

CORONAVIRUS STATE FISCAL RECOVERY FUND

State Authorization: General Assembly of North Carolina Session 2021 – Session Law 2021-180 (Senate Bill 105) as amended by Session Laws 2021-189 (House Bill 334), 2022-6 (House Bill 243), and 2022-74 (House Bill 103).

N. C. Department of Health and Human Services

**Agency Contact Persons –
Program**

Beth Coberly,
Senior Program/Budget Analyst
Division of Budget and Analysis
beth.coberly@dhhs.nc.gov

**Agency Contact Person –
Financial**

Brett Altman, Deputy Director
Division of Budget and Analysis
(919) 855-4857
brett.altman@dhhs.nc.gov

Address Confirmation Letters To:

SFY 2025 audit confirmation reports for payments made to Counties, Local Management Entities (LMEs), Managed Care Organizations (MCOs), Boards of Education, Councils of Government, District Health Departments and DHSR Grant Subrecipients will be available by mid-October at the following web address:

<https://www.ncdhhs.gov/about/administrative-offices/office-controller/audit-confirmation-reports> At this site, click on the link entitled “Audit Confirmation Reports (State Fiscal Year 2024-2025). Additionally, audit confirmation reports for Nongovernmental entities receiving financial assistance from DHHS are found at the same website except select “Non-Governmental Audit Confirmation Reports (State Fiscal Years Oct’ 2023-2025).”

The auditor should not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current.

The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

Auditors may request documentation of monitoring visits by the State Agencies.

I. PROGRAM OBJECTIVES

The purpose of the Coronavirus State and Local Fiscal Recovery Funds (“CSLFRF”) is to provide direct payments to states (defined to include the District of Columbia), US territories (defined to include Puerto Rico, US Virgin Islands, Guam, Northern Mariana Islands, and American Samoa), tribal governments, metropolitan cities, counties, and (through states) non-entitlement units of local government (collectively the “eligible entities”) to:

1. Respond to the public health emergency, COVID-19 or its negative economic impacts, including providing assistance to households, small businesses, nonprofits, and impacted industries, such as tourism, travel, and hospitality;

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2. Respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of eligible employers that have eligible workers who are performing essential work, or by providing grants to eligible entities who perform essential work;
3. Provide government services, to the extent COVID-19 caused a reduction in revenues collected in the most recent full fiscal year of the state, territory, tribal government, metropolitan city, county, or non-entitlement units of local government;
4. Make necessary investments in water, sewer, or broadband infrastructure.

II. PROGRAM PROCEDURES

Overview

Sections 602 and 603 of the Social Security Act (the “Act”), as added by section 9901 of the American Rescue Plan Act of 2021, Pub. L. No. 117-2 (Mar. 11, 2021) authorized the Coronavirus State Fiscal Recovery Fund (“CSFRF”) and Coronavirus Local Fiscal Recovery Fund (“CLFRF”), respectively (referred to collectively as the “Coronavirus State and Local Fiscal Recovery Funds” or “CSLFRF”).

CSLFRF is administered by the US Department of the Treasury (“Treasury”) and provides assistance in the form of direct payments for specified use. CSLFRF provides \$350 billion for payments to eligible entities. Eligible entities are expected to use the direct payments to meet pandemic response needs and rebuild a strong, more equitable economy as the country recovers.

The State of North Carolina (the State) and its administering agencies are the direct recipients of CSFRF funding, which totaled \$5.4 billion. Through the State’s budget process, the North Carolina General Assembly appropriated these funds to State agencies, local organizations, and recognized tribes across more than 180 unique allocations. The N.C. Department of Health and Human Services (DHHS) received \$502.8 million¹ in CSFRF across 22 allocations (also known as CSFRF projects). This compliance supplement is intended to guide audits for CSFRF recipients for whom DHHS is the administering agency.

N.C. Session Law 2020-4, Section 4.3 directed the N.C. Office of State Budget and Management (OSBM) to establish the North Carolina Pandemic Recovery Office (NCPRO) to oversee and coordinate funds made available under COVID19 Recovery Legislation. NCPRO is the State agency that oversees and coordinates the State’s CSFRF funds. Prior to disbursing CSFRF project funds to DHHS, NCPRO requires DHHS (and all administering agencies) to submit a project plan and execute a Memorandum of Understanding (MOU) with NCPRO for each CSFRF project.

One of the four federal eligible uses of CSFRF is to provide government services up to the amount of revenue lost due to the pandemic. OSBM determined that all DHHS CSFRF are classified as the provision of government services within the State’s calculated reduction of revenue due to the COVID-19 public health emergency. Treasury’s Final Rule Frequently Asked Questions (FAQs) (published July 27, 2022) clarifies that there are no subawards under

¹ This amount does not include the \$27.5M in CSFRF appropriated to DHHS for premium pay bonuses for State employees.

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the revenue loss eligible use category, which means that DHHS recipients of CSFRF are not considered subrecipients as defined in 2 CFR Part 200.

DHHS contracts with recipients are designated as State financial assistance contracts. The type of CSFRF project determines the method for allocating amounts to each recipient. For example, in some cases, the State's budget legislation allocates a specific amount to a recipient, while in other cases, DHHS develops an allocation formula based on criteria outlined in legislation. Each recipient must submit a proposed scope of work and budget for their allocation before DHHS approves and executes their financial assistance contract or agreement. Recipients may also subcontract their funds to other public and private agencies to purchase services as outlined in their contract.

Additional Information

Additional information on the requirements for CSLFRF is available through the program webpage on Treasury's website at <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds>. CSLFRF's Compliance and Reporting Guidance can be found at <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds/recipient-compliance-and-reporting-responsibilities>.

FAQs about CSLFRF are outlined on the program webpage on Treasury's website at <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds>. If there are specific questions regarding CSLFRF, the Office of Recovery Programs may be contacted via e-mail at SLFRF@treasury.gov.

State guidance is available through the following documents:

- [Current Operations Appropriations Act of 2021](#)
- Joint Conference Committee Report on the Current Operations Appropriations Act of 2021 for Senate Bill 105, dated 11/15/2021
- Technical, Clarifying, and Other Modifications to the Current Operations Appropriations Act of 2021 and to Other Legislation, [S.L. 2021-189 \(H.B. 334\)](#) and [S.L. 2022-6 \(H.B. 243\)](#)
- Modify the Current Operations Appropriations Act of 2021 and to Make Other Changes in the Budget Operations of the State, [S.L. 2022-74 \(H.B. 103\)](#)
 - North Carolina Administrative Code (Title 09, Subchapter 03M)

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III. COMPLIANCE REQUIREMENTS

Noted below in the following matrix are the types of compliance requirements that are applicable to this federal program. These types are determined by the State agency noted by “Y.”

If the Matrix indicates “Y,” the auditor must determine if a particular type of compliance requirement has a direct and material effect on the State program for the auditee.

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 12 | 13 | 14 |
|---------------------------------|---------------------------------|-----------------|----------------------|-------------|-------------------------------------|---------------------------------------|-----------------------|--------------------------|----------------|-----------|-------------------------|------------------------------|
| Activities Allowed or Unallowed | Allowable Costs/Cost Principles | Cash Management | Conflict of Interest | Eligibility | Equipment/ Real Property Management | Matching, Level of Effort, Earmarking | Period of Performance | Procurement Suspension & | Program Income | Reporting | Subrecipient Monitoring | Special Tests and Provisions |
| Y | Y | N | N | N | N | N | Y | Y | N | Y | N | N |

1. ACTIVITIES ALLOWED OR UNALLOWED

Compliance Requirements:

Under the American Rescue Plan Act of 2021, Pub. L. No. 117-2 and Treasury’s Final Rule, States may use CSFRF funds for the provision of government services up to the amount of their revenue loss due to the pandemic. OSBM determined that all DHHS CSFRF are classified as provision of government services within the State’s calculated reduction of revenue due to the COVID-19 public health emergency.

The revenue loss category is the broadest, most flexible eligible use category. States may use funds on government services, which generally include any service traditionally provided by a government, unless Treasury has stated otherwise. Treasury’s Final Rule provides some common examples of government services, which include construction of schools and hospitals; health services; and general government administration, staff, and administrative facilities. Treasury’s Final Rule FAQs clarify that revenue loss funds can be used for a purpose not explicitly listed as an example of a government service in the Final Rule and that revenue loss funds can be used for a project eligible under the other CSFRF eligible use categories, such as addressing the public health and negative economic impacts of the pandemic. Additionally, revenue loss funds generally may be used to meet the non-federal cost-share or matching requirements of other federal programs.

The following are ineligible uses of revenue loss funds (and all CSLFRF):

- Offset a reduction in net tax revenue (applicable to states and territories)
- Deposits into pension funds (applicable to all recipients except Tribes)
- Debt service or replenishing financial reserves (e.g., “rainy day funds”) (applicable to all recipients)
- Satisfaction of settlements and judgements (applicable to all recipients)
- Programs, services, or capital expenditures that include a term or condition

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that undermines efforts to stop the spread of COVID-19 (applicable to all recipients)

The North Carolina General Assembly appropriated CSFRF to DHHS through 22 unique allocations or projects. These projects are described throughout the following State budget documents:

- North Carolina's Current Operations Appropriations Act of 2021, S.L. 2021-180 (S.B. 105)
- The Joint Conference Committee Report on the Current Operations Appropriations Act of 2021 for Senate Bill 105
- Technical, Clarifying, and Other Modifications to the Current Operations Appropriations Act of 2021 and to Other Legislation, S.L. 2021-189 (H.B. 334)
- Technical, Clarifying, and Other Modifications to the Current Operations Appropriations Act of 2021 and to Other Legislation, S.L. 2022-6 (H.B. 243)
- Modify the Current Operations Appropriations Act of 2021 and to Make Other Changes in the Budget Operations of the State, S.L. 2022-74 (H.B. 103)

NCPRO requires DHHS (and all administering agencies) to execute an MOU with NCPRO for each CSFRF project that includes a description of the project and use of funds. All DHHS recipients must sign a financial assistance contract or agreement with DHHS that includes the obligations of both parties and a description of the purpose for which the funds were awarded. All recipient expenditures and activities must align with the terms and conditions of the contract or agreement and the State budget documents listed above.

Audit Objective: Determine whether funds were expended only for allowable activities in accordance with the program requirements.

Suggested Audit Procedures:

1. Obtain a copy of the signed CSFRF contract or agreement.
2. Obtain copies of the recipient's reports submitted to DHHS and compare to accounting records for appropriateness.
3. Test transactions and related records and perform procedures to verify that the transactions are only for allowable activities as described above and as established in:
 - a. Sections 4.8(a) to 4.13 (p. 19-23), 23.3., 23.4., 24.1B., 24.1C., 24.1D., and 24.4. of North Carolina's Current Operations Appropriations Act of 2021, S.L. 2021-180 (S.B. 105)
 - b. Pages F37-F38 of The Joint Conference Committee Report on the Current Operations Appropriations Act of 2021 for Senate Bill 105
 - c. Sections 6.2., 6.3., and 6.6. of Technical, Clarifying, and Other Modifications to the Current Operations Appropriations Act of 2021 and to Other Legislation, S.L. 2021-189 (H.B. 334)
 - d. Sections 10.1., 10A.1., and 20.17 of Technical, Clarifying, and Other Modifications to the Current Operations Appropriations Act of 2021 and to Other Legislation, S.L. 2022-6 (H.B. 243)
 - e. Section 10.2. to Modify the Current Operations Appropriations Act of 2021 and to Make Other Changes in the Budget Operations of the State, S.L. 2022-74 (H.B. 103)
 - f. Signed CSFRF project MOU between NCPRO and DHHS.

2. ALLOWABLE COSTS/COST PRINCIPLES

Compliance Requirements:

Per the North Carolina Administrative Code 09 NCAC 03M .0201, "Expenditures of State financial assistance by any recipient or subrecipient shall be in accordance with the cost principles outlined in the Code of Federal Regulations, 2 CFR, Part 200. If the State financial assistance includes federal sources, the recipient or subrecipient shall ensure adherence to the cost principles established in the Code of Federal Regulations, 2 CFR, Part 200."

Per North Carolina's Current Operations Appropriations Act of 2021, S.L. 2021-180 (S.B. 105), Section 4.9.(g) "For administrative expenses related to administration of a provision allocating ARPA funds in this act, a State agency may, of ARPA funds allocated to it under this act, use up to the lesser of (i) the amount allowed by federal law or guidance or (ii) ten percent (10%) of ARPA funds allocated to it under this act."

Audit Objective: Determine whether expenditures are for allowable costs.

Suggested Audit Procedures: Test a sample of transactions for compliance with the following criteria:

1. Allowable cost provisions of (or limitations) in the contract or agreement.
2. Charges for actual costs, not budgeted or projected amounts.
3. Calculated in conformity with generally accepted accounting principles or another comprehensive basis of accounting when required.
4. Supported by appropriate documentation – such as approved purchase orders, receiving reports, vendor invoices, canceled checks, inventory, time and attendance records – and correctly charged as to account, amount, and period. Documentation may be in electronic form.

8. PERIOD OF PERFORMANCE

Compliance Requirements:

The period of performance for DHHS CSFRF recipient contracts begins on the date specified in the contract and ends on December 31, 2026.

Recipients may only use funds to cover costs incurred during the period beginning on March 3, 2021 and ending on December 31, 2024, per section 602(g)(1) of the Social Security Act as added by section 9901 of the American Rescue Plan Act of 2021, Pub. L. No. 117-2 and Treasury's Interim Final Rule and Final Rule at 31 CFR section 35.5(a). Recipients must liquidate all obligations incurred by December 31, 2024 under the award no later than December 31, 2026, which is the end of the period of performance. As such, auditors should test that recipients only used award funds to cover costs incurred from the period beginning on March 3, 2021 and ending on December 31, 2024. Auditors should also test that recipients did not incur and apply to their award any new costs during the period beginning December 31, 2024 and ending on December 31, 2026. During this two-year period, recipients are only permitted to liquidate all obligations they incurred by December 31, 2024.

Audit Objective: Determine that funds were used only to cover costs incurred during the specified award period and that obligations were liquidated within the required time period.

Suggested Audit Procedures: Test transactions to verify that no funds were used for expenditures incurred prior to or after the period of performance by examining the dates of recipients' relevant expenditures.

9. PROCUREMENT SUSPENSION AND DEBARMENT

Procurement Compliance Requirements:

All recipients that expend State funds (including federal funds passed through DHHS) are required to comply with the procurement standards described in the North Carolina General Statutes and the North Carolina Administrative Code, which are identified in the State of North Carolina Agency Purchasing Manual accessible at [http://www.pandc.nc.gov/documents/Procurement Manual 5 8 2013 interactive.pdf](http://www.pandc.nc.gov/documents/Procurement%20Manual%205%208%202013%20interactive.pdf).

Non-governmental recipients shall maintain written procurement policies that are followed in procuring the goods and services required to administer the program.

Suspension and Debarment Compliance Requirements:

The listing of most debarred and suspended parties can be viewed at the following website: <https://www.sam.gov/SAM/>.

Per the North Carolina Administrative Code 09 NCAC 03M, an agency shall not disburse any State financial assistance to an entity that is on the Suspension of Funding list. OSBM maintains the Suspension of Funding List for non-compliant grant recipients.

Audit Objective: To determine that no contract was awarded to any party that has been suspended or debarred or whose principals have been suspended or debarred.

Suggested Audit Procedures:

1. Test a sample of contracts and ascertain if the required suspension and debarment certifications were received for subawards and covered contracts.
2. Test a sample of contracts to the list of parties excluded from federal procurement or non-procurement programs issued by the general services administration and ascertain if contracts were awarded to suspended or debarred parties.

12. REPORTING

Compliance Requirements:

DHHS submits monthly CSFRF expenditure and performance reports to NCPRO, and on behalf of the State, NCPRO fulfills all reporting related to CSFRF that is required by Treasury. For additional information, please see Treasury's Compliance and Reporting Guidance at <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds/recipient-compliance-and-reporting-responsibilities>.

The specific requirements for DHHS recipient reporting are found in the provisions of the CSFRF contract or agreement. Per the North Carolina Administrative Code 09

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NCAC 03M .0202, a recipient that receives State financial assistance shall maintain reports and accounting records that support the allowable expenditure of State funds.

Audit Objective: Determine whether required reports for CSFRF contracts include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program and fiscal requirements.

Suggested Audit Procedures:

1. Review applicable provisions of contracts for reporting requirements. Obtain and review instructions for completing the reports.
 - a. For program data, determine the criteria and methodology used in compiling and reporting the data is consistent with program requirements and accepted documentation.
2. Select a sample of report types.
 - a. Determine if the financial data was calculated properly and is documented appropriately.
 - b. Ascertain that the reports were submitted when due.