



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 23, 2024

**MEMORANDUM FOR JESSICA MILANO, CHIEF PROGRAM OFFICER, OFFICE OF
CAPITAL ACCESS, DEPARTMENT OF THE TREASURY**

FROM: Deborah L. Harker /s/
Assistant Inspector General for Audit

SUBJECT: Desk Review of the State of North Carolina's Use of
Coronavirus Relief Fund Proceeds (OIG-CA-25-005)

Please find the attached desk review memorandum¹ on the State of North Carolina's (North Carolina) use of Coronavirus Relief Fund (CRF) proceeds. The CRF is authorized under Title VI of the Social Security Act, as amended by Title V, Division A of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Under a contract monitored by our office, Castro & Company, LLC (Castro), a certified independent public accounting firm, performed the desk review. Castro performed the desk review in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General* standards of independence, due professional care, and quality assurance.

In its desk review, Castro personnel reviewed documentation for a non-statistical selection of 28 transactions in the quarterly Financial Progress Reports (FPR) and identified unsupported questioned costs of \$476,115 (see attached schedule of monetary benefits).

Castro determined that North Carolina complied with the CARES Act, but not Department of the Treasury's (Treasury) Guidance for Grants greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, and Aggregate Reporting less than \$50,000.² Castro found that expenditures for Transfers greater than or equal to \$50,000, and Aggregate Payments to Individuals³ did not comply

¹ The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) assigned the Department of the Treasury Office of Inspector General with responsibility for compliance monitoring and oversight of the receipt, disbursement, and use of Coronavirus Relief Fund (CRF) payments. The purpose of the desk review is to perform monitoring procedures of the prime recipient's receipt, disbursement, and use of CRF proceeds as reported in the grants portal on a quarterly basis.

² Recipients are required to report CRF transactions greater than or equal to \$50,000 in detail in the grants portal. Transactions less than \$50,000 can be reported as an aggregate lump-sum amount by type (contracts, grants, loans, direct payments, and transfers to other government entities).

³ Obligations and expenditures for payments made to individuals, regardless of amount, are required to be reported in the aggregate in the grants portal to prevent inappropriate disclosure of personally identifiable information.

with the CARES Act and Treasury's Guidance. Additionally, Castro determined that North Carolina's risk of unallowable use of funds is moderate.

Castro recommends that Treasury Office of Inspector General (OIG) confirm the transactions noted as unsupported expenditures within the Transfers greater than or equal to \$50,000 and Aggregate Payments to Individuals payment types are recouped or replaced by other eligible expenditures, not previously charged to CRF, that were incurred during the period of performance. Based on North Carolina's responsiveness to Treasury OIG's requests and its ability to provide sufficient documentation, Castro recommends that Treasury OIG determine the feasibility of conducting an audit of Transfers greater than or equal to \$50,000 and Aggregate Payments to Individuals.

Castro also identified matters throughout the course of the desk review and recommends Treasury OIG follow-up with North Carolina's management to:

- 1) determine the feasibility of performing additional follow-up with North Carolina to determine if there were other instances of unsupported balances within the remaining untested portion of the Childcare Provider Operational Grants claimed by North Carolina within their Aggregate Payments to Individuals non-payroll expenditures; and
- 2) determine the feasibility of performing additional follow-up with North Carolina to determine if there were other instances of unsupported balances within the remaining untested portion of the Aggregate Payments to Individuals substantially dedicated payroll expenditures⁴ claimed by North Carolina.

Treasury OIG and Castro met with North Carolina management to discuss the questioned costs. North Carolina management stated they would provide additional documentation to Treasury OIG to replace the questioned costs with other eligible expenditures.

In connection with our contract with Castro, we reviewed Castro's desk review memorandum and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express an opinion on the North Carolina's use of the CRF proceeds. Castro is

⁴ Substantially dedicated payroll expenditures are costs for personnel that must have dedicated over 50 percent of their time to responding to or mitigating COVID-19. Treasury's Federal Register guidance indicated: "The full amount of payroll and benefits expenses of substantially dedicated employees may be covered using payments from the Fund. Treasury has not developed a precise definition of what "substantially dedicated" means given that there is not a precise way to define this term across different employment types. The relevant unit of government should maintain documentation of the "substantially dedicated" conclusion with respect to its employees."

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responsible for the attached desk review memorandum and the conclusions expressed therein. Our review found no instances in which Castro did not comply in all material respects with the *Quality Standards for Federal Offices of Inspectors General*.

We appreciate the courtesies and cooperation provided to Castro and our staff during the desk review. If you have any questions or require further information, please contact me at (202) 486-1420, or a member of your staff may contact Lisa DeAngelis, Deputy Assistant Inspector General for Audit, at (202) 487-8371.

cc: Michelle A. Dickerman, Deputy Assistant General Counsel, Department of the Treasury
Danielle Christensen, Deputy Chief Program Officer, Office of Capital Access, Department of the Treasury
Wayne Ference, Partner, Castro & Company, LLC
Stephanie McGarran, Executive Director of the North Carolina Pandemic Recovery Office, North Carolina Office of State Budget and Management
Kristin Walker, North Carolina State Budget Director, North Carolina Office of State Budget and Management

Attachment

Schedule of Monetary Benefits

According to the Code of Federal Regulations,⁵ a questioned cost is a cost that is questioned due to a finding:

- (a) which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;
- (b) where the costs, at the time of the review, are not supported by adequate documentation; or
- (c) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Questioned costs are to be recorded in the Department of the Treasury's (Treasury) Joint Audit Management Enterprise System (JAMES).⁶ The amount will also be included in the Office of Inspector General (OIG) Semiannual Report to Congress. It is Treasury management's responsibility to report to Congress on the status of the agreed to recommendations with monetary benefits in accordance with 5 USC Section 405.

Recommendation

Recommendation No. 1

Questioned Costs

\$476,115

The questioned cost represents amounts provided by Treasury under the Coronavirus Relief Fund. As discussed in the attached desk review, \$476,115 is North Carolina's expenditures reported in the grant-reporting portal that lacked supporting documentation.

⁵ 2 CFR § 200.84 – Questioned Cost

⁶ JAMES is Treasury's audit recommendation tracking system.

Desk Review of the State of North Carolina

October 23, 2024

OIG-CA-25-005

MEMORANDUM FOR DEBORAH L. HARKER,
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: Wayne Ference
Partner, Castro & Company, LLC

SUBJECT: Desk Review of the State of North Carolina

On September 12, 2023, we initiated a desk review of the State of North Carolina's (North Carolina) use of the Coronavirus Relief Fund (CRF) authorized under Title VI of the Social Security Act, as amended by Title V, Division A of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).¹ The objective of our desk review was to evaluate North Carolina's documentation supporting its uses of CRF proceeds as reported in the GrantSolutions² portal and to assess the risk of unallowable use of funds. The scope of our desk review was limited to obligation and expenditure data for the period of March 1, 2020 through June 30, 2023³ as reported in the GrantSolutions portal.

As part of our desk review, we performed the following:

- 1) reviewed North Carolina's quarterly Financial Progress Reports (FPRs) submitted in the GrantSolutions portal through June 30, 2023;
- 2) reviewed the *Department of the Treasury's (Treasury) Coronavirus Relief Fund Guidance* as published in the Federal Register on January 15, 2021;⁴

¹ P.L. 116-136 (March 27, 2020).

² GrantSolutions, a grant and program management Federal shared service provider under the United States (U.S.) Department of Health and Human Services, developed a customized and user-friendly reporting solution to capture the use of CRF payments from prime recipients.

³ At the start of this desk review on September 12, 2023, North Carolina's last submitted Financial Progress Report (FPR) was as of June 30, 2023. Castro set June 30, 2023 as the end of the scope period to align with the information available when the desk review started. North Carolina subsequently submitted an FPR for the period ending September 30, 2023.

⁴ Coronavirus Relief Fund Guidance as published in the Federal Register (January 15, 2021) https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register_2021-00827.pdf

Desk Review of the State of North Carolina

- 3) reviewed Treasury Office of Inspector General's (OIG) *Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping*;⁵
- 4) reviewed Treasury OIG's monitoring checklists⁶ of North Carolina's quarterly FPR submissions for reporting deficiencies;
- 5) reviewed other audit reports issued, such as Single Audit Act reports,⁷ and those issued by the Government Accountability Office and other applicable Federal agency OIGs for internal control or other deficiencies that may pose risk or impact North Carolina's uses of CRF proceeds;
- 6) reviewed Treasury OIG Office of Investigations, the Council of the Inspectors General on Integrity and Efficiency Pandemic Response Accountability Committee,⁸ and Treasury OIG Office of Counsel input on issues that may pose risk or impact North Carolina's uses of CRF proceeds;
- 7) interviewed key personnel responsible for preparing and certifying North Carolina's GrantSolutions portal quarterly FPR submissions, as well as officials responsible for obligating and expending CRF proceeds;

⁵ Department of the Treasury Office of Inspector General *Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping* OIG-20-028R; March 2, 2021.

⁶ The checklists were used by Treasury OIG personnel to monitor the progress of prime recipient reporting in the GrantSolutions portal. GrantSolutions quarterly submission reviews were designed to identify material omissions and significant errors, and where necessary, included procedures for notifying prime recipients of misreported data for timely correction. Treasury OIG followed the *CRF Prime Recipient Quarterly GrantSolutions Submissions Monitoring and Review Procedures Guide*, OIG-CA-20-029R to monitor the prime recipients on a quarterly basis.

⁷ P. L. 104-156 (July 5, 1996) The Single Audit Act of 1984, as amended in 1996, requires entities who receive federal funds in excess of \$750,000 to obtain an annual audit of those Federal funds. Enacted for the purpose of promoting sound financial management, including effective internal controls, with respect to Federal awards administered by non-Federal entities and to establish uniform requirements for audits. This prime recipient was subject to those audit requirements, and Castro reviewed applicable prior year single audit reports as part of our desk review risk assessment procedures.

⁸ Section 15010 of P.L. 116-136 established the Pandemic Response Accountability Committee within the Council of the Inspectors General on Integrity and Efficiency to promote transparency and conduct and support oversight of covered funds (see Footnote 16 for a definition of covered funds) and the coronavirus response to (1) prevent and detect fraud, waste, abuse, and mismanagement; and (2) mitigate major risks that cut across program and agency boundaries.

Desk Review of the State of North Carolina

- 8) made a non-statistical selection of Contracts, Grants, Loans, Transfers,⁹ Direct Payments, Aggregate Reporting,¹⁰ and Aggregate Payments to Individuals¹¹ data identified through GrantSolutions portal reporting; and
- 9) evaluated documentation and records used to support North Carolina's quarterly FPRs.

Based on our review of North Carolina's documentation supporting the uses of its CRF proceeds as reported in the GrantSolutions portal, we determined that the expenditures related to the Contracts greater than or equal to \$50,000 and Loans greater than or equal to \$50,000 payment types complied with the CARES Act and Treasury's Guidance. Also, we determined that North Carolina complied with the CARES Act, but not Treasury's Guidance for the Grants greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, and Aggregate Reporting less than \$50,000 payment types. Additionally, we determined that the expenditures related to the Transfers greater than or equal to \$50,000 and Aggregate Payments to Individuals payment types did not comply with the CARES Act and Treasury's Guidance. We identified unsupported questioned costs of \$476,115. We also determined North Carolina's risk of unallowable use of funds is moderate.

Castro recommends Treasury OIG confirm the transactions noted as unsupported expenditures within the Transfers greater than or equal to \$50,000 and Aggregate Payments to Individuals payment types are recouped or replaced by other eligible expenditures, not previously charged to CRF, that were incurred during the period of performance. Based on North Carolina's responsiveness to Treasury OIG's requests and its ability to provide sufficient documentation, we recommend Treasury OIG determine the feasibility of conducting an audit for Transfers greater than or equal to \$50,000 and Aggregate Payments to Individuals.

Non-Statistical Transaction Selection Methodology

Treasury issued a \$3,585,391,176 CRF payment to North Carolina. As of June 30, 2023, North Carolina reported both cumulative obligations and expenditures for CRF proceeds of \$3,585,186,605. North Carolina returned a total of \$204,571 in CRF proceeds to Treasury, which consisted of unused funds from

⁹ A transfer to another government entity is a disbursement or payment to a government entity that is legally distinct from the prime recipient.

¹⁰ Prime recipients were required to report CRF transactions greater than or equal to \$50,000 in detail in the GrantSolutions portal. Transactions less than \$50,000 could be reported as an aggregate lump-sum amount by type (contracts, grants, loans, direct payments, and transfers to other government entities).

¹¹ Obligations and expenditures for payments made to individuals, regardless of amount, were required to be reported in the aggregate in the GrantSolutions portal to prevent inappropriate disclosure of personally identifiable information.

Desk Review of the State of North Carolina

different sub-recipients. North Carolina's cumulative obligations and expenditures by payment type are summarized below.

Payment Type	Cumulative Obligations	Cumulative Expenditures
Contracts >= \$50,000	\$ 94,290,057	\$ 94,290,057
Grants >= \$50,000	\$ 362,973,378	\$ 362,973,378
Loans >= \$50,000 ¹²	\$ 80,665,758	\$ 80,665,758
Transfers >= \$50,000	\$ 664,830,539	\$ 664,830,539
Direct Payments >= \$50,000	\$ 1,034,271,899	\$ 1,034,271,899
Aggregate Reporting < \$50,000	\$ 54,519,210	\$ 54,519,210
Aggregate Payments to Individuals (in any amount)	\$ 1,293,635,764	\$ 1,293,635,764
Totals	\$ 3,585,186,605	\$ 3,585,186,605

Castro made a non-statistical selection of payments in the Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Loans greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals payment types. Selections were made using auditor judgment based on information and risks identified in reviewing audit reports, the GrantSolutions portal reporting anomalies¹³ identified by the Treasury OIG CRF monitoring team, and review of North Carolina's FPR submissions.

The number of transactions (28) we selected to test were based on North Carolina's total CRF award amount and our overall risk assessment of North Carolina. To allocate the number of transactions (28) by payment type (Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Loans

¹² While North Carolina did not report any Loans greater than or equal to \$50,000 in the GrantSolutions portal as of June 30, 2023, we noted from a review of North Carolina's general ledger that North Carolina did use CRF proceeds in the amount of \$80,665,758 for a small business assistance loan program. As of June 30, 2023, proceeds used for the small business assistance loan program were reported in the Grants greater than or equal to \$50,000 payment type in the GrantSolutions portal. North Carolina updated their GrantSolutions portal reporting as of September 30, 2023 to reflect the small business assistance loan program within the appropriate payment type, Loans greater than or equal to \$50,000. Since North Carolina had a significant amount of expenditures that should have been reported in the Loans greater than or equal to \$50,000 payment type as of our scope period of June 30, 2023, we included the balance in this payment type from the general ledger as part of our transaction selections.

¹³ Treasury OIG had a pre-defined list of risk indicators that were triggered based on data submitted by prime recipients in the FPR submissions that met certain criteria. Castro reviewed these results provided by Treasury OIG for the prime recipient.

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greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals), we compared the payment type total dollar amounts as a percentage of cumulative obligations as of June 30, 2023. The transactions selected for testing were not selected statistically, and therefore results could not be extrapolated to the total universe of transactions.

Additionally, Treasury OIG provided information on anomalies identified for North Carolina. We performed limited testing on 13 potential duplicate payments to determine that the payments were not duplicates.

Background

The CARES Act appropriated \$150 billion to establish the CRF. Under the CRF, Treasury made payments for specified uses to States and certain local governments; the District of Columbia and U.S. Territories, including the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands; and Tribal governments (collectively referred to as “prime recipients”). Treasury issued a \$3,585,391,176 CRF payment to North Carolina. The CARES Act stipulates that a prime recipient may only use the funds to cover costs that—

- (1) were necessary expenditures incurred due to the public health emergency with respect to the coronavirus disease 2019 (COVID-19);
- (2) were not accounted for in the budget most recently approved as of March 27, 2020; and
- (3) were incurred during the covered period between March 1, 2020 and December 31, 2021.¹⁴

Section 15011 of the CARES Act required each covered recipient¹⁵ to submit to Treasury and the Pandemic Response Accountability Committee, no later than 10 days after the end of each calendar quarter, a report that contained (1) the total

¹⁴ P.L. 116-260 (December 27, 2020). The covered period end date of the CRF was extended through December 31, 2021 by the Consolidated Appropriations Act, 2021. The covered period end date for tribal entities was further extended to December 31, 2022 by the State, Local, Tribal, and Territorial Fiscal Recovery, Infrastructure, and Disaster Relief Flexibility Act, Division LL of the Consolidated Appropriations Act, 2023, P.L. 117-328, December 29, 2022, 136 Stat. 4459.

¹⁵ Section 15011 of P.L. 116-136 defined a covered recipient as any entity that received large, covered funds and included any State, the District of Columbia, and any territory or possession of the United States.

Desk Review of the State of North Carolina

amount of large covered funds^{16,17} received from Treasury; (2) the amount of large covered funds received that were expended or obligated for each project or activity; (3) a detailed list of all projects or activities for which large covered funds were expended or obligated; and (4) detailed information on any level of sub-contracts or sub-grants awarded by the covered recipient or its sub-recipients.

The CARES Act assigned Treasury OIG the responsibility for compliance monitoring and oversight of the receipt, disbursement, and use of CRF proceeds. Treasury OIG also has authority to recoup funds in the event that it is determined a recipient failed to comply with requirements of subsection 601(d) of the Social Security Act, as amended, (42 U.S.C. 801(d)).

Desk Review Results

Financial Progress Reports

We reviewed North Carolina's quarterly FPRs through June 30, 2023, and found that North Carolina timely filed quarterly FPRs in the GrantSolutions portal in compliance with Treasury OIG's reporting requirements for the period of June 30, 2020 through June 30, 2023. North Carolina management returned funds to Treasury which had not been used as of June 30, 2023 and made subsequent changes to their reporting for the final reporting period (September 30, 2023). Due to the small business assistance loan program, North Carolina was not able to close out their reporting in the GrantSolutions portal as the loans will be repaid over the next 11 years and funds will need to be returned to Treasury. During this time, Treasury's Office of Capital Access will provide instructions to North Carolina for tracking and reporting of the status of the loan program until the loans are considered repaid or closed.

North Carolina's Records Did Not Reconcile to GrantSolutions Reporting and We Found Financial Reporting Internal Control Issues

North Carolina was unable to provide a complete general ledger detail for the population of CRF expenditures that reconciled to the data reported by payment type in the GrantSolutions portal as of June 30, 2023. North Carolina operated in a decentralized reporting structure that placed responsibility on the state departments and agencies to maintain, reconcile, and monitor the CRF proceeds. We determined North Carolina's decentralized reporting structure prevented them

¹⁶ Section 15010 of P.L. 116-136 defined covered funds as any funds, including loans, that were made available in any form to any non-Federal entity, not including an individual, under Public Laws 116-123, 127, and 136, as well as any other law which primarily made appropriations for Coronavirus response and related activities.

¹⁷ Section 15011 of P.L. 116-136 defined large covered funds as covered funds that amounted to more than \$150,000.

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from performing a complete reconciliation of their GrantSolutions portal reported payment types. In addition, North Carolina explained that they were in the process of changing their statewide accounting system, which had been the system used for approximately 30 years, and when the accounting system change was completed, it affected their ability to pull general ledger data, which attributed to the reconciliation issues. Further, we did not report questioned costs related to the reconciliation errors noted. As an alternative procedure, North Carolina, at Castro's request, completed a dashboard that Castro used for testing, which summarized CRF proceeds that were distributed to state agencies/departments, non-profits, counties, universities, and other recipients.

Summary of Testing Results

We found that the Contracts greater than or equal to \$50,000 and Loans greater than or equal to \$50,000 payment types complied with the CARES Act and Treasury's Guidance. Also, we determined that North Carolina complied with the CARES Act, but not Treasury's Guidance for the Grants greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, and Aggregate Reporting less than \$50,000 payment types. Additionally, we determined that the Transfers greater than or equal to \$50,000 and Aggregate Payments to Individuals payment types did not comply with the CARES Act and Treasury's Guidance because we were unable to determine if all tested expenditures were necessary due to the COVID-19 public health emergency, were not accounted for in the budget most recently approved as of March 27, 2020, and were incurred during the covered period. The transactions selected for testing were not selected statistically, and therefore results could not be extrapolated to the total universe of transactions.

Within the table below, we have included a summary of unsupported and ineligible expenditures identified as questioned costs, which did not comply with the CARES Act and Treasury's Guidance. See the Desk Review Results section below this table for a detailed discussion of questioned costs and other issues identified throughout the course of our desk review.

**Summary of Expenditures Testing and Recommended Results
As of June 30, 2023**

Payment Type	Cumulative Expenditure Population Amount	Cumulative Expenditure Tested Amount	Unsupported Questioned Costs	Ineligible Questioned Costs	Total Questioned Costs
Contracts >= \$50,000	\$ 94,290,057	\$ 36,974,805	\$ -	\$ -	\$ -
Grants >= \$50,000	\$ 362,973,378	\$ 24,215,220	\$ -	\$ -	\$ -
Loans >= \$50,000	\$ 80,665,758	\$ 1,516,051	\$ -	\$ -	\$ -
Transfers >= \$50,000	\$ 664,830,539	\$ 4,359,238	\$ 122	\$ -	\$ 122
Direct Payments >= \$50,000	\$ 1,034,271,899	\$ 206,023,248	\$ -	\$ -	\$ -
Aggregate Reporting < \$50,000	\$ 54,519,210	\$ 1,028,418	\$ -	\$ -	\$ -
Aggregate Payments to Individuals (in any amount)	\$ 1,293,635,764	\$ 2,490,125	\$ 475,993	\$ -	\$ 475,993
Totals	\$ 3,585,186,605	\$ 276,607,105	\$ 476,115	\$ -	\$ 476,115

Contracts Greater Than or Equal to \$50,000

We determined North Carolina’s Contracts greater than or equal to \$50,000 complied with the CARES Act and Treasury’s Guidance. We tested three contracts totaling \$36,974,805 and identified no exceptions. The contracts tested included expenditures for the purchase of public health expenses related to COVID-19 testing and contact tracing services, and consulting costs associated with infrastructure and project management services in response to COVID-19.

Grants Greater Than or Equal to \$50,000

We determined North Carolina’s Grants greater than or equal to \$50,000 complied with the CARES Act but did not comply with Treasury’s Guidance. We tested two transactions totaling \$24,215,220 and identified no exceptions. The transactions tested included expenditures for purchase of personal protective equipment, public health expenses related to medical supplies and equipment, and research efforts related to the impact of COVID-19.

We identified transactions for \$80,665,758 related to a small business assistance loan program that were erroneously classified in the GrantSolutions portal in the Grants greater than or equal to \$50,000 payment type. These transactions should have been classified in the Loans greater than or equal to \$50,000 payment type. The misclassified transactions did not have an impact on the eligible or allowable

Desk Review of the State of North Carolina

use of the CRF proceeds. We also confirmed North Carolina properly classified the expenditures under the Loans greater than or equal \$50,000 payment type as of September 30, 2023 in the GrantSolutions portal. As discussed in footnote 12, we have included these amounts as Loans greater than or equal to \$50,000 in the tables in this report.

Loans Greater Than or Equal to \$50,000

We determined North Carolina's Loans greater than or equal to \$50,000 complied with the CARES Act and Treasury's Guidance. We tested one overall loan transaction related to nine individual loans, totaling \$1,516,051 and identified no exceptions. North Carolina appropriated \$83,000,000 in CRF proceeds to be used as a small business assistance loan program to defray operating costs during the COVID-19 pandemic, which North Carolina expended \$80,665,758.¹⁸ The loan program required small businesses to use the funds for employee compensation, mortgages, rent, utilities, and other operating costs incurred by the small business. We noted the loan agreements were structured on a 120-month term and amortized over the term of the loan with an interest rate of 5.5 percent, with principal payments deferred to begin after 18 months. North Carolina tracked the principal payments and accrued interest through amortization schedules. As discussed in footnote 12, we have included these amounts as Loans greater than or equal to \$50,000 in the tables in this report.

Transfers Greater Than or Equal to \$50,000

We determined North Carolina's Transfers greater than or equal to \$50,000 did not comply with the CARES Act and Treasury's Guidance. We tested five transfers totaling \$4,359,238 and identified unsupported questioned costs totaling \$122, as detailed below. The transfers tested included expenditures for financial assistance for North Carolina educational institutions related to facilitating distance learning and preparing for student return to classrooms, and providing meals to students during the pandemic.

For one transfer tested totaling \$10,592, Union County, North Carolina used CRF proceeds to reimburse payroll costs of school cafeteria staff. The staff dedicated time to handing out meals to students during the pandemic. We determined the documentation for these expenditures were not sufficiently supported to arrive at the tested amount. We confirmed there were more expenditures in the payroll register than reimbursed with CRF proceeds; however, North Carolina was unable to recalculate the employees' salary and/or wages to the amounts claimed for reimbursement resulting in unsupported questioned costs of \$122.

¹⁸ The \$80,665,758 expended amount included \$3.4 million in administrative costs associated with administering the loan program.

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Direct Payments Greater Than or Equal to \$50,000

We determined North Carolina's Direct Payments greater than or equal to \$50,000 complied with the CARES Act but did not comply with Treasury's Guidance. We tested 10 transactions totaling \$206,023,248 and identified no exceptions. The direct payments tested included expenditures for facilitating telework capabilities, purchasing medical supplies and personal protective equipment, depopulating animals due to COVID-19 related closures of meat processing facilities, administering vaccinations, purchasing for food programs, and advertising to promote tourism social distancing.

We identified GrantSolutions portal reporting misclassifications related to Direct Payments greater than or equal to \$50,000. The misclassified transactions did not have an impact on the eligible or allowable use of the CRF proceeds. We found that North Carolina erroneously reported three state departments as sub-recipients in the GrantSolutions portal within Direct Payments greater than or equal to \$50,000.¹⁹ In addition, we identified one transaction that was misclassified in the GrantSolutions portal within Direct Payments greater than or equal to \$50,000 that should have been reported in Aggregate Payments to Individuals.

Aggregate Reporting Less Than \$50,000

We determined North Carolina's Aggregate Reporting less than \$50,000 complied with the CARES Act but did not comply with Treasury's Guidance. We tested three transactions totaling \$1,028,418 and identified no exceptions. The aggregate reporting transactions tested included expenditures for the purchase of personal protective equipment, and miscellaneous contract services related to surge staffing for COVID-19 testing and contact tracing.

We noted one Aggregate Reporting less than \$50,000 reporting misclassification in the GrantSolutions portal. The transaction's amount exceeded the threshold of \$50,000 and should have been reported as a Contract greater than or equal to \$50,000.

¹⁹ Department of the Treasury OIG-CA-20-028R5 guidance #9 states: If the prime recipient distributes funds to an agency or department within the prime recipient's government, is the agency or department considered the prime recipient or a sub-recipient when funds obligated are \$50,000 or more? The agency or department is considered part of the prime recipient as they are all part of the same legal entity that received a direct CRF payment from Treasury. Obligations and expenditures that the agency or department incurs with the CRF proceeds must be collected by and reported in the GrantSolutions portal by the prime recipient as if they were obligated or expended by the prime recipient.

Aggregate Payments to Individuals

CRF payments made to individuals, regardless of amount, were required to be reported in the aggregate in the GrantSolutions portal to prevent inappropriate disclosure of personally identifiable information. The Aggregate Payments to Individuals payment type consists of four broad types of potential costs defined in Treasury's guidance as published in the Federal Register.²⁰ Prime recipients may or may not have claimed all these types of expenditures. The four types are as follows:

- **Public Health and Safety Payroll**²¹ – consists of payroll costs for public health and safety department personnel.
- **Substantially Dedicated Payroll**²² – consists of payroll costs for non-public health and safety personnel who were substantially dedicated to mitigating or responding to the COVID-19 public health emergency.
- **Non-Substantially Dedicated Payroll**²³ – consists of payroll costs for personnel who performed COVID-19 related tasks on a part-time basis.
- **Non-Payroll Expenditures** – consists of financial assistance payments to citizens due to hardship or loss of income, unemployment claims, and other non-payroll related expenditures made to individuals.

²⁰ Coronavirus Relief Fund Guidance as published in the Federal Register (January 15, 2021) https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register_2021-00827.pdf

²¹ Treasury's Federal Register guidance provided the following examples of public health and safety employees: "police officers (including state police officers), sheriffs and deputy sheriffs, firefighters, emergency medical responders, correctional and detention officers, and those who directly support such employees such as dispatchers and supervisory personnel...employees involved in providing medical and other health services to patients and supervisory personnel, including medical staff assigned to schools, prisons, and other such institutions, and other support services essential for patient care (e.g., laboratory technicians) as well as employees of public health departments directly engaged in matters related to public health and related supervisory personnel."

²² Substantially dedicated payroll costs meant that personnel must have dedicated over 50 percent of their time to responding or mitigating COVID-19. Treasury's Federal Register guidance indicated: "The full amount of payroll and benefits expenses of substantially dedicated employees may be covered using payments from the Fund. Treasury has not developed a precise definition of what "substantially dedicated" means given that there is not a precise way to define this term across different employment types. The relevant unit of government should maintain documentation of the "substantially dedicated" conclusion with respect to its employees."

²³ Payroll costs that were not substantially dedicated were payroll costs that were not public health and safety, and which were not substantially dedicated to performing COVID-19 related tasks. Treasury's Federal Register guidance defined more stringent tracking requirements for these types of payroll costs. Specifically, Treasury's Federal Register stated: "track time spent by employees related to COVID-19 and apply Fund payments on that basis but would need to do so consistently within the relevant agency or department. This means, for example, that a government could cover payroll expenses allocated on an hourly basis to employees' time dedicated to mitigating or responding to the COVID-19 public health emergency."

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The North Carolina Aggregate Payments to Individuals balance consisted of the following types of claimed costs.

Aggregate Payments to Individuals Category Types ²⁴	Total Expenses Claimed
Public Health and Safety Payroll	\$ 771,107,539
Substantially Dedicated Payroll	\$ 27,460,985
Non-Payroll Expenditures ²⁵	\$ 495,067,240
Totals	\$ 1,293,635,764

Castro noted that public health and safety payroll transactions were subject to Treasury’s administrative accommodation,²⁶ and therefore, were subject to less detailed documentation requirements. Castro tested public health and safety payroll transactions by reviewing itemized payroll distribution reports to support these balances. Substantially dedicated payroll balances were not subject to this administrative accommodation, and therefore, Castro tested these transactions by reviewing payroll distribution files and by performing tests over specific employee timesheet submissions or other documentation provided by the prime recipient to confirm the “substantially dedicated” conclusion with respect to its employees. Non-Payroll expenditure balances were also not subject to this administrative accommodation, and therefore, Castro tested these transactions by reviewing the

²⁴ North Carolina did not report any non-substantially dedicated payroll within its Aggregate Payments to Individuals payment type, and so these were not included within the Aggregate Payments to Individuals Category Types.

²⁵ The Non-Payroll Expenditures consisted of hardship payments, including \$379,257,293 related to the Extra Credit Grant Program. For the Extra Credit Grant Program, North Carolina appropriated CRF proceeds to the North Carolina Department of Revenue to provide economic assistance to families during the pandemic with qualified children in amounts up to \$350 for virtual schooling and childcare costs. The program stipulated a qualified child was determined based on the families’ submitted 2019 tax returns. Additionally, there were \$81,801,172 of payments related to the North Carolina Department of Health and Human Services (DHHS) programs to assist individuals and providers. DHHS awarded funds for supplemental foster care payments, early childhood initiatives, childcare provider grants, and assistance to low income families – remote learning, and Medicaid provider relief. Also, North Carolina had \$34,008,775 related to unemployment benefit CRF-related expenditures. We analyzed North Carolina’s unemployment trust fund balance and noted the balance decreased by \$1.3 billion during the covered period. We determined the amount of CRF proceeds used to cover those eligible unemployment expenditures was reasonable.

²⁶ Treasury’s Federal Register guidance stated that an administrative accommodation was, “In recognition of the particular importance of public health and public safety workers to State, local, and tribal government responses to the public health emergency, Treasury has provided, as an administrative accommodation, that a State, local, or tribal government may presume that public health and public safety employees meet the substantially dedicated test... This means that, if this presumption applies, work performed by such employees is considered to be a substantially different use than accounted for in the most recently approved budget as of March 27, 2020. All costs of such employees may be covered using payments from the Fund for services provided during the period that begins on March 1, 2020, and ends on December 31, 2021.”

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state legislation and program requirements, and requested specific supporting documentation to determine eligibility and allowable use.

We determined that North Carolina's Aggregate Payments to Individuals did not comply with the CARES Act and Treasury's Guidance. We tested four transactions (\$735,479 of public health and safety, \$209,387 of substantially dedicated, and \$1,545,259 of non-payroll transactions) totaling \$2,490,125, resulting in unsupported questioned costs totaling \$475,993, as detailed below. The Aggregate Payments to Individuals transactions tested included expenditures for public health and safety payroll costs, substantially dedicated personnel payroll costs, and non-payroll costs such as child hardship payments issued by the following North Carolina state agencies: Department of Public Safety, Department of Revenue, Department of Natural and Cultural Resources, and Department of Human and Health Services (DHHS).

The \$475,993 in questioned costs included testing related to one transaction totaling \$266,606 where North Carolina provided childcare provider operational grants issued through DHHS. Per North Carolina's General Assembly legislation, the state appropriated CRF proceeds to provide operational grants to licensed childcare providers. Providers who received the awards under this program used the funds for various operating costs in response to the COVID-19 pandemic. We inspected the childcare provider operational grants program criteria. We confirmed the providers were required to submit emergency applications and complete open enrollment surveys to track the total number of children at a facility. The survey included several other factors such as total children served, childcare star rating, infant/toddler enrollment, and percentage of subsidy for children served to recalculate the amounts of CRF proceeds issued to the provider. This formula was documented in a table which was utilized by North Carolina's DHHS to arrive at the total dollar amounts to be distributed. North Carolina was unable to recalculate the amounts based on the formulas and other factors listed above; therefore, the amounts were not substantiated during our desk review, resulting in unsupported questioned costs of \$266,606.

Castro tested \$266,606 out of the total amount of \$58,200,000 in Childcare Provider Operational Grants claimed by North Carolina. Since Castro identified unsupported questioned costs within these Aggregate Payments to Individuals Non-Payroll expenditures tested, we recommend Treasury OIG determine the feasibility of performing additional follow-up with North Carolina to determine if there were other instances of unsupported balances within the remaining portion of this balance.

The \$475,993 in questioned costs included testing related to testing of one transaction totaling \$209,387 where North Carolina used CRF proceeds to

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reimburse expenditures for payroll costs of museum employees issued through the Department of Natural and Cultural Resources. North Carolina explained that the employees were considered substantially dedicated due to their time spent working on COVID-19 related tasks, however, North Carolina did not provide documentation of the "substantially dedicated" conclusion with respect to these employees. Per Treasury's CRF Federal Register 2021-00827 - Supplemental Guidance on Use of Funds to Cover Payroll and Benefits of Public Employees states: "The relevant unit of government should maintain documentation of the substantially dedicated conclusion with respect to its employees". We also noted that North Carolina reimbursed the payroll costs based on estimates and not actuals and did not provide official timesheets or other documentation to support the hours charged to the project. Per Treasury's CRF Guidance²⁷: "As provided in FAQ A.47, a State, local, or tribal government may also track time spent by employees related to COVID-19 and apply fund payments on that basis but would need to do so consistently within the relevant agency or department. This means, for example, that a government could cover payroll expenses allocated on an hourly basis to employee's time dedicated to mitigating or responding to the COVID-19 public health emergency." North Carolina expressed that they took a conservative approach on the amount of proceeds disbursed. We determined these costs were not properly supported, resulting in unsupported questioned costs totaling \$209,387.

Castro tested \$209,387 out of the total amount of \$27,460,985 in Substantially Dedicated Payroll claimed by North Carolina. Since Castro identified unsupported questioned costs within these Aggregate Payments to Individuals Substantially Dedicated Payroll expenditures tested, we recommend Treasury OIG determine the feasibility of performing additional follow-up with North Carolina to determine if there were other instances of unsupported balances within the remaining portion of this balance.

We also identified reporting misclassifications where Aggregate Payments to Individuals transactions were misclassified in the GrantSolutions portal under the incorrect payment type. The identified misclassifications should have been reported as Direct Payments greater than or equal to \$50,000 and Grants greater than or equal to \$50,000.

²⁷ Coronavirus Relief Fund Guidance as published in the Federal Register (January 15, 2021). https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register_2021-00827.pdf

Conclusion

We determined that North Carolina complied with the CARES Act and Treasury's Guidance for Contracts greater than or equal to \$50,000 and Loans greater than or equal to \$50,000. Also, we determined that North Carolina complied with the CARES Act, but did not comply with Treasury's Guidance for Grants greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, and Aggregate Reporting less than \$50,000. In addition, we determined that North Carolina did not comply with the CARES Act and Treasury's Guidance due to issues noted with Transfers greater than or equal to \$50,000, and Aggregate Payments to Individuals, resulting in total unsupported questioned costs of \$476,115.

Additionally, North Carolina's risk of unallowable use of funds is **moderate**. As a result of this desk review, we recommend Treasury OIG:

- Confirm the transactions noted as unsupported expenditures within the Transfers greater than or equal to \$50,000 and Aggregate Payments to Individuals payment types are recouped or replaced by other eligible expenditures, not previously charged to CRF, that were incurred during the period of performance. Based on North Carolina's responsiveness to Treasury OIG's requests and its ability to provide sufficient documentation, we recommend Treasury OIG determine the feasibility of conducting an audit for Transfers greater than or equal to \$50,000 and Aggregate Payments to Individuals.

Castro also identified other matters throughout the course of our desk review, which warrant recommendations to Treasury OIG for additional action. Castro recommends Treasury OIG:

- Determine the feasibility of performing additional follow-up with North Carolina to determine if there were other instances of unsupported balances within the remaining portion of the Childcare Provider Operational Grants claimed by North Carolina within their Aggregate Payments to Individuals Non-Payroll expenditures.
- Determine the feasibility of performing additional follow-up with North Carolina to determine if there were other instances of unsupported balances within the remaining portion of the Aggregate Payments to Individuals Substantially Dedicated Payroll expenditures claimed by North Carolina.

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All work completed with this letter complies with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Federal Offices of Inspectors General*, which require that the work adheres to the professional standards of independence, due professional care, and quality assurance to ensure the accuracy of the information presented.²⁸ We appreciate the courtesies and cooperation provided to our staff during the desk review.

Sincerely,



Wayne Ference
Partner, Castro & Company, LLC

²⁸ <https://www.ignet.gov/sites/default/files/files/Silver%20Book%20Revision%20-%208-20-12r.pdf>