

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

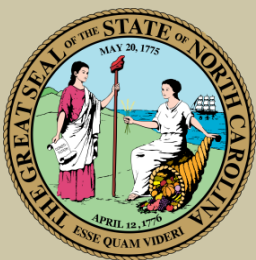


STATE FISCAL RECOVERY FUND

PRELIMINARY FINANCIAL AUDIT

OFFICE OF STATE BUDGET AND MANAGEMENT

DECEMBER 2022



NCOSA
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

OBJECTIVE

The objective of this audit was to determine whether the Office of State Budget and Management (OSBM) **accounted for, allocated, and disbursed** amounts appropriated to the State Fiscal Recovery Fund in accordance with State Fiscal Recovery Fund legislation.¹

BACKGROUND

On May 24, 2021, the North Carolina General Assembly enacted S.L. 2021-25 which established the State Fiscal Recovery Fund.² 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.³

Through a series of legislation, the State Fiscal Recovery Fund provided a total of \$5.4 billion in assistance 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,⁴ and to ensure the proper reporting and accounting of the State Fiscal Recovery Fund.⁵

KEY FINDINGS

OSBM **accounted for, allocated, and disbursed** amounts appropriated to the State of North Carolina's State Fiscal Recovery Fund in accordance with State Fiscal Recovery Fund legislation. As of June 30, 2022, OSBM allocated a total of \$5.4 billion of State Fiscal Recovery Funds and disbursed:

- \$740 million to state agencies.
- \$38 million to public schools and higher education.
- \$524 million for employee bonuses and benefits.

The \$4.1 billion remaining to be disbursed represents the balance for which recipients have yet to request distribution. State Fiscal Recovery Funds must be obligated by December 31, 2024, and expended by December 31, 2026.

¹ See Appendix A for details regarding legislation affecting the State Fiscal Recovery Fund.

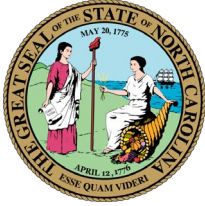
² S.L. 2021-25, Section 2.2.

³ 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.

⁴ S.L. 2021-25, Section 2.2.

⁵ S.L. 2021-180, Section 4.9.(d).

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Office of the State Auditor



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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
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 *State Fiscal Recovery Fund – Preliminary Financial Audit*. The objective of this audit was to determine whether the Office of State Budget and Management **accounted for, allocated, and disbursed** amounts appropriated to the State Fiscal Recovery Fund in accordance with State Fiscal Recovery Fund legislation.

The State Budget Director reviewed a draft copy of this report. Her written comments are included starting on page 17.

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

We appreciate the courtesy and cooperation received from management and the employees of the Office of State Budget and Management during our audit.

Respectfully submitted,

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

Beth A. Wood, CPA
State Auditor

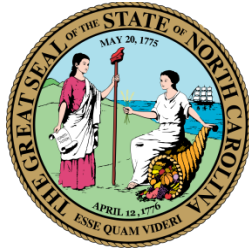


Beth A. Wood, CPA
State Auditor

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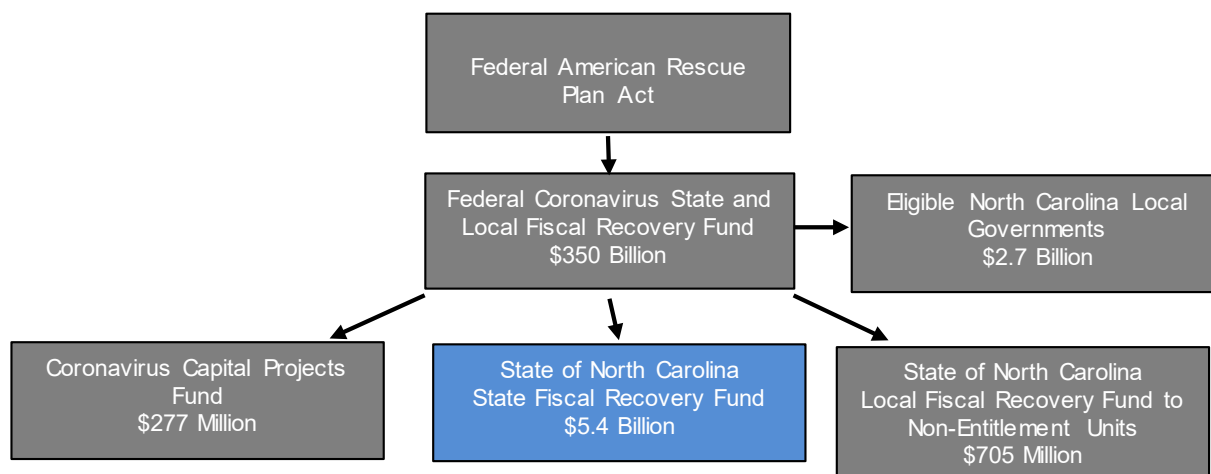
Chapter 147, Article 5A of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



BACKGROUND

On March 11, 2021, the President of the United States signed into law the American Rescue Plan Act (ARPA).⁶ ARPA established the federal Coronavirus State and Local Fiscal Recovery Fund and appropriated \$350 billion to this fund for distribution to state, local, territorial, and tribal governments.⁷ 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 U.S. Department of the Treasury and the state's 525 Non-Entitlement Units⁸ were appropriated \$705 million to be provided through the state's Local Fiscal Recovery Fund.⁹



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.

On May 24, 2021, the North Carolina General Assembly enacted S.L. 2021-25 which established the State Fiscal Recovery Fund.¹⁰ The State Fiscal Recovery Fund is a special fund administered by the North Carolina Office of 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.

⁶ U.S. Public Law 117-2.

⁷ <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds>.

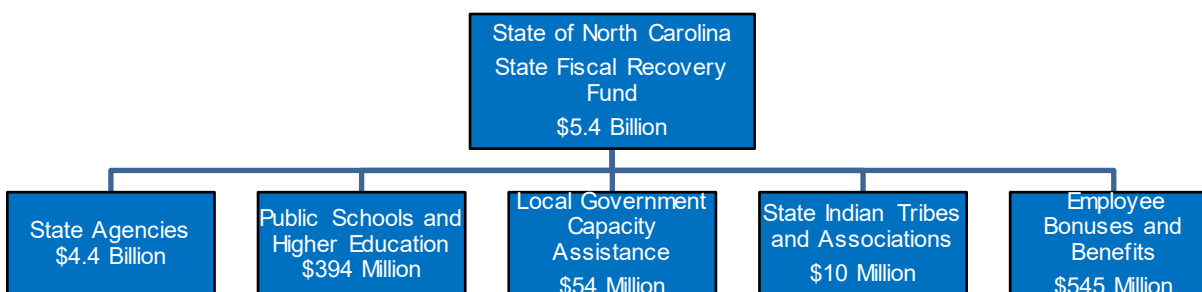
⁸ Towns and cities of 50,000 residents or fewer.

⁹ https://files.nc.gov/ncgov/documents/files/ncpro/Funding-totals-SLFRF_final.pdf.

¹⁰ S.L. 2021-25, Section 2.2.

The funds are to be used to respond to the public health emergency with respect 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.¹¹ North Carolina's State Fiscal Recovery Fund does not include amounts received directly from the U.S. 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,¹² or the State's Coronavirus Capital Projects Fund. Accordingly, these funds are **not included** within the scope of this audit.

Through a series of legislation,¹³ 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:



OSBM disburses State Fiscal Recovery Funds to recipients by request based on timelines agreed to with each recipient.

State Fiscal Recovery Fund legislation required OSBM to administer the State Fiscal Recovery Fund to carry out the provisions of the law,¹⁴ and to ensure the proper reporting and accounting of the State Fiscal Recovery Fund.¹⁵ 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 U.S. 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.¹⁶
- Adhere to the reporting requirements established by federal and state law.

¹¹ S.L. 2021-25, Section 2.2.

¹² Towns and cities of 50,000 residents or fewer.

¹³ See Appendix A for details regarding legislation affecting the State Fiscal Recovery Fund.

¹⁴ S.L. 2021-25, Section 2.2

¹⁵ S.L. 2021-180, Section 4.9.(d).

¹⁶ North Carolina Office of State Budget and Management, [Memorandum Budgeting American Rescue Plan Act State Fiscal Recovery Funds](#).

The 2020 COVID-19 Recovery Act¹⁷ 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.

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

S.L. 2021-180, Section 4.9.(j) required the Office of the State Auditor to conduct biennial preliminary financial audits of the State Fiscal Recovery Fund.

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*¹⁸ – 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.

State Fiscal Recovery Fund – The fund established by the State of North Carolina 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.¹⁹

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

Responsible parties discussed in this report include:

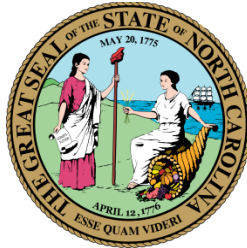
North Carolina Office of State Budget and Management (OSBM) – OSBM delivers budget development and management services for the state. S.L. 2021-25 established the State Fiscal Recovery Fund that is to be maintained as a special fund, administered by OSBM, to carry out the provisions of the law.

North Carolina Pandemic Recovery Office (NCPRO) – The temporary North Carolina Pandemic Recovery Office created to oversee and coordinate funds made available under COVID-19 recovery legislation.

¹⁷ S.L. 2020-4, Section 4.3.

¹⁸ See Appendix A for details regarding legislation affecting the State Fiscal Recovery Fund

¹⁹ 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.



OBJECTIVE, SCOPE, AND METHODOLOGY

The audit objective was to determine whether the Office of State Budget and Management (OSBM) **accounted for, allocated, and disbursed** amounts appropriated to the State Fiscal Recovery Fund in accordance with State Fiscal Recovery Fund legislation.²⁰

The audit scope included OSBM's accounting, allocation, and disbursement transactions related to the State Fiscal Recovery Fund for the period May 24, 2021,²¹ through June 30, 2022.

The audit scope **did not** include funds received by eligible North Carolina local governments directly from the U.S. Department of the Treasury, funds received through the state's Local Fiscal Recovery Fund by the state's Non-Entitlement Units,²² or funds received through the state's Coronavirus Capital Projects Fund. Further, the following matters **were not included** in the audit scope and objective:

- Compliance with requirements established by the U.S. Department of the Treasury.
- Adherence to reporting requirements established by ARPA or state law.
- Whether State Fiscal Recovery Funds were spent in accordance with ARPA.
- Whether programs that received State Fiscal Recovery Funds accomplished their intended purpose.
- Disbursement of State Fiscal Recovery Funds to subrecipients, beneficiaries, municipalities, or other secondary entities that did not receive funds directly from OSBM.

S.L. 2021-180, Section 4.9.(j) also required the Office of the State Auditor to conduct a performance audit of the State Fiscal Recovery Fund.

To accomplish the audit objective, auditors:

- Reviewed relevant laws and regulations.
- Interviewed OSBM and North Carolina Pandemic Recovery Office (NCPRO) personnel.
- Reperformed all 242 (100%) allocations to state agencies, institutions of higher education, local & tribal governments, using the criteria established in state law to ensure amounts were allocated in accordance with the law.
- Reconciled OSBM's accounting records for allocations and disbursements to the authorizing legislation and accounting requirements established by the North Carolina Office of the State Controller²³ to ensure the State Fiscal Recovery Fund was **accounted for, allocated, and disbursed** in accordance with ARPA and state law.

²⁰ See Appendix A for details regarding legislation affecting the State Fiscal Recovery Fund.

²¹ The date the State Fiscal Recovery Fund was established.

²² Towns and cities of 50,000 residents or fewer.

²³ Office of State Budget Management, [Memorandum Budgeting American Rescue Plan Act State Fiscal Recovery Funds](#)

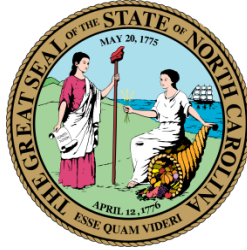
- Examined recipient²⁴ fund requests, memorandums, journal entries, and other documentation supporting all 156 (100%) disbursements from the State Fiscal Recovery Fund (through June 30, 2022) to ensure the funds were disbursed in accordance State Fiscal Recovery Fund legislation.

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.

²⁴ Included state agencies, institutions of higher education, local government, and state Indian tribes and associations.



RESULTS AND CONCLUSIONS

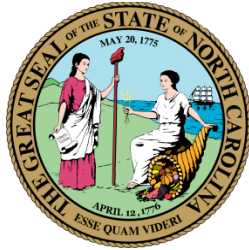
During the period May 24, 2021, to June 30, 2022, the Office of State Budget and Management (OSBM) **accounted for, allocated, and disbursed** amounts appropriated to the State of North Carolina's State Fiscal Recovery Fund in accordance with State Fiscal Recovery Fund legislation.²⁵

OSBM allocated a total of \$5.4 billion of State Fiscal Recovery Funds.²⁶ As of June 30, 2022, \$1.3 billion (24%) was disbursed to recipients.

The \$4.1 billion remaining to be disbursed represents the balance for which recipients have yet to request distribution. State Fiscal Recovery Funds must be obligated by December 31, 2024, and expended by December 31, 2026.

²⁵ See Appendix A for details regarding legislation affecting the State Fiscal Recovery Fund.

²⁶ See Appendix B for details regarding allocations by major recipient type.



FINDINGS

1. ALLOCATIONS AND DISBURSEMENTS TO STATE AGENCIES

The Office of State Budget and Management (OSBM) **allocated** \$4.4 billion of State Fiscal Recovery Funds to state agencies in accordance with State Fiscal Recovery Fund legislation. Of this amount, \$740 million (17%) was **disbursed** as of June 30, 2022.

State Fiscal Recovery Fund legislation required that OSBM allocate \$4.4 billion to state agencies as shown in the table below. State Fiscal Recovery Fund legislation required that funds only be disbursed from the State Fiscal Recovery Fund to state agencies upon justification from the agency and only as needed to implement the provisions of state law.²⁷

Auditors tested 115 (100%) State Fiscal Recovery Fund allocations and 63 (100%) of OSBM's disbursements to state agencies through June 30, 2022. Auditors found that all 115 (100%) allocations and 63 (100%) disbursements were properly **accounted for, allocated, and disbursed** in accordance with State Fiscal Recovery Fund legislation.

The following table illustrates the total amounts allocated, disbursed, and remaining to be disbursed to state agencies as of June 30, 2022.

Allocations and Disbursements to State Agencies			
Recipient	Allocated	Disbursed	Remaining
State Agencies			
Administrative Office of the Courts	\$ 35,389,440	\$ 4,132,890	\$ 31,256,550
Department of Administration	20,750,000	18,250,000	2,500,000
Department of Agriculture	128,800,000	35,925,197	92,874,803
Department of Commerce	187,710,000	500,000	187,210,000
Department of Environmental Quality	1,690,000,000	2,006,020	1,687,993,980
Department of Health and Human Services	502,785,232	223,777,500	279,007,732
Department of Information Technology	739,939,144	5,676,094	734,263,050
Department of Insurance	8,000,000	8,000,000	-
Department of Natural and Cultural Resources	96,200,000	10,075,497	86,124,503
Department of Public Safety	108,925,000	24,450,000	84,475,000
Department of Revenue	502,538,000	304,165,763	198,372,237
Department of State Treasurer	101,000,000	101,000,000	-
Department of Transportation	3,000,000	-	3,000,000
Housing Finance Agency	170,000,000	-	170,000,000
North Carolina General Assembly	21,800,000	1,994,145	19,805,855
Office of State Budget and Management	118,928,476	20,664	118,907,812
Office of the State Auditor	3,500,000	-	3,500,000
Total State Agencies	\$ 4,439,265,292	\$ 739,973,770	\$ 3,699,291,522

The \$3.7 billion remaining to be disbursed represents the balance for which recipients have yet to request distribution. For example:

- The Department of Environmental Quality has not requested \$1 billion allocated 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.

²⁷ S.L. 2021-180, Section 4.9.(e).

- The Department of Information Technology has not requested \$400 million allocated to provide funds to the Completing Access to Broadband Fund (CAB Fund). The CAB Fund is a special revenue fund within the Department of Information Technology used to award broadband grants to eligible recipients that meet criteria specified in N.C.G.S. § 143B-1373.1.
- The Department of Health and Human Services has not requested \$125 million allocated to support lead and asbestos remediation in public schools and childcare facilities.
- The Department of Commerce has not requested \$50 million allocated to provide Rural Economic Development Division grants to local governments. Of the funds, \$25 million will be used for neighborhood revitalization grants and \$25 million will be used for community development grants.
- The Department of Agriculture has not requested \$30 million allocated to be distributed to the state's six food banks to meet the increased demand caused by the COVID-19 pandemic.

State Fiscal Recovery Funds must be obligated by December 31, 2024, and expended by December 31, 2026.

2. Allocations AND DISBURSEMENTS TO PUBLIC SCHOOLS AND HIGHER EDUCATION

The Office of State Budget and Management (OSBM) **allocated** \$394 million of State Fiscal Recovery Funds to public schools and institutions of higher education in accordance with State Fiscal Recovery Fund legislation. Of this amount, \$38 million (10%) was **disbursed** as of June 30, 2022.

State Fiscal Recovery Fund legislation required that OSBM allocate \$394 million to public schools and institutions of higher education as shown in the table on page 9. State Fiscal Recovery Fund legislation required that funds only be disbursed from the State Fiscal Recovery Fund to state agencies upon justification from the agency and only as needed to implement the provisions of state law.²⁸

Auditors tested 57 (100%) State Fiscal Recovery Fund allocations and 24 (100%) of OSBM's disbursements to public schools and institutions of higher education through June 30, 2022. Auditors found that all 57 (100%) allocations and 24 (100%) disbursements were properly **accounted for, allocated, and disbursed** in accordance with State Fiscal Recovery Fund legislation.

²⁸ S.L. 2021-180, Section 4.9.(e).

The following table illustrates the total amounts allocated, disbursed, and remaining to be disbursed to public schools and institutions of higher education as of June 30, 2022.

Allocations and Disbursements to Public Schools and Higher Education			
Recipient	Allocated	Disbursed	Remaining
Public Schools			
Department of Public Instruction	\$ 18,648,000	\$ -	\$ 18,648,000
Total Public Schools			
Institutions of Higher Education			
North Carolina Community College System	114,304,422	16,479,238	97,825,184
Private Colleges and Universities	51,000,000	15,498,271	35,501,729
University of North Carolina System	209,584,983	6,076,113	203,508,870
Total Institutions of Higher Education	<u>\$ 374,889,405</u>	<u>\$ 38,053,621</u>	<u>\$ 336,835,784</u>
Total Public Schools and Higher Education	<u>\$ 393,537,405</u>	<u>\$ 38,053,621</u>	<u>\$ 355,483,784</u>

The \$355 million remaining to be disbursed represents the balance for which recipients have yet to request distribution. For example:

- The University of North Carolina System has not requested \$93 million allocated 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.
- The North Carolina Community College System has not requested \$63.5 million allocated to provide funds to community colleges that experienced a decline in enrollment due to the COVID-19 pandemic.
- The Department of Public Instruction has not requested any of the \$18.6 million allocated for the Smart School Bus Pilot Program. This program will allow for enhanced safety protocols and Wi-Fi connectivity on school buses in response to the COVID-19 pandemic.

State Fiscal Recovery Funds must be obligated by December 31, 2024, and expended by December 31, 2026.

3. ALLOCATIONS AND DISBURSEMENTS TO LOCAL GOVERNMENT CAPACITY ASSISTANCE

The Office of State Budget and Management (OSBM) **allocated** \$53.5 million of State Fiscal Recovery Funds to local government capacity assistance in accordance with State Fiscal Recovery Fund legislation. Of this amount, none (0%) was **disbursed** as of June 30, 2022.

The State Fiscal Recovery Fund allocated these funds 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. Funds were also allocated specifically to the Towns of Apex and Huntersville for the same purpose.

Auditors tested five (100%) State Fiscal Recovery Fund allocations to local government capacity assistance through June 30, 2022. Auditors found that all five (100%) allocations were properly **accounted for** and **allocated** in accordance with State Fiscal Recovery Fund legislation.

The following table illustrates the total amounts allocated, disbursed, and remaining to be disbursed for local government capacity assistance as of June 30, 2022.

Allocations and Disbursements to Local Government Capacity Assistance			
Recipient	Allocated	Disbursed	Remaining
Town of Apex	\$ 11,500,000	\$ -	\$ 11,500,000
Town of Huntersville	12,000,000	-	12,000,000
Council of Governments	10,000,000	-	10,000,000
North Carolina Association of County Commissioners	10,000,000	-	10,000,000
North Carolina League of Municipalities	10,000,000	-	10,000,000
	<u>\$ 53,500,000</u>	<u>\$ -</u>	<u>\$ 53,500,000</u>

The \$53.5 million remaining to be disbursed represents the balance for which recipients have yet to request distribution.

State Fiscal Recovery Funds must be obligated by December 31, 2024, and expended by December 31, 2026.

4. ALLOCATIONS AND DISBURSEMENTS TO STATE INDIAN TRIBES AND ASSOCIATIONS

The Office of State Budget and Management (OSBM) **allocated** \$10 million of State Fiscal Recovery Funds to state Indian tribes and associations in accordance with State Fiscal Recovery Fund legislation. Of this amount, none (0%) was **disbursed** as of June 30, 2022.

State Fiscal Recovery Fund legislation required OSBM to **allocate** \$9 million to provide grants to seven American Indian tribes named in N.C.G.S. Chapter 71A. State Fiscal Recovery Fund legislation required a base allocation of \$715,285 to each tribe, with the remaining amount allocated to the seven tribes on a per-capita basis using tribal enrollment totals.²⁹ An additional \$1 million was required to be allocated equally to four Native American associations.³⁰

Auditors tested 11 (100%) State Fiscal Recovery Fund allocations to state Indian tribes and associations through June 30, 2022. Auditors found that all 11 (100%) allocations were properly **accounted for** and **allocated** in accordance with State Fiscal Recovery Fund legislation.

²⁹ State Indian tribe enrollment is based on resolutions from each tribal government.

³⁰ S.L. 2021-180, Section 23.4. Included 1) Cumberland County Association for Indian People, 2) Guildford Native American Association, 3) Metrolina Native American Association, and 4) Triangle Native American Society.

The following table illustrates the total amounts allocated, disbursed, and remaining to be disbursed to state Indian tribes and associations as of June 30, 2022.

Allocations and Disbursements to State Indian Tribes and Associations			
Recipient	Allocated	Disbursed	Remaining
Coharie	\$ 889,117	\$ -	\$ 889,117
Haliwa-Saponi	932,041	-	932,041
Lumbee	4,066,939	-	4,066,939
Mehrrin	740,057	-	740,057
Occaneechi Band of the Saponi Nation	822,061	-	822,061
Sappony	755,967	-	755,967
Waccamaw-Siouan	800,813	-	800,813
Native American Associations	1,000,000	-	1,000,000
	<u>\$ 10,006,995</u>	<u>\$ -</u>	<u>\$ 10,006,995</u>

The \$10 million remaining to be disbursed represents the balance for which recipients have yet to request distribution.

State Fiscal Recovery Funds must be obligated by December 31, 2024, and expended by December 31, 2026.

5. ALLOCATIONS AND DISBURSEMENTS TO EMPLOYEE BONUSES AND BENEFITS

The Office of State Budget and Management (OSBM) **allocated** \$545 million of State Fiscal Recovery Funds for employee bonuses and benefits in accordance with State Fiscal Recovery Fund legislation. Of this amount, \$524 million (96%) was **disbursed** as of June 30, 2022.

State Fiscal Recovery Fund Legislation required OSBM to allocate \$545 million to provide a bonus for full time state and local education employees who worked to continue the operations and services of government during the pandemic.³¹

Auditors tested 54 (100%) State Fiscal Recovery Fund allocations and 69 (100%) of OSBM's disbursements to employee bonuses and benefits through June 30, 2022. Auditors found that all 54 (100%) allocations and 69 (100%) disbursements were properly **accounted for, allocated, and disbursed** in accordance with State Fiscal Recovery Fund legislation.

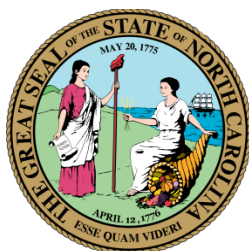
³¹ S.L. 2021-180, Section 39.2.(a)

The following table illustrates the total amount allocated, disbursed, and remaining to be disbursed for employee bonuses and benefits as of June 30, 2022. See Appendix C for a detailed list of entities that were disbursed State Fiscal Recovery Funds for employee bonuses and benefits.

Allocations and Disbursements to Employee Bonuses and Benefits			
Recipient	Allocated	Disbursed	Remaining
Employee Bonuses and Benefits	\$ 545,000,000	\$ 523,604,723	\$ 21,395,277

The \$21.4 million remaining to be disbursed represents the balance for which recipients have yet to request distribution.

State Fiscal Recovery Funds must be obligated by December 31, 2024, and expended by December 31, 2026.



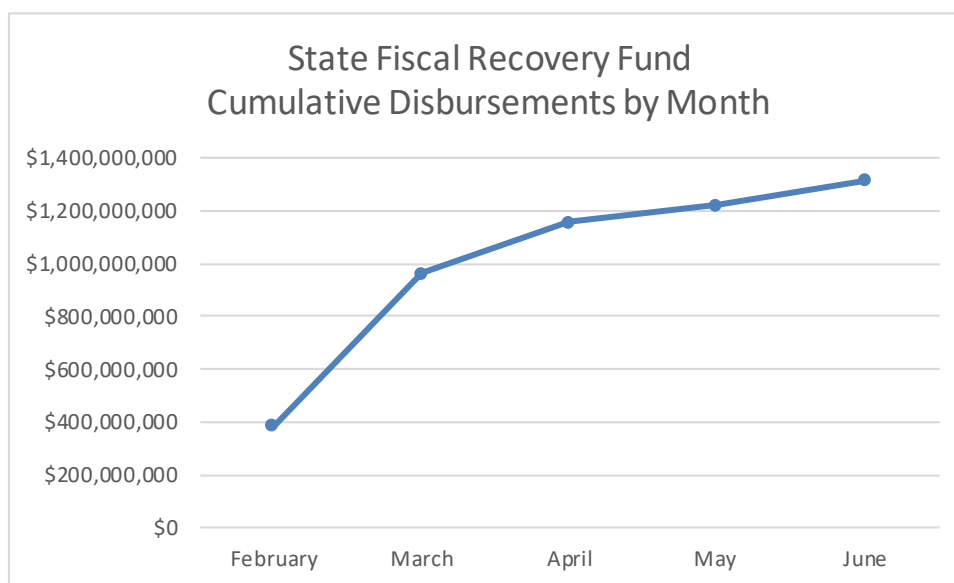
APPENDICES

Appendix A

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

Laws Relevant to the State Fiscal Recovery Fund		Date Enacted	Net Appropriations
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		2,000,000.00
			<u>\$ 5,441,309,692</u>

The following chart illustrates the cumulative disbursements by month from the State Fiscal Recovery Fund for the period May 24, 2021, through June 30, 2022:



Appendix B

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

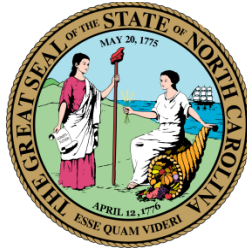
Recipient	Allocation	Intended Purpose and Use of Funds
State Agencies		
Administrative Office of the Courts	\$35,389,440	Provides funds for protective equipment and technology to support remote access for courts, and funds for the Human Trafficking Commission.
Department of Administration	\$20,750,000	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, workforce 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 of State 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.

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.
Public Schools and Higher Education		
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.
Other Governmental Entities and Associations		
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.
Employee Bonuses and Benefits		
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 of Employee Bonuses and Benefits disbursed to each recipient.

Recipient	Disbursed
Administrative Office of the Courts	\$ 10,207,276
Appalachian State University	4,236,408
Department of Administration	837,466
Department of Agriculture	2,911,529
Department of Commerce	2,412,653
Department of Environmental Quality	2,251,042
Department of Health and Human Services	23,393,085
Department of Information Technology	1,347,918
Department of Insurance	800,216
Department of Justice	1,026,201
Department of Labor	500,037
Department of Military and Veterans Affairs	154,478
Department of Natural and Cultural Resources	2,776,926
Department of Public Instruction	313,446,372
Department of Public Safety	32,733,415
Department of Revenue	1,961,148
Department of State Treasurer	1,363,684
Department of Transportation	13,299,487
East Carolina University	7,345,924
Elizabeth City State University	520,980
Fayetteville State University	1,107,928
NC Agricultural & Technical State University	2,364,532
NC Auctioneer and Licensing Board	2,693
NC Board of Opticians	1,615
NC Community College System Office	25,729,496
NC General Assembly	923,707
NC Governor's Office	155,287
NC Lieutenant Governor	9,689
NC Office of the State Controller	234,679
NC Psychology Board	6,997
NC School of Science and Math	361,153
NC Secretary of State	229,352
NC Wildlife Resources Commission	969,388
North Carolina Central University	1,765,347
North Carolina State University	12,337,585
Office of Administrative Hearings	64,590
Office of State Budget and Management	55,224
Office of the State Auditor	175,750
State Board of Elections	130,795
UNC Board of Barber Examiners	9,150
UNC Board of Cosmetic Arts	37,139
UNC Chapel Hill	17,481,402
UNC Chapel Hill Hospital	16,870,909
UNC School of the Arts	694,693
UNC System Office	552,432
University of North Carolina at Asheville	973,395
University of North Carolina at Charlotte	4,926,924
University of North Carolina at Greensboro	3,856,005
University of North Carolina at Pembroke	1,329,612
University of North Carolina at Wilmington	3,209,461
Western North Carolina University	2,383,106
Winston Salem State University	1,128,442
Total Employee Bonuses and Benefits	\$ 523,604,723



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

December 14, 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 State Auditor Wood,

Please find the Office of State Budget and Management (OSBM) and North Carolina Pandemic Recovery Office's (NCPRO) response to your findings in connection with the preliminary financial audit of State Fiscal Recovery Funds (SFRF). OSBM and NCPRO agree with the preliminary financial audit that OSBM and NCPRO accounted for, allocated, and disbursed amounts appropriated to the State of North Carolina's State Fiscal Recovery Fund in accordance with Session Law 2021-180.

The State of North Carolina received \$5.4 billion in SFRF funds. These funds have been appropriated by the North Carolina General Assembly, and OSBM and NCPRO are working to achieve the goals of these funds as set forth by the General Assembly and in accordance with United States Department of Treasury guidance. As of June 30, 2022, OSBM allocated a total of \$5.4 billion of State Fiscal Recovery Funds and disbursed:

- \$740 million to state agencies.
- \$38 million to public schools and higher education.
- \$524 million for employee bonuses and benefits.

The \$4.1 billion remaining to be disbursed represents the balance for which recipients have yet to request distribution. State Fiscal Recovery Funds must be obligated by December 31, 2024, and expended by December 31, 2026.

We thank the State Auditor's staff for their professionalism in conducting this audit.


Sincerely,

Kristin Walker, State Budget Director

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Raleigh, NC 27699-0320

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Stephanie McGarrah (Dec 13, 2022 16:46 EST)

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Stephanie McGarrah, Executive Director, North Carolina Pandemic Recovery Office

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