



# CARES ACT GEER Funds Targeted Monitoring Report: North Carolina Office of the Governor

March 5, 2021



U.S. Department of Education  
Office of Elementary and Secondary Education  
400 Maryland Avenue, SW  
Washington, DC 20202

## Table of Contents

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<b>GENERAL INFORMATION .....</b>	<b>3</b>
<b>SECTION I.....</b>	<b>5</b>
OVERVIEW OF THE NORTH CAROLINA OFFICE OF THE GOVERNOR’S (NCOG) TARGETED MONITORING REVIEW .....	5
SUMMARY OF OESE SELECTION OF NCOG.....	6
<b>SECTION II.....</b>	<b>7</b>
SUMMARY STATUS OF CARES ACT IMPLEMENTATION .....	7
<b>SECTION III.....</b>	<b>8</b>
CASH MANAGEMENT AND PAYMENT SYSTEMS .....	8
Finding.....	8

## **GENERAL INFORMATION**

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### **OVERVIEW OF THE CARES ACT TARGETED MONITORING**

The Office of Elementary and Secondary Education (OESE) is committed to supporting States as they implement Federal grant programs. Part of this commitment includes monitoring reviews designed to not only address OESE's responsibilities for fiscal and programmatic oversight, but to also identify areas in which States may need assistance and support.

Specifically, OESE created a proactive monitoring review process as a result of passage of the Coronavirus Aid, Relief and Economic Security (CARES) Act. Ideally, the targeted monitoring review process should result in improved and strengthened partnerships between the United States Department of Education (the Department) and States and encourages States to develop and implement fiscal systems that align with Federal requirements.

The primary goal of this new targeted review is to ensure the funds received under the CARES Act are handled by States in a manner consistent with the fiscal, administrative, and select program requirements contained in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), the Education Department General Administrative Requirements (EDGAR), Office of Management and Budget (OMB) Memorandum 20-20 (OMB M-20-20), and the Cash Management Improvement Act (CMIA). To accomplish this, OESE's CARES Act targeted monitoring review process focuses on the Governor's Emergency Education Relief (GEER) and the Elementary and Secondary School Emergency Relief (ESSER) funds as well as on areas that reflect fiscal requirements for States, and prioritizes the Department's monitoring of areas known to be historically challenging based on the Department's oversight of American Recovery and Reinvestment Act funds.<sup>1</sup>

OESE's CARES Act targeted monitoring review process comprises of a self-assessment questionnaire and a virtual desk review. This review is purposely narrower than the Department's Consolidated Monitoring Review<sup>2</sup> and addresses fewer areas specifically related to fiscal responsibility. It is also different than the program specific monitoring. Where CARES Act funds have been distributed to subrecipients, OESE includes subrecipients in the review as a matter of due diligence to learn how State agencies that receive CARES Act funds plan to monitor subrecipient expenditures and ensure CARES Act funds are used for allowable purposes.<sup>3</sup>

### **Navigating the Targeted Monitoring Report**

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<sup>1</sup> Lessons from Implementing the American Recovery and Reinvestment Act of 2009 Final Management Information Report: <https://www2.ed.gov/about/offices/list/oig/auditreports/fy2014/x09m0002.pdf>

<sup>2</sup> <https://oese.ed.gov/offices/office-of-formula-grants/school-support-and-accountability/performance-review/>

<sup>3</sup> At the time of OESE's monitoring review of North Carolina, GEER funds had not been distributed to subrecipients, and so subrecipients were not included in this review.

This report contains three sections. Section I contains a snapshot of OESE’s monitoring process. Section II is a summary of the State’s performance for the Cash Management and Payment Systems section included in the review.

For each indicator, the Department assigns one of four ratings:

- “Met requirements with commendation” represents high-quality implementation where the grantee is exceeding expectations;
- “Met requirements” indicates that no instances of noncompliance were identified;
- “Met requirements with recommendations” indicates there are quality implementation concerns and some improvements could be made to ensure the grantee continues to meet expectations; and
- “Action required” indicates there are significant compliance or quality concerns that require urgent attention by the reviewed entity and will be revisited until the issue is addressed.<sup>4</sup>

Section III corresponds with Cash Management and Payment Systems.

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<sup>4</sup> The Cash Management and Payment Systems section of this review meets this criteria, but as North Carolina has taken sufficient corrective actions to address the issue, we are renaming this rating to “Finding” for that section.

# Overview of the North Carolina Office of the Governor



## CARES ACT GEER FUND DISTRIBUTION

\$

### FEDERAL FUNDING<sup>5</sup>

CARES ACT	
GEER Award	\$95,638,869
Drawdowns as of 9/2/20	\$95,638,869
Percent of Drawdown	100%

### Key Dates of Review

CARES ACT Monitoring Notification: September 29, 2020  
 Self-Assessment and Document Request: October 16, 2020  
 Initial Call: October 20, 2020  
 Virtual Desk Review: January 12, 2021

### ED Reviewers

Shane Morrissey (Management Support Office)  
 Jed Sorokin-Altmann (Management Support Office)  
 Jameel Scott (Management Support Office)  
 Daniel Behrend (Management Support Office)  
 Tara Ramsey (State and Grantee Relations)  
 Britt Jung (State and Grantee Relations)  
 Chris Fenton (State and Grantee Relations)  
 Kendra Fitzgordon (State and Grantee Relations)

<sup>5</sup> <https://oese.ed.gov/offices/Education-Stabilization-Fund/>

## Summary of OESE Selection of North Carolina

On Friday, March 27, 2020, President Trump signed the CARES Act, which is a \$2 trillion package of assistance measures, including \$30.75 billion for an Education Stabilization Fund. Four grant programs were created through the CARES Act: Education Stabilization Fund Discretionary Grants; Governor's Emergency Education Relief Fund (GEER); Elementary and Secondary School Emergency Relief Fund (ESSER); and Higher Education Emergency Relief Fund. After the Department completed awarding the CARES Act funds, six states, including North Carolina immediately withdrew over 90 percent of their available GEER balance from Department's grants management system (G5). The immediate drawdown of CARES Act funding triggered similar concerns as those identified within the Inspector General's reports related to Recovery Act funds.<sup>6</sup> As such, OESE began developing a targeted monitoring review process for CARES Act funding. This review was designed to specifically monitor GEER and ESSER grants to ensure proper oversight and provide States with technical assistance.

The North Carolina Office of the Governor (NCOG) was one of the seven entities that triggered a targeted monitoring review by immediately drawing down 90 percent of its allocation of GEER funds. North Carolina was monitored only for NCOG's management of GEER funds. ESSER funds were not included in this review as their drawdowns did not cause any concerns for the Department.

In OESE's other targeted monitoring of CARES Act funds, subrecipients are typically included as part of the targeted monitoring process, but they were not included in this monitoring because NCOG had not yet distributed funds to subrecipients at the time of the monitoring.

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<sup>6</sup> Alert Memorandum, State Educational Agencies' Implementation of Federal Cash Management Requirements under the American Recovery and Reinvestment Act  
<https://www2.ed.gov/about/offices/list/oig/auditreports/AlertMemorandums/109j0007.pdf>

## Summary Status of CARES ACT Implementation

### STATUS KEY



**Met requirements  
with commendation**

High quality  
implementation &  
compliance



**Met requirements**

No instances of  
noncompliance  
identified



**Met requirements with  
recommendation**

Satisfactory compliance  
with quality concerns



**Action  
required/Finding**

Significant  
compliance &  
quality concerns

### TARGETED MONITORING

Topic	Status
Cash Management and Payment Systems	● ○ ○ ○
Accounting Systems and Fiscal Controls	● ● ● ○
Internal Controls	● ● ● ○
Subrecipient Monitoring	● ● ● ○

## Cash Management and Payment Systems

### FINDING



This section identifies cash management areas where OESE staff has “significant compliance and quality concerns.”

For these issues, OESE will outline the current practice and the nature of noncompliance. OESE does not require further corrective action, however, as during the monitoring review, NCOG demonstrated that it had taken sufficient action to correct this finding.

### REQUIREMENT SUMMARY

A Grantee must have written procedures for payment systems. Grantees are generally required to minimize the time elapsing between transfer of funds from the U.S. Treasury. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees.

[Cash Management Improvement Act  
31 C.F.R. §§ 205.1-205.35](#)

Uniform Guidance  
[2 C.F.R. § 200.302\(b\)\(6\)](#)  
[2 C.F.R. § 200.305](#)

[OMB M-20-20](#)

### ISSUE

#### Background

OESE conducted a review of ESSER and GEER drawdowns from the G5 system that were posted on July 8, 2020. During this review, the Department noted the NCOG had drawn down \$95,638,869 of its \$95,638,869 GEER allocation. As a result of the large amount of GEER funds that had been drawn down by NCOG, the Department informed NCOG on September 29, 2020 that it would initiate a targeted monitoring of NCOG to examine their compliance with cash management procedures and related requirements contained in the Uniform Guidance.

#### Applicable Federal Requirements

As outlined below, there are similar but distinct cash management requirements for NCOG and its GEER subrecipients.

1. The Cash Management Improvement Act (NCOG)

The disbursement of most Federal assistance<sup>7</sup> to States, including most grant funds awarded to States by the Department, is governed by the CMIA, a Federal law administered by the United States Department of the Treasury (Treasury). Depending on the dollar amount of a grant in relation to the total amount of Federal funds received by a State, a grant may be considered a major Federal assistance program and will be included in a Treasury-State agreement and governed by subpart A of the CMIA regulations (31 C.F.R. §§205.3-205.31).<sup>8</sup> Alternatively, funds that fall below the threshold will not be included in a Treasury-State agreement and are governed by subpart B of the CMIA regulations (31 C.F.R. §§205.32-205.35). The Treasury Department posted North Carolina's Treasury-State agreement for FY 2021 on its website.<sup>9</sup> North Carolina's GEER grant was not included in the agreement, accordingly under 31 C.F.R. §205.33, A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

For Federal assistance programs not included in a Treasury-State agreement, interest liabilities to the Federal government are not incurred by the State.

## 2. The Uniform Guidance

For payments to subrecipients, the Uniform Guidance requirements in 2 C.F.R. §200.305(b) apply. Under the Uniform Guidance, payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means. Additionally, 2 C.F.R. §200.305(b)(1) states that NCOG may provide advance payments to GEER subrecipients provided it maintains or demonstrates the willingness to maintain both written procedures that minimize the time elapsing between the transfer of funds and disbursement by the non-Federal entity, and financial management systems that meet the standards for fund control and accountability as established in the Uniform Guidance. NCOG has an affirmative responsibility to ensure that advance payments to a non-Federal entity be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project. The timing and amount of advance payments must be as close as is administratively feasible to the

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<sup>7</sup> The CMIA regulations in 31 C.F.R. § 205.2 define "Federal Assistance" as a program included in the Catalog of Federal Domestic Assistance where funds are transferred from the Federal government to a State. Federal assistance programs include cooperative agreements, but do not include vendor payments or direct loans. Cares Act grants administered by OESE are included in the CFDA and are considered Federal assistance under the CMIA.

<sup>8</sup> The thresholds for major Federal programs are cited in 31 C.F.R. §205.5.

<sup>9</sup> See <https://www.fiscal.treasury.gov/cmia/resources-treasury-state-agreements.html>

actual disbursements by the non-Federal entity for direct program or project costs and the proportionate share of any allowable indirect costs.

### **The North Carolina Office of the Governor’s Compliance with Cash Management Requirements**

Based on both virtual monitoring and supporting documents submitted by NCOG, it did not follow cash management requirements when it drew down over 90% of the GEER funds. Generally, funds should be spent within days after receipt of funds.

During the virtual monitoring, NCOG stated that GEER was a new type of funding for its office; and that it does not ordinarily work with education-related grants. Once the Department made NCOG aware that its drawdown was improper, NCOG started working to return the funds. None of the funds were distributed to subrecipients, funds were not placed in an interest-bearing account, and the funds were successfully returned to the Department on November 9, 2020.

Since then, NCOG put internal controls in place to ensure that cash management requirements are followed. NCOG’s agreements with its subrecipients primarily call for operating on a reimbursement basis—Local Educational Agencies (LEAs) at the K-12 level will submit requests to the North Carolina Department of Public Instruction (DPI); DPI will review the requests and upon approval, submit them to the North Carolina Pandemic Recovery Office (NCPRO)<sup>10</sup>; NCPRO will review the requests and upon approval, submit them to the North Carolina Office of State Budget and Management (OSBM). OSBM conducts a final review and then processes the actual drawdown.

### **CORRECTIVE ACTIONS**

We do not require any additional corrective action from NCOG. We find that they are now fully aware of the cash management requirements attached to GEER funds, and have policies and procedures in place that should, if followed, ensure that NCOG is in compliance with cash management requirements for GEER funds going forward.

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<sup>10</sup> A division of the Office of State Budget and Management, which in turn is a division of the Office of the Governor.