

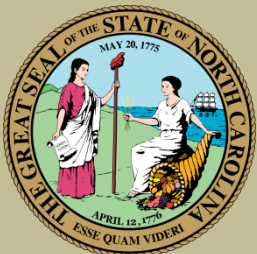
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



NORTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

RALEIGH, NORTH CAROLINA
STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES
FOR THE YEAR ENDED JUNE 30, 2022



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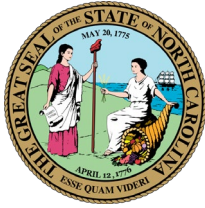


Beth A. Wood, CPA
State Auditor

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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
Eddie M. Buffaloe, Jr., Secretary
North Carolina Department of Public Safety

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 Department of Public Safety (Department) for the year ended June 30, 2022.

We conducted our audit of federal 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 Department 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 Department included the Emergency Rental Assistance Program (Assistance Listing Number 21.023).

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 Department of Public Safety disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and 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 federal compliance, we considered the Department'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 Department's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department'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. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we consider the deficiency described in the Finding, Recommendation, and Views of Responsible Officials of the Auditee section to be a significant deficiency in internal control over compliance.

North Carolina Department of Public Safety's Response to the Finding

The Department'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 Department'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 Department based on the requirements of the Uniform Guidance. Accordingly, this transmittal is not suitable for any other purpose.

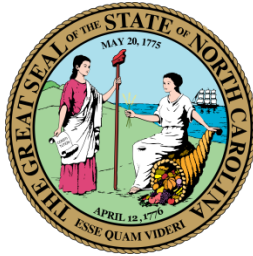
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this transmittal.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 24, 2023



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

Matters Related to Federal Compliance Audit Objectives**ERRORS IN PROGRAM SPENDING**

The Department of Public Safety (Department) made \$486,807 in overpayments of rent and utility assistance from the Emergency Rental Assistance program. During the audit period, the Department processed approximately 159,000 individual household applications totaling \$635 million in rent and utility assistance payments.

Auditors recalculated the \$635 million rent and utility assistance payments to determine if the payment amounts were within the maximum thresholds¹ established by the Department. The Department's policy states that payment amounts should be the lesser of the established threshold or the amount that is owed by the applicant. Auditors found 25 overpayments totaling \$27,015.

Auditors then tested 95² individual household applications totaling \$923,000 in rent and utility payments and found that documentation for three (3%) applications did not support the amount paid, resulting in overpayments totaling \$26,530.

Lastly, auditors reviewed the number of months of financial assistance that were provided to an individual household since the inception of the Emergency Rental Assistance program. The Department's policy³ states that financial assistance for an individual household may not exceed 15 months. Auditors analyzed the database⁴ of approximately 114,000 households and identified 37,762 households that could have received more months of financial assistance than allowed.

From the 37,762 households identified above, auditors tested 151⁵ households that received \$1.8 million in financial assistance. Auditors found that 84 (56%) households received one to 15 more months of financial assistance than allowed, resulting in overpayments totaling \$433,262.

As a result, the \$486,807 in overpayments is considered questioned costs⁶ and the Department may be required to pay the funds back to the federal government. Furthermore, the overspent funds could have been used to provide rent and utility assistance to other eligible households in need.

According to Department management, rent and utility payments were calculated using incorrect thresholds due to either a system⁴ programming code error or system malfunction. In

¹ The rent thresholds were equivalent to the two-bedroom fair market rent rate calculated by the U.S. Department of Housing and Urban Development for each county. The utility thresholds varied based on the type of utility (electricity, gas, water, wastewater) and was between \$120 - \$1,020.

² The 95 items that were tested included 35 items that were deemed individually important. These items were removed from the population and tested 100%. The other 60 items were selected from the remaining population. The three identified errors were from the individually important items.

³ North Carolina Office of Recovery and Resiliency, Housing Opportunities and Prevention of Evictions (HOPE) Program Manual, Version 9.0.

⁴ Salesforce is the system of record for the program and operates as the database that holds all information related to each applicant, including the months of assistance, and calculates the financial assistance payment.

⁵ The 151 items that were tested included 91 items that were deemed individually important. These items were removed from the population and tested 100%. The other 60 items were selected from the remaining population. 78 errors were from the individually important items and six errors were from the sample.

⁶ 2 CFR.200.516(a)(3) requires auditors to report known questioned costs that are greater than \$25,000 for a type of compliance requirement for a major program.

addition, staff did not follow policies and procedures during the review and approval of financial assistance applications.

Federal regulations⁷ require that costs be adequately documented and consistent with the program regulations that apply to the federal award.

In addition, federal regulations⁸ and Department policy limit the financial assistance an eligible household may receive to 15 months.

Certain aspects of aspects of this finding were previously reported in the 2021 Statewide Single Audit as finding number 2021-002.

Federal Award Information: Federal Awarding Agency: U.S. Department of the Treasury; Assistance Listing Number (title): 21.023 (Emergency Rental Assistance Program); Federal Award Identification Numbers (award periods): ERA0019 (COVID-19) (January 11, 2021 - December 31, 2022) and ERAE0098 (COVID-19) (May 5, 2021- September 30, 2025).

Recommendation: Department management should analyze the payment calculation errors to identify and make the necessary updates to the system. Until the system issues are resolved, Department management should design and implement alternative procedures to ensure financial assistance payments are calculated correctly.

In addition, Department management should develop additional training for staff or establish additional monitoring procedures over the application review and approval process.

Views of Responsible Officials of the Auditee: See page 5 for the North Carolina Department of Public Safety's response to this finding.

⁷ 2 CFR 200.403.

⁸ 15 USC 9058a(c)(2)(A) and 15 USC 9058c(d)(1)(A).



North Carolina Department of Public Safety
Prevent. Protect. Prepare.

Roy Cooper, Governor

Eddie M. Buffaloe, Jr., Secretary

March 24, 2023

The Honorable Beth A. Wood
State Auditor
Office of the State Auditor
20601 Mail Service Center
Raleigh, NC 27699-0600

Dear Auditor Wood:

The North Carolina Office of Recovery and Resiliency (NCORR), a division of the North Carolina Department of Public Safety, acknowledges receipt of the Office of the State Auditor (OSA) findings for the Fiscal Year ended June 30, 2022, Emergency Rental Assistance (ERA) single audit. I would like to thank OSA for the cooperation and professionalism throughout this audit.

NCORR has reviewed the finding and has prepared the below response:

Finding:

Errors in Program Spending

NCORR Response:

NCORR accepts the Auditor's finding that the Department made errors in program spending. NCORR's Compliance and Business Systems Department are actively working to reconcile the population of awards impacted by the errors identified. NCORR previously began recapture efforts on many of the awards identified during this audit, however, any remaining erroneous awards identified will immediately enter the recapture process. In the event any recaptured amounts enter default, NCORR reserves the right to engage federal partners and additional resources, such as collections agencies, to recover the funds.

If there are any questions related to this response, please contact NCORR Director, Laura Hogshead at laura.hogshead@ncdps.gov.

Sincerely,

Jane Ammons Gilchrist

Jane Ammons Gilchrist, Chief of Staff
North Carolina Department of Public Safety

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919-807-7666



This audit required 1,322 hours at an approximate cost of \$158,640.