



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 17, 2024

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

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

SUBJECT: Desk Review of the State of North Dakota's Use of
Coronavirus Relief Fund Proceeds (OIG-CA-25-020)

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

In its desk review, Castro personnel reviewed documentation for a non-statistical selection of 27 transactions reported in the quarterly Financial Progress Reports (FPR) and identified ineligible and unsupported questioned costs of \$507,804 and \$204,988, respectively, resulting in total questioned costs of \$712,792 (see attached schedule of monetary benefits).

Castro determined the expenditures related to the Grants greater than or equal to \$50,000 and the Transfers greater than or equal to \$50,000² payment types complied with the CARES Act but did not comply with the Department of the Treasury's (Treasury) Guidance. Additionally, Castro found that the Contracts greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000,

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

² A transfer to another government entity is a disbursement or payment to a government entity that is legally distinct from the prime recipient.

Aggregate Reporting less than \$50,000,³ and Aggregate Payments to Individuals⁴ payment types did not comply with the CARES Act and Treasury Guidance. Castro also identified reporting error misclassifications within the Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payment to Individuals payment types. Additionally, Castro determined that North Dakota's risk of unallowable use of funds is moderate.

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

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

At the time of desk review fieldwork, Castro noted that North Dakota had findings in their Single Audit Act Reports for fiscal years 2021/2022 (combined report). Castro recommends that Treasury OIG follow-up with Treasury's Office of Capital Access to ensure that management decision letters are issued on the findings identified by the auditor in the Single Audit Act Report, as summarized below:

³ Recipients are required to report CRF transactions greater than or equal to \$50,000 in detail in the grant-reporting portal. Transactions less than \$50,000 can be reported as an aggregate lump-sum amount by type (contracts, grants, loans, direct payments, and transfers to other government entities).

⁴ Obligations and expenditures for payments made to individuals, regardless of amount, are required to be reported in the aggregate in the grant-reporting portal to prevent inappropriate disclosure of personally identifiable information.

- North Dakota's fiscal year 2020 Single Audit Act Report was published on March 17, 2021, and the auditor did not identify any unsupported questioned costs specific to the CRF.
- North Dakota's fiscal years 2021/2022 Single Audit Act Report was published on March 29, 2023, and the auditor found unsupported questioned costs specific to the CRF totaling \$617,870.

Castro recommends Treasury OIG follow-up on any CRF specific questioned costs reported in the fiscal year 2021/2022 Single Audit Act report.

Castro identified other matters throughout the course of the desk review, which warrant recommendations to Treasury OIG for additional action. Castro made recommendations related to the following issues:

- 1) Since Castro identified unsupported questioned costs within the amounts Castro tested related to the drilled but uncompleted (DUC) oil well grant program, Castro recommends Treasury OIG determine the feasibility of performing additional follow-up with North Dakota to determine if there were other instances of unsupported balances within the DUC oil well grant program;
- 2) Follow-up with North Dakota management and request that management performs an analysis over all of their grant-reporting portal balances to determine if there were other instances of subscription costs that extended past September 30, 2022, in addition to the items found through Castro's testing; and
- 3) North Dakota management provided Castro underlying details evidencing separately tracked CRF interest bearing income accounts within the accounting system; however, North Dakota's general ledger did not show how the interest income was applied to the CRF grant-reporting portal payment types. Castro recommends Treasury OIG request that North Dakota management conduct a general ledger detail reconciliation related to the interest income. Based on the results of this analysis, Castro recommends that Treasury OIG determine if the analysis supports the \$6,651 difference between the interest earned per the general ledger and the interest claimed in the grant-reporting portal.

In connection with our contract with Castro, we reviewed Castro's desk review memorandum and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express an opinion on North Dakota's use of the CRF proceeds. Castro is responsible for the attached desk review memorandum and the conclusions expressed therein. Our review found no instances in which Castro did not comply in all material respects with *Quality Standards for Federal Offices of Inspectors General*.

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

cc:

Michelle. A. Dickerman, Deputy Assistant General Counsel, Department of the Treasury

Danielle Christensen, Deputy Chief Program Officer, Office of Capital Access, Department of the Treasury

Wayne Ference, Partner, Castro & Company, LLC

Joseph Goplin, Director of State Financial Services, State of North Dakota

Attachment

Schedule of Monetary Benefits

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

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

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

<u>Recommendation</u>	<u>Questioned Costs</u>
Recommendation No. 1	\$712,792

The questioned cost represents amounts provided by Treasury under the Coronavirus Relief Fund. As discussed in the attached desk review, \$712,792 is North Dakota's total expenditures reported in the grant-reporting portal that were ineligible or lacked supporting documentation.

⁵ 2 CFR § 200.84 – Questioned Cost

⁶ JAMES is Treasury's audit recommendation tracking system.

Desk Review of the State of North Dakota

December 17, 2024

OIG-CA-25-020

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

FROM: Wayne Ference
Partner, Castro & Company, LLC

SUBJECT: Desk Review of the State of North Dakota

On January 25, 2024, we initiated a desk review of the State of North Dakota's (North Dakota) use of the Coronavirus Relief Fund (CRF) authorized under Title VI of the Social Security Act, as amended by Title V, Division A of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).¹ The objective of our desk review was to evaluate North Dakota's documentation supporting its uses of CRF proceeds as reported in the GrantSolutions² portal and to assess the risk of unallowable use of funds. The scope of our desk review was limited to obligation and expenditure data for the period of March 1, 2020 through September 30, 2023,³ as reported in the GrantSolutions portal.

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

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

¹ P.L. 116-136 (March 27, 2020).

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

³ North Dakota fully expended their total CRF proceeds as of September 30, 2023. Castro set the scope end date to September 30, 2023, which was the date of North Dakota's last reporting submission within the GrantSolutions portal.

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

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

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

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

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

⁸ Section 15010 of P.L. 116-136, the CARES Act, established the Pandemic Response Accountability Committee within the Council of the Inspectors General on Integrity and Efficiency to promote transparency and conduct and support oversight of covered funds (see Footnote 15 for a definition of covered funds) and the coronavirus response to (1) prevent and detect fraud, waste, abuse, and mismanagement; and (2) mitigate major risks that cut across program and agency boundaries.

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

Based on our review of North Dakota's documentation supporting the uses of its CRF proceeds as reported in the GrantSolutions portal, we determined that the expenditures related to the Grants greater than or equal to \$50,000 and the Transfers greater than or equal to \$50,000 payment types complied with the CARES Act but did not comply with Treasury's Guidance. Additionally, we found that the Contracts greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals payment types did not comply with the CARES Act and Treasury's Guidance. We identified ineligible and unsupported questioned costs of \$507,804 and \$204,988, respectively, resulting in total questioned costs of \$712,792. We also determined North Dakota's risk of unallowable use of funds is moderate.

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

At the time of the desk review fieldwork, Castro noted that North Dakota had findings in their Single Audit reports for fiscal years 2021/2022 (combined report). Castro recommends that Treasury OIG follow-up with Treasury's Office of Capital Access to ensure that management decision letters are issued on the CRF specific

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

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

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

findings identified by the auditor in these Single Audit reports, which we have summarized below:

- North Dakota’s fiscal year 2020 Single Audit report was published on March 17, 2021, and the auditor did not include any CRF related questioned costs.
- North Dakota’s fiscal year 2021/2022 combined Single Audit report was published on March 29, 2023, and the auditor determined unsupported questioned costs specific to the CRF in the amount of \$617,870.

We recommend Treasury OIG follow-up on any CRF specific questioned costs reported in the fiscal year 2021/2022 combined Single Audit report.

Non-Statistical Transaction Selection Methodology

Treasury issued a \$1,250,000,000 CRF payment to North Dakota. As of September 30, 2023, North Dakota’s cumulative obligations and expenditures were both \$1,249,964,457. North Dakota returned a total of \$35,543 in CRF proceeds to Treasury. North Dakota’s cumulative obligations and expenditures by payment type are summarized below.

Payment Type	Cumulative Obligations	Cumulative Expenditures
Contracts >= \$50,000	\$ 137,037,545	\$ 137,037,545
Grants >= \$50,000	\$ 197,463,865	\$ 197,463,865
Loans >= \$50,000	\$ -	\$ -
Transfers >= \$50,000	\$ 124,046,303	\$ 124,046,303
Direct Payments >= \$50,000	\$ 128,336,762	\$ 128,336,762
Aggregate Reporting < \$50,000	\$ 148,703,397	\$ 148,703,397
Aggregate Payments to Individuals (in any amount)	\$ 514,376,585	\$ 514,376,585
Totals	\$ 1,249,964,457	\$ 1,249,964,457

Castro made a non-statistical selection of the Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals payment types. Selections were made using auditor judgment based on information and risks identified in reviewing audit reports, the GrantSolutions portal reporting anomalies¹² identified by the Treasury OIG CRF monitoring team, and review of

¹² Treasury OIG had a pre-defined list of risk indicators that were triggered based on data submitted by prime recipients in the FPR submissions that met certain criteria. Castro reviewed these results provided by Treasury OIG for the prime recipient.

North Dakota's FPR submissions. North Dakota did not obligate or expend CRF proceeds to the Loans greater than or equal to \$50,000 payment type; therefore, we did not make a selection of transactions from this payment type.

The number of transactions (27) we selected to test was based on North Dakota's total CRF award amount and our overall risk assessment of North Dakota. To allocate the number of transactions (27) by payment type (Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals), we compared the payment type dollar amounts as a percentage of cumulative expenditures as of September 30, 2023. The transactions selected for testing were not selected statistically, and therefore results could not be extrapolated to the total universe of transactions.

Background

The CARES Act appropriated \$150 billion to establish the CRF. Under the CRF, Treasury made payments for specified uses to States and certain local governments; the District of Columbia and U.S. Territories, including the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands; and Tribal governments (collectively referred to as "prime recipients"). Treasury issued a \$1,250,000,000 CRF payment to North Dakota. The CARES Act stipulates that a prime recipient may only use the funds to cover costs that—

- (1) were necessary expenditures incurred due to the public health emergency with respect to the coronavirus disease 2019 (COVID-19);
- (2) were not accounted for in the budget most recently approved as of March 27, 2020; and
- (3) were incurred during the covered period between March 1, 2020 and December 31, 2021.¹³

¹³ P.L. 116-260 (December 27, 2020). The covered period end date of the CRF was extended through December 31, 2021 by the Consolidated Appropriations Act, 2021. The covered period end date for tribal entities was further extended to December 31, 2022 by the State, Local, Tribal, and Territorial Fiscal Recovery, Infrastructure, and Disaster Relief Flexibility Act, Division LL of the Consolidated Appropriations Act, 2023, P.L. 117-328, December 29, 2022, 136 Stat. 4459.

Section 15011 of the CARES Act required each covered recipient¹⁴ to submit to Treasury and the Pandemic Response Accountability Committee, no later than 10 days after the end of each calendar quarter, a report that contained (1) the total amount of large, covered funds^{15,16} received from Treasury; (2) the amount of large, covered funds received that were expended or obligated for each project or activity; (3) a detailed list of all projects or activities for which large, covered funds were expended or obligated; and (4) detailed information on any level of sub-contracts or sub-grants awarded by the covered recipient or its sub-recipients.

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

Desk Review Results

Financial Reporting Control Issues

Castro reconciled the expenditures identified within the GrantSolutions portal as of September 30, 2023, to North Dakota's general ledger (GL) detail, which resulted in identification of reconciling errors within the Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payment to Individuals payment types, that Castro deemed to be reporting misclassifications that did not comply with Treasury's Guidance.

During Castro's GL reconciliation procedures, we noted the GL details exceeded the claimed amounts in the GrantSolutions portal by \$938,184. We asked North Dakota management to explain this difference, and they clarified that it was due to inclusion of \$944,835 in interest income within the CRF amounts claimed in the GL. Additionally, North Dakota did not substantiate which payment types the interest income was used to augment expenditures claimed within the GL detail population amounts provided to us during our desk review. Based on review of

¹⁴ Section 15011 of P.L. 116-136, the CARES Act, defined a covered recipient as any entity that received large, covered funds and included any State, the District of Columbia, and any territory or possession of the United States.

¹⁵ Section 15010 of P.L. 116-136, the CARES Act, defined covered funds as any funds, including loans, that were made available in any form to any non-Federal entity, not including an individual, under Public Laws 116-123, 127, and 136, as well as any other law which primarily made appropriations for Coronavirus response and related activities.

¹⁶ Section 15011 of P.L. 116-136 defined large, covered funds as covered funds that amounted to more than \$150,000.

the Treasury’s Guidance within OIG-20-028R FAQ# 50,¹⁷ Castro determined that the use of interest income towards CRF related expenses was allowable; however, the interest and expenses should be separately tracked. As such, we excluded the \$944,835 of interest income from the GL expenditure population amount of \$1,250,902,641. Castro compared the expenses excluding the interest income figures and determined that there was a variance of \$6,651 between the amount of \$1,249,964,457 reported in the GrantSolutions portal and the amount of \$1,249,957,806 evidenced within the GL details. Refer to calculations in the table below.

Payment Type	Cumulative Expenditures per FPR	Cumulative Expenditures Per GL Populations	Difference
Contracts >= \$50,000	\$ 137,037,545	\$ 137,185,197	\$ (147,651)
Grants >= \$50,000	\$ 197,463,865	\$ 196,866,956	\$ 596,909
Loans >= \$50,000	\$ -	\$ -	\$ -
Transfers >= \$50,000	\$ 124,046,303	\$ 123,845,007	\$ 201,295
Direct Payments >= \$50,000	\$ 128,336,762	\$ 129,258,423	\$ (921,661)
Aggregate Reporting < \$50,000	\$ 148,703,397	\$ 149,310,562	\$ (607,165)
Aggregate Payments to Individuals (in any amount)	\$ 514,376,585	\$ 514,436,496	\$ (59,911)
Sub-Totals	\$ 1,249,964,457	\$ 1,250,902,641	\$ (938,184)
Less Interest Income (-)	N/A	\$ 944,835	\$ 944,835
Total Difference	\$ 1,249,964,457	\$ 1,249,957,806	\$ 6,651

We recommend that Treasury OIG requests that North Dakota management conduct an assessment to remove the interest income from the payment types provided in its GL detail reconciliation and to provide Treasury OIG with an updated GL detail reconciliation. Based on the results of this analysis, we recommend Treasury OIG obtain an updated GL detail to determine if it supports the \$6,651.

¹⁷ Per the Department of the Treasury Office of Inspector General *Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping* OIG-20-028R; March 2, 2021, FAQ #50: “Treasury’s FAQs state that prime recipients may deposit CRF payments into separate interest-bearing accounts. How should interest earned and expended be reported? The prime recipient is responsible for tracking interest earned and expended separately...if a recipient separately invests CRF proceeds in an interest-bearing account, the prime recipient must use the interest earned (only to cover expenditures incurred in accordance with section 601(d) of the Social Security Act (42 U.S.C. 801(d)) and the Guidance on eligible expenses).”

Financial Progress Reports

We reviewed North Dakota's quarterly FPRs through September 30, 2023, and found that North Dakota timely filed quarterly FPRs in the GrantSolutions portal in compliance with Treasury OIG reporting requirements for the periods ending June 30, 2020 through September 30, 2023.

Summary of Testing Results

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

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

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

Payment Type	Cumulative Expenditure Population Amount	Cumulative Expenditure Tested Amount	Unsupported Questioned Costs	Ineligible Questioned Costs	Total Questioned Costs
Contracts >= \$50,000	\$ 137,037,545	\$ 3,493,263	\$ 191,804	\$ -	\$ 191,804
Grants >= \$50,000	\$ 197,463,865	\$ 11,277,109	\$ -	\$ -	\$ -
Loans >= \$50,000	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers >= \$50,000	\$ 124,046,303	\$ 8,003,025	\$ -	\$ -	\$ -
Direct Payments >= \$50,000	\$ 128,336,762	\$ 10,305,425	\$ -	\$ 507,804	\$ 507,804
Aggregate Reporting < \$50,000	\$ 148,703,397	\$ 557,208	\$ 484	\$ -	\$ 484
Aggregate Payments to Individuals (in any amount)	\$ 514,376,585	\$ 14,707,924	\$ 12,700	\$ -	\$ 12,700
Totals	\$ 1,249,964,457	\$ 48,343,954	\$ 204,988	\$ 507,804	\$ 712,792

Contracts Greater Than or Equal to \$50,000

We determined North Dakota's Contracts greater than or equal to \$50,000 did not comply with the CARES Act and Treasury's Guidance. We tested three contracts, totaling \$3,493,263. The contracts tested included expenditures for the purchase of information technology consulting services to address the COVID-19 pandemic; tourism and marketing services; and a business interruption assistance grant program. We identified exceptions related to one contract, which resulted in unsupported questioned costs totaling \$191,804, as detailed below.

Additionally, we identified one reporting misclassification that we determined did not comply with Treasury's Guidance related to Contracts greater than or equal to \$50,000 that we determined should have been reported as Grants greater than or equal to \$50,000 in the GrantSolutions portal, as detailed below.

Grant Program Related to Oil Well Drilling Exception

We tested five invoices totaling \$883,044 that North Dakota claimed under a \$16,000,000 grant program supporting the employment of frac crews¹⁸ to complete drilled but uncompleted (“DUC”) oil wells. The grant program documentation explained the purpose of the funding was to provide economic support to assist with continued employment of frac crews and minimize further impacts of increased unemployment rates as a result of the COVID-19 pandemic. North Dakota approved the use of CRF proceeds to complete drilling on up to 80 wells by December 30, 2020, with a reimbursement of up to \$200,000 in water acquisition and disposal costs. We determined this was a reporting misclassification that did not comply with Treasury’s Guidance, as this program was reported by North Dakota as a Contract greater than or equal to \$50,000 but should have been reported as a Grant greater than or equal to \$50,000 in the GrantSolutions portal.

For one of five invoices tested totaling \$191,804, we noted North Dakota failed to provide sufficient expenditure supporting documentation for the water acquisition and disposal services, such as official vendor invoices to substantiate the voucher details and secondary payment details, related to this program, resulting in unsupported questioned costs of \$191,804.

Since Castro identified unsupported questioned costs within the amounts we tested related to the DUC oil well grant program, we recommend Treasury OIG determine the feasibility of performing additional follow-up with North Dakota to determine if there were other instances of unsupported balances within the DUC oil well grant program.

Grants Greater Than or Equal to \$50,000

We determined North Dakota’s Grants greater than or equal to \$50,000 complied with the CARES Act, but not with Treasury’s Guidance. We tested four grants, totaling \$11,277,109 and identified no questioned costs. The grants tested included expenditures related to reimbursements for the public-school education system and students; North Dakota’s Department of Commerce economic resiliency grant for businesses to reduce the spread of COVID-19, such as improvements related to social distancing; a meat processing plant cost-share program, and public health expenses for city facilities.

¹⁸ A frac crew is a specialized team responsible for hydraulic fracturing in oil and gas extraction. They design plans, operate equipment, and maintain machinery.

We tested one transaction totaling \$172,432 that North Dakota claimed under the Department of Commerce's Economic Resiliency Grant Program, which required small businesses to make investments in a process that reduced repetitive touch and created distance between customers and employees, and supported purchases of personal protective equipment. We noted North Dakota overstated the amounts claimed in the GrantSolutions portal by \$100,000 under the Grants greater than or equal to \$50,000 payment type as of September 30, 2023. Castro reviewed North Dakota's supporting documentation and noted that North Dakota indicated the payment for \$100,000 issued on September 23, 2020, was voided and confirmed the overstatement was not corrected in the GrantSolutions portal as of September 30, 2023. Per Treasury OIG's Reporting and Recordkeeping Frequently Asked Questions guidance, prime recipients should make appropriate modifications to reported information in the GrantSolutions portal. After their final GrantSolutions portal submission, which was deemed non-compliant with Treasury's Guidance, North Dakota returned the \$100,000 voided payment to Treasury in February 2024 and Treasury OIG confirmed receipt of the return from North Dakota. No further procedures were deemed necessary, and we questioned no costs related to this transaction for our desk review.

Transfers to Other Government Entities Greater Than or Equal to \$50,000

We determined North Dakota's Transfers to Other Government Entities greater than or equal to \$50,000 complied with the CARES Act but not with Treasury's Guidance. We tested three transfers totaling \$8,003,025 and identified no exceptions. The transfers tested included expenditures for information technology services to support teleworking during the pandemic, and payroll costs for licensed law enforcement officials.

Additionally, Castro identified a reporting misclassification that did not comply with Treasury's Guidance, as North Dakota reported certain transactions in the Aggregate Transfer less than \$50,000 payment type when the transactions should have been reported under Transfers greater than or equal to \$50,000. See Aggregate Reporting less than \$50,000 payment type section below for additional details.

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

We determined North Dakota's Direct Payments greater than or equal to \$50,000 did not comply with the CARES Act and Treasury's Guidance. We tested three direct payments totaling \$10,305,425. The direct payments tested included expenditures for the purchase of cybersecurity services, childcare provider payments to defray operating costs, remote equipment for legislative assembly voting, and a connection fiber ring project to promote remote learning. We

identified one exception, resulting in ineligible questioned costs of \$507,804, as detailed below.

Direct Payments Exception - Cybersecurity Services Ineligible Questioned Costs

We tested one transaction totaling \$9,511,772 claimed for a contract with a vendor to provide cybersecurity services, including professional services to assist with setting up cybersecurity tools, training North Dakota's Information Technology Department staff, and monitoring a larger virtual private network solution due to increased demand for teleworking during the pandemic. Castro determined that one of North Dakota's sub-recipients purchased 3 and 5-year prepaid subscriptions during the CRF covered period, which required obligations to be made by December 31, 2021. Castro considered North Dakota to have obligated the funds for the license contract within the covered period.

Castro noted that the subscriptions would be active through 2023 and 2025, which a portion was outside of Treasury's final period for North Dakota to expend obligated funds from the CRF, September 30, 2022.¹⁹ For each subscription, we determined the amount of time that would fall after September 30, 2022, and utilized this to calculate the dollar amount associated with the portion of these prepaid subscriptions that was unused and therefore not fully expended prior to September 30, 2022.

Castro determined the ineligible portion of the total prepaid expenditures claimed by North Dakota was \$507,804, which consisted of questioned costs of \$366,882 and \$140,922 for the 3 and 5-year subscription plan prepayments respectively. Castro considers these ineligible questioned costs of \$507,804 since the amounts associated with the subscription time were outside of Treasury's period to expend funds received from CRF.

¹⁹ Coronavirus Relief Fund Guidance as published in the Federal Register (December 14, 2021) CRF-Guidance_Revision-Regarding-Cost-Incurred.pdf (Treasury.gov) states: "Costs incurred during the period that begins on March 1, 2020, and ends on December 31, 2021. The CARES Act provides that payments from the Fund may only be used to cover costs that were incurred during the period that begins on March 1, 2020, and ends on December 31, 2021 (the "covered period"). A cost associated with a necessary expenditure incurred due to the public health emergency is considered to have been incurred by December 31, 2021, if the recipient has incurred an obligation with respect to such cost by December 31, 2021. Treasury defines obligation for this purpose as an order placed for property and services and entry into contracts, subawards, and similar transactions that require payment. Recipients are required to expend their funds received from the CRF to cover these obligations by September 30, 2022."

Since Castro identified ineligible questioned costs related to subscriptions in the GrantSolutions portal, we recommend Treasury OIG follow-up with North Dakota management and request North Dakota to perform an analysis over all of their GrantSolutions portal reported balances to determine if there were other instances of subscription costs included in the CRF reported expenditures and review those expenditures to determine if there were other instances of subscription costs that extended past September 30, 2022.

Aggregate Reporting Less Than \$50,000

We determined North Dakota's Aggregate Reporting less than \$50,000 did not comply with the CARES Act and Treasury's Guidance. We tested four transactions totaling \$557,208. The transactions tested included payroll costs for public health and safety employees,²⁰ hardware equipment for remote work state employees, heating, ventilation, and air conditioning air purification systems for nursing home facilities, and the purchase of personal protective equipment. We identified one exception, resulting in unsupported questioned costs of \$484, as detailed below.

Additionally, Castro identified a reporting misclassification that did not comply with Treasury's Guidance, as North Dakota reported certain transactions in the Aggregate Payments less than \$50,000 payment type when the transactions should have been reported under Transfers greater than or equal to \$50,000.

Aggregate Reporting Exception - Public Health and Safety Payroll

We tested five invoices totaling \$121,435 that North Dakota claimed under the North Dakota Office of Management and Budget's \$58.9 million program to allocate funding to cities and counties based on salary and benefit expenses for licensed law enforcement officers. For one of the invoices tested to reimburse payroll costs of McIntosh County law enforcement officials, we noted North Dakota management provided insufficient supporting documentation to recalculate the payroll costs issued to the public health and safety personnel. Further, Castro identified a reporting misclassification that did not comply with Treasury's Guidance, as North Dakota reported certain transactions in the

²⁰ Treasury's Federal Register guidance provided the following examples of public health and safety employees: "police officers (including state police officers), sheriffs and deputy sheriffs, firefighters, emergency medical responders, correctional and detention officers, and those who directly support such employees such as dispatchers and supervisory personnel... employees involved in providing medical and other health services to patients and supervisory personnel, including medical staff assigned to schools, prisons, and other such institutions, and other support services essential for patient care (e.g., laboratory technicians) as well as employees of public health departments directly engaged in matters related to public health and related supervisory personnel."

Aggregate Payments less than \$50,000 payment type when the transactions should have been reported under Transfers greater than or equal to \$50,000.

For one invoice totaling \$14,646, we noted Treasury's Federal Register allowed an administrative accommodation²¹ to public health and safety personnel; however, the pay periods used to reimburse the McIntosh County law enforcement officials were from an incorrect fiscal year. North Dakota approved the McIntosh County reimbursement on January 5, 2021, however, the paystub used to support the reimbursement request indicated payroll costs were earned between December 15, 2021, through December 30, 2021. We requested that North Dakota management provide additional supporting documentation from the correct pay periods, December 15, 2020, and December 31, 2020. Upon inspection of the payroll support, we identified eligible expenditures totaling \$14,162 which generated a difference of \$484 in comparison to the reimbursement request totaling \$14,646. We determined the payroll discrepancy between fiscal years resulted in unsupported questioned costs of \$484.

Aggregate Payments to Individuals

CRF payments made to individuals, regardless of amount, were required to be reported in the aggregate in the GrantSolutions portal to prevent inappropriate disclosure of personally identifiable information. Castro notes that Aggregate Payments to Individuals consisted of the following broad types of potential costs which we have defined from Treasury's guidance as published in the Federal Register,²² where applicable. Prime recipients may or may not have claimed all of these types of expenditures.

²¹ Treasury's Federal Register guidance indicates that administrative accommodation means that "In recognition of the particular importance of public health and public safety workers to State, local, and tribal government responses to the public health emergency, Treasury has provided, as an administrative accommodation, that a State, local, or tribal government may presume that public health and public safety employees meet the substantially dedicated test...This means that, if this presumption applies, work performed by such employees is considered to be a substantially different use than accounted for in the most recently approved budget as of March 27, 2020. All costs of such employees may be covered using payments from the Fund for services provided during the period that begins on March 1, 2020, and ends on December 31, 2021."

²² Coronavirus Relief Fund Guidance as published in the Federal Register (January 15, 2021) https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register_2021-00827.pdf

- **Public Safety/Health Payroll** – consisted of payroll costs for public health and safety department personnel.
- **Substantially Dedicated Payroll**²³ – consisted of payroll costs for non-public health and safety personnel who were substantially dedicated to mitigating or responding to the COVID-19 public health emergency.
- **Non-Substantially Dedicated Payroll**²⁴ – consisted of payroll costs for personnel who performed COVID-19 related tasks on a part-time basis.
- **Non-Payroll Expenditures** – consisted of financial assistance payments to citizens due to hardship or loss of income, unemployment claims, and other non-payroll related expenditures made to individuals.

²³ Substantially dedicated payroll costs means that personnel must have dedicated over 50 percent of their time to responding to or mitigating COVID-19. Treasury’s Federal Register guidance indicates that: “The full amount of payroll and benefits expenses of substantially dedicated employees may be covered using payments from the Fund. Treasury has not developed a precise definition of what "substantially dedicated" means given that there is not a precise way to define this term across different employment types. The relevant unit of government should maintain documentation of the "substantially dedicated" conclusion with respect to its employees.”

²⁴ Payroll costs that are not substantially dedicated means payroll costs that are not public health and safety, and which are not substantially dedicated to performing COVID-19 related tasks. Federal Register guidance defines more stringent tracking requirements for these types of payroll costs. Specifically, the Federal Register states that agencies must: “track time spent by employees related to COVID-19 and apply Fund payments on that basis but would need to do so consistently within the relevant agency or department. This means, for example, that a government could cover payroll expenses allocated on an hourly basis to employees’ time dedicated to mitigating or responding to the COVID-19 public health emergency.”

The North Dakota Aggregate Payments to Individuals balance consisted of payroll and other transactions from the following categories of claimed costs.

Aggregate Payments to Individuals Category Types	Total Expenses Claimed
Public Health and Safety Payroll	\$ 33,543,625
Substantially Dedicated Payroll	\$ 6,219,710
Non-Substantially Dedicated Payroll	\$ 79,900,050
Non-Payroll Expenditures ²⁵	\$ 394,773,111
Totals²⁶	\$ 514,436,496

Castro noted that public health and safety payroll transactions were subject to Treasury’s administrative accommodation, and therefore, were subject to less detailed documentation requirements. Castro tested public health and safety payroll transactions by reviewing itemized payroll distribution reports to support these balances. Substantially dedicated and non-substantially dedicated payroll balances were not subject to this administrative accommodation, and therefore, Castro tested these transactions by reviewing the prime recipient’s substantially dedicated conclusion with respect to its employees and payroll distribution files, and by performing tests over specific employee timesheet submissions. Transactions classified as non-payroll expenditures vary depending on the type of expenses that were reimbursed with CRF, and therefore, Castro performed analytical procedures and testing on transactions by reviewing the applicable underlying guidelines and details provided as support by North Dakota.

We determined North Dakota’s Aggregate Payments to Individuals did not comply with the CARES Act and Treasury’s Guidance. We tested 10 transactions totaling \$14,707,924. We tested transactions related to unemployment insurance expenditures, payroll costs for executive management, payroll for public health and safety employees, substantially and non-substantially dedicated payroll costs, and additional and part-time staff for remote enrollment. We identified one exception, resulting in unsupported questioned costs totaling \$12,700, as detailed below.

²⁵ As demonstrated in the table above, North Dakota expended approximately 77 percent of their Aggregate Payments to Individuals CRF proceeds within Non-Payroll Expenditures. Of the approximately \$394.8 million claimed, approximately \$355.6 million was used for unemployment related expenditures. Refer to the Unemployment Replenishment Analysis section below.

²⁶ The Aggregate Payments to Individuals Analysis above prepared by North Dakota did not reconcile to the amounts claimed per the GrantSolutions portal as of September 30, 2023, by \$59,911, due to interest earned included in the underlying details to generate the report. We did not identify any questioned costs related to the financial reporting control issues. Refer to **Financial Reporting Control Issues** section above for more detail.

Substantially Dedicated Payroll Exception

We tested one transaction totaling \$12,700 claimed for payroll related costs incurred by the North Dakota Chief Operating Officer in connection with the state planning of the COVID-19 pandemic response. North Dakota considered the Chief Operating Officer a substantially dedicated employee for dedicating 100 percent of their efforts on the COVID-19 response. North Dakota was unable to provide adequate supporting documentation to evidence the payroll related costs were eligible and allowable in conjunction with the CARES Act and Treasury's Guidance, resulting in unsupported questioned costs of \$12,700.

North Dakota management attested that the individual was part of executive management; therefore, North Dakota did not provide documentation of the substantially dedicated conclusion with respect to this employee to justify the eligible and allowable use of CRF proceeds, or any evidence of timesheets, or the number of hours charged and/or allocated to CRF related tasks. We asked North Dakota to provide any support indicating the employee dedicated 100 percent of their efforts to the COVID-19 response. North Dakota stated that the employee's time was 100 percent devoted to the Public Health Education, which included coordinating information that was provided to the public, Health Department, and other state agencies. Based on our assessment, we determined North Dakota did not provide sufficient documentation of the substantially dedicated conclusion with respect to this employee to justify the eligible and allowable use of CRF proceeds. As a result, Castro questioned \$12,700 as unsupported.

Unemployment Insurance Replenishment Analysis

The non-payroll transactions reviewed consisted of \$126,179,658 in payments from May 2020 through June 2020 to replenish North Dakota's Unemployment Insurance Trust Fund. In conjunction with the transactions tested, North Dakota provided the North Dakota Job Service Department's unemployment claims analysis supporting how the state determined that the change in this balance (unemployment claims paid) occurred due to the COVID-19 pandemic and not due to unemployment claims that would have been paid regardless of the pandemic.

North Dakota experienced a significant decline in the Unemployment Insurance Trust Fund balance from March 2020 through May 2020 of approximately \$89 million. Upon inspection of North Dakota's unemployment claims analysis, we noted actual unemployment benefits expenditures were \$383,378,368. The increase of unemployment benefits claimed directly impacted North Dakota's Unemployment Insurance Trust Fund balance which increased the risk of potential insolvency. North Dakota's unemployment claims analysis summarized the inflows and outflows of the Unemployment Insurance Trust Fund Balance during

the covered period. Based on our observation, we determined North Dakota had more eligible expenditures than reimbursed with CRF in the amount of \$27,724,725. We recalculated this amount from obtaining the CRF proceeds reported or replenished into the fund in the amount of \$355,653,643 and subtracted this amount from the benefit claims that were attributable to COVID-19. Castro concluded that North Dakota's CRF replenishment payment consisted of an Unemployment Insurance Trust Fund replenishment payment and not an augmentation to the Unemployment Insurance Trust Fund. Additionally, Castro determined these payments were necessary due to the COVID-19 pandemic and did not represent unemployment claims that would have been paid regardless of the pandemic.

Conclusion

We determined the expenditures related to the Grants greater than or equal to \$50,000 and the Transfers greater than or equal to \$50,000 payment types complied with the CARES Act but did not comply with Treasury's Guidance. Additionally, we found that the Contracts greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals payment types did not comply with the CARES Act and Treasury's Guidance, resulting in unsupported and ineligible questioned costs of \$204,988 and \$507,804, respectively, with total questioned costs of \$712,792.

Castro also identified reporting error misclassifications within the Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payment to Individuals payment types that we considered non-compliant with Treasury's Guidance.

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

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

than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals payment types.

- At the time of desk review fieldwork, Castro noted that North Dakota had findings in their Single Audit Reports for fiscal years 2021/2022 (combined report). Castro recommends that Treasury OIG follow-up with Treasury's Office of Capital Access to ensure that management decision letters are issued on the findings identified by the auditor in the Single Audit Report, which we have summarized below:
 - North Dakota's fiscal year 2020 Single Audit Report was published on March 17, 2021, and the auditor did not identify any unsupported questioned costs specific to the CRF.
 - North Dakota's fiscal years 2021-2022 Single Audit Report was published on March 29, 2023, and the auditor determined unsupported questioned costs specific to the CRF totaling \$617,870.

We recommend Treasury OIG follow-up on any CRF specific questioned costs reported in the fiscal year 2021-2022 Single Audit report.

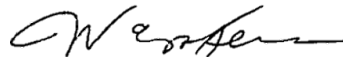
Castro also identified other matters throughout the course of our desk review, which warrant recommendations to Treasury OIG for additional action. Castro made recommendations to Treasury OIG related to the following issues:

- Since Castro identified unsupported questioned costs within the amounts we tested related to the DUC oil well grant program, we recommend Treasury OIG determine the feasibility of performing additional follow-up with North Dakota to determine if there were other instances of unsupported balances within the DUC oil well grant program.
- Follow-up with North Dakota and request North Dakota perform an analysis over all of their GrantSolutions portal reported balances to determine if there were other instances of subscription costs included in the CRF reported expenditures and review those expenditures to determine if there were other instances of subscription costs that extended past September 30, 2022.
- North Dakota provided underlying details that separately tracked interest bearing income accounts of \$938,184 within the accounting system; however, North Dakota did not substantiate which payment types the interest income were claimed in within the GL detail population amounts provided to us during our desk review. We recommend Treasury OIG

request that North Dakota management conduct an assessment to remove the interest income from the payment types provided in its GL detail reconciliation and to provide Treasury OIG with an updated GL detail reconciliation. Based on the results of this analysis, we recommend Treasury OIG obtain an updated GL detail to determine if it supports the \$6,651.

All work completed with this letter complies with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Federal Offices of Inspectors General*, which require that the work adheres to the professional standards of independence, due professional care, and quality assurance to ensure the accuracy of the information presented.²⁷ We appreciate the courtesies and cooperation provided to our staff during the desk review.

Sincerely,



Wayne Ference
Partner, Castro & Company, LLC

²⁷ <https://www.ignet.gov/sites/default/files/files/Silver%20Book%20Revision%20-%208-20-12r.pdf>