

Assessments of Revenues and Expenses Associated with the City's COVID-19 Response – Report No. 5

Report # 2023/24-06 | December 2023



City of
SACRAMENTO

Office of the City Auditor
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https://forms.cityofsacramento.org/f/Suggest_an_Audit_Form

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In the interest of public accountability and being responsible stewards of public funds, the City has established a whistleblower hotline. The hotline protects the anonymity of those leaving tips to the extent permitted by law. The service is available 24 hours a day, 7 days week, 365 days per year. Through this service, all phone calls and emails will be received anonymously by third party staff.

Report online at <http://www.cityofsacramento.ethicspoint.com> or call toll-free: 888-245-8859.

Table of Contents

Audit Fact Sheet	3
Introduction	4
Objective, Scope, and Methodology.....	4
Background	4
Coronavirus Relief Fund Expenditures.....	5
Coronavirus State and Local Fiscal Recovery Fund Administration and Expenditures.....	6
Administration of ARPA Funds.....	6
Status Update on ARPA Expenditures.....	9
Emergency Rental Assistance	10
Ongoing Monitoring of COVID-19 Revenues and Expenses	11
Emergency Rental Assistance Program Review	11
COVID-19 and the City’s Whistleblower Hotline	14
Department Response	16

AUDIT FACT SHEET

Assessments of Revenues and Expenses Associated with the City’s COVID-19 Response – Report No. 5

December 2023 | Report No. 2023/24-06

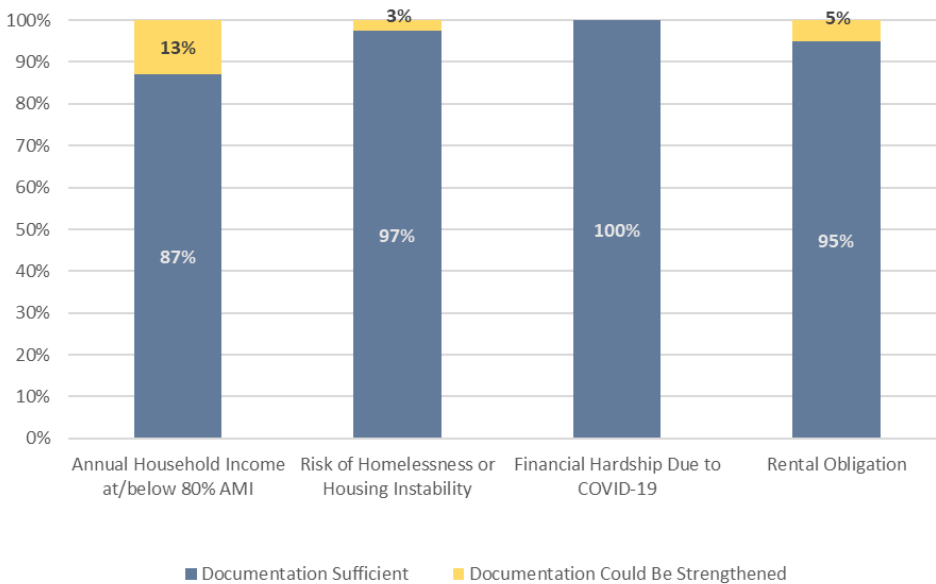
Background

The City of Sacramento may be subject to future audits of state and federal funds, such as the Coronavirus Relief Fund or the Coronavirus Local Fiscal Recovery Fund. These audits would likely be conducted by an Inspector General’s Office or the Government Accountability Office. The key to successfully withstanding any future audit will be the City’s ability to provide sufficient and appropriate documentation supporting the use of these funds.

Office of the City Auditor COVID-19 Activities

- Continuously updated the *City of Sacramento Regulatory and Internal Control Framework for the City’s Use of American Rescue Plan Funds* as City Council priorities are passed.
- Developed and executed pro-active auditing procedures for COVID-19 expenses and report findings to the City Manager’s Office for resolution.
- Received reports of fraud, waste, and abuse related to the COVID-19 pandemic through the City’s Whistleblower Hotline.
- Other activities, as requested.

Documentation of Eligibility Requirements For SERA2 Applications Testing Results



Objective, Scope, and Methodology

The objective of these assessments is to help the City prepare for State and Federal audits of the City’s use of emergency funding. This includes pro-active and real-time assistance in complying with regulatory requirements, securing reimbursements, tracking disaster recovery costs, and evaluating whether funds are being used efficiently and effectively.

Source: Auditor generated based on 39 assistance requests across 29 applicants in SHRA’s SERA2 portal as of April 15, 2022, SHRA’s SERA2 workplan, and the U.S. Treasury’s Emergency Rental Assistance FAQs guidance document.

Introduction

In accordance with the City Auditor’s 2022-23 Audit Plan, we have completed the *Assessments of Revenues and Expenditures Associated with the City’s COVID-19 Response – Report No. 5*; this report is the fifth and final in the series. We believe this report meets our objectives in accordance with Generally Accepted Government Auditing Standards Section 9.03.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The City Auditor’s Office would like to thank the City Manager’s Office, the City Attorney’s Office, and the Sacramento Housing and Redevelopment Agency for their cooperation during the audit process.

Objective, Scope, and Methodology

The City of Sacramento (City) may be subject to future audits of state and federal funds received by the City. These audits would likely be conducted by an Inspector General’s Office or the Government Accountability Office.

The objective of these assessments is to help the City prepare for state and federal audits of the City’s use of emergency funding. The key to successfully withstanding any future audit will be the City’s ability to provide sufficient documentation regarding the appropriate use of state and federal funds. The scope and methodology of these assessments includes pro-active and real-time assistance in complying with regulatory requirements, securing reimbursements, tracking disaster recovery costs, and evaluating whether funds are being used efficiently and effectively.

Background

Since the COVID-19 outbreak was declared a national emergency in March 2020, the federal government passed several laws and established multiple funds to support the country’s recovery from the pandemic. The City received funding from the federal government for its COVID-19 response, including dollars from the Coronavirus Relief Fund, Coronavirus State and Local Fiscal Recovery Fund, and the Emergency Rental Assistance Funds.

For information on the COVID-19 public health emergency, the City’s initial pandemic response, the establishment of and eligible uses for these various funds, please refer to our four previous reports, *Assessments of Revenues and Expenditures Associated with the City’s COVID-19 Response– Report No. 1* through *Assessments of Revenues and Expenditures Associated with the City’s COVID-19 Response– Report No. 4*, which are available on our website:

<http://www.cityofsacramento.org/Auditor/Reports/Audit-Reports>.

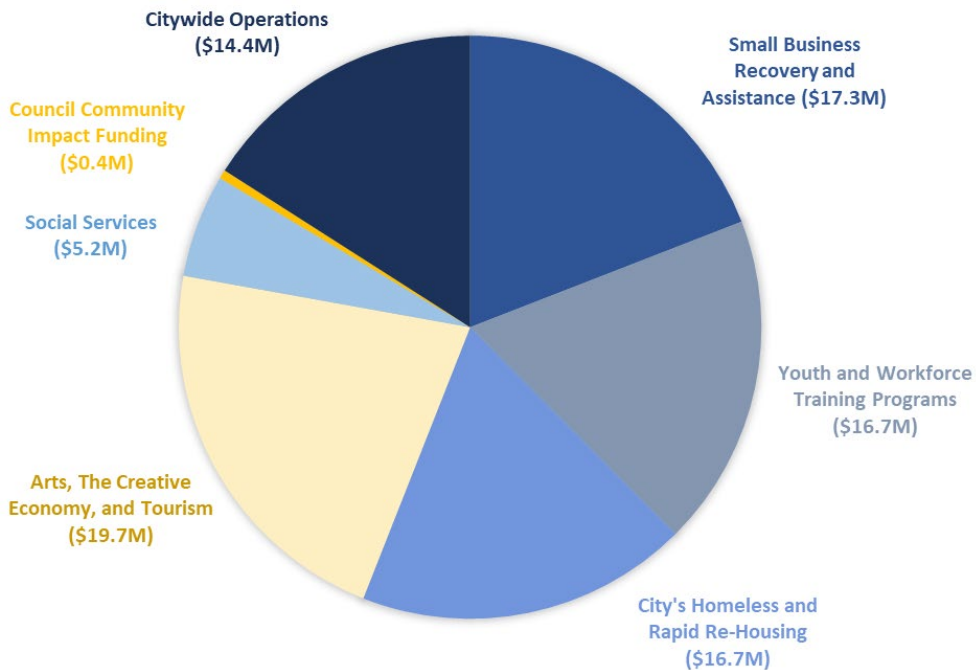
In addition, our office also released the *City of Sacramento Regulatory and Internal Control Framework for the City’s COVID-19 Response* in April 2020 and the *City of Sacramento Regulatory and Internal Control Framework for the City’s Use of American Rescue Plan Funds* in August 2021. We will continue to update the second framework as funding approvals for the American Rescue Plan Act Reinvestment Fund, as described later in this report, are memorialized by the City Council. Both of these frameworks can be found on our website: <http://www.cityofsacramento.org/Auditor/Reports/IBA-Reports>

The following sections provide status updates on the spending and administration of these recovery funds.

Coronavirus Relief Fund Expenditures

The City received approximately \$90 million from the Coronavirus Relief Fund (CRF) in April 2020, which was expended by December 2021. Figure 1 summarizes CRF expenditures by the various Council priority categories.

Figure 1: Priorities Funded by the Coronavirus Relief Fund



Source: Auditor generated based on City Council staff reports and data from the City’s financial system as of March 15, 2023.
 Note: While the data was pulled March 15, 2023, the City expended the funds by December 2021.

As depicted above, the majority of these CRF expenditures went to a variety of community programs as well as towards funding some Citywide operations.

Coronavirus State and Local Fiscal Recovery Fund Administration and Expenditures

The City was eligible for a total of \$112 million in Coronavirus State and Local Fiscal Recovery Funds (SLFRF)¹ under the American Rescue Plan Act (ARPA); the first allotment, approximately \$56 million, was received in May 2021 and the second and final portion of this funding, another \$56 million, was received in June 2022.

In September 2021, the City Council adopted the ARPA Framework and Funding Priorities (ARPA Framework), which established funding priorities for deploying these additional federal resources. Following the adoption of the ARPA Framework, Resolution 2021-0313 was effected in October 2021 to authorize funding received through SLFRF to be expended on the provision of government services and the resulting available resources, totaling \$112 million, to be budgeted in the ARPA Reinvestment Fund to assist with COVID-19 recovery and reopening. To date, the City has expended 100 percent of its SLFRF funds for eligible government services and developed a process for spending the ARPA Reinvestment Fund. While federal rules do not apply to the ARPA Reinvestment Fund, it has been the City's intent to generally follow federal guidance in expending these funds. As such, the City's Office of Innovation and Economic Development compiles funding proposals to review for consistency with the objectives specified in the various guidance documents² issued by the United States Department of the Treasury (U.S. Treasury). Our office participates in the process by reviewing the eligibility of proposed expenses and programs from an audit perspective, identifying potential risks, and providing recommendations for mitigating those risks. As of March 15, 2023, our office has reviewed 71 ARPA programs for eligibility.

Administration of ARPA Funds

To provide standardized guidance to City staff regarding the solicitation, award, and management of ARPA grants, as well as to establish consistent standards and procedures to facilitate centralized reporting on the spending and performance of these ARPA grant awards, the City Manager's Office drafted the ARPA Grants Management Policy (Policy), which was finalized in May 2023. As stated in the Policy, the City Manager's Office also established the ARPA Program Office as a centralized control point and clearinghouse for reviewing, coordinating, and approving all ARPA projects, funding solicitations, technology systems, grant agreements, and reporting templates deployed to meet the City's ARPA objectives. In addition, the ARPA Program Office provides technical assistance to City staff and grantees to support the implementation of the Policy.

¹ In our previous reports, *Assessments of Revenues and Expenditures Associated with the City's COVID-19 Response— Report No.3* and *Assessments of Revenues and Expenditures Associated with the City's COVID-19 Response— Report No.4*, this allocated funding was designated as the Coronavirus Local Fiscal Recovery Funds (CLFRF). We updated the name and abbreviation of this fund to be consistent with the naming convention in other sources.

² The most recent version of the SLFRF Frequently Asked Questions (FAQs) was released on April 10, 2023 and clarifies that the end of the COVID-19 National Emergency, effective April 10, 2023, does not affect the revenue loss eligible use category, which is the category under which the City opted to expend its SLFRF funds. These updated FAQs are available at: <https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-FAQ.pdf>.

To ensure the City’s compliance with federal requirements and to support the ARPA Program Office in its administration of the City’s SLFRF and ARPA Reinvestment funds (ARPA funds), the City competitively selected a consultant team and executed a professional services agreement with Crowe LLP (Crowe) in April 2022. The following figure outlines Crowe’s workplan in regards to supporting the City with the tracking, monitoring, reporting, and management of ARPA funds.

Figure 2: Summary of Consultant Workplan for Supporting the City in Administering ARPA Funds



Source: Auditor generated based on consultant contract and project work plan.

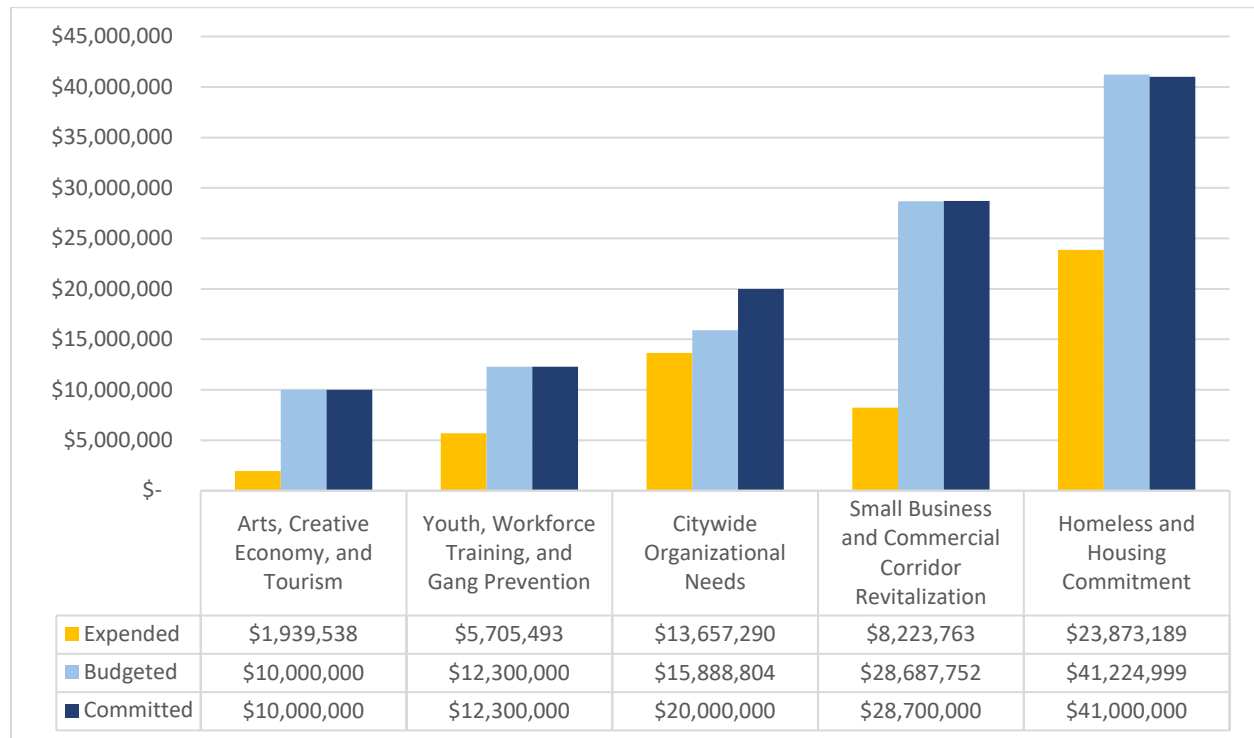
Note: The Uniform Guidance, which is mentioned in the "Ongoing Compliance and Monitoring" section, is a government-wide framework for grants management that sets forth an authoritative set of rules and requirements for Federal awards.

In April 2023, Crowe’s contract was extended for another year. Another contract supplement was executed in May 2023 to clarify the time of performance and expand the scope to include the development of performance and racial equity dashboards.

Status Update on ARPA Expenditures

A City Council staff report from May 2023 stated that approximately \$111.6 million, or 99.4 percent, of the ARPA Reinvestment Fund has been committed to approved expenditures. While these resources have been earmarked, actual expenditures depend on when funds are disbursed and subsequently reflected in the City’s financial system. The City also maintains a public dashboard³ that provides periodic updates on the spending status of the ARPA Reinvestment Fund and gives a description of each funded program and project. The figure below summarizes actual program expenditures and budgeted amounts as of October 11, 2023 from the City’s financial system, as well as committed (earmarked) amounts for each of the City Council’s funding priorities.

Figure 3: ARPA Reinvestment Fund Spending Status by City Council Priorities



Source: Auditor generated based on data from the City’s financial system and the City’s American Rescue Plan Community Investment Dashboard as of October 11, 2023.

As approximately 62.5 percent of current ARPA Reinvestment Fund grants are anticipated to close in 2023, Crowe developed a formal process to assure compliance with closeout requirements and to provide technical support to grantees and grant managers. The process includes review of closeout

³ The dashboard is assessable from the City’s American Rescue Plan Community Impact Hub site at <https://storymaps.arcgis.com/stories/4ebefae25164fb2a8f8dd1dfc2632fa>.

reports, confirmation of compliance, issuance of a closeout letter to the grantee, and completion of a project closeout form by the program lead.

Emergency Rental Assistance

Both the Consolidated Appropriations Act, 2021 and the American Rescue Plan Act provided the City with federal Emergency Rental Assistance (ERA) funds to support the City’s COVID-19 response. The City also received funds from the State of California to assist tenants and landlords in California who were impacted by COVID-19. These resources were derived from two ERA programs (ERA1 and ERA2) and used to provide financial assistance to eligible households.

The City contracted with the Sacramento Housing and Redevelopment Agency (SHRA) to administer these funds under the local Sacramento Emergency Rental Assistance Phase 2 (SERA2) program. To meet the volume of application requests for the program, the City also applied to receive reallocated funds from the federal government and received almost \$7 million in additional funds, which were also administered by SHRA. As of March 14, 2023, approximately \$65.67 million in ERA funds, the total contracted out to SHRA at the time, have been expended under the SERA2 program. An additional allocation of approximately \$1.01 million was contracted out to SHRA in May 2023. The following figure details the City’s allocation of its ERA funds.

Figure 4: Allocation of Emergency Rental Assistance Funds

RECOVERY FUND	FEDERAL ALLOCATION		STATE ALLOCATION		TOTAL BY RECOVERY FUND
	Initial	Additional	Initial	Additional	
Consolidated Appropriations Act, 2021 (ERA1)	\$15,270,934	\$4,734,418	\$16,435,224	\$1,777,464	\$38,218,040
American Rescue Plan Act (ERA2)	\$12,083,175	\$2,124,076	\$14,325,541	\$0	\$28,532,792
TOTAL BY FEDERAL/STATE ALLOCATION	\$27,354,109	\$6,858,494	\$30,760,765	\$1,777,464	\$66,750,832

Source: Staff report from the March 14, 2023 City Council Meeting and City contracts with SHRA.

Note: Dollar amounts in this figure were not audited. Additionally, the additional funds from the state allocations are considered funds in addition to the initial allocation but are not reallocated funds.

The U.S. Treasury issued a set of Frequently Asked Questions (FAQs) as guidance regarding the requirements for the two Emergency Rental Assistance (ERA) programs. While the initial FAQs were

released on January 19, 2021 and only covered ERA1, it has since been revised several times, with the most recent version from May 10, 2023 covering both ERA programs⁴.

Ongoing Monitoring of COVID-19 Revenues and Expenses

Ongoing monitoring enables an organization to continually review processes for adherence to and deviations from their intended levels of performance and effectiveness, assess the effectiveness of controls and detect associated risks, and execute timely quantitative and qualitative risk-related decisions. Our four prior reports, which are linked in the background section, describe various assessments of the City's COVID-19 revenues and expenses for the purposes of on-going monitoring. In the section below, we provide a review of the City's administration of ERA funds.

Emergency Rental Assistance Program Review

Instrumental to appropriately dispersing the City's ERA funds is the determination and documentation of the eligibility of those who apply for financial rental assistance. Consistent with federal guidance, the Sacramento Housing and Redevelopment Agency (SHRA), who manages the City's Emergency Rental Assistance (ERA) funds, established a workplan and quality control procedure to govern the implementation of the Sacramento Emergency Rental Assistance Phase 2 (SERA2) program. Both federal guidance and SHRA's workplan define the requirements for an eligible household and the types of documentation that would be acceptable to support eligibility determinations.

SHRA has processed over 11,000 City-related assistance requests for the SERA2 program as of April 15, 2022⁵. We selected assistance requests⁶ made by 50 applicants in SHRA'S SERA2 portal for review to ensure that eligibility requirements have been met and relevant documentation has been retained. We were unable to conduct an in-depth review of 21 applicants in our sample as their profiles could not be found in the portal despite high-level data being available⁷. For the remaining 29 applicants, we found that 97.5 percent of the assistance requests reviewed, totaling approximately \$268,200 in disbursed amounts across 38 assistance requests, appeared to meet all eligibility requirements based on the documentation available in the portal. The other 2.5 percent, which totaled approximately \$20,450 for one assistance request, met three of the four eligibility requirements. For the one remaining eligibility requirement, a reexamination of income calculations may be beneficial to clarify eligibility due to complexities in the methodology for calculating income.

⁴ Emergency Rental Assistance Frequently Asked Questions as of May 10, 2023 can be found at:

<https://home.treasury.gov/system/files?file=136/FAQs-05102023.pdf>

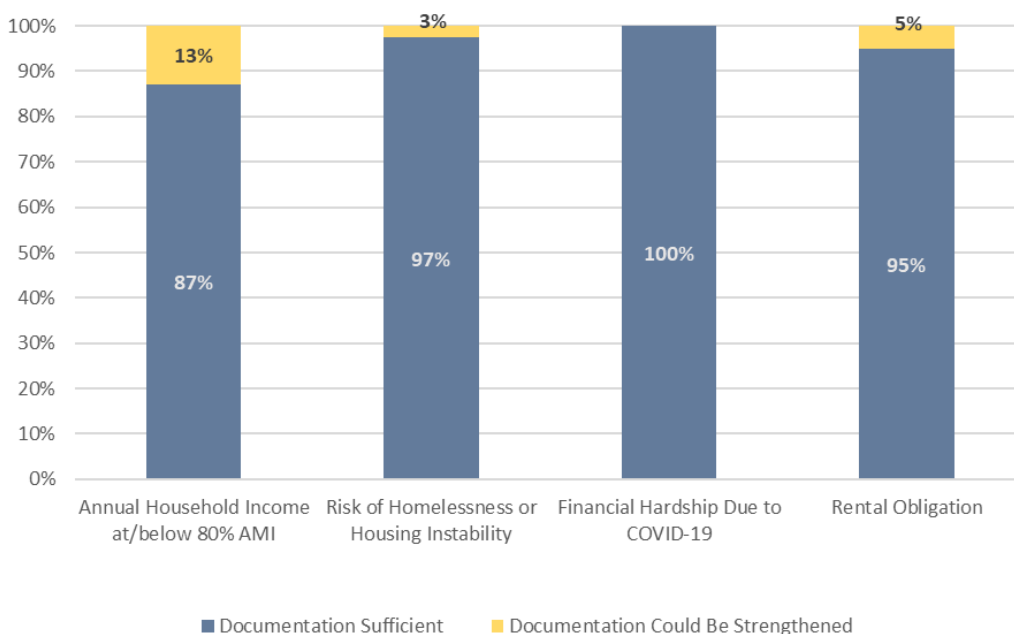
⁵ This was the date on which we pulled application data from SHRA's SERA2 portal. As noted in the background section, SHRA has since processed more City-related applications.

⁶ Each applicant may submit additional application requests after their initial request to obtain more rental assistance.

⁷ At the time of testing, we were unable to find these profiles. As noted later in this section, we were later able to find these profiles by following a technical workaround suggested by SHRA but did not conduct additional testing.

The following figure displays a breakdown of documentation sufficiency for all 39 assistance requests reviewed. Overall, we found that documentation was sufficient across all four eligibility requirements for the majority of the assistance requests, with an average documentation sufficiency rate of 95 percent. In contrast, some assistance requests could benefit from additional or stronger documentation, with an average rate of 5 percent across all four eligibility requirements.

Figure 5: Documentation of Eligibility Requirements For SERA2 Applications



Source: Auditor generated based on 39 assistance requests across 29 applicants in SHRA’s SERA2 portal as of April 15, 2022, SHRA’s SERA2 workplan, and the U.S. Treasury’s Emergency Rental Assistance FAQs guidance document.

In addition to evaluating the documentation of eligibility requirements, we determined whether two program integrity procedures described in SHRA’s workplan were being consistently implemented. One such procedure is to acquire photo identification for the tenant and ensure that the documentation matches the information provided in the application⁸. For all 39 assistance requests, we found that SHRA retained sufficient documentation to verify the tenant’s identity and ensured that it matched the information in the respective applications. Another procedure was for staff to conduct quality control reviews to confirm whether files are processed accurately to prevent inaccurate payments. We found quality control reviews were noted in the portal by caseworkers for approximately 79.5 percent of the assistance requests. For 18 percent of the assistance requests, a quality control review was not specified in the case notes while the remaining 2.5 percent had not reached the stage in the review process to

⁸ Applications are per applicant. As noted earlier, each applicant may submit multiple assistance requests under the same application number.

warrant a quality control review. Although the quality control reviews were not specifically mentioned in all the case notes for the assistance requests we reviewed, we found that case notes were generally well-maintained and demonstrated knowledge of the program procedures.

According to federal guidance, ERA administrators must also have controls in place to prevent fraud. SHRA’s workplan details several fraud prevention measures, one of which is a data check for duplicate street addresses when applications are uploaded into the portal for processing. This acts to prevent applicants from receiving rental assistance more than once for the same rental obligation owed, which not only constitutes abuse of the program but also limits the available funds that are intended to assist eligible households. To determine whether the portal was accurately analyzing the inputted addresses for duplication, we performed independent testing of City-related applications in the SERA2 program. Upon review of the 8,672 applications⁹, approximately 92 percent did not indicate reason for further review as potential duplicates. We then conducted a more in-depth review of ten percent of the remaining applications. As seen in figure 6, 17 applications were resolved while only 2 remain unresolved and may be potential duplicates. We could not determine whether the other 50 applications included potential duplicates as these applications or their potential duplicate could not be found in the portal¹⁰.

Figure 6: Outcome of Address Duplication Review for SERA2 Applications

Reason for Review	Resolved	Unresolved	Could Not Determine	Sample Total
More Than 1 Apartment Number or Address Per Application	2	0	0	2
Inconsistent Apartment Number Format	2	0	0	2
Blank Apartment Numbers	7	0	4	11
More Than 1 Application Per Address	6	2	46	54
Total by Resolution	17	2	50	69
Total by Resolution (%)	24.64%	2.90%	72.46%	100.00%

Source: Auditor generated based on applications in SHRA’s SERA2 portal as of October 5, 2022 and SHRA’s SERA2 workplan.

Note: A duplicate is counted as each additional application that contains the same address for the same applicant covering the same months in which financial assistance was requested and provided.

⁹ Applications are per applicant. As noted in our eligibility testing, each applicant may submit multiple assistance requests under the same application number.

¹⁰ At the time of testing, we were unable to find the profiles. As noted later in this section, we were later able to find these profiles by following a technical workaround suggested by SHRA but did not conduct additional testing.

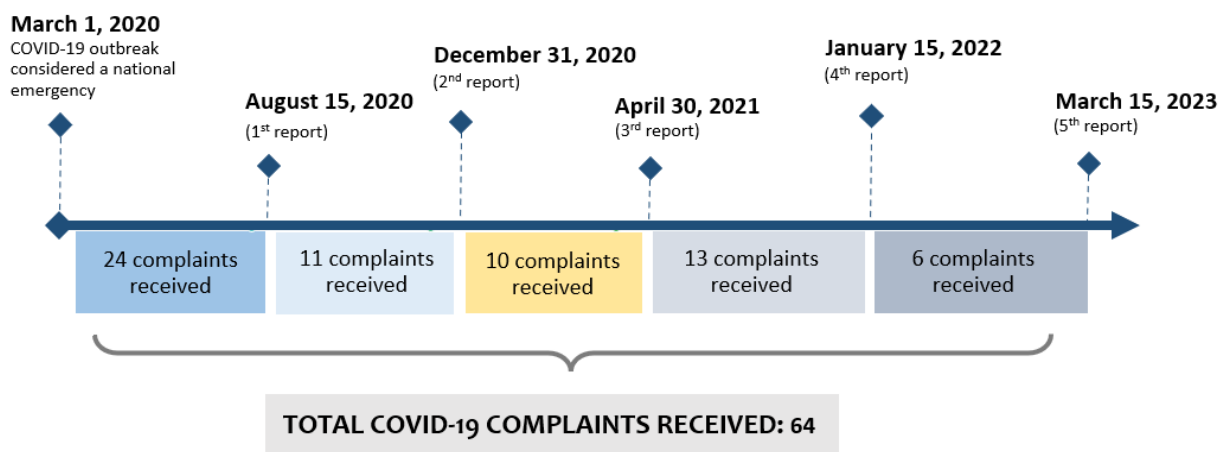
Despite some issues with finding applications in the portal, which was also noted in our eligibility review, the fraud control generally appeared to be working as intended. Notes within the resolved applications show that caseworkers indicate whether a duplicate is found during the course of their review.

The results of our SERA2 eligibility and address duplication reviews were communicated to SHRA and the Office of Innovation and Economic Development in June 2023 for further evaluation. SHRA confirmed that the portal has some limitations when searching for applications and suggested a technical alternative to find the applications within our testing samples. Upon using the technical alternative, we were able to find the remaining 21 applicant profiles in our sample for eligibility testing as well as the 43 applicant profiles in our sample for address duplication testing.

COVID-19 and the City’s Whistleblower Hotline

In addition to conducting continuous monitoring, our office manages allegations of fraud, waste, or abuse related to the COVID-19 pandemic received through the City’s Whistleblower Hotline. The City’s Whistleblower Hotline has received an additional 6 complaints related to COVID-19 since our *Assessments of Revenues and Expenditures Associated with the City’s COVID-19 Response– Report No. 4*, with a cumulative total of 64 COVID-19 complaints received as of March 15, 2023. Figure 7 details the dates and associated *Assessments of Revenues and Expenditures Associated with the City’s COVID-19 Response* reports in which we reported the number of COVID-19 complaints received since the start of the COVID-19 public health emergency.

Figure 7: Timeline of COVID-19 Whistleblower Complaints Received as of March 15, 2023



Source: Auditor generated based on data from EthicsPoint as of March 15, 2023.
 Note: One complaint received between December 31, 2020 and April 30, 2021 was not categorized as a COVID-19 complaint until February 2022.

For complaints that are related to employee health and safety, we refer the information to the City's Risk Management Division. For complaints related to the public's health and safety, we refer the information to Sacramento County. Any information referred to another department or agency is done in compliance with California whistleblower regulations, which require our office protect the identity of the whistleblower.

Department Response



MEMORANDUM

TO: Joyce Chih, Senior Fiscal Policy Analyst, Office of the City Auditor
FROM: MaryLiz Paulson, Director, HCV *mlp*
DATE: November 6, 2023
SUBJECT: Sacramento Emergency Rental Assistance (SERA) Program Audit

Thank you for working with us on the audit of the SERA Program. Our team worked really hard to disburse as much funding as possible to eligible households as quickly as possible within the programmatic laws and regulations so that the households could remain stably housed and not become homeless during the COVID pandemic. We were literally building the application and developing the software and review processes all at the same time!

Thank you for your review of the program's policies and practices. I will take your comments as an opportunity to continue to improve our processes.

Thank you for partnering with us to serve the residents of the City of Sacramento.