

Department of Public Safety

Oversight of Hurricane Florence Disaster Recovery Funds

Raleigh, NC

Performance Audit Report December 2024

UNBIASED. IMPACTFUL. IRREFUTABLE.



A Department of the State of North Carolina
Jessica N. Holmes, J.D., State Auditor



Executive Summary

The Office of the State Auditor (OSA) has completed a performance audit in accordance with Chapter 147, Article 5A of the North Carolina General Statutes concerning the oversight of Hurricane Florence Disaster Recovery Funds by the North Carolina Department of Public Safety (DPS).



In October 2018, the North Carolina General Assembly enacted the Hurricane Florence Emergency Response Act.¹ The Hurricane Florence Emergency Response Act established the Hurricane Florence Disaster Recovery Fund² “to provide necessary and appropriate relief and assistance³ from the effects of Hurricane Florence.” Through a series of legislation,⁴ the Hurricane Florence Disaster Recovery Fund allocated a total of \$942.4 million in assistance to various entities across the state.

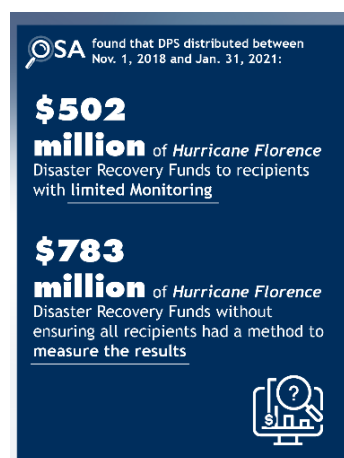
Hurricane Florence Recovery legislation required DPS to administer the Hurricane Florence Disaster Recovery Fund, to carry out the provisions of the law,⁵ and ensure proper accounting of the Hurricane Florence Disaster Recovery Fund.

Session Law 2018-138, Section 2.14.(c)⁶ required OSA to conduct performance audits of the Hurricane Florence Disaster Recovery Fund every three years and a final performance audit once all funds are expended, or by March 1, 2025, whichever occurs first.

This report details the results of OSA’s second performance audit of the Hurricane Florence Disaster Recovery Fund and fulfills the legislative requirement for a final performance audit. It includes DPS’s oversight during the period February 1, 2021, through December 31, 2023.

OSA’s April 2022 audit titled [Oversight of Hurricane Florence Disaster Recovery Funds](#) found that during the period November 1, 2018, through January 31, 2021, DPS distributed:

- **\$502 million** of Hurricane Florence Disaster Recovery Funds to recipients⁷ with limited monitoring.
- **\$783 million** of Hurricane Florence Disaster Recovery Funds without ensuring all recipients had a method to measure the results.



¹ An Act to Enact the Hurricane Florence Emergency Response Act, S.L. 2018-134.

² An Act to Enact the Hurricane Florence Emergency Response Act, S.L. 2018-134, § 3.1.(a).

³ The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purpose and uses of funds.

⁴ See Appendix A for details regarding legislation affecting the state’s Hurricane Florence Disaster Recovery Fund.

⁵ Pursuant to S.L. 2018-134, the Office of State Budget and Management, or another state agency determined by the Governor, was responsible for maintaining and administering the Hurricane Florence Disaster Recovery Fund. On November 5, 2018, the Office of State Budget and Management issued a memo transferring this responsibility to the Department of Public Safety.

⁶ An Act to Provide Additional Disaster Relief in Response to Hurricane Florence, S. L. 2018-138, § 2.14.(c), amending the 2018 Hurricane Florence Disaster Recovery Act, S.L. 2018-136, § 5.19.

⁷ Included state agencies, institutions of higher education, and a non-profit foundation.

Executive Summary (Concluded)

Objectives:

The objective of this audit was to determine whether DPS designed and implemented procedures to **ensure**:



- (1) Hurricane Florence Disaster Recovery Funds were spent in accordance with Hurricane Florence Recovery legislation.⁸



- (2) Recipients' programs funded with Hurricane Florence Disaster Recovery Funds were achieving their legislatively intended result.

Findings:

During the period February 1, 2021, through December 31, 2023, DPS distributed:



- **\$18 million** of Hurricane Florence Disaster Recovery Funds to external recipients with limited monitoring.



- **\$94 million** of Hurricane Florence Disaster Recovery Funds without ensuring all recipients had a method to measure the results.

As a result, there was an increased risk recipients could have misused funds without the misuse being detected and then corrected in a timely manner. Consequently, DPS was limited in its ability to determine whether funds were achieving legislatively intended results.

Recommendations:



DPS should monitor external recipients' Hurricane Florence Disaster Recovery Fund spending timely to ensure funds are spent in accordance with Hurricane Florence Recovery legislation.

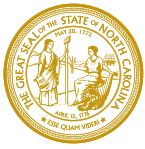


DPS should develop policies and procedures to ensure all recipients (1) have objectives for what they would do with any future disaster recovery or emergency relief funds, and (2) measure their progress towards meeting their objectives.



The North Carolina General Assembly should consider including monitoring requirements in future legislation regarding disaster recovery or other emergency relief funds.

⁸ See Appendix A for details regarding legislation affecting the state's Hurricane Florence Disaster Recovery Fund.



North Carolina Office of the State Auditor

Jessica N. Holmes, J.D., State Auditor

Auditor's Transmittal

Honorable Roy Cooper, Governor
Honorable Members of the North Carolina General Assembly
Eddie Buffaloe, Jr., Secretary, North Carolina Department of Public Safety
Pryor Gibson, Acting Director, North Carolina Office of Recovery and Resiliency
William Ray, Director, Emergency Management

Ladies and Gentlemen:

The Office of the State Auditor has completed a performance audit in accordance with Chapter 147, Article 5A of the North Carolina General Statutes concerning the oversight of Hurricane Florence Disaster Recovery Funds by the North Carolina Department of Public Safety. Hurricane Florence made landfall in eastern North Carolina on September 14, 2018, its record-breaking rainfall resulted in fatalities and billions in damage across the state.

The objective of this audit was to determine whether the Department of Public Safety designed and implemented procedures to ensure:

- (1) Hurricane Florence Disaster Recovery Funds were spent in accordance with Hurricane Florence Recovery legislation.
- (2) Recipients' programs funded with Hurricane Florence Disaster Recovery Funds were achieving their legislatively intended result.

As of December 31, 2023, DPS allocated a total of \$942.4 million in Hurricane Florence Disaster Recovery Funds and disbursed \$877 million (93%) to recipients. Of the remaining unused funds, \$30.1 million was reverted and transferred to the State Emergency Response and Disaster Relief Fund by S.L. 2023-134, Section 5.6(a). The remaining \$34.7 million is also subject to reversion by the North Carolina General Assembly if the funds continue to go unused.

The Secretary of the Department of Public Safety has received and reviewed a draft copy of this report. The Secretary's written comments are included in the report beginning on page 19. Corrective measures should be executed by the Department and legislature to ensure current and future hurricane relief funds are appropriately monitored and distributed in a timely manner.

Respectfully submitted,

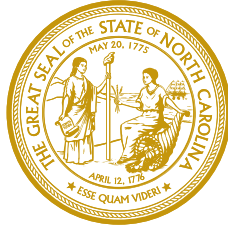
A handwritten signature in cursive script that reads "Jessica N. Holmes, J.D.".

Jessica N. Holmes, J.D.
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 subpoena power to compel individuals and entities to produce records and to answer questions under oath.



Background

In September 2018, Hurricane Florence made landfall bringing high winds, dangerous storm surge, and record rainfall that caused historic flooding and numerous fatalities throughout North Carolina.⁹

In October 2018, the North Carolina General Assembly enacted the Hurricane Florence Emergency Response Act (Response Act)¹⁰ in response to the effects of Hurricane Florence on the State of North Carolina.

The Response Act established the Hurricane Florence Disaster Recovery Fund¹¹ to provide the necessary and appropriate relief and assistance¹² from the effects of Hurricane Florence. The Fund is maintained as a special fund administered by the North Carolina Department of Public Safety (DPS)¹³ to carry out the provisions of the law and subsequent acts needed in response to Hurricane Florence.

Through a series of legislation,¹⁴ the State appropriated approximately **\$942.4 million** to state agencies, institutions of higher education, and a non-profit foundation through the Hurricane Florence Disaster Recovery Fund as presented in the following illustration:



⁹ Office of State Budget and Management's [Hurricane Florence Recovery Recommendations](#).

¹⁰ An Act to Enact the Hurricane Florence Emergency Response Act, S.L. 2018-134.

¹¹ An Act to Enact the Hurricane Florence Emergency Response Act, S.L. 2018-134, § 3.1.(a).

¹² The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purpose and uses of funds.

¹³ Per S.L. 2018-134, the Office of State Budget and Management was responsible for maintaining and administering the Hurricane Florence Disaster Recovery Fund. On November 5, 2018, the Office of State Budget and Management issued a memo transferring this responsibility to the Department of Public Safety.

¹⁴ See Appendix A for details regarding legislation affecting the State's Hurricane Florence Disaster Recovery Fund.

As of December 31, 2023, DPS allocated a total of \$942.4 million in Hurricane Florence Disaster Recovery Funds and disbursed \$877 million (93%) to recipients. Of the remaining unused funds, \$30.1 million was reverted and transferred to the State Emergency Response and Disaster Relief Fund by S.L. 2023-134, Section 5.6(a).

To receive funds, each state agency, institution of higher education, and non-profit foundation would spend funds on recovery efforts and later request reimbursement from DPS for qualifying expenditures. These recipients would submit reports to DPS on a quarterly basis that included a summary of program activities, how much was spent to date, and performance metrics outlined in legislation.

Hurricane Florence Recovery legislation¹⁵ also created the North Carolina Office of Recovery and Resiliency (NCORR) within DPS. NCORR is responsible for:

- Providing general disaster recovery coordination and public information.
- Citizen outreach and application case management.
- Program and construction management services.
- Audit, finance, compliance, and reporting on disaster recovery funds.
- Reporting on the use, oversight, and results achieved by Hurricane Florence Disaster Recovery Funds.

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

Hurricane Florence Recovery legislation¹⁶ required DPS to administer the Hurricane Florence Disaster Recovery Fund to carry out the provisions of the law and ensure the proper accounting of the Hurricane Florence Disaster Recovery Fund. Specifically, DPS is required to:

- Allocate and disburse Hurricane Florence Recovery Funds as directed by Hurricane Florence legislation.
- Ensure adherence with reporting requirements established in Hurricane Florence legislation.
- Account for the Hurricane Florence Recovery Fund in accordance with generally accepted accounting principles and the requirements established by the North Carolina Office of the State Controller (OSC).¹⁷

Session Law 2018-138, Section 2.14.(c)¹⁸ required the Office of the State Auditor (OSA) to conduct performance audits of the Hurricane Florence Disaster Recovery Fund every three years and a final performance audit once all funds are expended, or by March 1, 2025, whichever first occurs.

¹⁵ 2018 Hurricane Florence Disaster Recovery Act, S. L. 2018-136, § 5.7(a).

¹⁶ Per S.L. 2018-134, the Office of State Budget and Management was responsible for maintaining and administering the Hurricane Florence Disaster Recovery Fund. On November 5, 2018, the Office of State Budget and Management issued a memo transferring this responsibility to the Department of Public Safety.

¹⁷ Per OSC guidance provided to DPS in November 2018.

¹⁸ An Act to Provide Additional Disaster Relief in Response to Hurricane Florence, S. L. 2018-138, § 2.14.(c), amending the 2018 Hurricane Florence Disaster Recovery Act, S.L. 2018-136, § 5.19.

This report details the results of OSA's second performance audit of the Hurricane Florence Disaster Recovery Fund and fulfills the legislative requirement for a final performance audit. It includes DPS's oversight during the period February 1, 2021, through December 31, 2023.

OSA's April 2022 audit titled [Oversight of Hurricane Florence Disaster Recovery Funds](#) found that during the period November 1, 2018, through January 31, 2021, DPS distributed:

- **\$502 million** of Hurricane Florence Disaster Recovery Funds to recipients¹⁹ with limited monitoring.
- **\$783 million** of Hurricane Florence Disaster Recovery Funds without ensuring all recipients had a method to measure the results.

Key terms discussed in this report include:

Hurricane Florence – The hurricane that made landfall in eastern North Carolina on September 14, 2018.

Hurricane Florence Recovery Legislation – The Hurricane Florence Emergency Response Act²⁰ and subsequent legislation²¹ enacted by the State of North Carolina to establish the Hurricane Florence Disaster Recovery Fund and provide necessary and appropriate relief²² and assistance from the effects of Hurricane Florence.

Hurricane Florence Disaster Recovery Fund – The fund established by the state to provide necessary and appropriate relief and assistance from the effects of Hurricane Florence.

Responsible parties discussed in this report include:

North Carolina Department of Public Safety (DPS) – DPS provides the public safety services for the State including emergency management. The Hurricane Florence Emergency Response Act established the Hurricane Florence Disaster Recovery Fund that is to be maintained as a special fund and administered by DPS to carry out the provisions of the law.

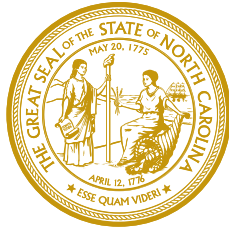
North Carolina Office of Recovery and Resiliency (NCORR) – NCORR is a division of DPS that provides general disaster recovery coordination and public information and is responsible for reporting on the use, oversight, and results achieved by Hurricane Florence Disaster Recovery Funds.

¹⁹ Included state agencies, institutions of higher education, and a non-profit foundation.

²⁰ An Act to Enact the Hurricane Florence Emergency Response Act, S.L. 2018-134.

²¹ See Appendix A for details regarding legislation affecting the State's Hurricane Florence Disaster Recovery Fund.

²² The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purpose and uses of funds.



Findings and Recommendations



1. \$18 Million Of Hurricane Florence Disaster Recovery Funds Were Disbursed With Limited Monitoring

The North Carolina Department of Public Safety (DPS) performed **limited** monitoring²³ to ensure state funds disbursed to provide relief and assistance²⁴ from the effects of Hurricane Florence were spent in accordance with Hurricane Florence Recovery legislation.²⁵ Specifically, DPS did not independently verify external recipient²⁶ spending. As a result, there was an increased risk that external recipients could have misused funds without the misuse being detected and corrected in a timely manner.

DPS management stated that it did not independently verify spending because legislation did not specifically require or provide DPS with the authority to monitor recipient spending. However, DPS was required by law to **administer**²⁷ the Hurricane Florence Disaster Recovery Fund to carry out the provisions of Hurricane Florence Recovery legislation and best practices from the Government Accountability Office (GAO) recommend monitoring recipient spending.

Limited Monitoring of External Recipient Spending of Hurricane Florence Disaster Recovery Funds

DPS's limited monitoring procedures did not ensure that external recipients were spending approximately \$18 million²⁸ of Hurricane Florence Disaster Recovery Funds during the period February 1, 2021, through December 31, 2023, in accordance with Hurricane Florence Recovery legislation.

DPS required recipients to submit monthly spending reports using templates noting legislative reference, appropriation amount, and purpose. DPS also reconciled reported spending to external recipient accounting records submitted with spending reports and the legislative allocations.

However, DPS **did not** independently verify external recipient spending by comparing supporting documents (i.e. invoices, receipts, payroll records) to expenditures reported by external recipients.

The Office of the State Auditor (OSA) reported in an April 2022 performance audit²⁹ of DPS's oversight of the Hurricane Florence Disaster Recovery Fund that DPS did not independently verify \$502 million of external recipient spending during the period November 1, 2018, through January 31, 2021.

²³ Monitoring activities are established and operated by management to assess the quality of performance over time and promptly resolve identified issues.

²⁴ The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purpose and uses of funds.

²⁵ Includes An Act to Enact the Hurricane Florence Emergency Response Act, S.L. 2018-134, and subsequent legislation. See Appendix A for details regarding legislation affecting the state's Hurricane Florence Disaster Recovery Fund.

²⁶ External recipients included state agencies (not including DPS) and an institution of higher education. DPS used approximately \$76 million of Hurricane Florence Recovery Funds for which they did compare supporting documents to spending.

²⁷ Merriam-Webster's dictionary defines administer as "to manage or supervise the execution, use, or conduct of".

²⁸ According to DPS records as of December 31, 2023.

²⁹ <https://files.nc.gov/nc-auditor/documents/2022-04/PER-2021-4900A.pdf?VersionId=ULuwXIBPbC0xyxDpbjBB24qztxiJHY3L>

Therefore, since the Hurricane Florence Disaster Recovery Fund was established, more than \$520 million³⁰ of state funds disbursed to provide relief and assistance³¹ from the effects of Hurricane Florence were spent without monitoring to ensure funds were spent in accordance with Hurricane Florence Recovery legislation.

Resulted in Increased Risk of Undetected and Uncorrected Misuse

Without independent verification, DPS could not detect misuse of funds that could occur due to misunderstandings, errors, or omissions.

For example, DPS could not ensure that external recipients were only using funds for:

- Expenditures incurred due to the effects of Hurricane Florence.
- Activities and programs that meet requirements specified by legislators in Hurricane Florence Recovery legislation. For example,
 - \$16 million to assist farmers with agricultural recovery activities such as reforestation,³² restoration of critical drainage networks, and to remove debris from impacted streams.
 - \$1 million for the repair and renovation of storm damaged local community college facilities.
 - \$1 million to inspect, investigate, and remove derelict and abandoned water vessels which degrade the coastal landscape, cause navigational hazards, and harm coastal habitats.

And since DPS did not plan for and require external recipients to submit supporting documentation needed to verify spending, the aforementioned external recipient spending could not be verified. Therefore, there was an increased risk that DPS would not identify misuse and take timely corrective action. Performing monitoring activities, such as independent verification of spending, while funds were being spent would have allowed for:

- Timely detection and correction of misuse.
- Training opportunities for recipients that misused funds.
- Potential that future misuse is reduced.

³⁰ As of December 31, 2023.

³¹ The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purpose and uses of funds.

³² Reforestation restores previously existing forests and woodlands that have been destroyed or damaged by replanting trees and seedlings.

Caused by DPS Stance that it Lacked Responsibility and Authority to to Provide Oversight

DPS management stated that it did not independently verify spending because legislation did not specifically require or provide DPS with the authority to monitor recipient spending.

Best Practices Recommend Monitoring Recipient Spending

While legislation did not explicitly require DPS to monitor recipients to ensure funds were spent in accordance with Hurricane Florence Recovery legislation, DPS was required to **administer**³³ the Hurricane Florence Disaster Recovery Fund to carry out the provisions of Hurricane Florence Recovery legislation.

Without monitoring the spending of fund recipients, it would be difficult to ensure that funds were used for authorized purposes or that the provisions and legislative intent of the Hurricane Florence Recovery legislation were carried out.³⁴

In addition, best practices as identified by the Government Accountability Office (GAO) state that management should establish internal controls to provide reasonable assurance of effective operations. The GAO states:

Legislators, oversight bodies, those charged with governance, and the public need to know whether... government services are provided effectively....³⁵

Management is responsible for the design, implementation, and operation of internal controls to achieve its objectives which include effective and efficient **operations**. Internal controls include plans, methods, policies, and procedures used to fulfill the entity's objectives.³⁶

Recommendations

- ① DPS should monitor external recipients' Hurricane Florence Disaster Recovery Fund spending timely to ensure funds are spent in accordance with Hurricane Florence Recovery legislation.
- ② The North Carolina General Assembly should consider including monitoring requirements in future legislation regarding disaster recovery or emergency relief funds.

³³ Merriam-Webster's dictionary defines administer as "to manage or supervise the execution, use, or conduct of".

³⁴ An Act to Enact the 2018 Hurricane Florence Disaster Recovery Act, S.L. 2018-136 also required quarterly reports that included (1) how much was spent, (2) what the funds were spent on, (3) a summary of program activities, (4) performance metrics, and (5) a summary of oversight activities and results achieved.

³⁵ United States Government Accountability Office, Government Auditing Standards, July 2018, § 1.03.

³⁶ United States Government Accountability Office, Standards for Internal Control in the Federal Government, September 2014.



2. \$94 Million of Hurricane Florence Disaster Recovery Funds Were Disbursed Without Ensuring All Recipients Had A Method To Measure Results.

The North Carolina Department of Public Safety (DPS) disbursed³⁷ approximately \$94 million³⁸ of Hurricane Florence Disaster Recovery Funds to provide relief and assistance³⁹ from the effects of Hurricane Florence without ensuring that all recipients⁴⁰ (1) established objectives for what they would do with the funds, and (2) measured their progress towards meeting their objectives. As a result, DPS was limited in its ability to know whether Hurricane Florence Disaster Recovery Funds were achieving legislatively intended results and to take timely corrective action, if necessary.

DPS management stated that it did not ensure all recipients established a method to measure results because legislation did not specifically require or provide DPS with the authority to ensure that all recipients had a method to measure results.

However, state law⁴¹ required DPS to report on results achieved from the use of Hurricane Florence Disaster Recovery Funds and best practices from the Government Accountability Office (GAO) recommend that DPS determine whether legislatively intended results were achieved.

Limited Procedures Established to Ensure Recipients Measured Results of Spending

DPS disbursed approximately \$94 million of Hurricane Florence Disaster Recovery Funds during the period February 1, 2021, through December 31, 2023, without ensuring that **all** recipients established a method to measure whether the funds were achieving legislatively intended results.

The North Carolina General Assembly enacted Hurricane Florence Recovery legislation⁴² to provide necessary and appropriate relief and assistance⁴³ from the effects of Hurricane Florence.

Examples of relief and assistance included:⁴⁴

- **\$76 million disbursed to the Department of Public Safety** to provide disaster housing recovery support for repair, acquisition, and reconstruction of homes, a flood insurance program to help pay for two years of flood insurance, cash flow assistance to distressed local governments in disaster areas, state match⁴⁵

³⁷ Includes both funds disbursed to and spent by external recipients and funds spent by DPS.

³⁸ According to DPS records as of December 31, 2023.

³⁹ The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purposes and uses of funds.

⁴⁰ Included state agencies (including DPS) and an institution of higher education.

⁴¹ An Act to Enact the 2018 Hurricane Florence Disaster Recovery Act, S.L. 2018-136, § 5.8.(a).

⁴² Includes An Act to Enact the Hurricane Florence Emergency Response Act, S.L. 2018-134 and subsequent legislation. See Appendix A for details regarding legislation affecting the State's Hurricane Florence Disaster Recovery Fund.

⁴³ The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purposes and uses of funds.

⁴⁴ This list is not all-inclusive of relief and assistance that was appropriated and disbursed. See Appendix B for a complete list.

⁴⁵ State Match, or cost share, means the state's portion of federally-assisted project costs not paid by federal funds or contributions.

for federal disaster assistance programs, purchase of properties at risk for future flood damage, and to provide gap payments⁴⁶ for homeowners.

- **\$16 million disbursed to the Department of Agriculture** to assist farmers with agricultural recovery activities such as reforestation,⁴⁷ restoration of critical drainage networks, and to remove debris from impacted streams.
- **\$1 million disbursed to the North Carolina Community College System** to assist with repair and renovation of storm damaged local community college facilities.

Hurricane Florence Recovery legislation⁴⁸ required DPS to submit quarterly reports that provided updates regarding:

- How much was spent.
- What the funds were spent on.
- Summary of program activities.
- Performance metrics outlined in legislation.⁴⁹
- Summary of oversight activities and results achieved.

However, DPS **did not** ensure that all recipients had a method to measure the results of their spending despite legislation requiring DPS to report on results achieved from the use of Hurricane Florence Disaster Recovery Funds. Specifically, DPS did not ensure **all** recipients (1) established objectives for what they would do with the funds, and (2) measured their progress towards meeting their objectives.

Auditors tested all (100%) Hurricane Florence Disaster Recovery Fund quarterly reports from 7 recipients⁵⁰ that administered 18 programs from February 2021 through December 2023 and found:

- 1 of 18 (6%) programs totaling \$320,831 did not report objectives for what they would do with the funds.
- 4 of 18 (22%) programs totaling \$7.5 million did not measure their progress towards meeting their objectives.

The Office of the State Auditor (OSA) reported in an April 2022 performance audit⁵¹ of DPS's oversight of the Hurricane Florence Disaster Recovery Fund that DPS distributed approximately \$783 million of Hurricane Florence Disaster Recovery Funds from

⁴⁶ Difference between what the homeowner receives for their flood damaged property and what is needed to get them into a similar home outside the floodplain.

⁴⁷ Reforestation is the practice of restoring previously existing forests and woodlands that have been destroyed or damaged by replanting trees and seedlings.

⁴⁸ An Act to Enact the 2018 Hurricane Florence Disaster Recovery Act, S.L. 2018-136, § 5.8.(a), as amended by S.L. 2018-138, § 2.14.(a) and S.L. 2019-250, § 3.5.(c).

⁴⁹ Hurricane Florence Recovery legislation required a limited number of performance measures from certain recipients to be tracked and reported.

⁵⁰ Hurricane Florence Disaster Recovery Funds were allocated to 15 recipients (See Appendix B). Only seven recipients had activity that occurred during the period February 1, 2021, through December 31, 2023.

⁵¹ <https://files.nc.gov/nc-auditor/documents/2022-04/PER-2021-4900A.pdf?VersionId=ULuwXIBPbC0xyxDPbjBB24qztxiJHY3L>

November 1, 2018, through January 31, 2021, without ensuring that all recipients had a method to measure results.

Therefore, since the Hurricane Florence Disaster Recovery Fund was established, more than \$877 million⁵² of state funds were disbursed to provide relief and assistance⁵³ from the effects of Hurricane Florence without ensuring that recipients had a method to measure whether legislatively intended results were achieved.

Resulted in Limited Ability to Know Whether Intended Results Were Being Achieved

Since DPS did not ensure that all recipients had a method to measure the results of their spending, DPS was limited in its ability to know whether funds were achieving legislatively intended results.⁵⁴

For example, based on audit tests,⁵⁵ DPS has no way to know whether:

- **\$7.2 million (9.5%) of the \$76 million disbursed to the Department of Public Safety** were providing disaster recovery support by developing a flood insurance program to help pay for two years of flood insurance, and covering cash flow needs of distressed local governments for disaster recovery needs in accordance with grant or loan agreements.
- **\$320,831 (32.1%) of the \$1 Million⁵⁶ disbursed to Department of Agriculture** resulted in removal of debris from impacted streams.

Since DPS was limited in its ability to know whether funds were achieving legislatively intended results, DPS could not take timely corrective action. If DPS had ensured recipients **measured the results** of their spending, DPS would have been able to:

- Detect and correct poor performance in a timely manner.
- Provide guidance to recipients that were not achieving results.
- Improve the likelihood funds were achieving legislatively intended results.

Caused by DPS Stance that it Lacked Responsibility and Authority to Provide Oversight

DPS management stated that it did not ensure all recipients established a method to measure results because legislation did not specifically require or provide DPS with the authority to ensure that all recipients had a method to measure results.

⁵² As of December 31, 2023.

⁵³ The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purpose and uses of funds.

⁵⁴ Ibid.

⁵⁵ Based on review of quarterly reports from March 2021 through December 2023. Auditors calculated the total disbursement for which recipients did not provide an objective for what they would do to provide relief and how they would measure their progress towards doing so.

⁵⁶ A total of \$16 million was disbursed to the Department of Agriculture during February 1, 2021, through December 31, 2023. \$15 million to assist farmers with agricultural recovery activities such as reforestation and restoration of critical drainage networks, and \$1 million to remove debris from impacted streams.

State Law Required DPS to Report on Results Achieved

State law⁵⁷ required DPS to report on the results achieved from the use of Hurricane Florence Disaster Recovery Funds.

Beginning January 1, 2019, [t]he Office of Recovery and Resiliency⁵⁸ (Office) shall provide quarterly reports... on the use of State disaster recovery and assistance funds expended from the Hurricane Florence Recovery Fund. The reports shall summarize oversight activities and the results achieved...

Without ensuring that recipients were **measuring the results** of their spending, it would be difficult to accurately report whether legislatively intended results were achieved.

Best Practices Recommend DPS to Determine Whether Results Were Achieved

Best practices identified by the Government Accountability Office (GAO) recommend that management determine whether legislatively intended results were achieved. The GAO states:

Legislators, oversight bodies, those charged with governance, and the public need to know whether... government programs are achieving their objectives and desired outcomes....⁵⁹

Management determines whether performance measures for the defined objectives are appropriate for evaluating the entity's performance in achieving those objectives.⁶⁰

Management establishes activities to monitor performance measures and indicators. These may include comparisons and assessments relating different sets of data to one another so that analyses of the relationships can be made and appropriate actions taken.⁶¹

Recommendations

- ② DPS should develop policies and procedures to ensure **all** recipients (1) have objectives for what they would do with any future disaster recovery or emergency relief funds, and (2) measure their progress towards meeting their objectives.
- ② The North Carolina General Assembly should consider including monitoring requirements in future legislation regarding disaster recovery or emergency relief funds.

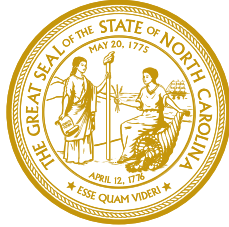
⁵⁷ An Act to Enact the 2018 Hurricane Florence Disaster Recovery Act, S.L. 2018-136 § 5.8.(a).

⁵⁸ Created in DPS by Hurricane Florence Recovery legislation. The North Carolina Office of Recovery and Resiliency (NCORR) is responsible for providing general disaster recovery coordination and public information; citizen outreach and application case management; program and construction management services; audit, finance, compliance, and reporting on disaster recovery funds.

⁵⁹ United States Government Accountability Office, Government Auditing Standards, July 2018, § 1.03.

⁶⁰ United States Government Accountability Office, Standards for Internal Control in the Federal Government, September 2014, § 6.07.

⁶¹ United States Government Accountability Office, Standards for Internal Control in the Federal Government, September 2014, § 10.03.



Objectives, Scope, and Methodology

The objective of this audit was to determine whether the Department of Public Safety (DPS) designed and implemented procedures to **ensure** that:

- (1) Hurricane Florence Disaster Recovery Funds were spent in accordance with Hurricane Florence Recovery legislation.⁶²
- (2) Recipients' programs funded with Hurricane Florence Disaster Recovery Funds were achieving their legislatively intended result.

The audit scope included the period of February 1, 2021, through December 31, 2023.

This report details the results of OSA's second performance audit of the Hurricane Florence Disaster Recovery Fund.

OSA's April 2022 audit titled [Oversight of Hurricane Florence Disaster Recovery Funds](#) found that during the period November 1, 2018, through January 31, 2021, DPS distributed:

- \$502 million of Hurricane Florence Disaster Recovery Funds to recipients⁶³ with limited monitoring.
- \$783 million of Hurricane Florence Disaster Recovery Funds without ensuring all recipients had a method to measure the results.

The audit scope did not include:

- Federal disaster recovery funds or other state disaster recovery funds received from sources other than the Hurricane Florence Disaster Recovery Fund.
- Disbursements to subrecipients, beneficiaries, municipalities, or other secondary entities that did not receive funds directly from Hurricane Florence Disaster Recovery Fund.
- Adherence to reporting requirements established by Hurricane Florence Recovery legislation.
- Determination of whether DPS accounted for, allocated, and disbursed amounts appropriated to the Hurricane Florence Disaster Recovery Fund in accordance with Hurricane Florence Recovery legislation.⁶⁴

To gain an understanding of Hurricane Florence Recovery legislation and DPS processes for administering the Hurricane Florence Disaster Recovery Fund, auditors:

- Reviewed relevant laws and regulations.
- Interviewed DPS and North Carolina Office of Recovery and Resiliency (NCORR) personnel.

⁶² See Appendix A for details regarding legislation affecting the state's Hurricane Florence Disaster Recovery Fund.

⁶³ Included state agencies, institutions of higher education, and a non-profit foundation.

⁶⁴ This was the objective of the Office of the State Auditor's *Department of Public Safety Hurricane Florence Disaster Recovery Fund Preliminary Financial Audits* released in November 2023 and September 2021.

Objectives, Scope, and Methodology

- Reviewed DPS and NCORR policies and procedures for monitoring recipients of Hurricane Florence Disaster Recovery Funds.
- Reviewed financial data for Hurricane Florence Disaster Recovery Fund disbursements.

Auditors also performed the following tests:

Auditors identified two distinct groups for testing: 1) Hurricane Florence Disaster Recovery Funds spent by DPS, and 2) Hurricane Florence Disaster Recovery Funds spent by entities external to DPS (external recipients).⁶⁵

Funds Spent in Accordance with Hurricane Florence Recovery Legislation

DPS – From the population of 154 invoices totaling \$19.8 million of payments, made during the period February 1, 2021, through December 31, 2023, auditors selected a random non-statistical sample⁶⁶ of 31 invoices for payment totaling \$9.8 million. Auditors compared supporting documents (i.e., invoices, receipts, payroll records) to expenditures reported by DPS to determine whether expenditures were supported.

Auditors also tested 100% of the Hurricane Florence Disaster Recovery Fund state match⁶⁷ transactions totaling \$67 million. Auditors recalculated state expenditures and compared them to the required match based on federal expenditures⁶⁸ recorded to Federal Emergency Management Agency (FEMA) grants.⁶⁹

*External Recipients*⁷⁰ – DPS management confirmed it has continued to not independently verify external recipient spending of \$18 million at all during the period February 1, 2021, through December 31, 2023.

Funds Achieving Legislatively Intended Results

All Recipients – Auditors tested all 12 (100%) quarterly reports submitted during February 1, 2021, through December 31, 2023, compiled by NCORR using information received from the seven recipients and 18 programs to determine whether the recipients and programs:

- Had objectives for what they would do with the funds.
- Measured their progress towards meeting their objectives.

⁶⁵ External recipients included state agencies (not including DPS), institutions of higher education, and a non-profit foundation. See Appendix B for full list of recipients.

⁶⁶ No errors were noted in the sample.

⁶⁷ State Match, or cost share, means the state's portion of federally assisted project costs not paid by federal funds or contributions.

⁶⁸ According to DPS accounting records as of December 31, 2023.

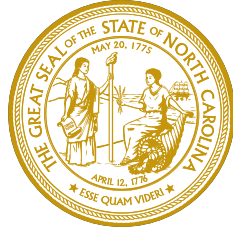
⁶⁹ FEMA grants include (1) **Individual Assistance** to help individuals recover through temporary housing, home repairs, and other essential needs, (2) **Public Assistance** to support state and local governments with debris removal, emergency protective measures, and the repair of public infrastructure, and (3) **Hazard Mitigation Assistance** to fund long-term preventive projects reducing the risk and impact of future disasters.

⁷⁰ External recipients included state agencies (not including DPS), institutions of higher education, and a non-profit foundation. See Appendix B for full list of recipients.

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 lack of compliance.

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.



Appendices

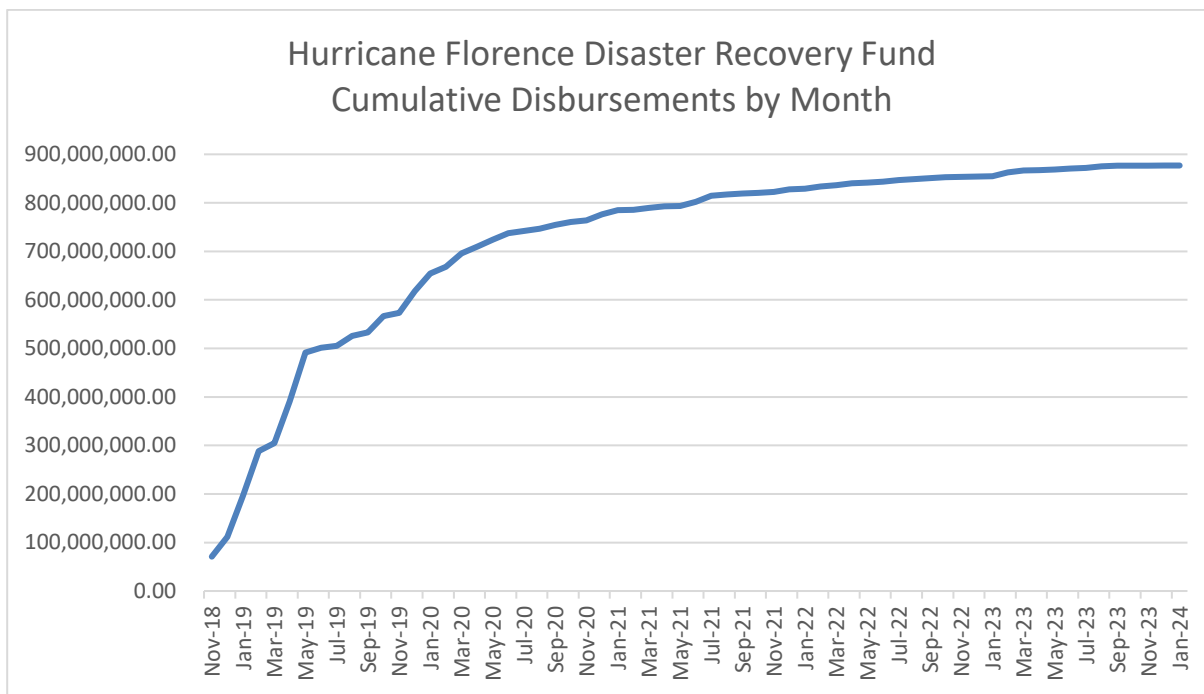
Appendix A

Hurricane Florence Disaster Recovery Fund - Summary Schedules

The State of North Carolina appropriated approximately \$942.4 million to the Hurricane Florence Disaster Recovery Fund through the following series of legislation:

<u>Laws Relevant to the Hurricane Florence Disaster Recovery Fund</u>	<u>Date Enacted</u>	<u>Net Appropriations</u>	
Session Law 2018-134	Hurricane Florence Emergency Response Act	10/3/2018	\$ 56,500,000
Session Law 2018-136	2018 Hurricane Florence Disaster Recovery Act	10/16/2018	398,430,477
Session Law 2018-138	Additional Disaster Relief in Response to Hurricane Florence	12/3/2018	299,800,000
Session Law 2019-224	2019 Disaster Recovery Act	9/18/2019	89,103,000
Session Law 2019-250	Funds for Disaster Relief	11/18/2019	70,812,336
Session Law 2020-97	Provide Funding for Disaster Recovery	9/4/2020	27,796,610
			<u>\$ 942,442,423</u>

The following chart illustrates the cumulative disbursements by month from the Hurricane Florence Recovery Fund for the period November 1, 2018, through December 31, 2023:

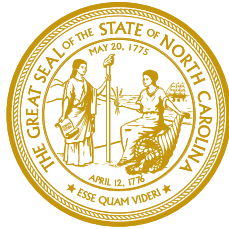


Appendix B

The following table illustrates the total amount appropriated to each recipient and the intended purpose and use of funds to provide necessary and appropriate relief from the effects of Hurricane Florence:

Recipient	Allocation	Intended Purpose and Use of Funds
State Agencies		
Department of Agriculture	\$295,000,000	Provides State match for federal farmer assistance, purchase of bulldozers & tractor plows; assists farmers with recovery activities such as hay relief, pasture renovation, and non-field farm road repair.
Department of Public Safety	\$271,308,946	Establishes NC Office of Recovery and Resiliency (NCORR) and provides State match for federal disaster assistance programs. Also provides disaster housing recovery support including homeowner buyouts and relocations, and provides gap funding to move families out of the floodplain. Assists financially-distressed local governments via grants and loans with immediate cash flow assistance and provides grants to non-profit organizations that offer shelters, housing repairs, and other emergency services. Supports various DPS programs including Search and Rescue, Flood Insurance Pilot Program, and installation of river gauges.
Department of Public Instruction	\$91,500,000	Repairs or replaces damaged public-school facilities, furnishings, food, and food equipment and supplements or replaces lost compensation of school lunch employees.
Department of Transportation	\$65,000,000	Provides State match for federal transportation assistance.
Department of Environmental Quality	\$55,425,000	Provides State match and grants for Coastal Storm Damage Mitigation Fund and the Federal Emergency Watershed Protection Program. Also provides commercial fishing assistance to compensate commercial fisherman for equipment and income losses. Assists with surveys of beaches and channels for hurricane related damage and cleanup of water and wastewater infrastructure. Provides grants to Surry County for various creek and river projects.
Office of State Budget Management	\$28,168,000	Provides grants to counties, cities, and towns for repair and renovation for various disaster recovery projects.
Department of Health and Human Services	\$17,000,000	Supports the increased demand for behavioral health services, offsets increases in nursing and staffing expenses, provides medications and medical supplies for uninsured residents. Assists counties in matching administrative expenses incurred operating the Disaster Supplemental Nutrition Assistance Program. Supports the mosquito abatement program and provides assistance to prevent homelessness for individuals displaced by Hurricane Florence.
Housing Finance Agency	\$10,000,000	Assists with the development of affordable housing and the repair of damaged single-family homes and existing properties in impacted counties.

Recipient	Allocation	Intended Purpose and Use of Funds
Department of Natural and Cultural Resources	\$5,000,000	Supports the Fort Fisher Aquarium.
Wildlife Resource Commission	\$1,050,000	For the study, inspection, investigation, and removal of derelict and abandoned water vessels.
Administrative Office of the Courts	\$1,000,000	Replacement of equipment or other disaster related costs for courthouse closures.
Department of Insurance	\$930,477	Provides financial assistance to volunteer fire departments for repairs of damages that were not covered by federal assistance or insurance policy proceeds.
<u>Institutions of Higher Education</u>		
University of North Carolina System	\$43,160,000	Repair and renovation of damaged facilities at UNC Wilmington, UNC Pembroke, and Fayetteville State University. Assists post-secondary students with paying for tuition, fees, and emergency expenses. Funds study of flooding and resiliency against future storms in Eastern North Carolina.
North Carolina Community College System	\$23,400,000	Repair and renovation of local community college facilities. Assists community colleges with the loss of revenues due to enrollment declines. Assists post-secondary students with paying for tuition, fees, and emergency expenses.
<u>Non-Profit Foundation</u>		
The Golden LEAF Foundation	\$34,500,000	Provides support to repair or replace local government infrastructure, facilities, vehicles, and equipment. Provides grants to non-profits to administer loans to small businesses affected by Hurricane Florence.



State Auditor's Response

The Office of the State Auditor (OSA) is required to provide additional explanation when an agency's response could potentially cloud an issue, mislead the reader, or minimize the importance of auditor findings.

Generally Accepted Government Auditing Standards state,

When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement.

Accordingly, OSA offers the following responses and clarifications to the Department of Public Safety's (DPS) response:

“DPS was not specifically included in legislation as “administering” the funds to the external entities included in S.L. 2018-136,” and asserted the DPS's only responsibility was to request funds from the Hurricane Disaster Recovery Reserve.

To the contrary, S.L. 2018-134 provides that the Office of State Budget and Management (OSBM), or another state agency determined by the Governor, was responsible for **maintaining and administering** the Hurricane Florence Disaster Recovery Fund. Moreover, OSBM issued a memo dated November 5, 2018, from then State Budget Director Charles Perusse specifically **transferring this responsibility to DPS.**

OSBM's memo outlines a funds requisition process to ensure funds are drawn “only as needed and after justification by a State Agency”. This memo clearly states that DPS is responsible for **administering** the Hurricane Florence Disaster Recovery Fund and “reviewing documentation for approval for the use of the HFDRF funds.”

Failure to provide proper oversight of relief dollars distributed to fund recipients increases the likelihood of funds being used for unauthorized purposes or that the provisions and legislative intent of the Hurricane Florence Recovery funds would be negatively impacted.

“In the absence of these specifically articulated outcomes, DPS utilizes a Scope of Work document in which recipients explain a plan to expend funds along with a projected budget, and these recipients must also provide quarterly progress reports on the scope and budget.”

Here, DPS's response is correct in that a Scope of Work document required quarterly progress reports regarding the scope and budget of fund recipients. However, this requirement **did not include** an assessment or measurement of results achieved. DPS did not independently verify recipient spending or ensure that all recipients established method to measure results. Consequently, DPS was limited in its ability to know whether funds were spent as legislatively intended.⁷¹

⁷¹ The intended purpose and use of Hurricane Florence Recovery Funds are contained in applicable sections of Hurricane Florence Recovery legislation. See Appendix B for summary of intended purpose and uses of funds.

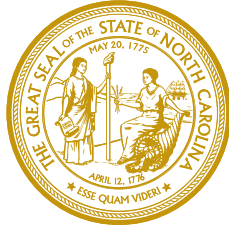
“[DPS’s] authority is limited in withholding funding or providing oversight on grants such as those specifically appropriated in S.L. 2018-136.”

To the contrary, DPS was specifically assigned the **authority** and **responsibility** to **administer** the Hurricane Florence Disaster Recovery Fund. Even if DPS legitimately believed its oversight ability was limited, OSA’s Finding #2 identified that \$7.2 million (96%) of the \$7.5 million disbursed without measuring progress toward meeting program objectives was allocated directly to DPS. DPS absolutely has the authority and responsibility to provide oversight of funds for its own programs.

As of December 31, 2023, DPS allocated a total of \$942.4 million in Hurricane Florence Disaster Recovery Funds and disbursed \$877 million (93%) to recipients. Of the remaining unused funds, \$30.1 million was reverted and transferred to the State Emergency Response and Disaster Relief Fund.⁷² The remaining \$34.7 million is also subject to reversion by the North Carolina General Assembly if the funds continue to go unused.

These clarifications should be considered in an appropriate context when evaluating DPS’s responses.

⁷² S.L. 2023-134, Section 5.6(a).



Response From the Department of Public Safety



North Carolina Department of Public Safety
Controller's Office

Roy Cooper, Governor
Eddie M. Buffalo, Jr., Secretary

Cassandra Skinner Hoekstra, Chief Deputy Secretary
Melissa Earp, Chief Financial Officer
Allis Talley-Burton, Controller

November 22, 2024

The Honorable Jessica N. Holmes, J.D., State Auditor
Office of the State Auditor
20601 Mail Service Center
Raleigh, North Carolina 27699

Dear Auditor Holmes:

Thank you for the opportunity to respond to your second audit of the Hurricane Florence Disaster Recovery Fund (HFDRF). DPS will attempt to address the findings noted as a result of your audit.

The two issues noted in your findings were:

1. \$18 MILLION OF HURRICANE FLORENCE DISASTER RECOVERY FUNDS WERE DISBURSED WITH LIMITED MONITORING
2. \$94 MILLION OF HURRICANE FLORENCE DISASTER RECOVERY FUNDS WERE DISBURSED WITHOUT ENSURING ALL RECIPIENTS HAD A METHOD TO MEASURE RESULTS

RECOMMENDATIONS

- DPS should monitor external recipients' Hurricane Florence Disaster Recovery Fund spending timely to ensure funds are being spent in accordance with Hurricane Florence Recovery legislation.
- The North Carolina General Assembly should consider including monitoring requirements in future legislation regarding disaster recovery or emergency relief funds.
- DPS should develop policies and procedures to ensure all recipients (1) have objectives for what they would do with any future disaster recovery or emergency relief funds, and (2) measure their progress towards meeting their objectives.

AGENCY RESPONSE

DPS disagrees with these Findings. Section 2.1(d) of S.L. 2018-136 specifies, "The Fund shall be maintained as a special fund and administered by the Office of State Budget and Management [OSBM] or by another State agency, as determined by the Governor, to carry out the provisions of this and subsequent acts necessitated as a result of Hurricane Florence."

DPS was not specifically included in legislation as "administering" the funds to the external entities included in S.L. 2018-136. In fact, in November 2018 Assistant State Budget Officer Thomas Cheek delegated the OSBM's authority to DPS for DPS to directly request funds from

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the Hurricane Florence Disaster Recovery Reserve to meet the requirements of the Session Law. While DPS does concur that legislation of this type benefits from articulated outcome goals and measurable directives, often in natural disaster situations, specific needs are not clear to the General Assembly at the time they must act on a bill.

In the absence of these specifically articulated outcomes, DPS utilizes a Scope of Work document in which recipients explain a plan to expend funds along with a projected budget, and these recipients must also provide quarterly progress reports on the scope and budget. Therefore, DPS contends its authority is limited in withholding funding or providing oversight of grants such as those specifically appropriated in S.L. 2018-136.

Sincerely,

DocuSigned by:

Eddie M. Buffaloe Jr

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Eddie M. Buffaloe, Jr.
Secretary

Ordering Information

**Copies of this report may be obtained by contacting
the Office of the State Auditor:**

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Raleigh, North Carolina 27699

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This audit required 710.5 hours of auditor effort at an approximate cost of \$102,727.