

# **Follow-up Memorandum on PED's Evaluation of the Disaster Recovery Acts of 2016 and 2017**

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A presentation to the Joint Legislative  
Program Evaluation Oversight Committee

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## Committee's Request

- For PED staff to look further into the other funds administered by DPS to see if there were similar or other issues as those identified in the PED report on the Disaster Recovery Acts of 2016 and 2017



# Background

- DPS administered five funding streams for Hurricane Matthew, only one of which was not primarily dependent on another governmental entity for timeliness

Funding Stream	Primarily Dependent on Another Governmental Entity
State Emergency Response and Disaster Relief Fund (state match for federal disaster programs)	N/A
Emergency Management (housing purposes identified in S.L. 2017-119)	Yes
Emergency Management (resilient redevelopment planning)	N/A
State Emergency Response and Disaster Relief Fund (ensure sufficient funds are available to provide relief/assistance for future emergencies)	N/A
Emergency Management (emergency sheltering and short-term housing)	No



# \$9 Million for Emergency Sheltering and Short-Term Housing

- Example purposes: hotel bills, establishing shelters, etc.
- DPS selected local governments and not-for-profits as recipients, one of which received a sizable portion of these funds, all in the form of lump-sum up-front payments
  - Distributing funds up-front does not adhere to state law
  - Led PED to further explore the non-profit receiving these state funds



## **Issue 1**

**DPS ignored grant-making best practices when it selected the North Carolina Community Development Initiative (the Initiative) as a recipient and did not follow state law when it distributed grant funds to the Initiative**



# Issue 1

## Selection of Recipients and Distribution of Funds

- **Selection.** DPS did not use formal best-practice mechanisms to solicit proposals or select recipients to administer emergency sheltering and short-term housing funds
- **Distribution.** DPS did not follow best practices and state law in making up-front lump-sum payments of \$5.35 million to the Initiative
  - State law requires any award exceeding \$100,000 to or for the use of a nonprofit entity to be made in quarterly or monthly payments



## Issue 2

**DPS established an agreement with the Initiative to spend state funds for purposes that do not align with the legislative directive of the disaster recovery legislation**



## Issue 2

### **DPS Allowed the Initiative to Spend State Funds on Purposes Not Aligned with Legislative Directive**

- Legislative directive appropriated funds for emergency sheltering and short-term housing
  - Example: some funds within this stream allocated to other entities were spent on hotel bills
- However, projects funded by the Initiative included:
  - Funding new construction projects
  - Buying land for future development
  - Funding for mixed-use development
- Agreement between DPS and the Initiative did not specify that projects would be undertaken strictly for the benefit of hurricane survivors, and they do not appear to be





## Issue 3

**More than six months after DPS's agreement with the Initiative has ended, DPS has not recaptured \$1.3 million in unencumbered funds and potentially disallowed expenses from the Initiative, and thus has not followed provisions set forth in the MOA with the Initiative**



## Issue 3

# Failure to Recapture Unencumbered Funds and Potentially Disallowed Expenses

- DPS has not recaptured an estimated:
  - \$877,218 in unencumbered funds
  - \$389,419 in potentially disallowed spending
    - Example: Pre-payment of service agreements outside the agreement period
- DPS staff report they have begun this process



## Issue 4

**Funds designated for sheltering and short-term housing for hurricane survivors appear to be used to financially benefit the Initiative, real estate developers, and private landlords**



## Issue 5

**State-supported loan principal may not be returned to the State and it is unclear if interest accrued has been used in accordance with state law.**



## Issue 5

# State-Supported Loan Principal and Use of Interest Accrued

- The Initiative issued \$732,450 in loans using funds from DPS's grant
  - Upon repayment, the principal for loans may be retained by the Initiative and not returned to the State
- Unclear how Initiative plans to use interest repaid by loans
  - Initiative says it will use as specified in the Agreement (reinvest in similar projects)
  - Does not appear to be any oversight by DPS to ensure this is done



## Other Matter

- **It appears the Initiative is engaging in additional transactions after its grant agreement with DPS has ended, which potentially could be in conflict with**
  - Its agreement with DPS, and
  - The emergency sheltering and short-term housing purposes outlined in the legislative directive



Memo available online at  
[www.ncleg.net/PED/Reports/reports.html](http://www.ncleg.net/PED/Reports/reports.html)

