

November 16, 2022 Beth A. Wood, CPA, North Carolina State Auditor

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State Auditor's Update Course Objectives



- ✓ Discuss Recent Fraud Investigative Findings/Understand How
- ✓ Discuss New/Potential Fraud to State Government
- ✓ Discuss Management's/Our Responsibilities Moving Forward

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State Auditor's Update



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Audits/Investigations/Allegations

State Auditor's Update Audits/Investigations/Allegations Case #1



- ✓ State Agency
- ✓ Allegation:
 - ✓ Employee Did Not Charge Vacation/Sick Leave for Leave taken,

✓ Findings:

- ✓ Allegation was Substantiated;
- √5 years/728 Hours Taken/Not Charged

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State Auditor's Update Recent Audits/Investigations/Allegation Case #2

- ✓ State Hospital
- ✓ Allegation:

✓ Hospital Violated Dual Employment Policy

- ✓ Policy:
 - ✓ Dual Pay- 1 Employee works in 2 roles at different agencies

✓ Finding:

✓ Hospital Management Paid Numerous Staff working in 2 positions at the same facility ⁵

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State Auditor's Update Recent Audits/Investigations/Allegations Case #2



- ✓ Hospital Management Paid Numerous Staff working in 2 positions at the same facility
- ✓\$323,000 over Paid
- 13 Management Employees
- ✓ Should Have Been Comp Time
- ✓ Agency Inappropriately Expanded Dual Employment Policy



Case #2

✓ Impact:

- ✓ Violated State Policy
- ✓ Set Negative Precedence
 - ✓ Ignored OSC/OSHR Directive
 - ✓ Circumvented Protocol for Timesheet Submission
 - ✓OSC Unknowingly Cut Checks They Should not have

State Auditor's Update Polling Question #1



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✓ The State Auditor has Subpoena Power.

T or F

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State Auditor's Update Recent Audits/Investigations/Allegations Case #3

Charter School

- ✓ Allegations:
 - ✓ School Obtained Funding Based on Falsely Reporting School Attendance
 - Failed to Report 1099 Earnings
 - ✓ Used Charter School Funding for **Unallowable Activities**

State Auditor's Update Recent Audits/Investigations/Allegations



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Case #3

Charter School

✓ Findings:

- 1) School Falsely Reported Student Enrollment
 - a) 180 Students Reported/72 Falsified
 - b) \$405,000 Overpaid to School Yr. 2021
 - c) Enrollment Records Falsified for 8 years

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State Auditor's Update Recent Audits/Investigations/Allegations Case #3

Charter School

✓Cause:

- ✓ Collusion by Director & Finance Officer
- ✓ Kept 2 Sets of Enrollment Records ✓ Power School/Jupiter

✓ Impact

✓ State Funds Not Available to Other Schools

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State Auditor's Update Recent Audits/Investigations/Allegations Case #3

Charter School

- ✓ Findings:
 - 2) School Failed to Prepare & Submit Required 1099s
 - a) 2019 & 2020 School Failed to Report approx. \$490,000 paid to contractors
 - b) Retired Employees

State Auditor's Update Recent Audits/Investigations/Allegation Case #3

Charter School

✓Cause:

- ✓ Director/Finance Officer Appeasing Retirees
- ✓Chose Not to Issue 1099s

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State Auditor's Update Recent Audits/Investigations/Allegation Case #3

Charter School

Impact:

✓ Penalties/Interest to Charter School

✓ Contractors Hit w/ Huge Tax Liability

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State Auditor's Update Recent Audits/Investigations/Allegations Case #3

Charter School

- ✓ Findings:
 - 3) Used State Funding Not Intended For Pre-Kindergarten Students
 - a) \$78,576 Charter School Money
 - b) Kindergarten Started
 - c) Budget \$78,576 Short/not balanced

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Case #3

Charter School

✓ Cause:

- ✓ Comingled Funds Charter School & Preschool
- Adopted Unbalanced Budget Expenditures Exceeded Revenues \$80,000 ✓ Ignored Acceptable Uses for Charter
- School Funds

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State Auditor's Update Recent Audits/Investigations/Allegations Case #3

Charter School

✓ Impact:

- ✓ Charter School Moneys not used for Intended Purpose
- Potential Reimbursement to the State

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State Auditor's Update Polling Question #2



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The National Bureau of Economic **Research States That Since 1950 the US** Has Experienced an Economic Downturn How Often:

- a. Every 10 years,
- b. Every 5 1/2 Years,
- c. Every 15 Years,
- d. Every 8 1/2 Years



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Case #4

University

✓ Allegations:

- ✓ University Purchasing Policies Not Followed
- ✓ POs Broken Up to Avoid Approvals **Required by University Policy**

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State Auditor's Update Recent Audits/Investigations/Allegation Case #4

✓ Policy:

- ✓ University has authority to approve contracts not exceeding \$100,000. Approvals are required by:
- The Vice Chancellor responsible for the division initiating the contract,
- The University's General Counsel,
- The University's Purchasing Office, and
- The Vice Chancellor for Business and Finance.
- ✓ Contracts between \$100,000 and \$500,000 also require the approval of the President of the UNC System.
- ✓ Contracts over \$500,000 require the approval of the State Division of Purchase and Contract. 20

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State Auditor's Update Recent Audits/Investigations/Allegation Case #4



Findings:

- ✓ Landscaping Contracts:
 - ✓1 Contract Did not get the 3 Approvals **Required Under Existing University Purchasing Policy**
 - ✓1 Contract Split to Avoid Approvals



Corona Virus Relief Funds

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State Auditor's Update Coronavirus Fiscal Recovery Funds

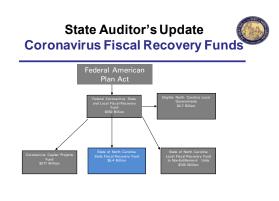


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March 11, 2021, the President of the United States signed into law the American Rescue Plan Act (ARPA). ARPA established the federal Coronavirus State and Local Fiscal Recovery Fund









The purpose of these funds is to provide financial assistance to be used to:

- Respond to the public health emergency with respect to COVID-19.
- Respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of eligible employers who are performing essential work.
- Provide for government services, including revenue reductions due to the COVID-19 public health emergency.
- Make necessary investments in water, sewer, or broadband infrastructure.
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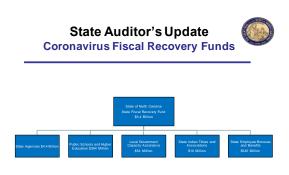
State Auditor's Update Polling Question #3



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Which Fact Regarding the State Auditor is "not" true?

- a. Baby sitter was a convicted murderer,
- b. Has been inducted into "a" NC Shaggers' Hall of Fame,
- c. Lost Election for Junior Class President,
- d. Wears a size 10 shoe.





State Auditor's Update **Coronavirus Fiscal Recovery Funds**

| Allocations and Disbursements to State Agencies | | | | | | | |
|---|----|---------------|----|-------------|----|--------------|--|
| Recipient | | Allocated | | Disbursed | | Remaining | |
| State Agencies | | | | | | | |
| Administrative Office of the Courts | \$ | 35,389,440 | \$ | 4,132,890 | \$ | 31,256,55 | |
| Department of Administration | | 20,750,000 | | 18,250,000 | | 2,500,00 | |
| Department of Agriculture | | 128,800,000 | | 35,925,197 | | 92,874,80 | |
| Department of Commerce | | 187,710,000 | | 500,000 | | 187,210,00 | |
| Department of Cultural and Natural Resources | | 96,200,000 | | 10,075,497 | | 86,124,50 | |
| Department of Environmental Quality | | 1,690,000,000 | | 2,006,020 | | 1,687,993,98 | |
| Department of Health and Human Services | | 502,785,232 | | 223,777,500 | | 279,007,73 | |
| Department of Information Technology | | 739,939,144 | | 5,676,094 | | 734,263,05 | |
| Department of Insurance | | 8,000,000 | | 8,000,000 | | - | |
| Department of Public Safety | | 108,925,000 | | 24,450,000 | | 84,475,00 | |
| Department of Revenue | | 502,538,000 | | 304,165,763 | | 198,372,23 | |
| Department of the Treasurer | | 101,000,000 | | 101,000,000 | | | |
| Department of Transportation | | 3,000,000 | | | | 3,000,00 | |
| Housing Finance Agency | | 170,000,000 | | - | | 170,000,00 | |
| North Carolina General Assembly | | 21,800,000 | | 1,994,145 | | 19,805,85 | |
| Office of State Budget and Management | | 118,928,476 | | 20,664 | | 118,907,81 | |
| Office of the State Auditor | | 3,500,000 | | - | | 3,500,00 | |
| Total State Agencies | \$ | 4,439,265,292 | \$ | 739,973,770 | \$ | 3,699,291,52 | |

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State Auditor's Update Coronavirus Fiscal Recovery Funds



- ✓ Moneys are Critical to Recovery of NC
- ✓ Moneys Ripe for Fraud
- ✓ What is Received by Your Agency/Institution?
- ✓ What Assessment for Fraud Should You Be Doing?

State Auditor's Update



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Questions?

