



THE MONITOR

NORTH CAROLINA OFFICE OF THE STATE AUDITOR
STATE AUDITOR BETH WOOD
QUARTERLY NEWSLETTER

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TOP STORIES IN THIS NEWSLETTER



OSA CONTINUES EXAMINATION OF CORONAVIRUS RELIEF FUNDS



The Office of the State Auditor’s (OSA) examination of Coronavirus Relief Funds continued with performance audits of the Department of Revenue’s (DOR) Extra Credit Grant program and of the administration and oversight of relief funds by the Office of State Budget and Management’s North Carolina Pandemic Recovery Office (NCPRO).

DOR Extra Credit Grant Program (April)

This audit determined that some low-income families did not receive Extra Credit Grant program payments from the State. Session Law 2020-4, Sections 4.12.(a)–(d) directed DOR to automatically award payments to eligible families that filed a 2019 tax return. However, some families had incomes low enough that they were not required to file a tax return. Families that did not file a return were required to apply to receive the grant. Therefore, in a short timeframe, additional steps were required for some low-income

families to apply for and receive payment. As a result, families most in need did not receive timely Extra Credit Grant payments from the State.

NCPRO Oversight of Coronavirus Relief Funds (May)

OSA’s report found that NCPRO did not design and implement procedures to ensure Coronavirus Relief Funds were being spent in accordance with the 2020 COVID-19 Recovery Act, or that programs that received these funds were achieving their legislatively intended results. As a result, there was increased risk that recipients could have misused funds without it being detected and corrected in a timely manner. Additionally, NCPRO was limited in its ability to know whether funds were achieving legislatively intended results and to take timely corrective action if necessary.

AUDITS OF THE DEPARTMENT OF TRANSPORTATION

DOT Advance Construction (May)

In advance construction, the Federal Highway Administration (FHWA) approves a project as being eligible for federal funding but does not obligate (promise to pay) federal funds. The State must incur and pay for project expenditures and apply for federal reimbursement. The Department of Transportation (DOT) has opted to use advance construction to pay for the majority of the road construction projects that it anticipates will be financed with these federal aid highway funds. Risks associated with the use of advance construction include:

- the increased need for cash in the short term until DOT can receive federal reimbursement,
- delayed or denied reimbursement if federal funds are not available when DOT requests it, and
- denied reimbursement if DOT cannot demonstrate compliance with federal aid highway project requirements.

Our audit determined that DOT's report on advance construction did not include all information required by state law. The Department stated that some information was difficult to obtain. The report was also inaccurate regarding the following three calculations:

- overstating the advance construction balance,
- understating the amount of principal to be repaid to the trustee for Grant Anticipation Revenue Vehicle (GARVEE) bonds, and
- overstating the amount of premium applied to projects for GARVEE bonds.

DOT Cash Spending Plan (September)

DOT's Cash Spending Plan refers to the total dollars it "intends" to spend in a fiscal year. The Spending Plan includes funds appropriated by the General Assembly, funds left over from the prior year, and proceeds from GARVEE bonds. A May 2020 OSA report found that DOT exceeded its State Fiscal Year 2019 Spending Plan by \$742 million (12.5%) and was in danger of falling below the statutory cash floor.

OSA's most recent performance audit determined that DOT did not exceed its developed Spending Plan for the first half of State Fiscal Year 2021. However, because the plan was not developed based on specific projects and operations scheduled for the fiscal year, this result was largely due to chance rather than the result of a plan based on projects slated for the fiscal year. DOT is still at risk of exceeding its Spending Plan in future periods because it has not implemented OSA's recommendations.



UNIVERSITY/HOSPITAL AUDITS AND ANNUAL COMPREHENSIVE FINANCIAL REPORT



University and Hospital Audits

The Office of the State Auditor performs financial statement audits of all 16 Universities and the North Carolina School of Science and Mathematics in the University of North Carolina System (UNC

System). Additionally, OSA audits the only state-owned teaching hospital in North Carolina, the University of North Carolina Hospitals at Chapel Hill. These audits offer information that can be relied upon by users of the entity's financial statements to make decisions about the organization's financial condition, offering reasonable assurance that their financials are free from misstatements by an amount so large as to be misleading. The financial statement audit does not intend to give assurance that controls, processes, and programs are functioning as intended or that no fraud exists within the entity. Each audit report includes a Management's Discussion and Analysis with a set of financial statements and notes. Readers will also find an overview of financial position and activities for the year ended June 30, 2021 as well as an outlook for the future.

As of December 17, 2021, we have released all audit UNC System reports with the exception of North Carolina Central University (the North Carolina School of Science and Mathematics audit has not yet begun). Thus far, no audit findings have been issued on any of the released reports.

Nearly 250,000 students are enrolled in the 16 universities across the state that make up the University of North Carolina System. The UNC System is one of the most valuable public higher education systems in the country. Now more than ever, understanding the overall financial position and outlook of these institutions is important to North Carolina citizens and state leaders.

Annual Comprehensive Financial Report

North Carolina’s Annual Comprehensive Financial Report (ACFR) is a presentation of the State’s financial condition. The ACFR is prepared by the Office of the State Controller and OSA performs the financial statement audit.

The ACFR is used by the State’s creditors and can be used to assist others in making decisions that are based on the financial condition of the State. The ACFR is divided into three sections: Introductory, Financial, and Statistical. The Independent Auditor’s Report, including the Auditor’s Opinion, is part of the Financial Section.

OSA audited the State’s basic financial statements as listed in the ACFR’s table of contents for the year ended June 30, 2021 and issued an unmodified opinion, meaning the information is presented free of misstatements that could mislead users and can be relied upon in making decisions on the State’s financial condition.

Users of the ACFR include investors, creditors, legislators, and taxpayers. During the 2021 fiscal year, the top three rating agencies—Standard & Poor’s, Moody’s Investors Service, and Fitch Ratings—all affirmed a triple-A bond rating for the State. North Carolina remains one of 13 states with a triple-A credit rating from all three agencies. This rating means the State pays the lowest interest rates in the nation when borrowing money.

INVESTIGATIVE REPORTS

Entity Investigated	Audit Findings
<u>Nash County Public Schools</u>	The former Superintendent violated his contract and multiple policies and procedures related to his procurement card and use of a School System vehicle. These violations resulted in \$45,690 in unallowed and questionable expenses.
<u>Roanoke-Chowan Community College</u>	The College issued checks totaling \$10,305,204 with invalid signatures, paid employees \$45,008 in unallowed salaries, and submitted retirement contributions after deadlines, incurring \$3,564 in penalties.
<u>Town of Plymouth</u>	The Town Council did not maintain meeting minutes for some of its meetings held during 2020.
<u>Town of Hertford</u>	The Town Council awarded a contract to the highest bidder for its street light fixture project, resulting in the Town overpaying by as much as \$25,749. In addition, the former Town Mayor Pro Tem incurred \$11,671 in questionable expenses and did not forfeit his office after pleading guilty to an assault charge.
<u>Town of Gaston</u>	<p>The Town Clerk abused her position in:</p> <ul style="list-style-type: none"> • issuing unauthorized loans to Town employees and herself totaling \$39,072; • receiving \$4,410 in unallowed vacation pay; • commingling her personal funds with Town funds; and • failing to obtain the required secondary signature on all Town checks. <p>In addition, a Town Commissioner used his knowledge of the condition of a lawnmower he used in performance of his job duties to purchase the item for approximately \$2,700 below fair market value, and Town officials failed to safeguard Town assets (specifically, vehicle and fuel card usage was not monitored).</p>
<u>Town of East Laurinburg</u>	The Town’s former Finance Officer used \$2,674 of Town funds to pay her personal utility bills and spent \$8,542 of Town funds for which there was no documentation to support the expenses or a valid business purpose. In addition, the Town’s required financial audits from June 30, 2017 through present have not been completed.

AUDITOR'S FINDINGS



2021 was a challenging year for everyone, and the Office of the State Auditor (OSA) was no exception. However, we persevered in spite of all obstacles and our staff did not allow its work to suffer as a result of the pandemic. Much of our effort this year was focused on examining the policies, procedures, and oversight mechanisms used by various offices and agencies to ensure efficient and effective spending of Coronavirus-related monies. We also looked at accounting and spending operations by the Department of Transportation and adherence to Hurricane Florence Recovery legislation by the Department of Public Safety.

OSA also published several newsworthy investigative reports in 2021, uncovering cases of questionable and unallowed expenditures as well as use of public monies for private gain. Meanwhile, we continued to fulfill our fundamental duty to audit the financial statements of state agencies,

universities, community colleges, and other units of state government.

OSA took all necessary precautions this year to keep our staff safe and healthy, and our in-house vaccination rate is among the highest in state government. These measures enabled us to stay fully committed to our mission of serving the taxpayers of North Carolina. In closing, I would like to wish everyone a safe and happy holiday season.

~ Beth

OSA IN THE NEWS

WRAL: [Town of East Laurinburg Investigative Report](#) (10/20)

N&O: [DPS Hurricane Florence Recovery Fund Preliminary Financial Audit](#) (9/30)

Fayetteville Observer: [Fayetteville State University Investigative Report](#) (9/16)

Carolina Journal: [DOT Cash Spending Plan](#) (9/15)

WLOS: [Oversight of CRF Funds by OSBM and NCPRO](#) (8/31)

Johnson City Press: [Town of Gaston Investigative Report](#) (8/23)

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