



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OIG-CA-25-054
August 13, 2025

Emergency Rental Assistance (ERA1) Program Notice of Recoupment – State of North Carolina

Summary

The ERA1 statute, codified at 15 USC § 9058a, directs the Department of the Treasury (Treasury) to make allocations and payments to eligible grantees such as States and local governments, who in-turn, make funding available in the form of rental assistance to eligible households. The statute also directs the Treasury Office of Inspector General (OIG) to conduct monitoring and oversight of the receipt, disbursement, and use of funds made available to grantees. As part of this oversight authority, if OIG determines that a grantee failed to comply with the use of funds requirements in the statute, the amount equal to the amount of funds used in violation shall be booked as a debt of such entity owed to the Federal Government.

The State of North Carolina is a recipient of funds under the ERA1 statute. In April 2023, we made an inquiry to the State of North Carolina about a complaint reported to the OIG Hotline. We learned that the North Carolina Office of Recovery and Resiliency (NCORR), the administrator for the State of North Carolina's Housing Opportunities and Prevention of Eviction ERA program, maintained a database of substantiated ERA fraud, waste, and abuse (FWA) cases. We requested and reviewed documentation for five of those FWA cases. Based on the information provided, we determined that the State of North Carolina's ERA1 program paid out ERA1 funds totaling \$803,160 that did not comply with the ERA1 statute because the funds were disbursed to ineligible households. On August 12, 2025, Treasury's Bureau of the Fiscal Service issued an invoice for \$803,160 to State of North Carolina establishing a debt to the Federal Government.

The following document is OIG's Notice of Recoupment (Notice) that established this debt. The State of North Carolina was given an opportunity to provide a written response to a draft of the Notice and its written response and our evaluation of that response is also included in the Notice.

We conducted our review of this ERA case from May 2024 to August 2025. We inquired of the grantee and other relevant parties, reviewed related documentation, and performed other appropriate procedures. We believe the

evidence obtained is sufficient and appropriate to provide a reasonable basis for our determination in this Notice.

In conducting our review, we followed the OIG's system of quality management for ensuring that the information in this report is accurate. We also followed the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Quality Standards for Federal Offices of Inspector General* which require that our work adheres to its general standards for integrity to include objectivity, independence, professional judgment, and confidentiality as well as its general standard for receiving and reviewing allegations.

Distribution

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State of North Carolina



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WASHINGTON, D.C. 20220

Notice of Recoupment

Emergency Rental Assistance

**Division N, Title V, Subtitle A, § 501 of the Consolidated Appropriations Act, 2021
(Pub. L. No. 116-260), Dec. 27, 2020, and codified at 15 USC § 9058a (ERA1)**

August 11, 2025

Grantee: State of North Carolina

Point of Contact: Tommy Clark
Director of the NC Pandemic Recovery Office
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(984) 202-4267

Mailing Address: 430 North Salisbury Street, Raleigh, NC 27603

Federal Award Identification Numbers: ERA0019

Recoupment Amount: \$803,160.00

Background/Legal Authority

Under the ERA1 statute at 15 U.S.C. § 9058a(c), Use of Funds, an eligible grantee shall only use ERA1 award funds to provide financial assistance and housing stability services to eligible households. The financial assistance includes: the payment of rent; rent arrears; utilities and home energy costs; utilities and home energy costs arrears; and other expenses related to housing incurred due, directly or indirectly, to the COVID-19 outbreak, as defined by the Secretary of the Department of the Treasury (Treasury). Such assistance shall be provided for a period not to exceed 12 months except that grantees may provide assistance for an additional 3 months to ensure housing stability (subject to availability of funds). The ERA1 statute at 15 U.S.C. § 9058a(c)(2)(B)(i) allows for up to 3 months (with exceptions) for prospective rent payments within the 12 or 15 months total assistance limitation.

The ERA1 statute at 15 U.S.C. § 9058a(k)(3)(A) defines eligible household as a household of 1 or more individuals who are obligated to pay rent on a residential dwelling and with respect to which the eligible grantee involved determines: (1) that one or more individuals within the household has (a) qualified for unemployment benefits or (b) experienced a reduction in household income,

incurred significant costs, or experienced other financial hardship due, directly or indirectly, to the COVID-19 outbreak, which the applicant shall attest in writing; (2) that one or more individuals within the household can demonstrate a risk of experiencing homelessness or housing instability, which may include (a) a past due utility or rent notice or eviction notice; (b) unsafe or unhealthy living conditions; or (c) any other evidence of such risk, as determined by the eligible grantee involved; and (3) the household has a household income that is not more than 80 percent of the area median income for the household. In accordance with the ERA1 statute at 15 U.S.C. § 9058a(k)(3)(B), the grantee must also ensure that, to the extent feasible, any rental assistance provided to an eligible household is not duplicative of any other federally funded rental assistance provided to such household.

Pursuant to the ERA1 statute at 15 U.S.C. § 9058a(e)(2), the last day of the period of performance for grantees that received ERA1 reallocated funds is December 29, 2022.

The ERA1 statute at 15 U.S.C. § 9058a(i), Inspector General Oversight; Recoupment, directs that the Treasury's Office of Inspector General (OIG) conduct monitoring and oversight of the receipt, disbursement, and use of funds made available under the ERA1 program. As part of this authority, if OIG determines that a grantee failed to comply with the use of funds requirements in the ERA1 statute (15 U.S.C. § 9058a(c)), the amount equal to the amount of funds used in violation of 15 U.S.C. § 9058a(c) shall be booked as a debt of such grantee owed to the Federal Government. Amounts recovered shall be deposited into the general fund of the Treasury.

Facts and Analysis

In April 2023, we made an inquiry to the State of North Carolina (North Carolina) about a complaint reported to the OIG Hotline. We learned that the North Carolina Office of Recovery and Resiliency (NCORR), the administrator for the State of North Carolina's Housing Opportunities and Prevention of Eviction (HOPE) ERA program, was already working with the OIG Office of Investigations on several cases of ERA fraud and had given OIG access to an NCORR database of substantiated ERA fraud, waste, and abuse (FWA) cases. We also learned that as part of its administration of the ERA program, NCORR hired a third-party investigator (investigator) to review complaints and allegations that NCORR determined to warrant further examination. As of December 23, 2024, the NCORR database consisted of 407 FWA cases, totaling \$17,188,544.

In this Notice of Recoupment, we are reporting on our review of five FWA cases selected from the NCORR FWA database. The five reviewed FWA cases were made up of 143 individual applications, totaling \$958,945 of financial assistance

paid. Of these cases, we determined that for 120 applications, the ERA1 financial assistance payments totaling \$803,160 were ineligible.

For the five FWA cases, we reviewed the investigator's reports, related documentation such as recoupment letters issued by NCORR for payments it determined were ineligible, and performed other procedures, as appropriate. Below is a discussion of the five FWA cases and our determination with respect to each case. The specific payees, application numbers, and payment amounts are provided in Appendix 1.

FWA-2022-006 (Total Ineligible ERA1 Payments – \$334,600)

This FWA case involved 12 landlords who received ERA1 financial assistance for 46 applications totaling \$334,600 that NCORR identified in its database of substantiated FWA cases. NCORR issued "Notification to Remit Federal Funds" letters to the respective landlords to recover the amounts paid.¹ According to NCORR, no payments were received in response to these letters.

NCORR identified the following fraud indicators with respect to these applications:

- The 12 landlords were associated with the same mailing address located in a mobile home court in Clarmont, North Carolina.
- The 12 landlords used multiple tax identification numbers on discrete applications, with some of the landlords using the same tax identification number on multiple cases. For example, one landlord used three different tax identification numbers for five applications. As another example, the same tax identification number was used by 10 of the 12 landlords for 31 applications.

We also reviewed county land and tax records for all rental addresses associated with the 46 applications and found that the landlords did not own any of the properties at the time of the financial assistance payments were made.²

Based on our review, we determined that NCORR paid \$334,600 in ERA1 financial assistance on the 46 applications that failed to comply with the requirements of the ERA1 statute at 15 U.S.C. § 9058a(c), Use of Funds, as there was no established obligation to pay rent for these applicants. Accordingly, we determined that these payments are ineligible.

¹ The Notification to Remit Federal Funds" letters stated, in part: "NCORR has determined, through third party verification, the documentation submitted to support eligibility for HOPE Program assistance was faulty. Therefore, NCORR has found the application to be ineligible and requires the awarded funds be returned or repaid."

² We note that NCORR determined that another ERA1 payment of \$3,600 to 1 of the 12 landlords was ineligible and demanded repayment. We did not include this payment in the Notice of Recoupment as we found the landlord did own the property for which assistance was paid and we noted no other discrepancies with the application to suggest the payment was ineligible.

FWA-2022-015 (Total Ineligible ERA1 Payments – \$315,910)

NCORR identified what it considered a coordinated fraud ring involving (1) a married couple and a limited liability corporation (LLC A) owned by the wife of the married couple³ and (2) another individual who owned a limited liability corporation (LLC B) with an affiliation to LLC A.⁴ NCORR provided its investigator multiple allegations associated with these applicants. In a memorandum to NCORR, the investigator stated: “Based on our review of the documentation provided by NCORR, this allegation appears to be substantiated.” NCORR subsequently issued “Notification to Remit Federal Funds” letters to the respective parties involved with these applications to recover the amounts paid. According to NCORR, no payments were received in response to these letters.

According to NCORR documentation and our review:

- NCORR paid LLC A ERA1 financial assistance for 23 applications totaling \$160,260. For all 23 of these applications, LLC A applied as the landlord. For 22 of the 23 applications, with ERA1 payments totaling \$155,430, neither the husband, the wife, nor LLC A owned the property. For the other application, the property, on which \$4,830 of ERA1 financial assistance was paid, did not exist. Accordingly, we determined that that NCORR paid \$160,260 in ERA1 financial assistance to LLC A that failed to comply with the requirements of the ERA1 statute at 15 U.S.C. § 9058a(c), Use of Funds, as there was no established obligation to pay rent associated with these applications. We therefore determined that these payments were ineligible.
- For another application, the wife of the married couple applied as the tenant of a property owned by LLC A using a third party as the landlord. NCORR paid the third party ERA1 financial assistance in the amount of \$4,140 for the application. As the wife/tenant was the owner of LLC A, and LLC A was the property owner, we determined that the ERA1 financial assistance paid failed to comply with the requirements of the ERA1 statute at 15 U.S.C. § 9058a(c), Use of Funds. We therefore determined that the payment was ineligible.
- NCORR paid LLC B ERA1 financial assistance for 25 applications totaling \$125,840. For 21 of the 25 applications, for which ERA1 financial assistance totaling \$111,960 was paid:
 - neither LLC B nor its owner owned the property (18 applications for which ERA1 financial assistance totaling \$89,850 was paid);
 - the tenant on the application owned the property (1 application for which ERA1 financial assistance of \$9,000 was paid);

³ The wife of the married couple reported in public filings that she was either the owner or the chief executive officer of LLC A.

⁴ According to a public filing, LLC A was the registered agent for LLC B.

- the property did not exist (1 application for which ERA1 financial assistance of \$8,280 was paid); and
- the application, which showed LLC B as the property manager, was dated before LLC B was formed (1 application for which ERA1 financial assistance of \$4,830 was paid).

Accordingly, we determined that NCORR paid \$111,960 in ERA1 financial assistance to LLC B on the 21 applications that failed to comply with the requirements of the ERA1 statute at 15 U.S.C. § 9058a(c), Use of Funds, as there was no established obligation to pay rent associated with the applications. We therefore determined that these payments were ineligible.⁵

- NCORR paid another third-party landlord ERA1 financial assistance for 13 applications totaling \$39,550, for which NCORR determined there was an association between the third-party landlord and LLC A.⁶ For all 13 applications, we determined that the third-party landlord was not the property owner at the time of rental assistance. Accordingly, we determined that that NCORR paid \$39,550 in ERA1 financial assistance to the third-party landlord on the 13 applications that failed to comply with the requirements of the ERA1 statute at 15 U.S.C. § 9058a(c), Use of Funds, as there was no established obligation to pay rent associated with the applications. We therefore determined that these payments were ineligible.

In summary, we determined that NCORR paid \$315,910 in ERA1 financial assistance that failed to comply with the requirements of the ERA1 statute at 15 U.S.C. § 9058a(c), Use of Funds, for 58 applications associated with this FWA case. Accordingly, we determined that these payments are ineligible.

FWA-2022-156 (Total Ineligible ERA1 Payments – \$128,950)

NCORR received an allegation that an individual received rental assistance using a fraudulent utility bill. NCORR's investigator reviewed the allegation and substantiated that the utility bill was fraudulent. During its review, the investigator also determined that the individual (hereafter referred to as Landlord A) and three other individuals (hereafter referred to as Landlords B, C, and D, respectively) posed as landlords on multiple applications, all using the same mailing address.

⁵ For the other 4 applications with ERA1 assistance payments to LLC B, totaling \$13,880, we are not challenging the payments. Our review of these applications found that the owner of the limited liability corporation was the owner of record for the properties for which the ERA1 assistance was paid. We noted that the tenants for each application had the same last name as the owner; while we did not determine whether these tenants had a familial relationship with the owner, the ERA1 statute at 15 U.S.C. § 9058a(k)(3) does not specifically exclude familial relationships in the definition of an eligible household. We found no other discrepancies in the applications that suggest they did not meet ERA1 eligibility requirements.

⁶ We inquired of NCORR how they made this determination. According NCORR, documentation submitted for another application, not included in this FWA case, showed both the third party and LLC A to be landlords.

The investigator reviewed these applications and stated in a report to NCORR that the allegations of fraud with respect to the applications appeared to be substantiated. Subsequently, NCORR sent recoupment notices to the payees in attempts to recapture the ineligible rental payments. According to NCORR, no payments were received in response to these letters. The common theme found by NCORR's investigator was these purported landlords did not own the properties for which NCORR paid ERA1 financial assistance. Based on our review of NCORR documentation and public land records, we determined that NCORR paid \$128,950 in ERA1 financial assistance on 13 applications that failed to comply with the requirements of the ERA1 statute at 15 U.S.C. § 9058a(c), Use of Funds, as there was no established obligation to pay rent for these applicants. Accordingly, we determined these payments are ineligible. Additional details are below.

- Landlord A – NCORR paid \$31,500 in ERA1 financial assistance to this individual as the landlord for three applications. In our review, we verified through public land records that the individual did not own the properties for which the assistance was paid.
- Landlord B – NCORR paid \$47,055 in ERA1 financial assistance to this individual as the landlord for five applications. In our review, we verified through public land records that the individual did not own the properties for which the assistance was paid.
- Landlord C – NCORR paid \$40,195 in ERA1 financial assistance to this individual as the landlord for four applications. In our review, we verified through public land records that the individual did not own any of the properties for which the assistance was paid.
- Landlord D – NCORR paid \$10,200 in ERA1 financial assistance to this individual as the landlord on one application. We verified through public land records that the individual did not own the property for which assistance was paid.

FWA-2023-101 (Total Ineligible ERA1 Payments – \$12,300)

NCORR received an allegation of fraud alleging an applicant was posing as a landlord on two rental assistance applications. NCORR's investigator reviewed the allegation and determined that he did not own, nor did he appear to be associated with the owners of any of the properties. The investigator stated in a report to NCORR that the allegation appeared to be substantiated and, as a result, NCORR sent two recoupment notices to the payee in attempts to recapture the ineligible rental payments. In our review, we verified through property records that the applicant did not own the rental properties listed on the two applications. Based on our review NCORR documentation and public land records, we determined that NCORR paid \$12,300 in ERA1 assistance on the two applications that failed to comply with the requirements of the ERA1 statute at 15 U.S.C. § 9058a(c), Use of

Funds, as there was no established obligation to pay rent. Accordingly, we determined these payments are ineligible.

FWA-2022-20 (Total Ineligible ERA1 Payment – \$11,400)

NCORR received an allegation of fraud from a landlord, who alleged his tenant was posing as a landlord on a rental assistance application. NCORR's investigator reviewed the allegation and verified that the applicant did not own the property he claimed to own. In a report to NCORR, the investigator stated that the allegation appeared to be substantiated and, as a result, NCORR sent a recoupment notice to the payee in attempts to recapture the ineligible rental payment. According to NCORR, no payments were received in response to these letters. In our review, we verified through property records that the applicant did not own the rental property listed on the application. Based on our review, we agree with the investigator's conclusion and determined that NCORR paid \$11,400 in ERA1 assistance on this application that failed to comply with the requirements of the ERA1 statute at 15 U.S.C. § 9058a(c), Use of Funds, as there was no obligation to pay rent. Accordingly, we determined that this payment is ineligible.

These five FWA cases are summarized as follows:

Case	FWA Case No.	Ineligible ERA1 Financial Assistance Payments
1	FWA-2022-006	\$334,600.00
2	FWA-2022-015	315,910.00
3	FWA-2022-156	128,950.00
4	FWA-2023-101	12,300.00
5	FWA-2022-020	11,400.00
Total		\$803,160.00

Based on the information provided, we determined that North Carolina's ERA1 program paid out ERA1 award funds totaling \$803,160 which failed to comply with the Use of Funds requirements in the ERA1 statute (15 U.S.C. § 9058a(c)) because the funds were disbursed to ineligible households. Accordingly, these funds are required to be returned to the government.

Grantee Response

On May 13, 2025, we provided North Carolina an opportunity to respond to a draft of this notice requesting their written reply by May 28, 2025. Upon request, we granted an extension for their written response to June 18, 2025. On June 18, 2025, North Carolina requested another extension to May 1, 2026. We considered that request to be unreasonable and denied the request informing them that this notice would be issued in final on July 15, 2025, if no written response is received

by that date. On July 14, 2025, North Carolina provided its written response which is included as Appendix 2 to this Notice.⁷

In its response, North Carolina stated that it used ERA funds to support housing stability for eligible renters throughout the COVID-19 pandemic. According to North Carolina, it sought to distribute these funds expeditiously, cognizant of the need to help people remain safely in their homes amid a public-health crisis. Despite the inherent urgency, North Carolina stated it strove to comply with all the requirements and controls recommended by the Federal Government to protect against fraud, waste, and abuse. It believed it was successful in achieving full compliance.

The response made these specific points:

Internal Controls to Detect Potential Fraud

In distributing funds, NCORR was mindful of the need to ensure that anyone who received assistance was in fact eligible.⁸ To that end, NCORR implemented a comprehensive fraud detection and prevention system, including: a dedicated fraud and compliance team; case level audits and documentation, quality control, and use of an Enterprise Resource Planning system; a whistleblower tipline and response process; use of check holds to prevent disbursement of fraudulent payments; cooperation with state and federal law enforcement; and a structured process to recover funds identified as potentially fraudulent. North Carolina noted that the courts had ordered restitution of \$1.2 million to be paid directly to Treasury.⁹

According to North Carolina, NCORR was praised by Treasury during oversight reviews as having a robust fraud detection and response system. Treasury had also recommended that other states adopt NCORR's Landlord-Tenant

⁷ The attachments supporting North Carolina's written response are not included as part of this Notice due to the volume of information provided. These attachments were considered as part of our evaluation of North Carolina's response.

⁸ OIG Note: North Carolina explained in the response that (1) the direct grantee with Treasury was the State's Office of State Management and Budget (OSBM) and the North Carolina Pandemic Recovery Office (NCPRO) and (2) NCORR administered the ERA program as a subrecipient. North Carolina provided as attachments copies of various agreements between OSBM and NCPRO with NCORR for this purpose.

⁹ OIG Note: As an attachment to its response, North Carolina provided a list of 12 individuals that were prosecuted and ordered as part of their sentence to pay restitution totaling \$1,203,045. The reported amount of fraud associated with these individuals totaled \$754,220. None of the individuals were the subject of this Notice of Recoupment.

Agreement as a model of best practice.¹⁰ Although NCORR encountered some instances of external fraud (e.g., landlord-tenant collusion or fraudulent identity submissions), when those instances arose, NCORR addressed them in accordance with established protocols and coordinated with law-enforcement authorities when necessary.

Payment Eligibility

According to North Carolina, the five cases that OIG identified in the Draft Notice of Recoupment were determined eligible based on all available guidance and documentation at the time of issuance. Before distributing the funds involved in these cases, NCORR implemented the following Treasury-approved methods: (1) use of the fact-based proxy method to verify income eligibility during the pandemic;¹¹ (2) use of Landlord Tenant Agreements that included a self-attestation under penalty of perjury;¹² (3) W9 verification with

¹⁰ OIG Note: As an attachment to its response, North Carolina provided a copy of a Treasury ERA guidance webpage that did cite North Carolina's Landlord-Tenant Agreement as one example of "simplified eligibility forms . . . being used effectively by emergency rental assistance programs around the country."

¹¹ OIG Note: As attachments to show its use of the fact-based proxy method, North Carolina provided (1) a copy of a Treasury ERA guidance webpage identifying "promising practices" that included, among other things, guidance that: "A grantee may rely on a written attestation from the applicant as to household income if the grantee also uses any reasonable fact-specific proxy for household income, such as reliance on data regarding average incomes in the household's geographical area;" (2) an internal email dated September 24, 2024, with the subject "Treasury ERA Rankings – NC is #6 in the nation for expenditures and #2 for households served;" and (3) an Excel file listing of the 245 applications (including those receiving ERA assistance and those that did not receive ERA assistance) that comprised the five FWA cases that were the subject of this Notice of Recoupment and which showed, among other things, the tenant's income compared to 80 percent of the area median income for the tenant's county. OIG notes that income eligibility was not an issue with the FWA cases that are the subject of this Notice of Recoupment.

¹² OIG Note: As attachments, North Carolina provided copies of Landlord Tenant Agreements for 117 applications, including applications that were not the subject of this Notice of Recoupment. OIG agrees that the standard form includes self-attestations described by North Carolina.

the Internal Revenue Service (IRS) and identity documentation;¹³ and (4) collection of leases and utility documentation, when available or applicable.¹⁴

These practices align with Treasury’s guidance that was disseminated during the pandemic emergency. That guidance recognized the administrative challenges inherent in responding to the pandemic and urged states to approach the distribution of funds with flexibility, so as to allow for swift disaster relief to landlord and tenants. As one strategy for the efficient distribution of funds, Treasury encouraged “reasonable reliance on applicant attestations” in the ERA FAQs.

If NCORR distributed \$803,160 in ineligible payments, it was not because NCORR did not have the required controls in place to prevent fraud, waste, and abuse. Rather, NCORR employed the controls that were explicitly recommended and encouraged by Treasury at the time.

Third Party Investigative Reviews

In its response, North Carolina states that the OIG relied in part on the findings of third-party fraud investigators. According to North Carolina, a preliminary review of the five cases cited in the Draft Notice of Recoupment revealed that the third-party fraud investigators failed to determine whether checks issued by NCORR were cashed or cancelled. As a result, the third-party fraud investigators—and by extension, the Draft Notice of Recoupment—overstated the total alleged fraudulent amount by including cancelled checks.

North Carolina states that NCORR identified, based on a preliminary review, five cancelled checks, totaling more than \$55,000, related to the five cases:

¹³ OIG Note: As attachments, North Carolina provided 221 files consisting of IRS Forms W-9, Request for Taxpayer Identification Number and Certification, and copies of driver licenses. Some of the W-9s and driver licenses were associated with applications that were not the subject of this Notice of Recoupment and some driver license files consisted of a note stating: “This item is missing.” We note that the W-9 form is submitted to North Carolina by a landlord or other parties to provide their social security number or employer identification number for the purpose of information reporting by North Carolina to IRS about payments (e.g., Form 1099-MISC, Miscellaneous Payments). Form W-9 does not represent IRS verification that the landlord-reported social security number or employer identification number is correct.

¹⁴ OIG Note: As attachments, North Carolina provided copies of 109 lease agreements or attestations, including applications that were not the subject of this Notice of Recoupment.

Check numbers (b) (6).¹⁵ NCORR is currently re-examining all cases reviewed by the third-party fraud investigators team to determine whether they missed other cancelled checks or failed to take other investigative steps.

According to North Carolina, failure to verify check redemption status introduces material error into any loss calculation and undermines the fairness and factual basis of the recoupment request. For this reason, North Carolina asserts that no repayment demand should be made based on the third-party investigators' estimated fraud totals until the above-referenced review by internal auditors for NCORR is complete.

North Carolina concluded the response with its assertions that (1) ERA funds were distributed in compliance with Treasury guidelines, (2) NCORR fulfilled its obligations under the subrecipient agreement, and (3) payments made by NCORR were eligible at the time of disbursement based on Federal guidance. It asked that OIG recognize the good faith compliance described above and reconsider its recoupment demand.

OIG Evaluation

We considered the North Carolina's July 14, 2025, response, and the referenced attachments, which were provided separately on July 15, 2025, in finalizing this Notice of Recoupment. Overall, we find that North Carolina's response and additional documentation provided neither new evidence to demonstrate that the financial assistance provided for the subject applications were eligible, nor evidence to demonstrate that the payments for the applications that are the subject of this Notice of Recoupment were cancelled. The theme common to these applications that made them ineligible for ERA1 assistance was that the landlords in question did not own or have any connection to the properties and therefore there was no obligation by the tenants to pay rent to those landlords.

In its response, North Carolina stated that NCORR employed controls that were aligned with Treasury guidance and that the applications in question were deemed eligible based on all available guidance and documentation at the time of issuance. In our review, we do not make a determination of a grantee's internal

¹⁵ OIG Note: As attachments, North Carolina provided details of these five checks. According to the details, the check numbers are associated with applications (b) (6), respectively. None of these applications are included in the Notice of Recoupment. In our review of NCORR's FWA database, we excluded any applications that did not have an associated check number or a Notification to Remit Federal Funds sent to the beneficiary. We also reconciled check, rental assistance, and Notice to Remit Federal Fund amounts. Furthermore, the payments to the addresses for these applications were verified to the ERA1 payment data North Carolina submitted to Treasury.

controls and eligibility process as it would not absolve a grantee from their requirement to properly administer Federal Government funds and to repay funds that were disbursed to ineligible households. The adequacy of grantee internal control, including fraud prevention procedures, is not determinative of whether or not a sum is eligible for recoupment. The standard established in the ERA1 statute does not provide for “best efforts;” it requires that the grantee used the funds for specified purposes for specified entities. Treasury OIG has no authority to waive liability for improper payments made by the grantee.

Schedule of FWA Cases – Payees, Application Numbers, and Ineligible Payment Amounts

FWA Number	Payee	Application No.	Ineligible ERA1 Payment Amount
FWA-2022-006 (46 applications totaling \$334,600)	Landlord A (10 applications totaling \$69,390)	(b) (6)	\$7,590.00
			7,200.00
			7,200.00
			6,900.00
			6,900.00
			6,900.00
			6,900.00
			6,600.00
			6,600.00
			6,600.00
	Landlord B (7 applications totaling \$51,740)		\$9,350.00
			7,590.00
			7,200.00
			7,200.00
			6,900.00
			6,900.00
			6,600.00
	Landlord C (7 applications totaling \$51,250)		\$8,700.00
			8,400.00
			8,400.00
			7,150.00
			6,600.00
			6,600.00
			5,400.00
	Landlord D (5 applications totaling \$34,590)		\$7,590.00
			6,900.00
			6,900.00
			6,600.00
			6,600.00
	Landlord E (3 applications totaling \$22,540)		\$7,800.00
7,590.00			
7,150.00			
Landlord F (3 applications totaling \$21,690)	\$7,590.00		
	7,200.00		
	6,900.00		
Landlord G (2 applications totaling \$16,500)	\$9,600.00		
	6,900.00		
Landlord H (2 applications totaling \$16,390)	\$7,590.00		
	8,800.00		
Landlord I	\$8,400.00		

Schedule of FWA Cases – Payees, Application Numbers, and Ineligible Payment Amounts

FWA Number	Payee	Application No.	Ineligible ERA1 Payment Amount
	(2 applications totaling \$15,550)	(b) (6)	7,150.00
	Landlord K		\$6,900.00
	(2 applications totaling \$13,560)		6,660.00
	Landlord L		\$6,600.00
	(2 applications totaling \$12,600)		6,000.00
	Landlord M		\$8,800.00
	(1 application totaling \$8,800)		
FWA-2022-015 (58 applications totaling \$315,910)	LLC A (23 applications totaling \$160,260)		\$9,000.00
			9,000.00
			8,700.00
			8,700.00
			8,700.00
			8,400.00
			8,400.00
			8,280.00
			8,280.00
			8,280.00
			8,280.00
			8,280.00
			8,280.00
			8,280.00
			8,280.00
			8,280.00
			8,280.00
			8,280.00
			8,280.00
			6,210.00
			5,520.00
			5,520.00
			4,830.00
			4,830.00
			4,830.00
			4,830.00
			4,830.00
			4,830.00
			4,830.00
			4,140.00
			4,140.00
	Third party landlord/property owned by LLC A (1 application totaling \$4,140)		\$4,140.00
	LLC B (21 applications totaling \$111,960)		\$9,000.00
			9,000.00
			8,700.00
			8,400.00
			8,280.00
			4,830.00
			4,830.00

Schedule of FWA Cases – Payees, Application Numbers, and Ineligible Payment Amounts

FWA Number	Payee	Application No.	Ineligible ERA1 Payment Amount	
		(b) (6)	4,830.00	
			4,830.00	
			4,830.00	
			4,830.00	
			4,830.00	
			4,830.00	
			4,830.00	
			4,200.00	
			4,200.00	
			4,170.00	
			4,140.00	
			2,800.00	
			2,800.00	
			2,800.00	
			5,200.00	
			Third Party Landlord Associated with LLC A (13 applications totaling \$39,550)	4,550.00
				4,550.00
	4,550.00			
	4,200.00			
	3,900.00			
	1,950.00			
	1,950.00			
	1,950.00			
	1,800.00			
	1,800.00			
	1,575.00			
	1,575.00			
	FWA-2022-156 (13 applications totaling \$128,950)			Landlord A (3 applications totaling \$31,500)
			10,500.00	
			10,500.00	
Landlord B (5 applications totaling \$47,055)		12,600.00		
		10,500.00		
		10,500.00		
		8,280.00		
		5,175.00		
Landlord C (4 applications totaling \$40,195)		13,125.00		
		9,790.00		
		9,000.00		
		8,280.00		
Landlord D		10,200.00		

Schedule of FWA Cases – Payees, Application Numbers, and Ineligible Payment Amounts

FWA Number	Payee	Application No.	Ineligible ERA1 Payment Amount
	(1 application totaling \$10,200)		
FWA-2023-101	Landlord (2 applications totaling \$12,300)	(b) (6)	\$8,450.00
			3,850.00
FWA-2022-020	Landlord (1 applications totaling \$11,400)		\$11,400.00
Total Ineligible ERA1 Payments for the 5 FWA cases			\$803,160.00

Grantee Response



STATE OF NORTH CAROLINA
OFFICE OF STATE BUDGET AND MANAGEMENT



JOSH STEIN
GOVERNOR

KRISTIN WALKER
STATE BUDGET DIRECTOR

July 14, 2025

TO: Marla A. Freedman, Executive Advisor
Office of Audit
Treasury Office of Inspector General

FROM: Dolphus T. Clark (b) (6)
Director, NC Pandemic Recovery Office

SUBJECT: Response Regarding Recoupment Risk for ERA Funds

Dear Marla Freedman,

This letter responds to recent communications concerning the potential recoupment of Emergency Rental Assistance (ERA) funds.¹ ERA funds were used to support housing stability for eligible renters throughout the COVID-19 pandemic. As is often the case in the context of an emergency, North Carolina sought to distribute these funds expeditiously, cognizant of the need to help people remain safely in their homes amid a public-health crisis. Despite the inherent urgency, North Carolina strove to comply with all of the requirements and controls recommended by the federal government to protect against fraud, waste, and abuse. As this letter explains at greater length below, we believe we were successful in achieving full compliance. For that reason, we urge the Department to reconsider its recoupment demand.

Internal Controls to Detect Potential Fraud

In distributing funds, the North Carolina Office of Recovery and Resiliency (NCORR) was mindful of the need to ensure that anyone who received assistance was in fact eligible. To that end, NCORR implemented a comprehensive fraud detection and prevention system, including:

- A dedicated fraud and compliance team
- Case level audits and documentation, quality control, and use of an Enterprise Resource Planning system (Salesforce)
- A whistleblower tipline and response process
- Use of check holds to prevent disbursement of fraudulent payments
- Cooperation with state and federal law enforcement, including the North Carolina State Bureau of Investigation, the United States Postal Inspector, Housing and Urban Development Office of Inspector General, US Department of Justice, and Local Law Enforcement Agencies
- A structured process to recover funds identified as potentially fraudulent²

¹ The State of North Carolina through the Office of State Management and Budget (OSBM) and the North Carolina Pandemic Recovery Office (NCPRO) served as the direct grantee with the United States Department of Treasury ("the Department"), and the North Carolina Office of Recovery and Resiliency (NCORR), as a subrecipient, administered the ERA program. Because NCPRO—not NCORR—was the direct grantee, NCPRO has assumed responsibility for responding to your inquiry.

² From this process, the courts ordered restitution of \$1.2 million to be paid directly to the U.S. Department of the Treasury. (See **Attachment A**).

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20320 Mail Service Center
Raleigh, NC 27609-0320

www.osbm.state.nc.us
984-236-0600 •• FAX: 984-236-0630
An EEO/AA Employer

Office location:
2 South Salisbury Street
Raleigh, NC 27601

Grantee Response

These controls are aligned with 2 CFR 200.303. (“Internal Controls”). Based on these controls, NCORR was praised by the Department during oversight reviews as having a robust fraud detection and response system. In fact, the Department has recommended that other states adopt NCORR’s Landlord-Tenant Agreement as a model of best practice. (See Attachment B).

Although NCORR encountered some instances of external fraud (e.g., landlord-tenant collusion or fraudulent identity submissions), when those instances arose, NCORR addressed them in accordance with established protocols and coordinated with law-enforcement authorities when necessary.

Payment Eligibility

The draft notice from the Department’s Office of Inspector General (OIG) identifies five cases selected from the NCORR database. OIG believes that these five cases involved \$803,160 in ineligible payments.

The five cases that OIG has identified were determined eligible based on all available guidance and documentation at the time of issuance. Before distributing the funds involved in these cases, NCORR implemented the following Department-approved methods:

- Use of the fact-based proxy method to verify income eligibility during the pandemic (See Attachment C)
- Landlord Tenant Agreements that included a self-attestation under penalty of perjury (See Attachment D)³
- W9 verification with IRS and identity documentation (See Attachment E)
- Collection of leases and utility documentation, when available or applicable (See Attachment F)

These practices align with the Department guidance that was disseminated during the pandemic emergency. That guidance recognized the administrative challenges inherent in responding to the pandemic and urged states to approach the distribution of funds with flexibility, so as to allow for swift disaster relief to landlord and tenants. As one strategy for the efficient distribution of funds, the Department encouraged “reasonable reliance on applicant attestations” in the ERA FAQs.

NCORR took all of this guidance seriously. And, at the time of the pandemic, the Department was explicitly supportive of North Carolina’s approach. In fact, the Department cited the increase in the speed of North Carolina’s distribution of ERA funding after the implementation of self-attestation flexibility the Department’s decision to provide “even more explicit permission for grantees to rely on applicant’s self-attestations without further documentation.”⁴

In a subsequent letter, the Department directed grantees who were low performing in terms of speed of ERA distribution to submit a program improvement plan that included a response explaining “whether they have implemented the best practices described in the Department’s guidance, including the use of self-attestations.” The Department warned that the lowest performing grantees would be subject to reallocation.⁵ If NCORR distributed \$803,160 in ineligible payments, it was not because NCORR did not have the required controls in place to prevent fraud, waste, and abuse. Rather, NCORR employed the controls that were explicitly recommended and encouraged by the Department at the time.

Third Party Investigative Reviews

The draft notice from OIG relies in part on the findings of third-party fraud investigators. But a preliminary review of the five cases cited in the draft notice revealed that the third-party fraud investigators failed to determine whether checks issued by NCORR were cashed or cancelled. As a result, the third-party fraud investigators—and by extension, the draft notice—overstated the total alleged fraudulent amount by including cancelled checks.

Based on a preliminary review alone, NCORR identified five cancelled checks, totaling more than \$55,000, related to the five cases: Check numbers (b) (6) (See Attachment G). NCORR is currently re-examining all cases reviewed by the third-party fraud investigators team to determine whether they missed other cancelled checks or failed to take other investigative steps.

Failure to verify check redemption status introduces material error into any loss calculation and undermines the fairness and factual basis of the recoupment request. For this reason, we respectfully assert that no repayment demand should be made

³ This attachment is the NCORR Landlord Tenant Agreement, which includes an affirmation under penalty of perjury that the facts set forth are true and accurate. (Section C(1)(g)).

⁴ “Treasury Announces Seven Additional Policies to Encourage State and Local Governments to Expedite Emergency Rental Assistance,” U.S. Department of the Treasury, 7/2021

⁵ Letter to Emergency Rental Assistance Program Grantees, Deputy Secretary of the Treasury, 10/4/21

Grantee Response

based on the third-party investigators' estimated fraud totals until the above-referenced review by internal auditors for NCORR is complete.

Conclusion and Request

In conclusion, we respectfully assert that ERA funds were distributed in compliance with the Department's guidelines, NCORR fulfilled its obligations under the subrecipient agreement (See **Attachment I**); and payments made by NCORR were eligible at the time of disbursement based on federal guidance.

We therefore respectfully request that OIG recognize the good faith compliance described above and reconsider its recoupment demand.

Cc: Bob Taylor, Executive Advisor Office of Audit

OIG Note: The Attachments referenced in the response are not included in this Appendix due to their volume and sensitive personal information contained therein. The Attachments are summarized in footnotes to the section "Grantee Response" starting on page 7 of the Notice of Recoupment. Where applicable, we provide an evaluation of the Attachment.