Management is directly responsible for the design, implementation, and operation of internal controls to achieve its objectives which include effective and efficient **operations**. Internal controls include plans, methods, policies, and procedures used to fulfill the entity's objectives.⁴¹

³⁹ The 2018 Hurricane Florence Disaster Recovery Act, S.L. 2018-136 required quarterly reports that included (1) how much was spent, (2) what the funds were spent on, (3) a summary of program activities, (4) performance metrics, and (5) a summary of oversight activities and results achieved.

⁴⁰ United States Government Accountability Office, Government Auditing Standards, July 2018.

⁴¹ United States Government Accountability Office, Standards for Internal Control in the Federal Government, September 2014.

RECOMMENDATIONS

DPS should monitor external recipients' Hurricane Florence Disaster Recovery Fund spending timely to ensure funds are being spent in accordance with Hurricane Florence Recovery legislation.

The North Carolina General Assembly should consider including monitoring requirements in future legislation regarding the spending of Hurricane Florence Disaster Recovery Funds or other emergency relief funds.

AGENCY RESPONSE

See page 20 for the Department's response to this finding.

2. \$783 MILLION OF HURRICANE FLORENCE DISASTER RECOVERY FUNDS WERE DISTRIBUTED WITHOUT ENSURING ALL RECIPIENTS HAD A METHOD TO MEASURE RESULTS

The North Carolina Department of Public Safety (DPS) distributed⁴² approximately \$783 million⁴³ of Hurricane Florence Disaster Recovery Funds to provide relief and assistance⁴⁴ from the effects of Hurricane Florence without ensuring that all recipients⁴⁵ (1) established objectives for what they would do with the funds, and (2) measured their progress towards meeting their objectives. As a result, DPS was limited in its ability to know whether Hurricane Florence Disaster Recovery Funds were achieving legislatively intended results and to take timely corrective action, if necessary.

DPS management stated that it did not ensure **all** recipients established a method to measure results because legislation did not require the results from all recipients to be measured. Instead, DPS chose to prioritize (1) the establishment of the North Carolina Office of Recovery and Resiliency (NCORR),⁴⁶ (2) the coordination and distribution of funds to recipients, and (3) reporting based on legislative requirements.⁴⁷

However, state law required DPS to report on results achieved from the use of Hurricane Florence Disaster Recovery Funds and best practices from the Government Accountability Office (GAO) recommend that DPS determine whether legislatively intended results were achieved.

⁴² Includes both funds distributed to and spent by external recipients and funds spent by DPS.

⁴³ According to DPS records as of January 31, 2021.

⁴⁴ The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purposes and uses of funds.

⁴⁵ Included state agencies (including DPS), institutions of higher education, and a non-profit foundation.

⁴⁶ Created in DPS by Hurricane Florence Recovery legislation. NCORR is responsible for providing general disaster recovery coordination and public information; citizen outreach and application case management; program and construction management services; audit, finance, compliance, and reporting on disaster recovery funds.

⁴⁷ The 2018 Hurricane Florence Disaster Recovery Act, S.L.2018-136 required quarterly reports that included (1) how much was spent, (2) what the funds were spent on, (3) a summary of program activities, (4) performance metrics, and (5) a summary of oversight activities and results achieved.

Limited Procedures Established to Ensure Recipients Measured Results of Spending

DPS distributed approximately \$783 million of Hurricane Florence Disaster Recovery Funds without ensuring that **all** recipients established a method to measure whether the funds were achieving legislatively intended results.

The North Carolina General Assembly enacted Hurricane Florence Recovery legislation⁴⁸ to provide necessary and appropriate relief and assistance⁴⁹ from the effects of Hurricane Florence.

Examples of relief and assistance appropriated include:⁵⁰

- **\$177 million disbursed to seven recipients**⁵¹ for repair and renovation of facilities at public schools, universities and community colleges, counties and local governments, and volunteer fire departments.
- **\$11 million disbursed to the Department of Public Safety** to provide disaster housing recovery support programs for homeowners to assist with repair, acquisition, and reconstruction of homes, purchase of properties in areas at risk for future flood damage, or to provide gap payments⁵² for homeowners.
- **\$8 million disbursed to the University of North Carolina System and the North Carolina Community College System** for grants to assist students from disaster-declared counties with paying for tuition, fees, and emergency expenses.
- **\$5 million disbursed to the Department of Health and Human Services** to prevent homelessness and create stability and long-term self-sufficiency for individuals displaced by Hurricane Florence.

Hurricane Florence Recovery legislation **did** require DPS to submit quarterly reports that provided updates on:

- How much was spent.
- What the funds were spent on.
- Summary of program activities.
- Performance metrics outlined in legislation.
- Summary of oversight activities and results achieved.⁵³

⁴⁸ Includes Session Law 2018-134 (Hurricane Florence Emergency Response Act) and subsequent legislation. See Appendix A for details regarding legislation affecting the state's Hurricane Florence Disaster Recovery Fund.

⁴⁹ The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purposes and uses of funds.

⁵⁰ This list is not all-inclusive of relief and assistance that was appropriated and disbursed. See Appendix B for a complete list.

⁵¹ Department of Public Instruction, Office of State Budget and Management, Department of Environmental Quality, Department of Insurance, University of North Carolina System, North Carolina Community College System, and the Golden LEAF Foundation.

⁵² Difference between what the homeowner receives for their flood damaged property and what is needed to get them into a similar home outside the floodplain.

⁵³ Hurricane Florence Recovery legislation required a limited number of performance measures from certain recipients to be tracked and reported.

However, DPS did not ensure that **all** recipients **had a method to measure the results** of their spending despite legislation⁵⁴ requiring DPS to report on results achieved from the use of Hurricane Florence Disaster Recovery Funds. Specifically, DPS did not ensure **all** recipients (1) established objectives for what they would do with the funds, and (2) measured their progress towards meeting their objectives.

Auditors tested all (100%) Hurricane Florence Disaster Recovery Fund quarterly reports from 14 recipients⁵⁵ that administered 51 programs through January 2021 and found:

- 4 of 51 (8%) programs totaling \$108 million did not report objectives for what they would do with the funds for all programs.
- 16 of 51 (31%) programs totaling \$262 million did not measure their progress towards meeting their objectives.

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

Since DPS did not ensure that **all** recipients **had a method to measure the results** of their spending, DPS was limited in its ability to know whether funds were achieving legislatively intended results.⁵⁶

For example, based on audit tests,⁵⁷ DPS has no way to know whether:

- **\$147 million (83%) of the \$177 million disbursed to seven recipients⁵⁸** were providing aid for the repair and renovation of facilities at public schools, universities and community colleges, counties and local governments, and volunteer fire departments.
- **\$11 million (100%) of the \$11 million disbursed to the Department of Public Safety** were providing disaster housing recovery support programs for homeowners to assist with repair, acquisition, and reconstruction of homes, purchase of properties in areas at risk for future flood damage, or to provide gap payments⁵⁹ for homeowners.
- **\$8 million (100%) of the \$8 million disbursed to the University of North Carolina System and the North Carolina Community College System** provided grants to assist students from disaster-declared counties with paying for tuition, fees, and emergency expenses.

⁵⁴ 2018 Hurricane Florence Disaster Recovery Act, S.L. 2018-136 § 5.8.(a).

⁵⁵ Hurricane Florence Disaster Recovery Funds were allocated directly to 15 recipients (See Appendix B). However, the Administrative Office of the Courts (AOC) has not requested any of its allocation of disaster-related funds. Therefore, AOC was excluded from the analysis on recipients planning for and measuring results achieved.

⁵⁶ The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purpose and uses of funds.

⁵⁷ Based on review of quarterly reports from December 2018 through December 2021. Auditors calculated the total disbursement for which recipients did not provide an objective for what they would do to provide relief and how they would measure their progress towards doing so.

⁵⁸ Department of Public Instruction (DPI), Office of State Budget and Management (OSBM), Department of Environmental Quality, Department of Insurance, University of North Carolina System (UNC), North Carolina Community College System, and the Golden LEAF Foundation. **DPI, OSBM, and UNC did not have a method to measure results.**

⁵⁹ Difference between what the homeowner receives for their flood damaged property and what is needed to get them into a similar home outside the floodplain.

- **\$5 million (100%) of the \$5 million disbursed to the Department of Health and Human Services** helped to prevent homelessness and create stability and long-term self-sufficiency for individuals displaced by Hurricane Florence.

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

- Detect and correct poor performance timely.
- Provide guidance to recipients that were not achieving results.
- Improve the chance that funds were achieving legislatively intended results.

Caused by DPS Prioritizing NCORR Establishment, Funds Distribution, and Legislative Reporting Requirements

DPS management stated that they did not ensure all recipients had a method to measure results because legislation did not require the results from all recipients to be measured. DPS management stated it instead chose to prioritize (1) the establishment of the North Carolina Office of Recovery and Resiliency, (2) the coordination and distribution of funds to recipients and (3) reporting based on legislative requirements.⁶⁰

State Law Required DPS to Report on Results Achieved

State law⁶¹ required DPS to report on the results achieved from the use of Hurricane Florence Disaster Recovery Funds.

Beginning January 1, 2019, the Office of Recovery and Resiliency⁶² shall provide quarterly reports... on the use of State disaster recovery and assistance funds expended from the Hurricane Florence Recovery Fund. The reports shall summarize oversight activities and the **results achieved**...*[Emphasis Added]*.

Without ensuring that recipients were **measuring the results** of their spending, it would be difficult to accurately report whether legislatively intended results were achieved.

⁶⁰ The 2018 Hurricane Florence Disaster Recovery Act, S.L. 2018-136 required quarterly reports that included (1) how much was spent, (2) what the funds were spent on, (3) a summary of program activities, (4) performance metrics, and (5) a summary of oversight activities and results achieved.

⁶¹ 2018 Hurricane Florence Disaster Recovery Act, S.L. 2018-136 § 5.8.(a).

⁶² Created in DPS by Hurricane Florence Recovery legislation. The North Carolina Office of Recovery and Resiliency (NCORR) is responsible for providing general disaster recovery coordination and public information; citizen outreach and application case management; program and construction management services; audit, finance, compliance, and reporting on disaster recovery funds.

Best Practices Recommend DPS to Determine Whether Results Were Achieved

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

Legislators, monitoring bodies, those charged with governance, and the public need to know whether... government programs are achieving their objectives and desired outcomes.⁶³

Management determines whether performance measures for the defined objectives are appropriate for evaluating the entity's performance in achieving those objectives.⁶⁴

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.⁶⁵

RECOMMENDATIONS

DPS should develop policies and procedures to ensure **all** recipients (1) have objectives for what they would do with Hurricane Florence Disaster Recovery Funds, and (2) measure their progress towards meeting their objectives.

The North Carolina General Assembly should consider including monitoring requirements in future legislation regarding the spending of Hurricane Florence Disaster Recovery Funds or other emergency relief funds.

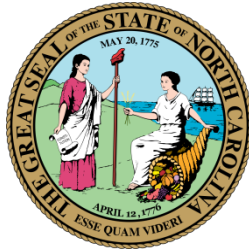
AGENCY RESPONSE

See page 20 for the Department's response to this finding.

⁶³ United States Government Accountability Office, Government Auditing Standards, July 2018.

⁶⁴ United States Government Accountability Office, Standards for Internal Control in the Federal Government, September 2014.

⁶⁵ Ibid.



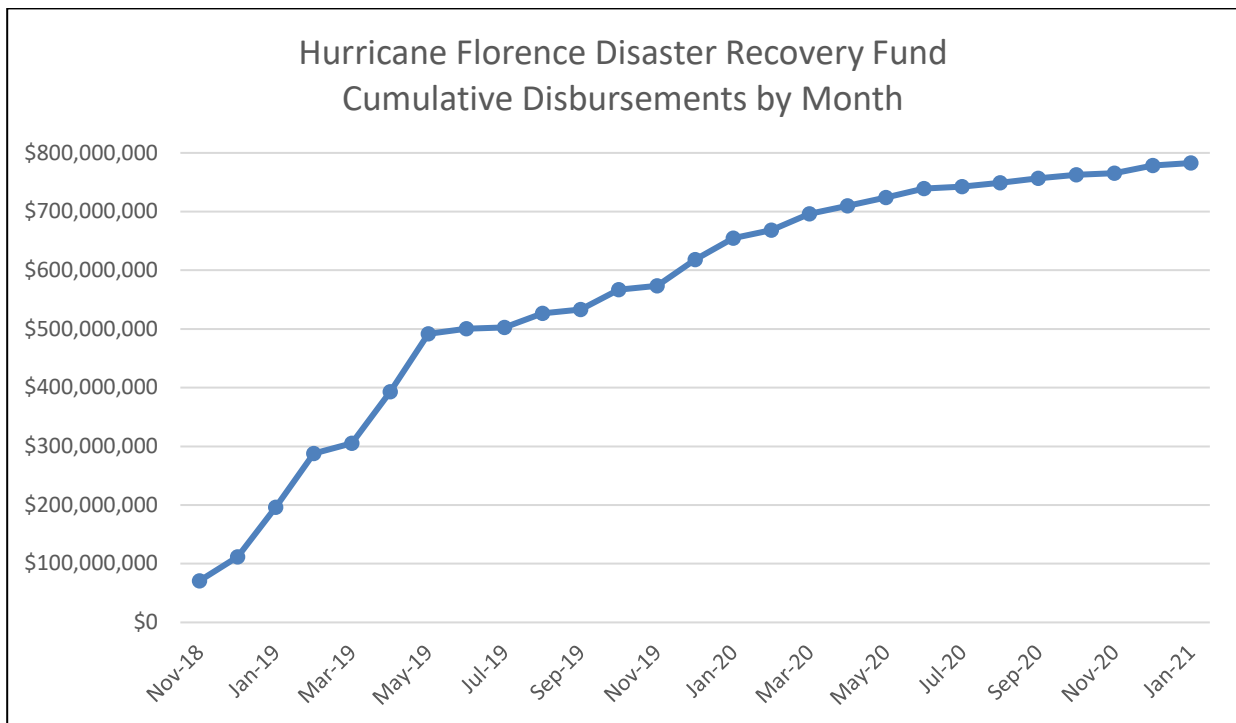
APPENDICES

Hurricane Florence Disaster Recovery Fund - Summary Schedules

The state of North Carolina appropriated approximately \$942.4 million to the Hurricane Florence Disaster Recovery Fund through the following series of legislation:

<u>Laws Relevant to the Hurricane Florence Disaster Recovery Fund</u>	<u>Date Enacted</u>	<u>Net Appropriations</u>	
Session Law 2018-134	Hurricane Florence Emergency Response Act	10/3/2018	\$ 56,500,000
Session Law 2018-136	2018 Hurricane Florence Disaster Recovery Act	10/16/2018	398,430,477
Session Law 2018-138	Additional Disaster Relief in Response to Hurricane Florence	12/3/2018	299,800,000
Session Law 2019-224	2019 Disaster Recovery Act	9/18/2019	89,103,000
Session Law 2019-250	Funds for Disaster Relief	11/18/2019	70,812,336
Session Law 2020-97	Provide Funding for Disaster Recovery	9/4/2020	27,796,610
			<u>\$ 942,442,423</u>

The following chart illustrates the cumulative disbursements by month from the Hurricane Florence Recovery Fund for the period November 1, 2018, through January 31, 2021:



APPENDIX B

The following table illustrates the total amount appropriated to each recipient and the intended purpose and use of funds to provide necessary and appropriate relief from the effects of Hurricane Florence:

Recipient	Allocation	Intended Purpose and Use of Funds
State Agencies		
Department of Agriculture	\$295,000,000	Provides state match for federal farmer assistance, purchase of bulldozers & tractor plows; assists farmers with recovery activities such as hay relief, pasture renovation, and non-field farm road repair.
Department of Public Safety	\$271,308,946	Establishes NC Office of Recovery and Resiliency (NCORR) and provides state match for federal disaster assistance programs. Also provides disaster housing recovery support including homeowner buyouts and relocations, and provides gap funding to move families out of the floodplain. Assists financially-distressed local governments via grants and loans with immediate cash flow assistance and provides grants to non-profit organizations that offer shelters, housing repairs, and other emergency services. Supports various DPS programs including Search and Rescue, Flood Insurance Pilot Program, and installation of river gauges.
Department of Public Instruction	\$91,500,000	Repairs or replaces damaged public-school facilities, furnishings, food, and food equipment and supplements or replaces lost compensation of school lunch employees.
Department of Transportation	\$65,000,000	Provides state match for federal transportation assistance.
Department of Environmental Quality	\$55,425,000	Provides state match and grants for Coastal Storm Damage Mitigation Fund and the Federal Emergency Watershed Protection Program. Also provides commercial fishing assistance to compensate commercial fisherman for equipment and income losses. Assists with surveys of beaches and channels for hurricane related damage and cleanup of water and wastewater infrastructure. Provides grants to Surry County for various creek and river projects.
Office of State Budget Management	\$28,168,000	Provides grants to counties, cities, and towns for repair and renovation for various disaster recovery projects.
Department of Health and Human Services	\$17,000,000	Supports the increased demand for behavioral health services, offsets increases in nursing and staffing expenses, provides medications and medical supplies for uninsured residents. Assists counties in matching administrative expenses incurred operating the Disaster Supplemental Nutrition Assistance Program. Supports the mosquito abatement program and provides assistance to prevent homelessness for individuals displaced by Hurricane Florence.
Housing Finance Agency	\$10,000,000	Assists with the development of affordable housing and the repair of damaged single-family homes and existing properties in impacted counties.
Department of Natural and Cultural Resources	\$5,000,000	Supports the Fort Fisher Aquarium.
Wildlife Resource Commission	\$1,050,000	For the study, inspection, investigation, and removal of derelict and abandoned water vessels.

Recipient	Allocation	Intended Purpose and Use of Funds
Administrative Office of the Courts	\$1,000,000	Replacement of equipment or other disaster related costs for courthouse closures.
Department of Insurance	\$930,477	Provides financial assistance to volunteer fire departments for repairs of damages that were not covered by federal assistance or insurance policy proceeds.
<u>Institutions of Higher Education</u>		
University of North Carolina System	\$43,160,000	Repair and renovation of damaged facilities at UNC Wilmington, UNC Pembroke, and Fayetteville State University. Assists post-secondary students with paying for tuition, fees, and emergency expenses. Funds study of flooding and resiliency against future storms in Eastern North Carolina.
North Carolina Community College System	\$23,400,000	Repair and renovation of local community college facilities. Assists community colleges with the loss of revenues due to enrollment declines. Assists post-secondary students with paying for tuition, fees, and emergency expenses.
<u>Non-Profit Foundation</u>		
The Golden LEAF Foundation	\$34,500,000	Provides support to repair or replace local government infrastructure, facilities, vehicles, and equipment. Provides grants to non-profits to administer loans to small businesses affected by Hurricane Florence.

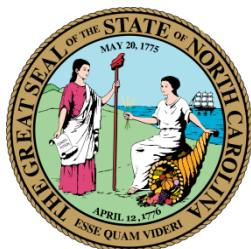
Internal Control Components and Principles Significant to the Audit Objective

The audit objectives were to determine whether the Department of Public Safety designed and implemented procedures to **ensure** that:

- (1) Hurricane Florence Disaster Recovery Funds were spent in accordance with Hurricane Florence Recovery legislation.
- (2) Recipients’ programs funded with Hurricane Florence Disaster Recovery 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.

	Audit Objective
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.	
12. Management should implement control activities through policies.	X
Information and Communication	
13. Management should use quality information to achieve the entity’s objectives.	X
14. Management should internally communicate the necessary quality information to achieve the entity’s objectives.	X
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.	X
17. Management should remediate identified internal control deficiencies on a timely basis.	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 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.

The Department of Public Safety's (DPS) response included statements that **mislead the reader**. To ensure the availability of complete and accurate information, OSA offers the following clarification.

In its response, DPS stated:

It is certainly our intention to comply with subrecipient monitoring standards and maintain proper program accountability within our legal authority.

Nevertheless, the Department's authority is limited in withholding any funds or providing oversight on grants.

This response **misleads the reader** to believe that DPS does not have the authority to monitor to ensure that recipients spent Hurricane Florence Disaster Recovery Funds in accordance with Hurricane Florence Recovery legislation.

This is not true.

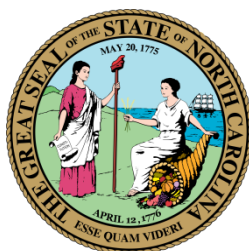
First, despite DPS claiming that it does not have the authority to monitor recipient spending, DPS actually monitored Hurricane Florence Recovery Fund recipient spending in the past but has since stopped. As the report states, during the period November 1, 2018, through July 31, 2019, DPS verified recipient spending if supporting documents were received from recipients.

Second, Hurricane Florence legislation, **enacted by the General Assembly**, required DPS to **administer** the Hurricane Florence Disaster Recovery Fund to carry out the provisions of Hurricane Florence Recovery legislation. Merriam-Webster's dictionary defines administer as "to **manage** or **supervise** the execution, use, or conduct of."

Best practices identified by the Government Accountability Office (GAO) state that management [DPS] is directly responsible for the design, implementation, and operation of internal controls to achieve its objectives which include effective and efficient **operations**.

Without monitoring, it would be difficult to ensure that the funds were used for authorized purposes or that the provisions and legislative intent of the Hurricane Florence Recovery legislation were carried out.

The Governor, Legislators, and the citizens of North Carolina should consider this clarification when evaluating DPS's response to the audit finding.



RESPONSE FROM DEPARTMENT OF PUBLIC SAFETY



North Carolina Department of Public Safety

Prevent. Protect. Prepare.

Roy Cooper, Governor

Eddie M. Buffaloe, Jr., Secretary

March 29, 2022

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 Auditor Wood:

Thank you for the opportunity to respond to your audit of the Hurricane Florence Disaster Recovery Fund (HFDRF). I will seek in this response to address your concerns fully.

The two key findings in your audit are that

- \$502 million of Hurricane Florence Disaster Recovery Funds were distributed with limited monitoring.
- \$783 million of Hurricane Florence Disaster Recovery Funds were distributed without ensuring all recipients had a method to measure the results.

It is certainly our intention to comply with subrecipient monitoring standards and maintain proper program accountability within our legal authority. Based on your findings, the audit makes the following recommendations.

- DPS should monitor external recipients' Hurricane Florence Disaster Recovery Fund spending timely to ensure funds are being spent in accordance with Hurricane Florence Recovery legislation.
- DPS should develop policies and procedures to ensure all recipients (1) have objectives for what they will do with the funds, and (2) measure their progress towards meeting their objectives.
- The North Carolina General Assembly should consider including monitoring requirements in future legislation regarding the spending of Hurricane Florence Disaster Recovery Funds or other emergency relief funds.

We concur that legislation of this type benefits from articulated outcome goals and measurable objectives. Often, especially in natural disaster situations, specific needs are not clear to the General Assembly at the time they must act on a bill, so the outcome language may be vague. In these situations, the Department must deliver funds to other State agencies and local government entities to the best ability to implement the appropriation.

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In the absence of specifically articulated outcomes, DPS now utilizes a Scope of Work document in which recipients explain a plan to expend funds along with a projected budget, and these recipients must also provide quarterly progress reports on the scope and budget. Nevertheless, the Department's authority is limited in withholding any funds or providing oversight on grants.

Sincerely,

A handwritten signature in blue ink, appearing to read "Eddie M. Buffaloe, Jr.", with a stylized flourish at the end.

Eddie M. Buffaloe, Jr.
Secretary

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This audit required 2,277.5 hours of auditor effort at an approximate cost of \$239,864.