

# OFFICE OF AUDITS & ADVISORY SERVICES



## CARES ACT ASSISTANCE TO CITIES AUDIT

*FINAL REPORT*

Chief of Audits: [Juan R. Perez](#)  
Senior Auditor: [Chris Efird, CPA](#)

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# County of San Diego

**TRACY DRAGER**  
AUDITOR AND CONTROLLER

AUDITOR AND CONTROLLER  
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**JUAN R. PEREZ**  
CHIEF OF AUDITS

January 5, 2022

TO: Damien Quinn, Acting Director  
Office of Financial Planning

FROM: Juan R. Perez  
Chief of Audits

**FINAL REPORT: CARES ACT ASSISTANCE TO CITIES AUDIT**

Enclosed is our report on the CARES Act Assistance to Cities Audit. We have reviewed your response to our recommendations and have attached it to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board of Supervisors Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. You or your designee will receive email notifications when these quarterly updates are due, and these notifications will continue until all actions have been implemented.

If you have any questions, please contact me at (858) 495-5661.

A handwritten signature in blue ink, appearing to read "Juan R. Perez".

**JUAN R. PEREZ**  
Chief of Audits

AUD:CE:nb

Enclosure

c: Ebony N. Shelton, Deputy Chief Administrative Officer/Chief Financial Officer  
Tracy Drager, Auditor and Controller  
Joan Bracci, Chief Operations Officer, Finance and General Government Group

## INTRODUCTION

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**Audit Objective** The Office of Audits & Advisory Services (OAAS) completed an audit of the Coronavirus Aid, Relief, and Economic Security (CARES) Act assistance provided to cities. The objective of the audit is to help the County prepare for potential Federal audits of the County's use of CARES Act Relief Funding (CRF) by assessing the adequacy of oversight for CRF provided to cities and evaluating internal controls in place to ensure compliance with applicable laws and regulations.

**Background** The CARES Act provided for payments to State, Local, and Tribal governments navigating the impact of the COVID-19 outbreak. Payment amounts were based on population size. A unit of local government eligible for receipt of direct payment includes a county, municipality, town, township, village, parish, borough, or other unit of general government below the State level with a population that exceeds 500,000.

Given this threshold, none of the cities within San Diego County (County), excluding the City of San Diego, received CRF directly from the federal government. Under guidance provided by the U.S. Department of the Treasury (Treasury), recipients are not required to share the federal funding with local governments. However, many recipients have allocated relief to cities, towns and counties that were not included in the initial round of direct payments.

On May 19, 2020, the County Board of Supervisors voted to allocate a total of \$25 million<sup>1</sup> of CRF received by the County to the 17 cities that did not receive a direct allocation from the federal government. Amounts allocated to each city were based on population size.

The County's Office of Financial Planning (OFP) was tasked with administering CRF funds provided to cities.

**Audit Scope & Limitations** The scope of the audit covered the \$25 million of CRF provided to the 17 cities that did not receive direct federal funding.

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.

**Methodology** OAAS performed the audit using the following methods:

- Identified and reviewed CARES Act requirements and Treasury guidance related to CRF.
- Reviewed the Office of Management and Budget's Uniform Guidance (Uniform Guidance) to identify requirements applicable to CRF.

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<sup>1</sup> See Appendix A for a breakdown of CRF provided to each city.

- Inquired with OFP personnel to identify and evaluate procedures and internal controls associated with the administration of CRF assistance to cities.
- On a sample basis, conducted limited testing to verify compliance with requirements pertinent to CRF.

## AUDIT RESULTS

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### Summary

Within the scope of the audit, we identified opportunities to improve upon procedures established by OFP for administration of the CRF sub-awards allocated to cities. We found that OFP established a comprehensive process related to Pre-Award activities; however, Post-Award procedures can be strengthened to ensure compliance with all laws and regulations applicable to CRF, and to mitigate the risk of federal recoupment of CRF allocated to the County.

### **Pre-Award Grant Administration Procedures**

OFP took timely and appropriate action to communicate the availability of CRF funds from the County to eligible cities, and the eligibility requirements for cities wishing to receive an allocation. These requirements included a signed grant agreement and an expenditure plan, which was reviewed by OFP and County Counsel to assess whether planned expenditures met eligible CRF uses established by the CARES Act.

Specifically, the CARES Act provides that “payments from the CRF may only be used to cover costs that –

1. are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID19);
2. were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or Government; and
3. were incurred during the period that begins on March 1, 2020 and ends on December 31, 2021.”

These provisions were imbedded into grant agreements signed by the cities prior to receiving a CRF sub-award from the County, along with language requiring compliance with all applicable laws and regulations.

While OFP’s process for issuing sub-awards and communicating compliance requirements to cities was comprehensive, improvement opportunities were identified as follows.

**Finding I: Document Retention Period Not Accurately Communicated**

Treasury memorandum OIG-CA-20-021 states records shall be maintained for a period of five years after final payment is made using CRF monies. However, County CRF agreements with cities specify a retention period of only four years.

OAAS noted that OIG-CA-20-021 was not issued until July 2, 2020, which was after most of the agreements between the cities and the County had been executed. Nevertheless, agreements with the cities should have been amended to ensure that municipal CRF recipients are aware of record retention requirements.

Destroying records prior to the expiration of the retention period could result in the inability to prove compliance with CRF requirements in the event of an audit.

- Recommendation:**
1. Revise internal procedures regarding document retention for CRF related documentation to comply with requirements stated in OIG-CA-20-021.
  2. Amend contracts with, or send notification of, updated record retention requirement to cities to ensure the five-year document retention requirement is accurately reflected.

**Post-Award Grant Administration Procedures**

In addition to requirements imposed by the CARES Act, CRF funding is considered federal financial assistance subject to the Single Audit Act (31 U.S.C. §§ 7501-7507) and the related provisions of the Uniform Guidance, 2 C.F.R. § 200.303 regarding internal controls, §§ 200.330 through 200.332 regarding subrecipient monitoring and management, and subpart F regarding audit requirements.

Uniform Guidance, 2 CFR § 200.332(d) requires that all pass-through entities monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with the Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Post-Award, OFP utilized existing local (non-federal) grant administration procedures. As part of this process OFP would, on a sample basis, review individual expenditures and supporting documentation to assess compliance with grant provisions, but the process was not modified to incorporate compliance requirements applicable to federal funds. Although OFP ensured that it received sufficient information to comply with the County's reporting requirements, the procedures were not sufficient to ensure compliance with other applicable federal requirements such as allowable activities, allowable cost/cost principles, and period of performance. Improvement opportunities were identified as follows.

**Finding II: Risk and Control Environment Assessment Not Performed**

OFP did not complete a formal risk assessment of each municipal subrecipient's risk of noncompliance.

CRF that is transferred from a government to another government, such as a state to a county or a county to a municipality, is considered a subaward.

A pass-through entity is a non-federal organization that receives federal dollars and passes those dollars along to subrecipients. Since the County is passing CRF along to local municipalities, it meets the criteria for being classified as a pass-through entity.

Therefore, the County is subject to the requirements for pass-through entities specified in 2 CFR § 200.332(b) which states a pass-through entity must evaluate and document each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

In the absence of a formal risk assessment process for determining appropriate monitoring procedures, sufficient and effective monitoring may not occur for subrecipients who have the greatest risk of non-compliance.

Due to the new and consistently changing federal guidance available at the time the County disbursed the allocations, OFP was not aware that a municipal subrecipient was subject to formal risk assessment requirements documented in 2 CFR § 200.332.

- Recommendation:**
1. Develop and document a formal process for performing risk assessments over subrecipients in order to determine the frequency and extent of monitoring activities that are appropriate for the identified risks.

**Finding III: Subrecipient Oversight Needs Improvement**

OFP's procedures for monitoring subrecipients are not sufficient to ensure compliance with subaward provisions and federal compliance requirements, including 2 CFR § 200.332(d) and OMB Supplement compliance provisions applicable to the Coronavirus Relief Fund (CFDA 21.019). Specifically, the following was noted:

- Two cities submitted claims for overhead costs, which are not allowable expenses for the CRF.
- Three cities claimed expenditures incurred outside the subaward period.
- Two cities claimed expenditures for goods/services not needed or used to respond to the public health emergency.

A more detailed description of the above audit exceptions is provided in Appendix B.

Additionally, we noted deficiencies in the documentation provided to OFP by the cities, as well as documentation retained by the cities. OFP provided adequate guidance and instructions to cities regarding required documentation, namely provisions included in the subgrant agreement,<sup>2</sup> as well as instructions based on US Treasury Memorandum OIG-CA-20-021, which included a listing of the types of documentation that could be submitted to illustrate compliance; however, OFP's documentation review procedures to verify that supporting documentation met federal compliance requirements were insufficient. Specifically, when the auditor selected a sample of expenditures for testing and requested supporting documentation from OFP, documentation provided by OFP varied. Some cities had provided summarized lists of expenses, some provided actual invoices or ledgers. The auditor requested additional support from all 17 cities. Upon requests by the auditor for further support three of the cities provided insufficient documentation (described in Appendix C). Of those that provided the additional requested information six were determined to have ineligible costs and are included in Appendix B.

The County's ability to demonstrate compliance with federal requirements is at risk due to inadequate review criteria for acceptable documentation.

**Recommendation:** Based on a documented risk assessment OFP staff should:

1. Develop and document a formal process for federal awards to enable sufficient monitoring of subrecipients.
2. For identified allowable expenditure exceptions, request that each city submit an eligible replacement expenditure prior to September 2022. If there are no remaining eligible expenditures available to claim, request reimbursement of CRF claimed for ineligible expenses.
3. Develop a process for OFP to provide reasonable assurance regarding the achievement of the following objectives for federal awards:
  - a. Transactions are properly recorded and accounted for,
  - b. Expenditures claimed are for allowable costs,
  - c. Sufficient supporting documentation is maintained for all transactions,

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<sup>2</sup> Subgrant agreement Section 4(d) requires cities to "...deliver to County a report along with supporting documentation detailing Grantee's expenditure of funds..."; Section 5 (Disallowances) specifies terms for refunding to County amounts deemed ineligible for CRF funding or due to lack of required documentation.



- d. Amounts documented on expenditure reports and schedules agree to relevant support.

**Appendix A: CRF Breakdown by City**

<b>City</b>	<b>Total Assistance Provided</b>
Carlsbad	2,065,728
Chula Vista	4,842,695
Coronado	381,317
Del Mar	77,494
El Cajon	1,840,467
Encinitas	1,121,383
Escondido	2,713,486
Imperial Beach	489,295
La Mesa	1,061,700
Lemon Grove	480,774
National City	1,095,124
Oceanside	3,138,961
Poway	886,068
San Marcos	1,726,482
Santee	1,036,010
Solana Beach	238,506
Vista	1,804,510
<b>Total</b>	<b>25,000,000</b>

**Appendix B: Questioned Costs - Summary of Audit Exceptions**

Number of Cities with Questioned Costs	Description	Questioned Costs Amount	Applicable Compliance Provision(s)
2	Cities claimed overhead costs.	\$647,294	Treasury CRF Guidance for State, Territorial, Local and Tribal governments states that indirect costs provisions of the Uniform Guidance (2 CFR 200) are not applicable to payments received from the CRF.
3	Cities claimed expenditures incurred outside the subaward period.	\$105,994	Treasury CRF Guidance for State, Territorial, Local and Tribal governments; OMB Compliance Supplement for Coronavirus Relief Fund (CFDA 21.019); County of San Diego Coronavirus Relief Fund Subgrant agreement.
2	Cities claimed expenditures for goods/services not needed or not used.	\$41,835	CARES Act stipulates that CRF funding may only be used to cover costs that are necessary expenditures incurred due to the public health emergency.

**Appendix C: Summary of CRF Expenditure Documentation Deficiencies**

Number of Cities with Identified Deficiency	Description of Deficiency
15	City final report expenditure amount did not equal supporting documentation. Total amount from supporting documentation exceeded amount claimed, however, expenditures claimed and included in the report not clearly identified by city. OAAS was unable to reconcile supporting documentation to amounts claimed.
1	Salary expense claimed for diverted staff to perform disinfection activities based on estimated hours. Actual hours not tracked or documented.
2	City received CRF funding from the County and the State but did not clearly distinguish expenses claimed from each subaward.

Office of Audits & Advisory Services

Compliance Reliability Effectiveness Accountability Transparency Efficiency

VALUE

**DEPARTMENT'S RESPONSE**  
**(OFFICE OF FINANCIAL PLANNING)**



# County of San Diego

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1600 PACIFIC HIGHWAY, SUITE 166, SAN DIEGO, CA 92101-2422

January 3, 2022

TO: Juan R. Perez  
Chief of Audits

FROM: Damien Quinn  
Acting Director, Office of Financial Planning

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: CARES ACT ASSISTANCE TO CITIES AUDIT

**Finding I: Document Retention Period Not Accurately Communicated**

**OAAS Recommendation 1:** Revise internal procedures regarding document retention for CRF related documentation to comply with requirements stated in OIGCA- 20-021.

**Action Plan:** Office of Financial Planning (OFP) agrees with this recommendation. The Coronavirus Relief Fund (CRF) Cities Subgrants Program & Procedures document will be updated to reflect the proper documentation retention period of five years for CARES Act CRF, according to requirements stated in OIGCA-20-021.

**Planned Completion Date:** January 31, 2022

**Contact Information for Implementation:** Irena Anguelov, Financial Policy & Planning Officer

**OAAS Recommendation 2:** Amend contracts with, or send notification of, updated record retention requirement to cities to ensure the five-year document retention requirement is accurately reflected.

**Action Plan:** Office of Financial Planning (OFP) agrees with this recommendation. As indicated in the audit report, the OIG-CA-20-021 was not issued until July 2, 2020, which was after most of the agreements between the cities and the County were executed. The agreements with the cities expired on December 30, 2020 and amendments cannot be processed at this time. However, OFP will send certified letters to all 17 cities to notify them of the change in retention schedule requirements.

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**Planned Completion Date:** February 28, 2022**Contact Information for Implementation:** Irena Anguelov, Financial Policy & Planning Officer**Finding II: Risk and Control Environment Assessment Not Performed**

**OAAS Recommendation 1:** Develop and document a formal process for performing risk assessments over subrecipients in order to determine the frequency and extent of monitoring activities that are appropriate for the identified risks.

**Action Plan:** OFP agrees that it did not have a formal subrecipient risk assessment process in place for the municipal subrecipients, however OFP did review and various risk considerations associated with allocating CARES Act CRF Funds to the subrecipients. OFP took the following factors into consideration prior to releasing funds to subrecipients: 1) the CARES Act CRF allocations were intended to address a public health emergency quickly, 2) the subrecipients the County chose were local municipal governments (not small non-profits or businesses), and 3) the US Treasury made direct allocations to other cities based almost entirely on population, not risk level. OFP also mitigated risk by requiring initial proposals be aligned with CARES Act CRF guidance, then went through an approval process and a multi-phased reporting requirement. OFP took these additional precautions of reviewing and approving proposals, establishing written agreements, and requiring follow-up reporting to consider and account for any risk associated with allocating the CARES Act CRF Funds. No money would have been sent to a subrecipient that did not meet the initial proposal and written agreement requirements.

Nonetheless, in response to a Fiscal Year 2019-20 Single Audit (Single Audit) finding, a formal program framework was developed based on best practices, which included managing risk of non-compliance with subrecipients in order to determine the frequency and extent of monitoring activities for use with future federally funded programs. This formal risk assessment includes a questionnaire based on Uniform Guidance (2 CFR 200.331-332) that will be used as a formal risk assessment. The risk assessment could produce a score sheet categorizing subrecipients into either high, medium, or low risk and the frequency and extent of monitoring activities. OFP utilized best practices from the Government Finance Officers Association as well as practices in place in County departments such as the Office of Emergency Services. This response to the Single Audit was established on July 1, 2021.

The risk assessment questionnaire includes the following:

It is important to note that subrecipient monitoring and management requirements are outlined in the Uniform Guidance (2 CFR 200.331 and 2 CFR 200.332). According to best practices, subawards (or agreements with subrecipients) should consider the following to evaluate risk:

- 1) The subrecipient's prior experience with the same or similar subawards/contract.

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- 2) The results of previous audits including whether or not the subrecipient received a Single Audit and the extent to which the same or similar subaward/contract has been audited as a major program.
- 3) Whether the subrecipient has new personnel or new or substantially changed systems.
- 4) The extent and results of Federal awarding agency monitoring (e.g. if the subrecipient also received Federal awards directly from a Federal awarding agency)
- 5) Does the subrecipient have a conflict of interest policy?
- 6) Does the subrecipient's financial management system provide for the control and accountability of grant funds, property and other assets?
- 7) Does the subrecipient use an accounting software package?
- 8) Identify the comprehensive basis of accounting used by the subrecipient (accrual basis, cash basis, modified cash basis, or modified accrual).
- 9) Does the subrecipient have adequate safeguards for preventing loss, damage, or theft of property held?
- 10) Has the subrecipient ever filed for bankruptcy?
- 11) Does the subrecipient have or had in the past unresolved matters with the IRS?
- 12) Does the subrecipient have an Equal Employment Opportunity Commission program in place (to ensure the subrecipient provides equal employment opportunities)?

Completion of a questionnaire or survey to subrecipients with these or similar questions prior to making an award for a future program will greatly mitigate the risk of default or other potential losses and should fulfill the requirements outlined in the federal Uniform Guidance.

**Planned Completion Date:** January 31, 2022

**Contact Information for Implementation:** Irena Anguelov, Financial Policy & Planning Officer

**Finding III: Subrecipient Oversight Needs Improvement**

**OAAS Recommendation 1:** Develop and document a formal process for federal awards to enable sufficient monitoring of subrecipients.

**Action Plan** OFP agrees with this recommendation. CRF Cities Subgrants program document has been developed and updated to reflect Recommendation 2 for Finding III below. This document can be used as guidance to develop other Federal funded programs' process documents.

**Planned Completion Date:** January 31, 2022

**Contact Information for Implementation:** Irena Anguelov, Financial Policy & Planning Officer

**OAAS Recommendation 2:** For identified allowable expenditure exceptions, request that each city submit an eligible replacement expenditure prior to September 2022. If there are no



DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: CARES ACT ASSISTANCE TO CITIES AUDIT

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remaining eligible expenditures available to claim, request reimbursement of CRF claimed for ineligible expenses.

**Action Plan:** OFP agrees with this recommendation. OFP will contact the 6 cities, identified in Appendix B, to request submittal of documentation for allowable expenditures during the period between March 1, 2020 to December 30, 2020 and will save backup documentation on file. If any of the cities is not able to provide such backup for allowable expenses during the contract term, OFP will request a refund based on sections 4(c) and 5 of the grant agreements.

**Planned Completion Date:** September 30, 2022

**Contact Information for Implementation:** Irena Anguelov, Financial Policy & Planning Officer

**OAAS Recommendation 3:** Develop a process for OFP to provide reasonable assurance regarding the achievement of the following objectives for federal awards:

- a. Transactions are properly recorded and accounted for,
- b. Expenditures claimed are for allowable costs,
- c. Sufficient supporting documentation is maintained for all transactions,
- d. Amounts documented on expenditure reports and schedules agree to relevant support.

**Action Plan:** OFP agrees with this recommendation. OFP has updated the CRF Cities Subgrants Program & Policies document to reflect the recommendations in this audit report.

**Planned Completion Date:** January 31, 2022

**Contact Information for Implementation:** Irena Anguelov, Financial Policy & Planning Officer

If you have any questions, please contact me at (619) 531-5175, or by e-mail at [Damien.Quinn@sdcountry.ca.gov](mailto:Damien.Quinn@sdcountry.ca.gov).



Damien Quinn  
Acting Director, Office of Financial Planning

OFP/IHA/nb

C: Ebony Shelton, Deputy Chief Administrative Officer/ Chief Financial Officer  
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