



**STATE OF NORTH CAROLINA  
OFFICE OF STATE BUDGET AND MANAGEMENT**

PAT MCCRORY  
GOVERNOR

ART POPE  
STATE BUDGET DIRECTOR

July 18, 2013

VIA HAND DELIVERY, CERTIFIED MAIL RETURN RECEIPT REQUESTED

Ms. Elaine Matthews  
Senior Vice President  
Rural Economic Development Center, Inc.  
4021 Carya Drive  
Raleigh, North Carolina 27610

Dear Ms. Matthews:

The North Carolina Rural Economic Development Center, Inc. ("REDC") has received state aid grants in the amount of \$363,746,228 for Fiscal Years 2005-2006 through Fiscal 2012-2013. (See Schedule A). A report by REDC shows encumbered or restricted funds available for sub-grants from REDC as of December 31, 2012 in the amount of \$112,984,320.46.

N.C. Gen. Stat. §143C-6-23(d) requires that the Office of State Budget and Management ("OSBM") adopt rules for the uniform administration of grants, and specifying the policies and procedures that shall be included in the rules. Said rules have been issued, effective July 1, 2005, as amended October 1, 2007. See NC Administrative Code, Title 9, Chapter 3, Subchapter 03M – Uniform Administration of State Grants ("State Grants Rules").

The North Carolina State Auditor released the "North Carolina Rural Economic Development Center, Inc., Financial Related Audit, State Grant Management and Sub-Recipient Monitoring, July 2013" on July 17, 2013 ("REDC Audit").

The REDC Audit made numerous and specific findings which constitute a failure of REDC to comply with N.C. Gen. Stat. §143C-6-23(d)(3), (4), (5), and (9), and the corresponding State Grants Rules. The State Auditor found REDC's response to the REDC Audit to be insufficient in that it did not acknowledge agreement/disagreement with the findings and provided no corrective action plan to address the findings. Furthermore, the State Auditor stated repeatedly that REDC's response to the REDC Audit were not true and "misleads the reader" of the REDC Audit.

Based upon the REDC Audit findings and conclusions, OSBM, in consultation with the North Carolina Department of Commerce as the administering State agency, and with its approval and direction, does hereby exercise its authority provided by N.C. Gen. Stat. §143C-6-23(f), to notify and direct REDC as follows:

- 1) Effective this date, and until such time as expressly revised, OSBM is suspending disbursement of grant funds to the Rural Economic Development Center, Inc.
- 2) Effective this date, the Rural Economic Development Center, Inc. is directed to cease disbursement of State funds to sub-grantees.

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- 3) Effective this date, the Rural Economic Development Center, Inc. is directed to cease any other expenditures of said State funds, including but not limited to compensation of employees or third parties, and any other administrative or operational expenses.

The Office of State Budget and Management is considering the further step of recovering State funds in possession of REDC and directing the transfer of said funds to the State Treasurer pursuant to N.C. Gen. Stat. §143C-6-23(f). Whether or not OSBM makes the decision to recover State funds from REDC depends upon REDC's compliance with the three items above; a detailed and truthful response to the REDC Audit; and other corrective actions by REDC that can be effective immediately.

Since July 1, 2005, REDC has received State funds and grants totaling \$363,746,228. According to REDC's report "Obligated Grant Balance, June 30, 2012 and December 31, 2012," REDC had a projected balance of \$112,984,320.46. This amount, plus any unobligated funds, less grants and expenditures made between December 31, 2012 and this date, should be the minimum amount available for recovery and transfer to the State Treasurer.

Pursuant to N.C. Gen. Stat. §143-C-2-1(b), OSBM further directs REDC to provide its most recent financial statements including, unaudited or internal, preliminary or partial, Statements of Financial Position, Statement of Activities, grants made year to date, and Obligated Grant Balance, for its Fiscal Year ending June 30, 2013, and the same for its year to date financial information for the period ending on or about May 30, 2013.

Pursuant to N.C. Gen. Stat. §143-C-2-1(b), OSBM also directs REDC to provide a listing of all of its financial accounts, including bank checking accounts, savings accounts, money market accounts, brokerage accounts and other investment accounts. The listing of the accounts should identify the financial institution, contact information for the financial institution, the last four digits of the account, and the balance of the account as of the end of the monthly period on or about May 30, 2013; and, if available, for the period ending on or about June 30, 2013. Also provide copies of the most recent monthly statements, for the period ending on or about June 30, 2013 or May 30, 2013, for these financial accounts.

Please deliver the above information to OSBM at its office, 5<sup>th</sup> Floor, Administration Building, 116 W. Jones Street, Raleigh, North Carolina by 1:00 PM, Friday, July 19, 2013. If not all of the information is available, please provide what is available and an explanation for not providing the remaining information. Given these are standard business records, all the requested information and documents should be readily available.

I would appreciate an immediate response and full cooperation in determining the amount of state funds retained by REDC and corrective actions being taken by REDC, in order to ensure that state funds are held and used for their intended purpose for the benefit of the people of North Carolina, in compliance with the law.

Sincerely,

This the 18 day of July, 2013

By:



Art Pope

State Budget Director

**Schedule A**  
**NC Rural Economic Development Center**  
**8-Year Appropriation Disbursement Analysis**

FY 2005-06		FY 2006-07		FY 2007-08		FY 2008-09		FY 2009-10		FY 2010-11		FY 2011-12		FY 2012-13	
Appropriation	Disbursement	Appropriation	Disbursement	Appropriation	Disbursement	Appropriation	Disbursement	Appropriation	Disbursement	Appropriation	Disbursement	Appropriation	Disbursement	Appropriation	Disbursement
Amount in Dollars	Date	Amount in Dollars	Date	Amount in Dollars	Date	Amount in Dollars	Date	Amount in Dollars	Date	Amount in Dollars	Date	Amount in Dollars	Date	Amount in Dollars	Date
25,277,607	7/13/2005	24,552,607	10/4/2006	143,802,607	9/12/2007	78,059,583	8/25/2008	24,407,436	9/14/2009	22,765,814	8/2/2010	25,376,729	8/17/2011	23,619,194	10/1/2012
400,217	8/10/2005	8,184,202	10/8/2006	35,950,652	10/8/2009	13,009,930	6,504,965	1,892,672	10/12/2009	2,350,654	8/2/2010	2,114,727	8/22/2011	7,873,064	11/13/2012
7,625,434	10/19/2005	2,046,050	11/15/2007	11,983,551	10/8/2008	6,331,499	6,038,776	2,059,340	10/19/2009	2,278,685	9/9/2010	2,114,727	9/14/2011	1,968,266	12/10/2012
2,106,467	11/16/2005	2,046,050	12/11/2007	11,983,551	11/13/2008	6,038,776	12/7/2009	1,934,339	10/14/2010	2,278,685	10/13/2011	2,114,727	10/13/2011	1,968,266	1/9/2013
2,106,467	12/5/2005	2,046,050	2/11/2008	11,983,551	12/15/2008	6,038,776	12/7/2009	1,934,339	12/6/2010	4,557,370	11/7/2011	2,114,727	11/7/2011	1,968,266	2/6/2013
2,106,467	2/8/2006	2,046,050	3/3/2008	11,983,551	1/26/2009	5,778,577	2/8/2010	1,934,339	2/14/2011	2,162,994	12/5/2011	2,114,727	12/5/2011	1,968,266	3/11/2013
2,106,467	3/15/2006	2,046,050	4/9/2008	11,983,551	3/9/2009	5,388,250	3/15/2010	1,934,339	3/15/2010	2,162,994	1/5/2012	2,114,727	1/5/2012	1,968,266	4/3/2013
2,106,467	4/19/2006	2,046,055	5/8/2008	11,983,551	4/27/2009	5,388,280	4/14/2010	1,998,689	4/11/2011	2,162,994	2/8/2012	2,114,727	2/8/2012	1,968,266	5/6/2013
4,212,937	6/5/2006	6/4/2008	11,983,547	5/18/2009	5,388,279	6/10/2009	6/9/2010	1,940,770	5/12/2010	2,162,993	5/9/2011	2,114,727	5/3/2012	1,968,268	6/12/2013
<b>Total</b>	<b>25,277,607</b>	<b>Total</b>	<b>24,552,607</b>	<b>Total</b>	<b>143,802,607</b>	<b>Total</b>	<b>71,034,189</b>	<b>Total</b>	<b>23,289,284</b>	<b>Total</b>	<b>26,794,011</b>	<b>Total</b>	<b>25,376,729</b>	<b>Total</b>	<b>23,619,194</b>

7,025,392

1,118,152

971,803

4 Appropriated but not disbursed

4 This represents the difference between the BD307 Certified Budget and Actual Disbursement. FY 2008-09, a 9% budget reduction was taken to help balance the budget. FY 2009-10 appropriation was reduced by 5% to implement Executive Order No. 21 issued by the Governor of North Carolina on August 14, 2009. FY 2010-11 was reduced by a 1% annualized management flexibility reduction per Senate Bill 897 Session Law 2010-31 Section 2.3.(i) as a result of a partial restoration of Federal Medical Assistance Percentage (FMAP) funds for states through June 2011 enacted in federal legislation on August 11, 2010 and a directive from the Governor to reduce our General Fund appropriations by an additional 2.5% which was a total 3.5% reduction of our agency's certified budget to lessen the impact of the estimated deficit North Carolina faced in the following biennium.

1 The original 2006-2007 certified budget was \$25,052,607. During the short session, the revised 2006-2007 certified budget was decreased by \$500,000. This figure represents the transfer from Commerce's State Aid to non-state entities. The recipient of these funds was the e-NC Authority. The e-NC Authority is a state authority housed and staffed by Rural Economic Development Center (REDC) that was established in 2000. It was formerly known as the Rural Internet Access Authority. Its focus was increasing connectivity in the state's 85 rural counties and distressed urban areas. Per Session Law 2003-425, House Bill 1194, Section 143B-437.46(f), REDC provided administrative and professional staff support for the e-NC Authority under contract which included acting as their fiscal agent.

2 The original 2007-2008 certified budget was \$25,052,607. This amount includes the following: a. Continuation budget of 24,302,607; b. Non-recurring appropriation of \$19m to expand the Economic Infrastructure Fund to establish and implement the Rural Economic Transit Program which provides grants and equity investments in severely distressed rural areas; c. Non-recurring appropriation of \$100m to provide grants to local government to address critical needs related to supplying drinking water and wastewater management; d. Non-recurring appropriation of \$500,000 to be allocated to the Agricultural Advancement Consortium for the purpose of assessing the numbers, composition and value of the equine industry, analyze the impacts of the industry on the State's economy and develop a comprehensive plan to maximize the economic opportunities presented by the industry.

3 The original 2008-2009 certified budget was \$24,302,607. During the short session, the revised 2008-2009 certified budget was increased by \$53,756,974. This includes the following: a. Reduces the pass-through appropriation by 1% (\$243,026); b. \$50m in non-recurring funds to provide grants to local units of government to address critical needs related to supplying drinking water, wastewater treatment, and natural gas lines; and c. \$4m in non-recurring funds to provide grants for building reuse and restoration projects, for economic recovery and revitalization programs in small towns, and for innovative economic development and agriculture diversity projects.

4 The original 2010-2011 certified budget was \$23,832,436. During the short session the revised 2010-2011 certified budget was increased by \$3,933,378. This includes the following: a. A reduction of pass-through appropriation on a recurring basis for the center totaling \$1,191,622; b. Provided a non-recurring appropriation of \$3,125m for the building reuse and restoration program; c. Provided a non-recurring appropriation of \$1m to continue the small business assistance fund; d. Provided a non-recurring appropriation of \$1m to provide assistance to farmers via grants of up to \$20k to improve energy efficiency on the farm, developing new markets, and developing new products.

5 The original 2012-2013 budget was \$25,367,729. During the short session, the revised 2012-13 certified budget was reduced by \$1,757,535. This includes the following: a. Reduces the operating budget on a recurring basis by \$3.25m and included a non-recurring expansion of \$2m; b. A recurring management flex reduction of \$507,535.