

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



NORTH CAROLINA OFFICE OF STATE BUDGET AND MANAGEMENT

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2021



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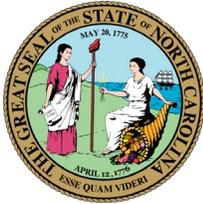


**Beth A. Wood, CPA
State Auditor**

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STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Charles Perusse, State Budget Director
North Carolina Office of State Budget and Management

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs, we have completed certain audit procedures at the North Carolina Office of State Budget and Management for the year ended June 30, 2021.

We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our audit objective was to express an opinion on the State of North Carolina's compliance for each of its major federal programs. However, the audit results described below are in relation to our audit scope at the North Carolina Office of State Budget and Management and not to the State of North Carolina as a whole. The State Auditor expresses an opinion on the State of North Carolina's compliance with requirements applicable to its major federal programs in the State's *Single Audit Report*.

Our federal compliance audit scope at the North Carolina Office of State Budget and Management included the Coronavirus Relief Fund (Assistance Listing Number 21.019).

Our audit was performed by authority of Chapter 147, Article 5A of the *North Carolina General Statutes*.

Compliance

The results of our audit procedures at the North Carolina Office of State Budget and Management disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and which are described in the Finding, Recommendation, and Views of Responsible Officials of the Auditee section.

Internal Control Over Compliance

In planning and performing our audit of compliance, we considered the North Carolina Office of State Budget and Management's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report

on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the North Carolina Office of State Budget and Management's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the North Carolina Office of State Budget and Management's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, material weaknesses and significant deficiencies may exist that have not been identified. However, we consider the deficiency described in the Finding, Recommendation, and Views of Responsible Officials of the Auditee section to be a material weakness in internal control over compliance.

North Carolina Office of State Budget and Management's Response to the Finding

The North Carolina Office of State Budget and Management's response to the finding identified in our audit is included in the Finding, Recommendation, and Views of Responsible Officials of the Auditee section of this transmittal. The North Carolina Office of State Budget and Management's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Purpose of This Transmittal

The purpose of this transmittal is solely to describe the scope of our testing of internal control over compliance and testing of compliance and the results of that testing at the North Carolina Office of State Budget and Management based on the requirements of the Uniform Guidance. Accordingly, this transmittal is not suitable for any other purpose.

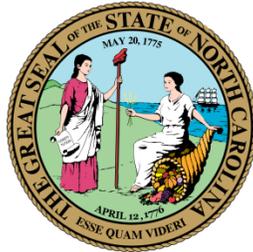
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this transmittal.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 30, 2022



**FINDING,
RECOMMENDATION, AND
VIEWS OF RESPONSIBLE
OFFICIALS OF THE
AUDITEE**

Matters Related to Federal Compliance Audit Objectives

INADEQUATE MONITORING OF CORONAVIRUS RELIEF FUNDS

The North Carolina Pandemic Recovery Office (NCPRO), a division of the Office of State Budget and Management, did not adequately monitor \$2.92 billion¹ in federal funds used for expenditures incurred due to the COVID-19 pandemic. Specifically, NCPRO did not:

1. Review subrecipient expenditures.
2. Complete separate monitoring activities for high-risk subrecipients.
3. Review subrecipient audit reports.
4. Review direct expenditures of state entities.

First, auditors reviewed the monitoring procedures over subrecipients that received coronavirus relief funds. NCPRO's monitoring procedures required reviews of subrecipient expenditure reports and supporting documentation. However, auditors tested a sample of 60 out of 3,007 subrecipients and found no evidence of this review for 57 (95%) subrecipients.

Second, auditors reviewed the risk assessment procedures over all subrecipients. NCPRO's monitoring plan required separate monitoring activities² for subrecipients assessed as high-risk. Auditors reviewed all 25 subrecipients that were assessed as high-risk and found that these separate monitoring activities were not completed for 14 (56%) of the subrecipients.

Third, auditors reviewed the monitoring procedures for a sample of 15 subrecipients that were required to have an audit in accordance with the Uniform Guidance and found no evidence that NCPRO verified the audits were performed.

Lastly, auditors tested a sample of 60 direct expenditures of state entities and found no evidence of review of supporting documentation.

Inadequate monitoring increases the risk that federal funds may not be used in accordance with the federal requirements, which may have reduced funding available to respond to the ongoing COVID-19 pandemic.

According to NCPRO management, monitoring procedures did not require that the results of reviews and other monitoring activities be documented. Further, management did not review or revise monitoring procedures following changes³ in federal programs and operations. These changes required management to prioritize other responsibilities, resulting in personnel not being available for monitoring.

¹ Federal funds included direct expenditures of \$1.96 billion (funds expended by state agencies, community colleges, and members of the UNC System) and \$0.96 billion passed to subrecipients (local governments, nonprofits, and other private organizations).

² The separate monitoring activities included in-depth testing of subrecipient internal controls and expenditures for compliance with federal requirements.

³ Changes included a one-year extension of the Coronavirus Relief Fund program in December 2020 and NCPRO assuming responsibility for additional federal COVID-19 programs.

Federal regulations⁴ require NCPRO to:

- Establish and maintain effective internal control over the federal award that provides reasonable assurance that the entity is managing the award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.
- Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward.
- Verify that every subrecipient is audited as required.

Federal Award Information: Federal Awarding Agency: U.S. Department of the Treasury; Assistance Listing Number (title): 21.019 (Coronavirus Relief Fund); Federal Award Identification Numbers (award periods): SLT0025 (March 1, 2020 - December 31, 2021) and SLT0237 (March 1, 2020 - December 31, 2021).

Recommendation: NCPRO management should ensure that monitoring procedures are designed and implemented, including a requirement that personnel document the completion of the procedures.

In addition, NCPRO management should review and revise monitoring procedures as necessary in response to changes in federal programs or operations, including contingency plans to address personnel shortages.

Views of Responsible Officials of the Auditee: See pages 5-6 for the Office of State Budget and Management's response to this finding.

⁴ 2 CFR 200.303(a) and 2 CFR 200.332(d)(f).



STATE OF NORTH CAROLINA
OFFICE OF STATE BUDGET AND MANAGEMENT
Employment First State for Individuals with Disabilities

ROY COOPER
GOVERNOR

CHARLES PERUSSE
STATE BUDGET DIRECTOR

March 18, 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:

We have reviewed the federal compliance audit of the Coronavirus Relief Fund for the fiscal year ending June 30, 2021. Ensuring that the Coronavirus Relief Funds are used efficiently, equitably, and appropriately by the State of North Carolina to help our people, communities, and businesses recover from the COVID-19 pandemic is essential to our mission. We take the findings presented in this report very seriously, and we have included our plans to make changes to address them and to ensure that the North Carolina Pandemic Recovery Office (NCPRO) will be well-equipped to handle the additional federal recovery dollars that the State has received to recover from the pandemic.

Please find the Office of State Budget and Management (OSBM) and NCPRO's response to your findings in connection with the federal compliance audit of Coronavirus Relief Funds (CRF).

The following represents our response and the corrective actions taken and planned regarding the Audit Findings and Recommendations. We have also completed and attached a Corrective Action Plan cover letter and response.

Audit Findings, Recommendations and Responses

Finding: Inadequate monitoring of Coronavirus Relief Funds

Agency Response:

NCPRO accepts this finding. NCPRO established internal monitoring and review standards that were higher than those required at the federal level and without regard to budget and staff limitations. The General Assembly ultimately funded NCPRO at half of the recommended amount, which left the office understaffed and contributed to the inadequate documentation of monitoring procedures of CRF funds.

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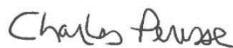
The Recovery Act required the distribution, coordination, expenditure, and monitoring of CRF funds to occur within an urgent seven-month period from the passage of Session Law 2020-4 (May 4, 2020) to the program end date (December 30, 2020). On December 27, 2020, the Coronavirus Relief and Response Supplemental Appropriations Act of 2021 was signed into law extending the expenditure of Coronavirus Relief Funds through December 31, 2021.

NCPRO acknowledges that a lack of staffing and funding and the temporary nature of NCPRO contributed to the State Auditor's finding that the monitoring efforts were not as robust as they should be. To that point, NCPRO began investing in additional monitoring staff throughout 2021, and engaged an external firm to assist with program, staffing, and internal controls design closely following federal and state standards. Additionally, NCPRO worked to strengthen processes associated with the nine controls previously implemented and increased the frequency of expenditure verification. NCPRO plans to apply these changes to the CRF dollars as well as the additional federal pandemic recovery funds that it will manage for the State of North Carolina with the passage of additional federal legislation. NCPRO and OSBM also took steps to seek additional longer-term funding from the NC General Assembly for NCPRO to improve these functions. At present, NCPRO is statutorily required to dissolve on June 30, 2023.

Despite the lack of documented monitoring, NCPRO was able to collect and has highlighted the success stories from recipients and subrecipients in using CRF to help North Carolina's people, communities, and businesses recover from the pandemic. These success stories can be accessed on the NCPRO website.

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

Sincerely,



Charles Perusse, State Budget Director



Stephanie McGarrah, Executive Director,
North Carolina Pandemic Recovery Office

ORDERING INFORMATION

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