

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

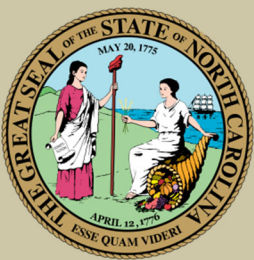
BETH A. WOOD, CPA



## OVERSIGHT OF STATE FISCAL RECOVERY FUNDS

OFFICE OF STATE BUDGET AND MANAGEMENT

PERFORMANCE AUDIT  
JUNE 2023



**NCOSA**  
The Taxpayers' Watchdog

# EXECUTIVE SUMMARY

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## **OBJECTIVES**

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

- (1) State Fiscal Recovery Funds were being spent in accordance with State Fiscal Recovery Fund legislation.<sup>1</sup>
- (2) Programs that received State Fiscal Recovery Funds were achieving their legislatively intended result.<sup>2</sup>

## **BACKGROUND**

On May 24, 2021, the North Carolina General Assembly enacted Session Law (S.L.) 2021-25 which established the State Fiscal Recovery Fund.<sup>3</sup> The State Fiscal Recovery Fund was established to respond to the COVID-19 public health emergency and its negative economic impacts; to respond to workers performing essential work during the COVID-19 public health emergency; to provide for government services, including revenue reductions due to the COVID-19 public health emergency; and to make necessary investments in water, sewer, or broadband infrastructure.<sup>4</sup>

Through a series of legislation,<sup>5</sup> the state appropriated approximately \$5.4 billion to various entities across the state.

S.L. 2021-25 required OSBM to administer the State Fiscal Recovery Fund to carry out the provisions of the law,<sup>6</sup> and to ensure the proper reporting and accounting of the State Fiscal Recovery Fund.<sup>7</sup>

NCPRO<sup>8</sup> 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**

- \$635 million of State Fiscal Recovery Funds distributed with limited monitoring.
- \$635 million of State Fiscal Recovery Funds distributed without ensuring recipients had a method to measure results.

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<sup>1</sup> See Appendix A for details regarding legislation affecting the State Fiscal Recovery Fund.

<sup>2</sup> The intended purpose and use of State Fiscal Recovery Funds are contained in applicable sections of State Fiscal Recovery Fund legislation. See Appendix B for summary of intended purpose and uses of funds.

<sup>3</sup> S.L. 2021-25, Section 2.2.

<sup>4</sup> Ibid.

<sup>5</sup> See Appendix A for details regarding legislation affecting the State Fiscal Recovery Fund.

<sup>6</sup> S.L. 2021-25 Section 2.2.

<sup>7</sup> S.L. 2021-180, Section 4.9.(d).

<sup>8</sup> S.L. 2020-4, Section 4.3 established the temporary North Carolina Pandemic Recovery Office to oversee and coordinate funds made available under COVID-19 recovery legislation.

# EXECUTIVE SUMMARY (CONCLUDED)

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## KEY 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, (3) measure their progress towards meeting their goals, and (4) have a timeline for achieving their goals.
- NCPRO should independently verify recipient spending and ensure that recipient agencies monitored the use of State Fiscal Recovery funds timely to ensure funds are being spent in accordance with State Fiscal Recovery Fund legislation.
- The North Carolina General Assembly should consider including specific monitoring requirements, including responsible parties, in future legislation regarding the spending of State Fiscal Recovery Funds or other emergency relief funds.

**AUDITOR'S NOTE:** The Office of the State Auditor reported in a May 2021 audit<sup>9</sup> that NCPRO did not design and implement procedures to ensure that Coronavirus Relief Funds<sup>10</sup> were being spent in accordance with the 2020 COVID-19 Recovery Act or that programs that received Coronavirus Relief Funds were achieving their legislatively intended results.

While NCPRO has taken additional measures to provide oversight of emergency relief funds it has the responsibility for administering since the May 2021 audit, the results of this audit indicate that there are further opportunities for improvement for the oversight and monitoring of emergency relief funds.

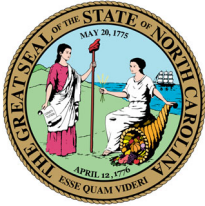
Auditing recipient use of State Fiscal Recovery Funds after the funds have been expended instead of independently verifying on a more regular basis, limits NCPRO's ability to know whether funds were achieving legislatively intended results and take **timely corrective action** if necessary.

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<sup>9</sup> <https://www.auditor.nc.gov/documents/reports/performance/per-2021-3005a>.

<sup>10</sup> Funds appropriated by the North Carolina General Assembly through a series of legislation for the purpose of providing necessary and appropriate relief and assistance from the effects of COVID-19.

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



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## AUDITOR'S TRANSMITTAL

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The Honorable Roy Cooper, Governor  
Members of the North Carolina General Assembly  
Kristin Walker, State Budget Director  
Stephanie McGarrah, Executive Director, North Carolina Pandemic Recovery Office

Ladies and Gentlemen:

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

- (1) State Fiscal Recovery Funds were being spent in accordance with State Fiscal Recovery Fund legislation.
- (2) Programs that received State Fiscal Recovery Funds were achieving their legislatively intended result.

The State Budget Director reviewed a draft copy of this report. Her written comments are included starting on page 23.

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

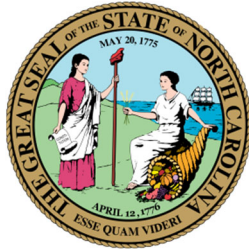


**Beth A. Wood, CPA**  
**State Auditor**

# TABLE OF CONTENTS

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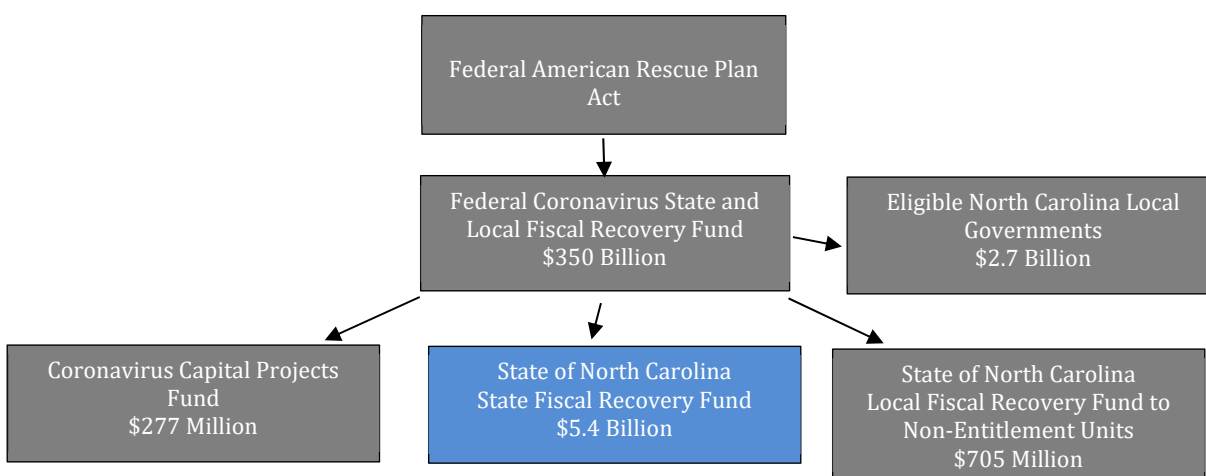
	PAGE
BACKGROUND .....	1
OBJECTIVES, SCOPE, AND METHODOLOGY .....	5
RESULTS AND CONCLUSIONS .....	7
FINDINGS, RECOMMENDATIONS, AND RESPONSES	
(1) \$635 MILLION OF STATE FISCAL RECOVERY FUNDS DISTRIBUTED WITH LIMITED MONITORING .....	8
(2) \$635 MILLION OF STATE FISCAL RECOVERY FUNDS DISTRIBUTED WITHOUT ENSURING ALL RECIPIENTS HAD A METHOD TO MEASURE RESULTS .....	12
APPENDICES	
APPENDIX A .....	15
APPENDIX B .....	16
APPENDIX C .....	18
STATE AUDITOR'S RESPONSE .....	22
RESPONSE FROM OFFICE OF STATE BUDGET AND MANAGEMENT .....	23
ORDERING INFORMATION .....	26



# BACKGROUND

On March 11, 2021, the President of the United States signed into law the American Rescue Plan Act (ARPA).<sup>11</sup> The ARPA established the Coronavirus State and Local Fiscal Recovery Fund and appropriated \$350 billion to this fund for distribution to state, local, and tribal governments.<sup>12</sup> The State of North Carolina received a total of \$5.4 billion in financial assistance for the State Fiscal Recovery Fund and \$277 million for the Coronavirus Capital Projects Fund through the federal Coronavirus State and Local Recovery Fund.

In addition, eligible North Carolina local governments received a total of \$3.4 billion in ARPA assistance. The state's 100 counties and largest 26 municipalities received a total of \$2.7 billion directly from the United States Department of the Treasury and the state's 525 Non-Entitlement Units<sup>13</sup> were appropriated \$705 million to be provided through the state's Local Fiscal Recovery Fund.<sup>14</sup>



The purpose of these funds is to provide financial assistance to be used to:

1. Respond to the public health emergency with respect to COVID-19.
2. Respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of eligible employers who are performing essential work.
3. Provide for government services, including revenue reductions due to the COVID-19 public health emergency.
4. Make necessary investments in water, sewer, or broadband infrastructure.

<sup>11</sup> US Public Law 117-2.

<sup>12</sup> <https://home.treasury.gov/system/files/136/fiscalrecoveryfunds-statefunding1-508A.pdf>

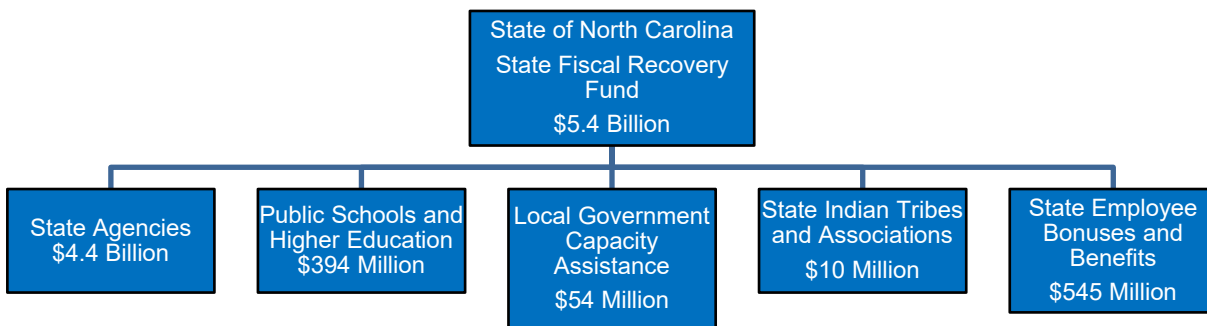
<sup>13</sup> Towns and cities of 50,000 residents or fewer.

<sup>14</sup> [https://files.nc.gov/ncgov/documents/files/ncpro/Funding-totals-SLFRF\\_final.pdf](https://files.nc.gov/ncgov/documents/files/ncpro/Funding-totals-SLFRF_final.pdf).

On May 24, 2021, the North Carolina General Assembly enacted Session Law (S.L.) 2021-25 which established the State Fiscal Recovery Fund.<sup>15</sup> The State Fiscal Recovery Fund is a special fund administered by the North Carolina Office of State Budget and Management (OSBM), to carry out the provisions of the law and subsequent acts necessitated as a result of the COVID-19 public health emergency. The funds are to be used in accordance with applicable federal law and guidance.

North Carolina's State Fiscal Recovery Fund does not include amounts received directly from the United States Department of the Treasury by eligible North Carolina local governments, amounts received through the state's Local Fiscal Recovery Fund by the state's Non-Entitlement Units,<sup>16</sup> or the State's Coronavirus Capital Projects Fund. Accordingly, these funds were **not included** within the scope of this audit.

Through a series of legislation,<sup>17</sup> the state appropriated approximately \$5.4 billion to various entities across the state through the State Fiscal Recovery Fund as shown in the following illustration:



State Fiscal Recovery Fund legislation required OSBM to administer the State Fiscal Recovery Fund to carry out the provisions of the law, and to ensure the proper reporting and accounting of the State Fiscal Recovery Fund. Specifically, OSBM is required to:

- Allocate and disburse State Fiscal Recovery Funds as directed by the North Carolina General Assembly.
- **Ensure adherence with the compliance requirements** established by the United States Department of the Treasury.
- Account for the State Fiscal Recovery Fund in accordance with generally accepted accounting principles and the requirements established by the North Carolina Office of the State Controller.<sup>18</sup>
- Adhere to the reporting requirements established by federal and state law.

<sup>15</sup> S.L. 2021-25, Section 2.2.

<sup>16</sup> Towns and cities of 50,000 residents or fewer.

<sup>17</sup> See Appendix A for details regarding legislation affecting the State Fiscal Recovery Fund.

<sup>18</sup> North Carolina Office of State Budget and Management, [Memorandum Budgeting American Rescue Plan Act State Fiscal Recovery Funds](#).



The 2020 COVID-19 Recovery Act<sup>19</sup> created the temporary North Carolina Pandemic Recovery Office (NCPRO) to oversee and coordinate funds made available under COVID-19 recovery legislation. 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.

S.L. 2021-180, Section 4.9.(j) required the Office of the State Auditor to conduct a final performance audit of the State Fiscal Recovery Fund no later than 90 days following the latest date on which expenditures may be made under applicable federal law or guidance.

However, because the legislatively required performance audit would be conducted “after” all of the State Fiscal Recovery Funds were expended, the Office of the State Auditor elected to conduct a performance audit on the oversight and monitoring of the spending before all the funds have been spent.

This is due in part because OSA reported in May 2021<sup>20</sup> that 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<sup>21</sup> or that programs that received Coronavirus Relief Funds were achieving their legislatively intended results.

Due to the risk that NCPRO may not be providing oversight and monitoring of State Fiscal Recovery Funds based on the results of the May 2021 audit, the Office of the State Auditor elected to conduct a performance audit of the State Fiscal Recovery Fund prior to the date required by legislation.

As of June 30, 2022, OSBM allocated a total of \$5.4 billion State Fiscal Recovery Funds and disbursed \$1.3 billion to recipients that included state agencies, public schools, and institutions of higher education.<sup>22</sup>

#### **Key terms discussed in this report include:**

*ARPA* – The federal American Rescue Plan Act (U.S. Public Law 117-2) that established the federal Coronavirus State and Local Fiscal Recovery Fund.

*State Fiscal Recovery Fund legislation*<sup>23</sup> – The series of legislation enacted by the state of North Carolina to establish the State Fiscal Recovery Fund and provide assistance to various entities across the state in response to the COVID-19 public health emergency and its negative economic impacts.

<sup>19</sup> S.L. 2020-4, Section 4.3.

<sup>20</sup> <https://files.nc.gov/nc-auditor/documents/2021-05/PER-2021-3005A.pdf?VersionId=LCdISplcTl1hByJILAOhQx1q43IM3Yz3>.

<sup>21</sup> Session Law 2020-4.

<sup>22</sup> See Appendix B for full list State Fiscal Recovery Fund allocations.

<sup>23</sup> See Appendix A for details regarding legislation affecting the State Fiscal Recovery Fund.

*State Fiscal Recovery Fund* – The fund established by the State to respond to the COVID-19 public health emergency and its negative economic impacts; to respond to workers performing essential work during the COVID-19 public health emergency; to provide for government services, including revenue reductions due to the COVID-19 public health emergency; and to make necessary investments in water, sewer, or broadband infrastructure.<sup>24</sup>

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

*Prime Recipient* – Recipients that received State Fiscal Recovery Funds to be used directly for specific purposes. According to NCPRO, Prime Recipients are responsible for designing and administering grant projects that may be direct state spending, subawards subrecipients, or both.

*Subrecipient* – Recipients that received State Fiscal Recovery Funds as subawards from prime recipients to be used for specific purposes.

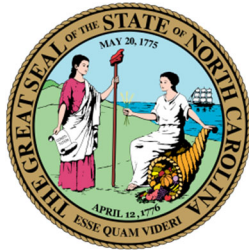
### **Responsible parties discussed in this report include:**

*North Carolina Office of State Budget and Management (OSBM)* – OSBM delivers budget development and management services for the state. S.L. 2021-25 established the State Fiscal Recovery 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 **within OSBM** to oversee and coordinate funds made available under COVID-19 recovery legislation.

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<sup>24</sup> The intended purpose and use of State Fiscal Recovery Funds are contained in applicable sections of State Fiscal Recovery Fund 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 Office of State Budget and Management's (OSBM) North Carolina Pandemic Recovery Office (NCPRO) designed and implemented procedures to **ensure** that:

- 1) State Fiscal Recovery Funds were being spent in accordance with State Fiscal Recovery Fund legislation.<sup>25</sup>
- 2) Programs that received State Fiscal Recovery Funds were achieving their legislatively intended result.<sup>26</sup>

The audit scope included the period of May 24, 2021,<sup>27</sup> through June 30, 2022.

The audit scope **did not** include:

- Funds received by eligible North Carolina local governments directly from the United States Department of the Treasury.
- Funds received through the state's Local Fiscal Recovery Fund by the state's Non-Entitlement Units.<sup>28</sup>
- Funds received through the state's Coronavirus Capital Projects Fund.
- Disbursement of State Fiscal Recovery Funds to subrecipients, beneficiaries, municipalities, or other secondary entities that did not receive funds directly from OSBM.
- Adherence to reporting requirements established by American Rescue Plan Act or state law.
- Determination of whether OSBM accounted for, allocated, and disbursed amounts appropriated to the State Fiscal Recovery Fund in accordance with State Fiscal Recovery Fund legislation.<sup>29</sup>

To achieve the audit objectives, auditors:

- Reviewed relevant laws and regulations.
- Interviewed OSBM and NCPRO personnel.
- Reviewed OSBM and NCPRO policies and procedures for monitoring the recipients of the State Fiscal Recovery Funds.
- Reviewed objectives, performance goals, and performance measures submitted by State Fiscal Recovery Fund recipients.
- Reviewed monthly expense reports<sup>30</sup> submitted by State Fiscal Recovery Fund recipients.

<sup>25</sup> See Appendix A for details regarding legislation affecting the State Fiscal Recovery Fund.

<sup>26</sup> The intended purpose and use of State Fiscal Recovery Funds are contained in applicable sections of State Fiscal Recovery Fund legislation. See Appendix B for summary of intended purpose and uses of funds.

<sup>27</sup> The date that the State Fiscal Recovery Fund was established.

<sup>28</sup> Towns and cities of 50,000 residents or fewer.

<sup>29</sup> This was the objective of the Office of the State Auditor's *Office of State Budget and Management State Fiscal Recovery Fund Preliminary Financial Audit* released in December 2022.

<sup>30</sup> NCPRO required all entities that received State Fiscal Recovery Funds to report 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 the funds were spent.

Auditors also performed the following tests:

### Monitoring State Fiscal Recovery Funds

1. Auditors tested all 56 (100%) monthly expense reports<sup>31</sup> submitted by recipients of State Fiscal Recovery Funds through June 30, 2022, to determine whether NCPRO reviewed the expense reports for inclusion of the required information for the reporting period.
2. Auditors also tested all 56 (100%) monthly expense reports to determine whether NCPRO independently verified recipient spending by comparing supporting documents (i.e., invoices, receipts, payroll records) to expenditures reported by the recipients.

The above test **did not include** funds with a legislative purpose of replacing revenue lost due to COVID-19 since there were not any material restrictions to the allowable uses of the funds.

### Funds Achieving Legislatively Intended Results

Auditors tested all 55 (100%) program reports<sup>32</sup> submitted by the 17 recipients and 55 programs that received State Fiscal Recovery Fund disbursements through June 30, 2022, to determine whether the recipients and programs had:

- An objective for what they would do with the funds.
- Goals for how they would accomplish the objectives.
- Demonstrated how progress toward meeting their goals would be measured.
- A timeline for achieving the goals.

The above test **did not include** 26 programs with the legislative purpose of replacing revenue lost due to COVID-19 or providing bonuses to state employees because the legislative program purpose was achieved once the State Fiscal Recovery Funds were disbursed.

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.

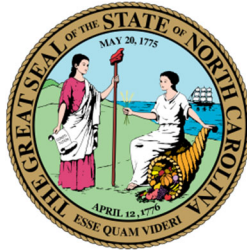
This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in internal controls significant to our audit objectives. As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional 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.

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.

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<sup>31</sup> Reports submitted monthly by recipients of State Fiscal Recovery Funds that details the recipients use of State Fiscal Recovery Funds.

<sup>32</sup> Program reports include the (1) Program Template submitted by recipients before receiving a State Fiscal Recovery Fund distribution, and (2) Program Plan and Description submitted by recipients monthly. Program reports should include (1) objectives for what they would do with the funds, (2) goals for how they will accomplish the objectives, (3) how progress toward meeting the goal would be measured, and (4) a timeline for achieving the goal.



# **RESULTS AND CONCLUSIONS**

The Office of State Budget and Management's (OSBM) North Carolina Pandemic Recovery Office (NCPRO) did not design and implement procedures to **ensure** that State Fiscal Recovery Funds were being spent in accordance with State Fiscal Recovery Fund legislation or that programs operated by recipients of State Fiscal Recovery Funds were achieving their legislatively intended results.<sup>33</sup> Specifically, NCPRO:

- Performed limited monitoring<sup>34</sup> to ensure that \$635 million of federal funds distributed to provide economic support in the wake of COVID-19 were being spent in accordance with State Fiscal Recovery Fund legislation. Specifically, it has not independently verified spending as of May 2023.
- Distributed approximately \$635 million<sup>35</sup> of State Fiscal Recovery Funds to provide economic support in the wake of COVID-19 without ensuring that all recipients<sup>36</sup> (1) had an objective for what they would do with the funds, (2) had goals for how they would accomplish the objectives, (3) demonstrated how progress toward meeting the goal would be measured, and (4) had a timeline for achieving the goal.

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.

**AUDITOR'S NOTE:** The Office of the State Auditor reported in a May 2021 audit<sup>37</sup> that NCPRO did not design and implement procedures to ensure that Coronavirus Relief Funds<sup>38</sup> were being spent in accordance with the 2020 COVID-19 Recovery Act or that programs that received Coronavirus Relief Funds were achieving their legislatively intended results.

While NCPRO has taken additional measures to provide oversight of emergency relief funds it has the responsibility for administering since the May 2021 audit, the results of this audit indicate that there are further opportunities for improvement for the oversight and monitoring of emergency relief funds.

Auditing recipient use of State Fiscal Recovery Funds after the funds have been expended instead of independently verifying on a more regular basis, limits NCPRO's ability to know whether funds were achieving legislatively intended results and take **timely corrective action** if necessary.

<sup>33</sup> The intended purpose and use of State Fiscal Recovery Funds are contained in applicable sections of State Fiscal Recovery Fund legislation. See Appendix B for summary of intended purpose and uses of funds.

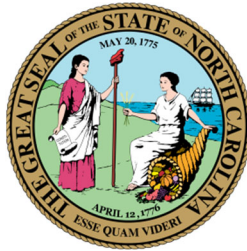
<sup>34</sup> Monitoring activities are established by management to **assess** the quality of performance **over time** and promptly resolve identified issues.

<sup>35</sup> According to NCPRO records as of June 30, 2022.

<sup>36</sup> Recipients include state agencies, public schools and higher education, local governments, state tribes and associations.

<sup>37</sup> <https://www.auditor.nc.gov/documents/reports/performance/per-2021-3005a>.

<sup>38</sup> Funds appropriated by the North Carolina General Assembly through a series of legislation for the purpose of providing necessary and appropriate relief and assistance from the effects of COVID-19.



# **FINDINGS, RECOMMENDATIONS, AND RESPONSES**



## **1. \$635 MILLION OF STATE FISCAL RECOVERY FUNDS DISTRIBUTED WITH LIMITED MONITORING**

The North Carolina Pandemic Recovery Office (NCPRO) performed limited monitoring<sup>39</sup> to ensure that federal funds distributed to provide economic support in the wake of COVID-19 were being spent in accordance with the State Fiscal Recovery Fund legislation. Specifically, NCPRO did not:

- 1) Independently verify prime recipient<sup>40</sup> spending.
- 2) Plan to ensure that prime recipient agencies monitored the use of State Fiscal Recovery funds disbursed to their subrecipients.<sup>41</sup>

As a result, there is an increased risk that recipients and subrecipients could have misused the funds without the misuse being detected and corrected timely. According to NCPRO management, NCPRO did not independently verify prime recipient spending or plan to ensure prime recipient agencies monitored spending of subrecipients because they delegated the responsibility of monitoring the use of State Fiscal Recovery Funds to prime recipients.

However, best practices from the Committee on Sponsoring Organizations (COSO) states that management retains **ultimate responsibility** for activities it delegates.<sup>42</sup> Additionally, best practices from the Government Accountability Office (GAO) recommend monitoring recipient spending.

### **Limited Monitoring of State Fiscal Recovery Fund Spending**

NCPRO's limited monitoring procedures did not ensure that recipients were spending approximately \$635 million of State Fiscal Recovery Funds in accordance with State Fiscal Recovery Fund legislation. Of the \$635 million distributed, \$575 million (90%) was distributed to prime recipients to be used directly by the prime recipients for specific purposes, and \$61 million (10%) to prime recipients to be provided to and used by subrecipients for specific purposes.<sup>43</sup>

#### *Prime Recipients – Direct Use*

For prime recipients that received State Fiscal Recovery Funds to be used directly for specific purposes, NCPRO required prime recipients to submit monthly spending reports. However, NCPRO did not require prime recipients to submit supporting documents (i.e., invoices, receipts, payroll records, grant agreements) so NCPRO could independently verify expenditures reported by prime recipients were used for the purposes intended by State Fiscal Recovery Fund legislation.

<sup>39</sup> Monitoring activities are established and operated by management to **assess** the quality of performance **over time** and promptly resolve identified issues.

<sup>40</sup> Recipients that received State Fiscal Recovery Funds to be used directly for specific purposes. According to NCPRO, Prime Recipients are responsible for designing and administering grant projects that may be direct state spending, subawards subrecipients, or both.

<sup>41</sup> Recipients that received State Fiscal Recovery Funds as subawards from prime recipients to be used for specific purposes.

<sup>42</sup> Principle 1 Standards of Conduct, *COSO Internal Control – Integrated Framework*.

<sup>43</sup> See Appendix C for detailed list of portion of State Fiscal Recovery Funds distributed to prime recipients for direct use and portion distributed to prime recipients to be used by subrecipients.

NCPRO performed some monitoring procedures and other activities including:

- Provided guidance to prime recipients on allowable uses of the funds using Standard Operating Procedures.
- Executed memorandums of understanding with all prime recipients.
- Reviewed required spending plans.<sup>44</sup>
- Required prime recipients to submit monthly spending reports.
- Reviewed monthly spending reports for obvious errors in expense categories and for unallowable costs.

However, prior to February 2023, NCPRO had not independently verified prime recipient spending to ensure that it was spent in accordance with State Fiscal Recovery Fund legislation.

### *Prime Recipients to Provide Funds to Subrecipients*

For prime recipients that received State Fiscal Recovery Funds to be provided to subrecipients for specific purposes, NCPRO provided training on how to monitor the use of State Fiscal Recovery Funds by subrecipients and required prime recipients to develop a monitoring plan for each subrecipient that it provided funds to.

However, NCPRO did not require prime recipients to submit monitoring plans for review and approval. As of May 2023, NCPRO had not independently verified prime recipient agencies<sup>45</sup> monitored the use of State Fiscal Recovery funds by subrecipients.

All of the information NCPRO used for monitoring to-date was self-reported by prime recipients. NCPRO did not independently verify that prime recipient spending was accurate<sup>46</sup> and spent in accordance with State Fiscal Recovery Fund legislation or independently verify that prime recipient agency monitoring procedures were implemented or effective.

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 State Fiscal Recovery Fund legislation.

According to NCPRO management, NCPRO plans to perform audits of certain State Fiscal Fund prime recipients. According to NCPRO management, as of May 2023, NCPRO is currently in the planning stages of seven State Fiscal Recovery Fund audits. The audits will include procedures to determine whether prime recipients spent funds in accordance with State Fiscal Recovery Fund legislation and whether prime recipients monitored subrecipients use of State Fiscal Recovery Funds.

However, by the time these audits are completed, more than a year will have passed since recipients began receiving and expending State Fiscal Recovery Funds.<sup>47</sup>

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<sup>44</sup> The recipient's plan for the use and/or distribution of State Fiscal Recovery Funds.

<sup>45</sup> NCPRO required all administering agencies to sign a memorandum of understanding in order to receive State Fiscal Recovery Funds. Specifically, this agreement required the agencies to develop a monitoring plan for each program that received funds.

<sup>46</sup> Meaning the spending information would agree to supporting documents (i.e., invoices, receipts, payroll records).

<sup>47</sup> The first disbursements of State Fiscal Recovery Funds to recipients occurred in February 2022.

**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 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.

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

- Necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19).
- Expenditures incurred during the period that begins March 3, 2021, and ends on December 31, 2026.
- Activities and programs to meet the requirements specified by legislators in State Fiscal Recovery Fund legislation. For example,
  - \$25 million for lead and asbestos remediation in public schools and childcare facilities.
  - \$18 million for local health departments to expand communicable disease surveillance, detection, control and prevention activities to address COVID-19.
  - \$12.6 million for temporary funding assistance for immediate care facilities for individuals with intellectual disabilities services.

**Caused by NCPRO Delegating Responsibility to Prime Recipients**

NCPRO management stated it has not performed detailed monitoring of prime recipient spending or ensured prime recipients monitored subrecipient spending because it delegated the responsibility for monitoring the use of State Fiscal Recovery funds to administering agencies.<sup>48</sup>

NCPRO required all administering agencies to sign a memorandum of understanding in order to receive State Fiscal Recovery Funds. Specifically, this agreement required the agencies to develop a monitoring plan for each program that received funds.

However, as the state's administering agency of the State Fiscal Recovery Fund, NCPRO management retained the responsibility for monitoring recipient's use of State Fiscal Recovery Funds. The Committee on Sponsoring Organizations (COSO) states, "management retains **ultimate responsibility** for activities it delegates."<sup>49</sup>

<sup>48</sup> Also referred to as prime recipients. Entities that that were appropriated State Fiscal Recovery Funds directly by the NC General Assembly, including NCPRO. This does not include subrecipients or beneficiaries.

<sup>49</sup> Principle 1 Standards of Conduct, *COSO Internal Control – Integrated Framework*.

### **Best Practices Recommend Monitoring**

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

Without timely monitoring 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 State Fiscal Recovery Fund 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...<sup>50</sup>

Management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of an entity's internal control system.<sup>51</sup>

Internal controls comprise the plans, methods, policies, and procedures used to fulfill the...objectives of the entity.<sup>52</sup>

### **RECOMMENDATIONS**

NCPRO should independently verify prime recipient spending and ensure that prime recipient agencies monitored the use of State Fiscal Recovery funds timely to ensure funds are being spent in accordance with State Fiscal Recovery Fund legislation.

The North Carolina General Assembly should consider including specific monitoring requirements, including responsible parties, in future legislation regarding the spending of State Fiscal Recovery Funds or other emergency relief funds.

### **AGENCY RESPONSE**

See page 23 for the agency's response to this finding.

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<sup>50</sup> Paragraph 1.03, *Government Auditing Standards*.

<sup>51</sup> Paragraph OV2.14, *Standards for Internal Control in the Federal Government*.

<sup>52</sup> Paragraph OV1.03, *Standards for Internal Control in the Federal Government*.

## 2. \$635 MILLION OF STATE FISCAL RECOVERY FUNDS DISTRIBUTED WITHOUT ENSURING ALL RECIPIENTS HAD A METHOD TO MEASURE RESULTS

The North Carolina Pandemic Recovery Office (NCPRO) distributed approximately \$635 million of State Fiscal Recovery Funds to provide economic support in response to the COVID-19 pandemic without ensuring that **all** recipients<sup>53</sup> had a method to measure whether legislatively intended results<sup>54</sup> were achieved. As a result, NCPRO was limited in its ability to know whether State Fiscal Recovery Funds were achieving legislatively intended results and to take timely corrective action, if necessary. NCPRO management stated that it did not ensure **all** recipients had a method to measure results because it chose to prioritize (1) the coordination and distribution of funds to recipients, and (2) ensuring compliance with United States Department of the Treasury reporting requirements. However, best practices from the Government Accountability Office (GAO) recommend that NCPRO determine whether intended results were achieved.

### Limited Procedures Established to Ensure Recipients Measured Results of Spending

NCPRO distributed approximately \$635 million of State Fiscal Recovery Funds without ensuring that all recipients established a method to measure whether funds were achieving legislatively intended results.

The North Carolina General Assembly appropriated State Fiscal Recovery Funds to assist state, local, and private entities to respond to the public health emergency with respect to the COVID-19 pandemic and its negative economic impacts.

Examples include:<sup>55</sup>

- \$302 million disbursed to the Department of Revenue for the Small Business Recovery Grant Program to aid businesses in the State that suffered substantial economic damage from the COVID-19 pandemic.
- \$24 million disbursed to the Department of Health and Human Services to provide assistance to facilities that serve Special Assistance recipients in the form of a monthly payment per resident.
- \$8 million disbursed to the Department of Insurance to provide grants to volunteer fire departments.

NCPRO required recipients to submit project plans that should include (1) objectives for what they would do with the funds, (2) goals for how they would accomplish the objectives, (3) how progress toward meeting their goals would be measured, and (4) the timeline for achieving the goals.

<sup>53</sup> Recipients include state agencies, public schools, institutions of higher education, local governments, and tribal governments.

<sup>54</sup> The intended purpose and use of State Fiscal Recovery Funds are contained in applicable sections of State Fiscal Recovery Fund legislation. See Appendix B for summary of intended purpose and uses of funds.

<sup>55</sup> According to NCPRO records as of June 30, 2022.

However, NCPRO did not establish procedures to ensure that **all** recipients **planned for** and **measured the results** of their spending.

Auditors tested all (100%) of the project plans submitted<sup>56</sup> by 55 recipients that received State Fiscal Recovery Fund disbursements through June 30, 2022, and found:<sup>57</sup>

- 1 of 55 (2%) recipients totaling \$12.6 million reported objectives for what they would do with the funds but not goals for how they would accomplish their objectives.
- 8 of 55 (15%) recipients totaling \$18 million reported objectives for what they would do with the funds and goals for how they would accomplish their objectives, but not how progress toward meeting their goals would be measured.
- 12 of 55 (22%) recipients totaling \$35 million did not report a timeline for achieving their goals.

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

Since NCPRO did not ensure that all recipients had a way to measure the results of their spending, it was limited in its ability to know whether funds were achieving legislatively intended results.<sup>58</sup>

For example, based on audit tests,<sup>59</sup> NCPRO has no way to know whether all:

- \$18 million disbursed to the Department of Administration was used to provide funds for additional grants to small, historically underutilized businesses.
- \$14.5 million disbursed to the Department of Agriculture and Consumer Services was used to provide funds for grants to swine and dairy producers impacted by the COVID-19 pandemic.
- \$8.4 million disbursed to the Department of Natural and Cultural Resources was used to support state parks, museums, historic sites, and other attractions.

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

- 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.

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<sup>56</sup> Submitted to NCPRO by August 19, 2022

<sup>57</sup> Based on review of recipient program reports submitted through June 30, 2022.

<sup>58</sup> The intended purpose and use of State Fiscal Recovery Funds are contained in applicable sections of State Fiscal Recovery Fund legislation. See Appendix B for summary of intended purpose and uses of funds.

<sup>59</sup> Based on review of recipient Project Plans and monthly Program Plan and Description reports through June 30, 2022.

**Caused by NCPRO Not Requiring A Plan Before Distribution**

NCPRO management stated it did not ensure **all** recipients had a method to measure results before distributing State Fiscal Recovery Funds because it chose to prioritize (1) coordinating and distributing funds, and (2) ensuring compliance with United States Department of the Treasury reporting requirements.

**Best Practices Recommend NCPRO to Determine Whether Results Were Achieved**

Best practices identified by the Government Accountability Office (GAO) recommended that NCPRO determine whether legislative intended results were being achieved. The GAO states:

Legislators need to know whether... government programs are achieving their objectives and desired outcomes.<sup>60</sup>

Management determines whether performance measures for the defined objectives are appropriate for evaluating the entity's performance in achieving those objectives.<sup>61</sup>

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 action taken.<sup>62</sup>

**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, (3) measure their progress towards meeting their goals, and (4) have a timeline for achieving their goals.

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

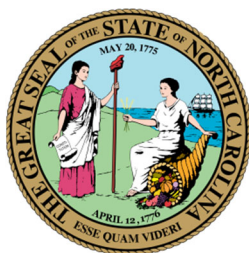
**AGENCY RESPONSE**

See page 24 for the agency's response to this finding.

<sup>60</sup> United States Government Accountability Office, Government Auditing Standards, July 2018.

<sup>61</sup> United States Government Accountability Office, Standards for Internal Control in the Federal Government, September 2014.

<sup>62</sup> Ibid.



# APPENDICES



**Appendix A**

The State of North Carolina appropriated approximately \$5.4 billion to the State Fiscal Recovery Fund through the following series of legislation:

<b>Laws Relevant to the State Fiscal Recovery Fund</b>		<b>Date Enacted</b>	<b>Net Appropriations</b>
Session Law 2021-25	Establishment of State Fiscal Recovery Fund	5/24/2021	-
Session Law 2021-180	Appropriation of State Fiscal Recovery Fund	11/18/2021	\$ 5,439,309,692
Session Law 2021-189	Adjustments to State Fiscal Recovery Fund	12/6/2021	-
Session Law 2022-6	Adjustments to State Fiscal Recovery Fund	3/17/2022	-
	Estimated Interest		2,000,000
			<u>\$ 5,441,309,692</u>

**Appendix B**

The following table illustrates the total amount allocated to each recipient and the intended purpose and use of funds:

Recipient	Allocation	Intended Purpose and Use of Funds
<b>State Agencies</b>		
Administrative Office of the Courts	\$35,389,440	Provides funds for protective equipment and technology to support remote access for courts, funds for temporary court support personnel to address the court docket backlog due to the COVID-19 pandemic, and funds for the Human Trafficking Commission.
Department of Administration	\$20,750,000	Provides funds for small and historically underutilized businesses and a database for tracking the increased number of home schools.
Department of Agriculture	\$128,800,000	Provides funds for food storage and distributions, food banks, farms, and for agricultural programs impacted by COVID-19, such as the State Fair and the Western NC agricultural center.
Department of Commerce	\$187,710,000	Provides funds for community development, work force solutions, small business development, economic assistance to nonprofits, and tourism recovery.
Department of Environmental Quality	\$1,690,000,000	Provides funds for grant programs for water and sewer utilities and infrastructure and stormwater infrastructure. Includes grants for projects to advance economic development or affordable housing as well as Viable Utility Reserve and State Drinking Water, Wastewater Reserve grants for utilities that have been designated as distressed or are at risk of becoming distressed.
Department of Health and Human Services	\$502,785,232	Provides funds to DHHS programs and nonprofits directed at homelessness, nutrition services, hospitals, hospice care and behavioral health, as well as bonuses for direct care workers.
Department of Information Technology	\$739,939,144	Provides grants and funds to increase broadband availability in rural areas, address local infrastructure needs and connect unserved and underserved households. Provides funds for a workforce development network to meet the talent needs of NC public agencies and private businesses.
Department of Insurance	\$8,000,000	Provides funds for grants to volunteer fire departments due to the loss of revenue from COVID-19.
Department of Natural and Cultural Resources	\$96,200,000	Provides funds for state parks, museums, historic sites, and other nonprofits impacted by COVID-19.
Department of Public Safety	\$108,925,000	Provides funds to update and modernize first responder and law enforcement communication services, to support programs for at-risk youth and community supervision programs, cover medical cost increases at state prisons due to the COVID-19 pandemic and to upgrade HVAC at Department of Public Safety state facilities.
Department of Revenue	\$502,538,000	Provides funds for migration of data from the Department of Information Technology's mainframe system, and for business recovery grants.
Department State of Treasurer	\$101,000,000	Provides funds to reimburse the State Health Plan for COVID-19 testing, treatment, and vaccine administration.
Department of Transportation	\$3,000,000	Provides funds for driver's license office extended operations.
Housing Finance Agency	\$170,000,000	Provides funds for the Workforce Housing Loan Program to develop multi-family affordable housing units across the state.
North Carolina General Assembly	\$21,800,000	Provides funds to address the impact of the COVID-19 pandemic on the operations of the legislature.

Recipient	Allocation	Intended Purpose and Use of Funds
Office of State Budget and Management	\$118,928,476	Provides funds for the continuity of operations across state government, and for continued operations of the North Carolina Pandemic Recovery Office through 2023. Provides funds to the CAGC Foundation, Inc. for construction education programs and a Construction Business Academy for Historically Underutilized Businesses and to the City of Winston Salem and to Dare County for construction of affordable housing. Provides funds to the NC Trucking Association to address truck driver shortages, and for grants to YMCA's statewide to assist with economic impacts of COVID-19.
Office of the State Auditor	\$3,500,000	Provides funds to conduct audits of recipients of American Rescue Plan funds.
<b>Public Schools and Higher Education</b>		
Department of Public Instruction	\$18,648,000	Provides funds for smart school buses and scholarships for students in Forsyth, Rowan and Iredell counties.
North Carolina Community College System	\$114,304,422	Provides funds to assist community colleges that experienced enrollment declines during the COVID-19 pandemic, to improve broadband access for rural community colleges, expand apprenticeship programs for high demand fields in Tier 1 and Tier 2 counties, and replace lost revenue for the Cape Fear Botanical Gardens.
Private Colleges and Universities	\$51,000,000	Provides funds to NC private colleges and universities to assist with revenue loss mitigation and capital improvements.
University of North Carolina System	\$209,584,983	Provides funds for many programs including scholarship recovery programs for children of Armed forces members, need-based grants for tuition and fees for community college students, research and pilot programs on Antiviral Drug Development and Innovative Wastewater Treatment, stabilization funds for the NC Arboretum and for PBS North Carolina, research grants to monitor and address public health and economic impacts of the COVID-19 pandemic, and support of 4-H centers and camps.
<b>Other Governmental Entities and Associations</b>		
Local Government Capacity Assistance	\$53,500,000	Provides funds equally to the North Carolina League of Municipalities, North Carolina Association of County Commissioners, and North Carolina Association of Regional Councils of Government to provide guidance and technical assistance to units of local government in administration of funds from the Local Fiscal Recovery Fund.  Also provided funds to the towns of Apex and Huntersville for the same purpose.
State Indian Tribes and Associations	\$10,006,995	Funds to seven state-recognized American Indian Tribes and four Native American associations.
<b>Employee Bonuses and Benefits</b>		
Employee Bonuses and Benefits	\$545,000,000	Funds for bonuses for state employees and local education employees.

**Appendix C**

The following table illustrates the total amount distributed to recipients included in this audit's findings and the intended purpose and use of funds:

**Disbursements of Funds to Prime Recipients for Direct Use**

Recipient	Disbursement	Intended Purpose and Use of Funds
Administrative Office of the Courts	\$ 3,936,330	Provides funding for overtime expenses to assist with court docket backlogs related to the COVID-19 pandemic.
	\$ 62,000	Provides funding for personal protective equipment for court personnel due to the COVID-19 pandemic.
	\$ 134,560	Provides funding for temporary court support personnel to address the court docket backlog due to the COVID-19 pandemic.
Department of Administration	\$ 250,000	Provides funds for time-limited positions and database improvements for tracking the increased number of operational home schools in the State due to the COVID-19 pandemic.
Department of Agriculture	\$ 10,103,387	Provides funds to be distributed equally to the six food banks in the State to meet the increased demand caused by the COVID-19 pandemic.
Department of Commerce	\$ 500,000	Provides economic assistance to the High Point Furniture Market Authority, a nonprofit organization impacted by the COVID-19 pandemic.
Department of Cultural and Natural Resources	\$ 5,000,000	Provides economic assistance to the NC Symphony Society, Inc., a nonprofit organization impacted by the COVID-19 pandemic.
	\$ 2,500,000	Provides funds for water and sewer projects at the State Parks. The Division may use up to 3.0% of the funds for the administration of the projects.
	\$ 500,000	Provides economic assistance to the Roanoke Island Historical Association, a nonprofit organization impacted by the COVID-19 pandemic, for the Lost Colony production.
	\$ 156,700	Provides economic assistance to the Natural Science Center of Greensboro, a nonprofit organization impacted by the COVID-19 pandemic.
	\$ 100,000	Provides funds to create cultural trails related to moonshine and motorsports.
	\$ 100,000	Provides economic assistance to the Southern Province of the Moravian Church, a nonprofit impacted by the COVID-19 pandemic, for the Laurel Ridge Camp, Conference, and Retreat Center.
	\$ 100,000	Provides economic assistance to the Paul J. Ciener Botanical Gardens, a nonprofit organization impacted by the COVID-19 pandemic.
	\$ 4,221	Provides funds for grants to local museums or science centers impacted by the COVID-19 pandemic.
Department of Health and Human Services	\$ 133,000,000	Provides a \$2,000 bonus for eligible direct care workers employed by eligible providers enrolled in the Medicaid or NC Health Choice program.
	\$ 25,000,000	Provides funds from the State Fiscal Recovery Fund to support lead and asbestos remediation in public schools and child care facilities.
	\$ 24,000,000	Provides funding from the State Fiscal Recovery Fund to reduce the negative economic impact of the COVID-19 pandemic on facilities that serve Special Assistance (SA) recipients. Funds will provide a monthly payment of \$125 per SA recipient beginning July 2021.
	\$ 18,000,000	Provides funds for local health departments to expand communicable disease surveillance, detection, control, and prevention activities to address COVID-19 and other communicable disease-related challenges impacted by the COVID-19 pandemic.

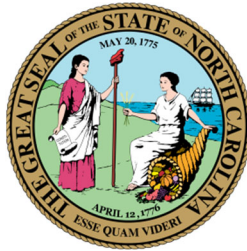
Department of Health and Human Services (Continued)	\$ 12,600,000	Provides funds from the State Fiscal Recovery Fund to local management entities/managed care organizations (LME/MCOs) for temporary funding assistance for intermediate care facilities for individuals with intellectual disabilities (ICF/IID) services on a per diem basis. Funds are to assist with additional costs to these facilities incurred due to the COVID-19 public health emergency.
	\$ 7,000,000	Provides funding from the State Fiscal Recovery fund for a directed grant the North Carolina Association of Free & Charitable Clinics, to respond to the public health emergency by supporting member clinics.
	\$ 500,000	Provides funds from the State Fiscal Recovery Fund for Brynn Marr Hospital, Inc., a psychiatric hospital in Onslow County.
	\$ 350,000	Allocates funding from the State Fiscal Recovery Fund to provide economic assistance to Cleveland Vocational Industries Inc., a nonprofit providing training and employment opportunities for adults with barriers to employment.
	\$ 300,000	Appropriates funds for HVAC upgrades at Cherry Hospital, Central Regional Hospital, Broughton Hospital, Caswell Developmental Center, Murdoch Developmental Center, J. Iverson Riddle Developmental Center, Black Mountain NeuroMedical Center, Longleaf Neuro-Medical Center, O'Berry Neuro-Medical Center, R.J. Blackley Treatment Center, Julian F. Keith Treatment Center, and/or Walter B. Jones Treatment Center.
	\$ 200,000	Provides funding from the State Fiscal Recovery Fund to NC Statewide Tele psychiatry Program to respond to the public health emergency by providing virtual psychiatric assessments and consultations to patients using telemedicine technologies. The revised total requirements for this program are \$3.3 million in FY 2021-22 and \$1.8 million in FY 2022-23.
	\$ 125,000	Provides economic assistance from the State Fiscal Recovery Fund for Hospice of Davidson County, North Carolina, Inc., a nonprofit that provides hospice care and related services in Davidson County and surrounding counties.
	\$ 52,500	Provides funding from the State Fiscal Recovery Fund for nutrition services for older adults in response to the COVID-19 pandemic.
Department of Insurance	\$ 8,000,000	Provides funds to mitigate the financial impact of the COVID-19 pandemic on local volunteer fire departments. These funds will provide a \$10,000 base allocation to each eligible volunteer fire department as defined in G.S. 58-87-1.
Department of Public Safety	\$ 9,000,000	Provides funding for the Prisons section to help address a budget shortfall related to increased medical costs for inmates due to the COVID-19 pandemic.
	\$ 1,000,000	Provides funding for community supervision programs, including short term housing, recidivism reduction services, and social programming, for offenders reentering the community due to the settlement in NC NAACP v. Cooper, which is reducing the prison population as a result of the COVID-19 pandemic.
	\$ 50,000	Provides funding for the Juvenile Justice section to expand wraparound services for at-risk youth who are transitioning from Youth Development Centers into their communities. Funds will expand capacity and necessary services to address the increase in youth detention following the passage of S.L. 2017-57 (Raise the Age) legislation during the COVID-19 pandemic.
Department of Revenue	\$ 302,000,000	Provides funds for the Business Recovery Grant Program to aid businesses in the State that suffered substantial economic damage from the COVID-19 pandemic.
	\$ 2,165,763	Provides funds for the migration of the Department's data from the Department of Information Technology's mainframe to IBM.
Department of Transportation	\$ 1,000,000	Drivers license extended operations.

## APPENDIX C

North Carolina General Assembly	\$ 1,994,145	Provides funds to address the impact of the COVID-19 pandemic on the operations of the legislature.
North Carolina School of Science and Mathematics	\$ 614,023	Allocates funds to NCSSM to offset expenses incurred to directly respond to the COVID-19 pandemic.
Office of State Budget and Management	\$ 20,664	Provides funds for a statewide grant program to YMCAs for recovery from the economic impacts of the COVID-19 pandemic.
University of North Carolina System	\$ 4,000,000	Allocates funds to establish a public-private partnership for digital learning courses with the goal of generating postsecondary learning and career advancement opportunities in response to the COVID-19 pandemic.
	\$ 138,000	Allocates funds to the UNC System Office for the North Carolina Arboretum to offset expenses incurred to directly respond to the COVID-19 pandemic.
	\$ 22,500	Allocates funds to the UNC System Office for PBS North Carolina to offset expenses incurred to directly respond to the COVID-19 pandemic.
<b>Total</b>	<b>\$ 574,579,793</b>	

### Disbursements of Funds to Prime Recipients to Provide to Subrecipients

Recipient	Disbursement	Intended Purpose and Use of Funds
Department of Administration	\$ 18,000,000	Provides funds for additional grants to small, historically underutilized businesses through the RETOOLNC program administered by the Office of Historically Underutilized Businesses.
Department of Agriculture	\$ 14,580,000	Provides funds for grants to swine and dairy producers impacted by the COVID-19 pandemic.
	\$ 2,500,000	Provides funds to Reinvestment Partners for its Produce Prescription Program.
	\$ 1,320,000	Provides funds to the Carolina Farm Stewardship Association to purchase locally grown food for the Farms Serving Hospitality and Restaurant Employees (FarmsSHARE) program, an initiative which provides food at no cost to families in need.
	\$ 21,810	Provides funds to the Increasing Meat and Seafood Production and Capacity (IMSPAC) grant program for financial assistance to meat and seafood producers impacted by the COVID-19 pandemic.
Department of Environmental Quality	\$ 1,577,979	Provides funds for the State Drinking Water/Wastewater Reserve. These funds will be used to provide infrastructure grants to water and sewer utilities throughout the State. Of these funds, \$317.5 million will be used to provide grants to utilities that are at-risk of becoming distressed according to criteria adopted by the State Water Infrastructure Authority.
	\$ 250,000	12.13(g) Of the funds allocated by subdivision (a)(3) of this section for project construction grants, the Department of Environmental Quality shall transfer the sum of forty-two million four hundred eleven thousand four hundred forty-four dollars (\$42,411,444) to the Department of Commerce to provide the following grants for water and sewer infrastructure projects intended to advance economic development or affordable housing objectives for the recipients
	\$ 113,805	Provides funds for a new program to provide grants to local governments for storm water infrastructure. LASII funds may be used for projects that address storm water quality or quantity.
	\$ 38,621	Provides funds for the Viable Utility Reserve. These funds will be used to provide grants to water and sewer utilities that have been designated as distressed by the State Water Infrastructure Authority and the Local Government Commission.
	\$ 25,616	Provides funds to the State Drinking Water/Wastewater Reserve for grants to water and sewer utilities. These funds may be used for asset inventories, merger feasibility studies, rate studies, and training.
Department of Health and Human Resources	\$ 2,200,000	Provides funding from the State Fiscal Recovery Fund for Camino Community Development Corporation, Inc., a nonprofit in Mecklenburg County that serves low-income families through primary care, behavioral health, and wellness services, as well as a thrift store and food pantry. Funding is for mobile units to support service delivery.
	\$ 450,000	Provides funds from the State Fiscal Recovery Fund for Forsyth and Mecklenburg Counties for crisis behavioral health joint partnerships with local hospital systems, local behavioral health crisis centers, local emergency services providers, and LME/MCOs.
Department of Information Technology	\$ 5,676,094	Provides funds for a comprehensive workforce development network consisting of 2 and 4-year colleges and universities working together to create a coordinated effort to meet the talent needs of North Carolina's public agencies and private businesses in North Carolina
Department of Public Safety	\$ 8,000,000	Provides funding to update obsolete Voice Interoperability Plan for Emergency Responders (VIPER) equipment to facilitate timely service from emergency first responders during the COVID-19 pandemic
	\$ 5,400,000	Provides funding to modernize the CAD system to facilitate timely service from law enforcement during the COVID-19 pandemic. This system provides automated record-keeping, dispatch information, and other support for troopers in the line of duty.
Local Government Capacity Assistance	\$ 716,439	Provides funds for guidance and technical assistance to localities in the administration of Local Recovery Funds. \$11.5 million is allocated for the Town of Apex, and \$12 million is allocated for the Town of Huntersville.
<b>Total</b>	<b>\$ 60,870,363</b>	



# **STATE AUDITOR'S RESPONSE**



The Office of the State Auditor 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,

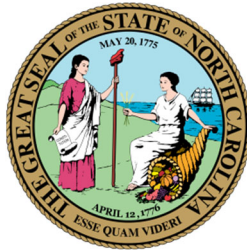
When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons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

In its response, the Office of State Budget and Management (OSBM) agreed with the results of this audit and discussed several corrective actions that are planned, in process, or have occurred subsequent to the audit period.

As such, this audit did not verify or validate the corrective actions included in OSBM's response. As the audit report states, the audit period was May 24, 2021, through June 30, 2022.

Therefore, this audit does not provide any assurance as to whether the OSBM's statements regarding corrective actions are accurate.

The **Governor**, **legislators**, and the **citizens** of North Carolina should consider these clarifications when evaluating OSBM's response to this audit's findings and recommendations.



# **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

KRISTIN WALKER  
STATE BUDGET DIRECTOR

June 5, 2023

The Honorable Beth A. Wood  
State Auditor

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

Dear State Auditor Wood,

Thank you for providing the North Carolina Pandemic Recovery Office (NCPRO) and the Office of State Budget and Management (OSBM) with the opportunity to respond to the State Fiscal Recovery Funds federal performance audit for the year ended June 30, 2022.

We have reviewed the federal performance audit for State Fiscal Recovery Funds for the year ended June 30, 2022. Ensuring that the State Fiscal Recovery 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. We are pleased to report that many of the strategies recommended in the audit have already been implemented or are in the process of being implemented. We have included our plans to make changes to ensure that the North Carolina Pandemic Recovery Office will be well-equipped to handle the additional federal recovery dollars that the State has received to recover from the pandemic.

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

**Audit Findings, Recommendations and Responses**

**Finding:** \$635 MILLION OF STATE FISCAL RECOVERY FUNDS DISTRIBUTED WITH LIMITED MONITORING

**Agency Response:**

The NC Pandemic Recovery Office (NCPRO) accepts that monitoring activities could be strengthened and expanded. As noted in the performance audit, NCPRO required prime recipients - who are state agencies, public universities, and other public entities - to sign Memorandums of Understanding that require these public entities to read and acknowledge that they will follow

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applicable federal and state regulations for these pandemic recovery funds. As also noted in the audit, NCPRO hired external trainers to provide monitoring training to state agency staff and reviewed monthly expense reports submitted by state agencies.

NCPRO engaged in additional monitoring activities that were completed after the end of the performance audit period of June 30, 2022:

- Added all federal grant funds into the grants management system, "PANGRAM," that NCPRO acquired and began to develop in December 2021.
- Hired an external firm, Berry Dunn, to help the agency develop standard operating procedures for prime recipients, subrecipients, and beneficiaries. NCPRO also developed a reporting handbook and a monitoring handbook which was distributed to all prime recipients.
- Held (and continues to hold) bi-weekly meetings for state agency and other prime recipient grantees to provide technical assistance, address questions, review requirements, and provide guidance on the use of funds.
- Holds regular accountability calls with state agencies to address program questions and guidance.

The North Carolina General Assembly (NCGA) established NCPRO with the passage of Session Law 2020-4 on May 4, 2020, and has provided limited funding for the Office with time-limited staffing. Given these circumstances, NCPRO has primarily relied upon existing state agency processes and internal controls for the management of SFRF, while also providing the resources outlined above to assist state agencies.

NCPRO acknowledges that a lack of staffing, funding, and the temporary nature of NCPRO contributed to the State Auditor's finding that the monitoring efforts were not as robust as they could be. NCPRO and OSBM have applied the lessons learned from administration and audits of the state's share of the federal Coronavirus Relief Funds to modify processes. Additionally, NCPRO and OSBM have sought an extension of NCPRO from the NC General Assembly. At present, NCPRO is statutorily required to dissolve on June 30, 2023. NCPRO and OSBM have requested that the General Assembly extend the office through June 30, 2027 and also that \$3.5 million in funding declined by the State Auditor be re-allocated to OSBM for monitoring and auditing activities. Such funding will enable NCPRO to independently verify prime recipient spending and implement the best practices identified in the audit.

**Finding: \$635 MILLION OF STATE FISCAL RECOVERY FUNDS DISTRIBUTED WITHOUT ENSURING ALL RECIPIENTS HAD A METHOD TO MEASURE RESULTS**

**Agency Response:**

The NC Pandemic Recovery Office (NCPRO) accepts that State Fiscal Recovery Funds need to be measured and is working towards that outcome. As noted in the performance audit, NCPRO required recipients to submit draft goals and objectives to measure performance as part of their MOUs. Due to the legislatively mandated timeframes (such as those in S.L 2021-180 for \$302



million in Business Recovery Grants), NCPRO distributed some funds without full completion of all goals and measures to get needed funding in the hands of recipients as quickly as possible. NCPRO has worked diligently with state agencies to assist with setting up these new programs and developing plans to measure project goals, outputs, outcomes, and impacts. NCPRO engaged in significant activities to help recipients measure results that were completed after the end of the performance audit period of June 30, 2022:

- Hired an external firm, Deloitte Consulting, to provide training and support to NCPRO, prime recipients, and subrecipients for the development of robust performance measures beyond the framework initially reported by prime recipients and subrecipients in their MOUs. An industry leader in the development of performance measures, Deloitte conducted 12 workshops for 118 agency participants over the course of eight weeks.
- NCPRO is presently working with state agencies (prime recipients) and subrecipients to develop and collect key performance indicators. NCPRO remains in constant communication with state agencies and has asked for additional information when needed.
- Engaged with US Digital Response to develop the tools that NCPRO needs to collect and then analyze key performance indicators reported by state agencies.

Performance measure development, collection, and analysis will enable NCPRO to ensure that funds are achieving legislatively intended results and to take timely corrective action if needed. While this large-scale data work is underway, NCPRO is collecting and highlighting success stories from recipients and subrecipients in using federal coronavirus funds 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,



Kristin Walker, State Budget Director



Stephanie McGarrah, Executive Director,  
North Carolina Pandemic Recovery Office

# ORDERING INFORMATION

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