

Assessments of Revenues and Expenses Associated with the City's COVID-19 Response – Report No. 4

Report # 2021/22-07 | February 2022



City of
SACRAMENTO

Office of the City Auditor

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Whistleblower Hotline

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.

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AUDIT FACT SHEET

Assessments of Revenues and Expenses Associated with the City’s COVID-19 Response – Report No. 4

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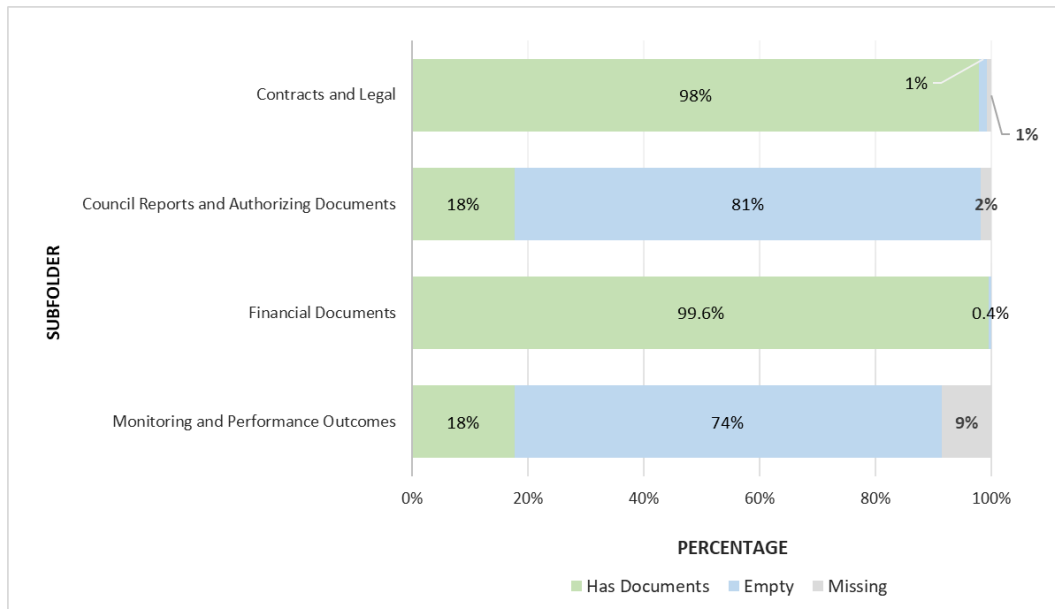
Background

The City of Sacramento will 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 update 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.
- Develop and execute pro-active auditing procedures for COVID-19 expenses and report findings to the City Manager’s Office for resolution.
- Investigate reports of fraud, waste, and abuse related to the COVID-19 pandemic received through the City’s Whistleblower Hotline.
- Other activities, as requested.

Results of Testing for Documentation in the City’s Central Repository



Source: Auditor generated based on the City’s central repository for CRF documents.
 Note: Data as of December 28, 2021. Generated based on 733 entity folders and 2,932 subfolders.
 4.8 percent of the total number of “Council Reports and Authorizing Documents” folder were considered to have documents only due to documents uploaded in the parent project folder.

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.

Introduction

In accordance with the City Auditor's 2021-22 Audit Plan, we have completed the *Assessments of Revenues and Expenditures Associated with the City's COVID-19 Response – Report No. 4*. This report is the fourth in a series that will be released as the Office of the City Auditor fulfills the objectives identified in the Objective, Scope, and Methodology section of this report. We believe this report meets our objectives in accordance with Generally Accepted Government Auditing Standards Section 8.128.

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 project managers for their cooperation during the audit process.

Objective, Scope, and Methodology

The City of Sacramento (City) will 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 became eligible to receive funding from the federal government and has used these funds in its COVID-19 response. The figure below summarizes background information on and the spending status of federal funds received or to be received by the City.

Figure 1: Summary of City’s COVID-19 Federal Funds

Enacting Legislation	Coronavirus Aid, Relief, and Economic Security Act (CARES Act)	Consolidated Appropriations Act, 2021	American Rescue Plan Act (ARPA)	American Rescue Plan Act (ARPA)
Date Passed	March 27, 2020	December 27, 2020	March 11, 2021	March 11, 2021
Fund Established	Coronavirus Relief Fund (CRF)	Emergency Rental Assistance (ERA1)	Emergency Rental Assistance (ERA2)	Coronavirus Local Fiscal Recovery Fund (CLFRF)
Fund Amount	\$150 billion to States, Tribal governments, and units of local government with population exceeding 500,000	\$23.8 billion to States and units of local government	\$18.7 billion to States and units of local government	\$45.6 billion to metropolitan cities
City’s Allocation	\$90 million	\$15.3 million initially \$18.2 million through the state \$645,000 in reallocated funds	\$12.1 million initially \$14.3 million through the state	\$112.3 million
Spending Timeframe	Incurred between March 1, 2020 and December 31, 2021	Obligate at least 65 percent by September 30, 2021; available until September 30, 2022	Obligate at least 50 percent by March 31, 2022 to be eligible for reallocated funds; available until September 30, 2025	Incurred on or after March 3, 2021, obligated by December 31, 2024, and expended by December 31, 2026
Spending Status	100% expended	\$33.5 million disbursed as assistance (total of ERA1 and ERA2)	\$33.5 million disbursed as assistance (total of ERA1 and ERA2)	50% expended; \$12.7 million of ARPA Reinvestment Fund expended

Source: Auditor generated based on the CARES Act, the Consolidated Appropriations Act, 2021, the American Rescue Plan Act, U.S. Treasury documents, City staff reports, and City financial documents.

Note: Spending status is as of December 2021 for ERA1 and ERA2, and February 2022 for CRF and CLFRF. According to Resolution 2021-0313, funding received through CLFRF will be expended to provide government services and the resulting available resources will be budgeted in the ARPA Reinvestment Fund to assist with COVID-19 recovery and reopening.

Coronavirus Local Fiscal Recovery Funds Guidance Updates

To assist recipients of the Coronavirus Local Fiscal Recovery Funds (CLFRF) in the eligible use of funds, the United States Department of the Treasury (U.S. Treasury) issued a Fact Sheet, a set of Frequently Asked Questions (FAQs), and an Interim Final Rule (IFR) document in May 2021 as initial guidance. The U.S. Treasury has since released periodic updates to the FAQs¹ and a *Compliance and Reporting Guidance – State and Local Fiscal Recovery Funds*² specific to the recipient’s reporting responsibilities.

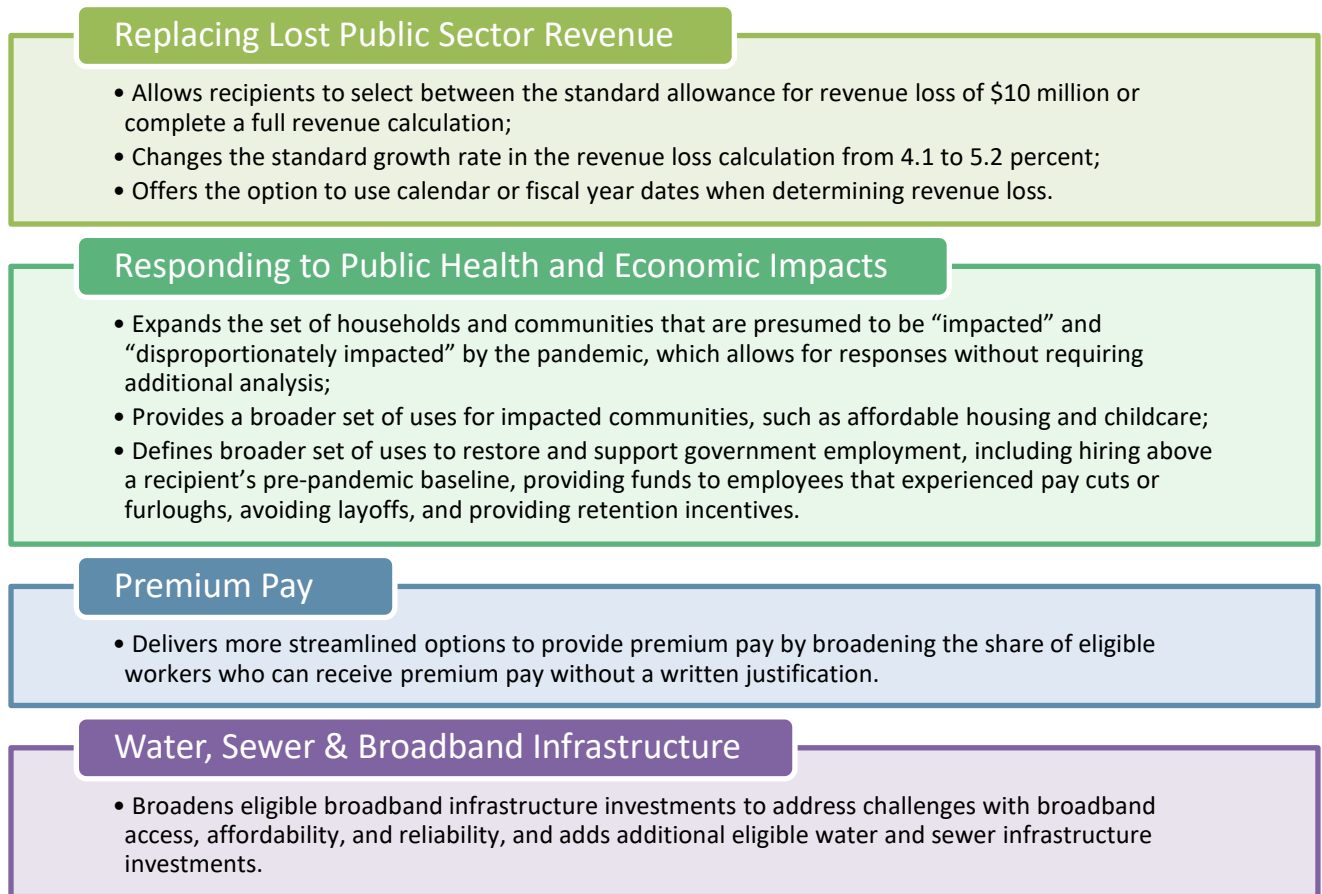
¹ The most recent version of the FAQs as of the release of this report can be found at: <https://home.treasury.gov/system/files/136/SLFRPFAQ.pdf>

² The most recent version of the *Compliance and Reporting Guidance – State and Local Fiscal Recovery Funds* as of the release of this report can be found at: <https://home.treasury.gov/system/files/136/SLFRF-Compliance-and-Reporting-Guidance.pdf>

On January 6, 2022, the U.S. Treasury published the Final Rule³ after seeking feedback from the public on the program rules previously established in the IFR⁴. The IFR became effective upon release in May 2021 while the Final Rule takes effect on April 1, 2022. Prior to this date, recipients may use funds consistent with requirements in either the IFR or the Final Rule.

In comparison to the IFR, the Final Rule allows for greater flexibility in the use of these funds. The following figure outlines some key changes and clarifications reflective of this increased flexibility within the four eligible use categories originally defined in the IFR.

Figure 2: Key Changes and Clarifications in the Final Rule



Source: Auditor generated based on the U.S. Treasury’s *Coronavirus State & Local Fiscal Recovery Funds: Overview of the Final Rule and the Interim Final Rule*.

³ The Final Rule can be found at: <https://home.treasury.gov/system/files/136/SLFRF-Final-Rule.pdf>

⁴ The Interim Final Rule can be found at: <https://www.govinfo.gov/content/pkg/FR-2021-05-17/pdf/2021-10283.pdf>

In addition to these clarifications and changes, the Final Rule reiterates restrictions on use that apply across all four eligible use categories. For local governments, prohibited uses include: (a) extraordinary contributions to a pension fund for the purpose of reducing an accrued, unfunded liability; (b) payments for debt service and replenishments of rainy day funds; (c) satisfaction of settlements and judgments; and (d) uses that contravene or violate ARPA, Uniform Guidance conflicts of interest requirements, and other federal, state, and local laws and regulations.

To guide recipients in navigating the Final Rule, the U.S. Treasury also released the *Coronavirus State & Local Recovery Funds: Overview of the Final Rule*⁵ and a *Statement Regarding Compliance with the Coronavirus State and Local Fiscal Recovery Funds Interim Final Rule and Final Rule*⁶, which respectively summarizes major provision in the Final Rule and describes the transition from compliance with the IFR to compliance with the Final Rule. As of the time of this report, the most recent versions of these various guidance documents and updates to the CLFRF program are available on the U.S. Treasury's website⁷.

Prior Reports

For more background information on the COVID-19 public health emergency, eligible uses for state and federal funding issued prior to January 2022, or the City's initial pandemic response, please refer to the three 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. 3*, on our website:

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

ARPA Regulatory and Internal Control Framework

To complement the *City of Sacramento Regulatory and Internal Control Framework for the City's COVID-19 Response* (COVID-19 framework) published in April 2020, our office released the *City of Sacramento Regulatory and Internal Control Framework for the City's Use of American Rescue Plan Funds* in August 2021. The purpose of this second framework, which was co-authored with the City Attorney's Office, is to describe the general regulatory and internal control framework the City of Sacramento will operate under for the City's use and distribution of funds received under the American Rescue Plan Act (ARPA). We continue to update this guidance as funding priorities are memorialized by the City Council. For the most recent version of this document and the initial COVID-19 framework, please visit our website:

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

⁵ The *Coronavirus State & Local Recovery Funds: Overview of the Final Rule* can be found at: <https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-Overview.pdf>

⁶ The *Statement Regarding Compliance with the Coronavirus State and Local Fiscal Recovery Funds Interim Final Rule and Final Rule* can be found at: <https://home.treasury.gov/system/files/136/SLFRF-Compliance-Statement.pdf>

⁷ <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds>

Identify Risks to Minimize Potential Claw-Back of COVID-19 Funds

As mentioned in the background section, the City is eligible to receive a total of \$112 million in Coronavirus Local Fiscal Recovery Funds (CLFRF) under ARPA. The City received the first portion, approximately \$56 million, on May 19, 2021 and expects to receive the second portion, approximately \$56 million, in May 2022.

The City is currently identifying and evaluating potential uses for these funds in accordance with spending priorities set by the City Council. As part of that process, the City's Office of Innovation and Economic Development has taken the lead on compiling funding proposals to review for compliance with requirements specified in the various guidance documents issued by the U.S. Treasury. Our office is participating 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. Our goal is to minimize the risk of funds being clawed-back in the event of future audits. As of January 20, 2022, our office has reviewed 34 programs for eligibility.

On-Going Monitoring of COVID-19 Revenues and Expenses

On-going 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. To complete our objectives, we will perform on-going monitoring of the City's COVID-19 revenues and expenses, as described in the sections below.

Pro-Active and Real-Time Auditing of COVID-19 Expenses

In anticipation of any future audits of COVID-19 funds received, we have developed pro-active auditing procedures for COVID-19 expenses. These procedures include reviews and analysis of general expense tracking, labor reporting, procurement practices, sub-grantee documentation, federal reporting requirements, and internal controls. Any issues identified as part of this pro-active auditing will be reported to management timely and we will work with management to identify appropriate solutions.

Documentation Completeness in the City's Central Repository

A key aspect to successfully withstanding any future audit will be the City's ability to provide sufficient and appropriate documentation regarding the use of state and federal funds in response to COVID-19. In preparation, the City Manager's Office (CMO) developed a record keeping process to store relevant documents for the City's CRF projects and programs and to consolidate these documents into one central repository.

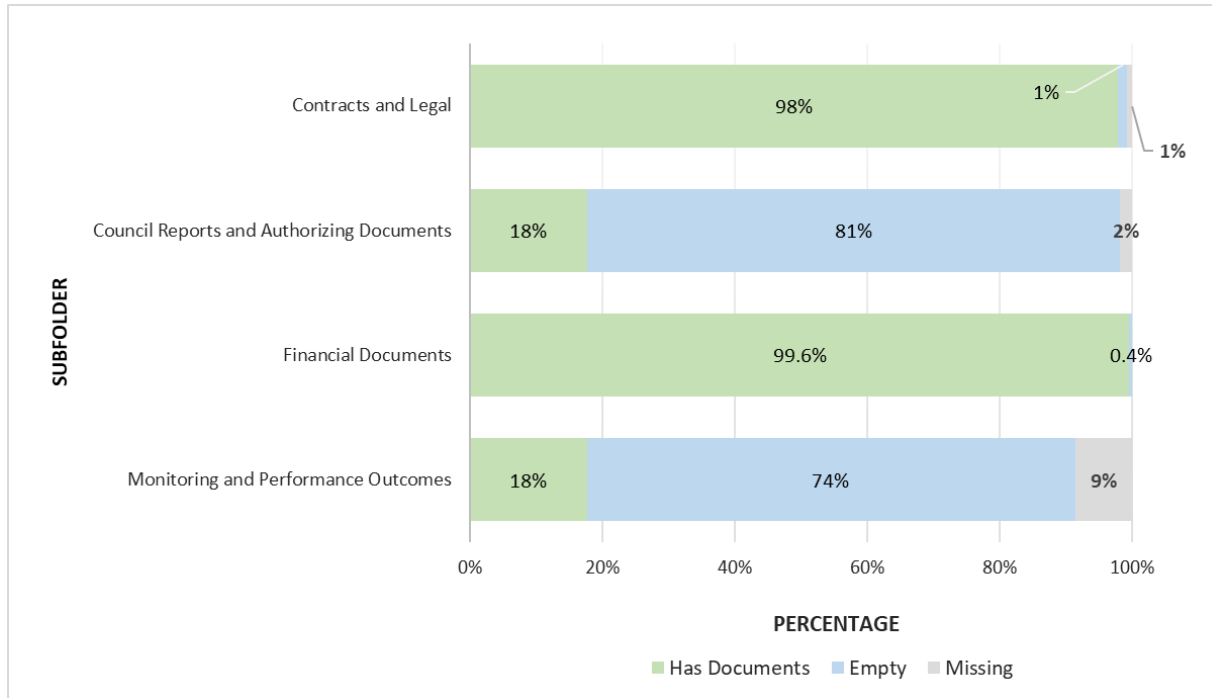
As described in two of our previous reports⁸, we attempted to review procurement documents and documents that demonstrate compliance with applicable post-award Single Audit requirements. However, we found that the City’s central repository was lacking complete or adequate documentation. Upon communicating these results to the CMO, updated timelines for project managers to upload documents was established and reminder emails were repeatedly sent out. Following these last reviews, the CMO asked our office to perform another round of testing on the completion status of the folders.

To assist in ensuring that the City’s documentation for CRF projects and programs were complete, we developed testing procedures to determine whether there were any incomplete folders. During an approximate one-week period in December 2021, we conducted a high-level overview of all 733 entity folders in the City’s central repository. Each of these entity folders should contain four subfolders to further organize the types of uploaded documents. For the purpose of this testing, we reviewed these folders only for the presence of documentation and did not review whether any documentation contained in the folders was sufficient to comply with federal requirements.

The following figure illustrates the results of our documentation completeness testing as of December 28, 2021. These results were communicated to the City Manager’s Office on January 21, 2022.

⁸ Please refer to the section titled “Compliance with Procurement Policies and Regulations” on report page 10 in *Assessments of Revenues and Expenditures Associated with the City’s COVID-19 Response– Report No. 2* and the section titled “Compliance with Single Audit Act Requirements” on report page 12 in *Assessments of Revenues and Expenditures Associated with the City’s COVID-19 Response– Report No. 3*. Our reports are available at: www.cityofsacramento.org/Auditor/Reports/Audit-Reports.

Figure 3: Results of Testing for Documentation in the City’s Central Repository



Source: Auditor generated based on the City’s central repository for CRF documents.

Note: Data as of December 28, 2021. Generated based on 733 entity folders and 2,932 subfolders. 4.8 percent of the total number of “Council Reports and Authorizing Documents” folders were considered to have documents only due to documents uploaded in the parent project folder.

As shown above, we found that almost 100 percent of two subfolders across all 733 entities contained documents, while 83 percent of the remaining two subfolders were empty or missing altogether. When compiled by entity folder, 93 percent of entity folders had one or more empty or missing subfolders. Additionally, we found that most entity folders did not contain the Sub-Recipient Face Sheet, which is required for all entities to help determine whether a risk assessment is required. Most entity folders also did not contain the Risk Assessment Document, which is required for some entities to comply with federal regulations like sub-recipient monitoring. However, with 91 percent of Sub-Recipient Face Sheets missing, we could not determine the impact of these missing Risk Assessment Documents as it relates to compliance with federal regulations.

According to instructions distributed to project managers, the CMO listed examples of documents to upload into each subfolder. When subfolders are empty or missing, we are unable to determine if these documents are missing or simply not applicable, which undermines the intent of maintaining a complete and adequate system of record keeping in the event of an audit. Furthermore, failure to upload documents timely increases various risks such as losing required documentation, key person risk, and lack of time to fix issues that could be identified by our audit testing procedures.

Due to the nature of our high-level overview, we acknowledge that mislabeled files or files uploaded into the wrong folder location may have affected the results of our documentation testing. However, the CMO structured these folders to assist with the organization of and access to necessary documentation for confirming compliance with federal requirements. Additionally, it ensures the consistency and completeness of documentation across the various programs. As noted in our testing, when files are misplaced or if some entity folders do not follow the folder structure set forth by the CMO, it may create confusion, delay timely reviews due to incompleteness, and raise questions regarding the appropriateness of the use of funds. For example, we found at least 6 cases in which the contract was uploaded into the incorrect subfolder, at least 16 cases in which contracts or contract supplements were not all uploaded into the entity folders⁹, and 93 cases in which the entity folders did not match the folder structure established.

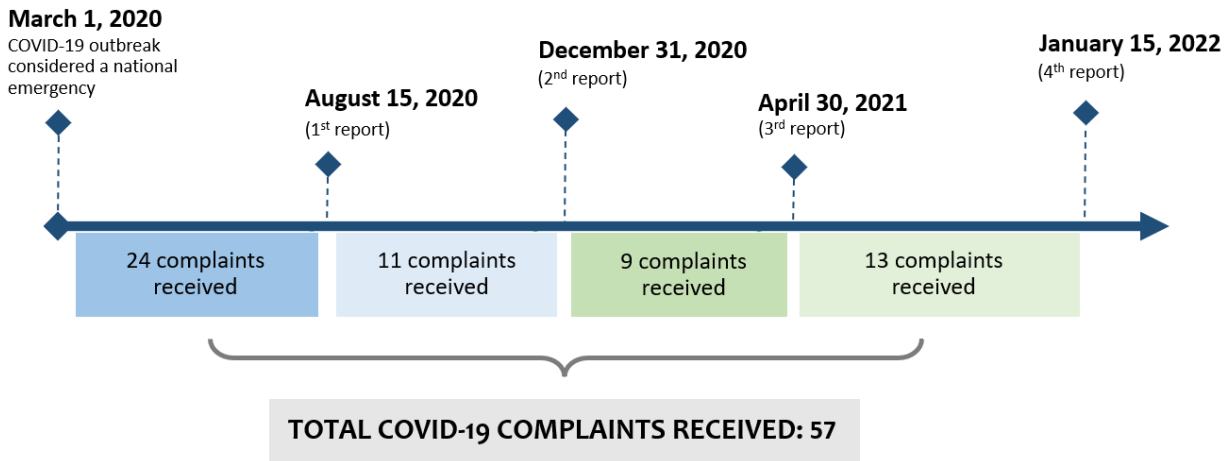
On April 27, 2021, the CMO reminded project managers to upload documents into the City's central repository no later than three months after the agreement has ended. As CRF-eligible costs must be incurred by December 31, 2021, we anticipate that more documentation will be uploaded into the central repository. However, there does not appear to be an enforcement process to ensure that documentation uploads are complete. We have communicated our recommendation to implement an enforcement process to the CMO, who has since instructed project managers to complete their documentation uploads and is developing a process to better track the completion status of these entity folders. After the reminder email was sent out, the number of files in the City's central repository has approximately doubled. However, our office did not verify which subfolders these files were uploaded into nor the sufficiency of these additional documents.

COVID-19 and the City's Whistleblower Hotline

In addition to conducting continuous monitoring, our office investigates reports of fraud, waste, and abuse related to the COVID-19 pandemic received through the City's Whistleblower Hotline. The last report, *Assessments of Revenues and Expenditures Associated with the City's COVID-19 Response – Report No. 3* reported 44 complaints related to COVID-19 as of April 30, 2021. The City's Whistleblower Hotline has received an additional 13 complaints related to COVID-19 for a cumulative total of 57 COVID-19 complaints received as of January 15, 2022. Figure 4 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.

⁹As our review was high-level due to the large sample, these results are based on how contract files were labeled in the entity folders.

Figure 4: Timeline of COVID-19 Whistleblower Complaints Received as of January 15, 2022



Source: Auditor generated based on data from EthicsPoint as of January 15, 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. The following figure illustrates the disposition of all COVID-19 whistleblower complaints as of January 15, 2022.

Figure 5: Disposition of COVID-19 Whistleblower Complaints as of January 15, 2022

Outcome	Number of Cases
Under Investigation	2
Informational Referral	19
Duplicate	6
Resolved Prior To or During Investigation	4
Unsubstantiated	7
Not Enough Information Provided	3
Unrelated to the City	16
TOTAL	57


Source: Auditor generated based on data from EthicsPoint as of January 15, 2022.

Note: Cases that are “Under Investigation” do not have a case outcome yet.

MEMORANDUM

DATE: February 8, 2022

TO: Jorge Oseguera, City Auditor

FROM: Leyne Milstein, Assistant City Manager 
Leyne Milstein (Feb 8, 2022 14:45 PST)

SUBJECT: Assessments of Revenues and Expenses Associated with the City's COVID-19 Response-Report No. 4

The City Manager's Office again thanks our partner charter office staff in the City Attorney's Office and the City Auditor's Office for their invaluable insight and partnership in managing the City's COVID-19 response. The City Manager's Office is particularly appreciative of the opportunity to apply lessons learned from the City Auditor's reports on the Coronavirus Relief Fund (CRF) to develop new systems and processes for tracking and reporting on the City's American Rescue Plan (ARP) expenses, revenues and record keeping.

The City of Sacramento is committed to effective, efficient, and transparent management of City funds. To this end, we have taken several actions to improve the management and auditability of revenues and expenses associated with the City's COVID-19 response:

Project Manager Closeout of CRF Programs

As noted in the report, the City Manager's Office has initiated a process to ensure that project managers complete the upload of necessary documentation. Based on oral feedback, in most cases involving missing documents, project managers were in possession of the required documents within their own file systems but had not yet copied all necessary documents to the central repository. We recognize the administrative burden and duplication of effort required for project managers to maintain documents in multiple file systems and endeavor to streamline this process in the future. The Auditor's report acknowledges that the number of files in the central repository has approximately doubled since initiating this process.

Grant Management System and Liaison Consulting Services

In addition, the City has procured a grant management software solution to facilitate the full grant administration lifecycle for project managers, from solicitation through reporting and closeout. This system will increase subrecipient compliance and create an audit trail for each subaward for ARP grant programs.

Similarly, the City is negotiating a contract with a consultant to deliver a broad array of support services to project managers and technical assistance to City grantees. We anticipate that the consultant will begin work by April 2022 and are hopeful about the additional capacity this consultant will provide.

The City Auditor's Office has provided significant support in developing appropriate federal Single Audit record keeping requirements. City Manager's Office staff will continue to work closely with the Auditor's Office to ensure the City is fully compliant.