

# OFFICE OF AUDITS & ADVISORY SERVICES



## ARPA FUNDS ADMINISTRATION

### *FINAL REPORT*

Chief of Audits: Juan R. Perez  
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# County of San Diego

**TRACY DRAGER**  
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**JUAN R. PEREZ**  
CHIEF OF AUDITS

June 6, 2023

TO: David Estrella, Director  
Housing and Community Development Services

FROM: Juan R. Perez  
Chief of Audits

FINAL REPORT: ARPA FUNDS ADMINISTRATION AUDIT

Enclosed is our report on the ARPA Funds Administration 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.

JUAN R. PEREZ  
Chief of Audits

AUD:EH:nb

Enclosure

c: Patty Kay Danon, Chief Operations Officer, Health and Human Services Agency  
Tracy Drager, Auditor and Controller  
Amy Thompson, Executive Finance Director, Health and Human Services Agency  
Mike Weissenburger, Revenue & Budget Manager, Health and Human Services Agency



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**JUAN R. PEREZ**  
CHIEF OF AUDITS

June 6, 2023

TO: Caroline Smith, Director  
Office of Economic Development and Government Affairs

FROM: Juan R. Perez  
Chief of Audits

FINAL REPORT: ARPA FUNDS ADMINISTRATION AUDIT

Enclosed is our report on the ARPA Funds Administration Audit. We have reviewed your response to our recommendations and have attached it to the audit report.

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

JUAN R. PEREZ  
Chief of Audits

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Enclosure

c: Ebony N. Shelton, Deputy Chief Administrative Officer/Chief Financial Officer  
Tracy Drager, Auditor and Controller  
Judy Ying, Group Finance Director, Finance and General Government Group  
Mike Weissenburger, Revenue & Budget Manager, Health and Human Services Agency

## INTRODUCTION

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**Audit Objective** The Office of Audits & Advisory Services (OAAS) completed an audit of the American Rescue Plan Act (ARPA) Funds Administration. The objective of the audit was to determine whether ARPA funded programs/activities were adequately managed to ensure expenditure claims were adequately supported and met ARPA requirements, or program objectives.

**Background** Signed into law in March 2021, ARPA established the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) to deliver \$350 billion to state, local, and tribal governments to support their response to the COVID-19 pandemic and its economic effects, and to build a stronger, more equitable economy during the recovery. The County of San Diego (County) was allocated just over \$648 million in SLFRF.

Under ARPA, the United States Department of the Treasury (Treasury) was assigned the responsibility to conduct monitoring and oversight of receipt, disbursement, and uses of SLFRF funds. ARPA requires that SLFRF funds be used to:

- a) Respond to the public health and negative economic impacts of the pandemic.
- b) Provide premium pay to eligible essential workers.
- c) Replace lost public sector revenue.
- d) Invest in water, sewer, or broadband infrastructure.

The coverage period on the use of ARPA funds is March 3, 2021 through December 31, 2026. The Treasury requires ARPA funds to be obligated by December 31, 2024, and fully expensed by December 31, 2026.

The County of San Diego Board of Supervisors (BOS) adopted an ARPA framework<sup>1</sup> on June 8, 2021, to guide the spending priorities of the SLFRF allocated to the County. The ARPA framework was developed using an equity lens and a quantitative and qualitative data-driven approach to prioritize and integrate consideration of equity where possible, along with input from community workshops and stakeholders, consideration of other available funding sources, and the Treasury's Interim Final Guidelines (Final Rule).

**Audit Scope & Limitations** The scope of the audit included a review of the County's use of ARPA SLFRF to ensure compliance with Federal requirements, including review of expense claims, program reviews, subrecipient monitoring, and contract award processes and monitoring, as well as compliance with

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<sup>1</sup> See Appendix A for a breakdown of the ARPA framework approved by the County's BOS.

requirements established by the County. The period under review primarily included March 1, 2021 to September 30, 2022.

At the time of the audit, many of the ARPA programs approved in the BOS framework were still in development. In addition, reimbursement claims were continuing to be submitted for approval, in compliance with the ARPA coverage period. OAAS audited ARPA programs that were active and had awarded funds and reimbursement claims that had been reviewed by the Emergency Operations Center Finance Section and Cost Recovery Team.

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:

- Reviewed Federal guidance on ARPA administration provided by the Treasury, including Compliance and Reporting Guidance and Final Rule detailing rules and regulations.
- Reviewed County ARPA programs, policies, and procedures related to the use and administration of SLFRF.
- Interviewed key personnel overseeing ARPA administration to identify and evaluate procedures and internal controls relevant to the County's various ARPA programs.
- On a sample basis, conducted limited testing to verify the following:
  - ARPA claims underwent the appropriate review process, and review procedures were designed to ensure that only eligible expenditures are approved.
  - Only eligible staff members received hazard pay in accordance with County program and Treasury guidance.
  - Youth Sports & Youth Camps, Rental Assistance for Small Landlords, and Community Enhancement (CE) programs properly awarded grants based on applicable eligibility requirements.
  - If organizations are recognized as a subrecipient of the County's ARPA SLFRF, monitoring is being performed and in compliance with Federal regulations.
  - The County adhered to the Department of Purchasing and Contracting's procurement procedures and required contract provisions for Federal funds.

## AUDIT RESULTS

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### Summary

Within the scope of the audit, ARPA expenditure claims were generally adequately supported and made in accordance with Treasury guidance. OAAS identified the following areas as opportunities for improvement to ensure ARPA funded programs and activities are adequately managed and expenditure claims are adequately supported and meet ARPA requirements.

### Finding I:

#### **Rental Assistance for Small Landlords Award Overpayment**

The County of San Diego's Rental Assistance for Small Landlords (RASL) program was established to help eligible small-scale, independent, property owners who experienced rental payment shortfalls from their tenants due to COVID-19 impacts. A total of \$5 million ARPA SLFRF was allocated for the RASL program to administer awards to small landlords throughout the County that had not received any source of government support, including the Paycheck Protection Program or other rental assistance programs.

The RASL program compensated rental arrears accumulated from April 2020 through the month a landlord's application was determined eligible. The maximum award amount per unit was \$15,000 per the County's RASL guidelines.

From the population of RASL applications, OAAS noted 112 applications where the landlord and/or property address had multiple applications submitted and received multiple RASL awards. OAAS selected a sample of 28 of these applications to review. OAAS identified one applicant that had applied for rental assistance for two tenants at the same rental address and was awarded funds for both tenants totaling \$29,000. The amount awarded exceeded the \$15,000 maximum amount for a single unit for the RASL program.

### Recommendation:

1. To ensure compliance with the RASL program guidelines, Housing and Community Development Services (HCDS) should:
  - a. Request that the landlord return the extra funds awarded of \$14,000.
  - b. Review all RASL awards and those awarded to landlords with the same/similar name, same/similar address, etc., to verify that landlords were not awarded funds over the program maximum of \$15,000. If necessary, perform steps to have any extra funds awarded to a landlord(s) returned to the County.
2. HCDS should evaluate and revise internal procedures, as necessary, to ensure award and administration processes for Federal award programs, such as rental assistance, comply with Federal, State of California, and other applicable program guidelines.

**Finding II: Additional Management Controls Needed to Ensure Compliance with Board of Supervisors Policy B-58 for Community Enhancement ARPA Program**

The County's BOS directed the CE program to be augmented with \$5 million of ARPA SLFRF to provide funding for nonprofit organizations negatively impacted by the COVID-19 pandemic. Funds awarded to nonprofit organizations are to be used toward supporting public health and response activities associated with the pandemic. The BOS Policy B-58 governs the distribution of the funds for the CE program and was updated to include guidance for the ARPA SLFRF funds. While the program was found to be fully compliant with the Federal ARPA Guidelines, the program must also demonstrate compliance with Board Policy B-58.

At the time of testing, a total of 42 nonprofits had been approved for CE ARPA funding. OAAS selected a sample of six organizations that were awarded CE ARPA funding and identified the following:

1. For three out of the six awarded organizations, the BOS offices reviewed the total revenue/income reported by organizations when making its award recommendations rather than their current fiscal year operating budget.

BOS Policy B-58 states the County's CE contribution is not to exceed fifty percent (50%) of the recipient's current fiscal year operating budget. The U.S. Government Accountability Office defines an operating budget as a detailed projection of all estimated income and expenses during a given future period.

2. Three out of the six organizations did not provide required performance indicators to adequately document compliance with this measure. OAAS found that the online CE ARPA application does not include a field for organizations to provide performance indicators.

BOS Policy B-58 requires performance indicators to be provided as part of any funding request. The performance indicators must be submitted for the prior fiscal year, the estimated current fiscal year, and the proposed fiscal year, and focus on how well the organization is meeting its stated mission.

3. BOS Policy B-58 specifies there shall be a single standardized CE program application for the BOS offices to provide to applicants. A manual CE application has been used for the annual CE program; however, an online application was established for organizations requesting CE ARPA funds. The online CE application has multiple fields that do not match the manual CE application.
4. Organizations must complete the online CE application to be considered for CE ARPA funding; however, OAAS found one organization that was awarded CE ARPA funds that only submitted a manual application. The online CE application has a field for organizations to include the impacts of the COVID-19 pandemic, in



compliance with Treasury guidance, but the manual application does not include a field for that information.

The Final Rule provides guidance on ARPA assistance for nonprofits as they were an impacted industry that faced significant challenges due to the pandemic's increased demand for services and changing operational needs, as well as declines in revenue sources such as donations and fees. The Final Rule states nonprofits eligible for ARPA assistance are those that experienced negative economic impacts or disproportionate impacts of the pandemic and meet the definition of a "nonprofit."

While compliant with Federal ARPA Guidelines, grants in this program must also document compliance with BOS Policy B-58 to ensure the BOS offices do not award CE ARPA funds to organizations that do not meet the proper requirements of the County's policy and/or meet proper Federal guidelines.

- Recommendation:**
1. To ensure compliance with the BOS Policy B-58, the Office of Economic Development and Government Affairs (EDGA) should ensure only a single standardized CE program application is provided to applicants, and a process to ensure the basic CE application is not given by mistake. For applications submitted for ARPA funding consideration, ensure the impact from the COVID-19 pandemic is provided.
  2. For organizations considered for ARPA CE funding, or future CE program funding consideration, EDGA should assist with developing a more robust intake, tracking, and retention process since the BOS offices must review and ensure applications include the following, per Treasury guidance and/or BOS Policy B-58 instructions:
    - a. The negative economic impact or disproportionate impact of the pandemic is documented, quantifiable, and clearly driven by impact of COVID-19. [ARPA funding only.]
    - b. The County's contribution is not to exceed fifty percent (50%) of the recipient's current fiscal year operating budget.
    - c. Full disclosure financial statements are provided. Financial statements must be submitted for the prior fiscal year, the estimated current fiscal year, and the proposed fiscal year.
    - d. Performance indicators are provided. These reports must be submitted for the prior fiscal year, the estimated current fiscal year, and the proposed fiscal year and focus on how well the organization is meeting its stated mission.
  3. The Office of Economic Development and Government Affairs should evaluate BOS Policy B-58 to determine if existing CE eligibility requirements could be enhanced and/or clarified to ensure the

process to award CE funds are clear and in compliance with the County's policy and any Federal regulations.

**Appendix A: ARPA Framework Approved by County's BOS on June 8, 2021**

County Framework Component	Amount	% Of Total Allocation	SLFRF Expenditure Category
Prior and On-Going COVID-19 Response	\$311.5M	48%	Public Health; Services to Disproportionately Impacted Communities; Administrative
Premium Pay for Government Essential Workers	\$36M	5%	Premium Pay
Mental Health Services	\$32M	5%	Public Health
Homeless Services	\$85M	13%	Services to Disproportionately Impacted Communities
Food Assistance	\$20M	3%	Negative Economic Impacts
Senior and Youth Services	\$10M	2%	Services to Disproportionately Impacted Communities
Child Care Subsidies	\$16M	2%	Services to Disproportionately Impacted Communities
Direct Stimulus Payments	\$40M	6%	Negative Economic Impacts
Legal Services	\$15M	2%	Negative Economic Impacts
Small Business and Non-Profit Stimulus Payments	\$56M	9%	Negative Economic Impacts
Infrastructure	\$32M	5%	Water, sewer, and broadband infrastructure; Public Health; Administrative
<b>Total</b>	<b>\$653.5M</b>		

## Office of Audits &amp; Advisory Services

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VALUE

**DEPARTMENT'S RESPONSE**  
**(HOUSING AND COMMUNITY DEVELOPMENT SERVICES)**

May 25, 2023

TO: Juan R. Perez  
Chief of Audits

FROM: David Estrella, Director  
Housing and Community Development Services

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: ARPA FUNDS  
ADMINISTRATION

**Finding I:** Rental Assistance for Small Landlords (RASL) Award Overpayment

**OAAS Recommendation 1:** To ensure compliance with the RASL program guidelines, Housing and Community Development Services (HCDS) should:

- a. Request that the landlord return the extra funds awarded of \$14,000.
- b. Review all RASL awards and those awarded to landlords with the same/similar name, same/similar address, etc., to verify that landlords were not awarded funds over the program maximum of \$15,000. If necessary, perform steps to have any extra funds awarded to a landlord(s) returned to the County.

**Action Plan:** Housing and Community Development Services (HCDS) is in agreeance with the audit recommendations. HCDS has taken the following action:

- a. Overpayment notices have been mailed to the landlord to collect overpayment of \$14,000. Landlord has already started repayment.
- b. HCDS identified four sets that met these criteria and completed a thorough review of each case. HCDS did not find any other occurrences where ineligible payments were made.

**Planned Completion Date:** Complete

**Contact Information for Implementation:** Nicholas Martinez, Assistant Director

**OAAS Recommendation 2:** HCDS should evaluate and revise internal procedures, as necessary, to ensure award and administration processes for Federal award programs, such as rental assistance, comply with Federal, State of California, and other applicable program guidelines.

**Action Plan:** HCDS will review and evaluate current procedures to ensure awards meet Federal, State and Local guidelines.

**Planned Completion Date:** June 1, 2023

**Contact Information for Implementation:** Nicholas Martinez, Assistant Director

If you have any questions, please contact me at (858) 694-4802.

  
David Estrella  
Director

**DEPARTMENT'S RESPONSE**  
(OFFICE OF ECONOMIC DEVELOPMENT AND GOVERNMENT AFFAIRS)

TO: Juan R. Perez  
Chief of Audits

FROM: Caroline Smith, Director  
Office of Economic Development and Government Affairs

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: ARPA FUNDS  
ADMINISTRATION

**Finding II:** Additional Management Controls Needed to Ensure Compliance with Board of Supervisors Policy B-58 for Community Enhancement ARPA Program

**OAAS Recommendation 1:** To ensure compliance with the BOS Policy B-58, the Office of Economic Development and Government Affairs (EDGA) should ensure only a single standardized CE program application is provided to applicants, and a process to ensure the basic CE application is not given by mistake. For applications submitted for ARPA funding consideration, ensure the impact from the COVID-19 pandemic is provided.

**Action Plan:** EDGA agrees with the audit findings and will take the following steps to address the finding:

- Update CE application to include necessary fields for CE ARPA.
- If the incorrect application is submitted by an organization, delete award recommendation until organization completes and submits the correct grant program application.

**Planned Completion Date:** August 25, 2023

**Contact Information for Implementation:** Toosdhi M. McGowan, Group Program Manager, (619) 782-2094

**OAAS Recommendation 2:** For organizations considered for ARPA CE funding, or future CE program funding consideration, EDGA should assist with developing a more robust intake, tracking, and retention process since the BOS offices must review and ensure applications include the following, per Treasury guidance and/or BOS Policy B-58 instructions:

- a. The negative economic impact or disproportionate impact of the pandemic is documented, quantifiable, and clearly driven by impact of COVID-19. [ARPA funding only.]
- b. The County's contribution is not to exceed fifty percent (50%) of the recipient's current fiscal year operating budget.
- c. Full disclosure financial statements are provided. Financial statements must be submitted for the prior fiscal year, the estimated current fiscal year, and the proposed fiscal year.
- d. Performance indicators are provided. These reports must be submitted for the prior fiscal year, the estimated current fiscal year, and the proposed fiscal year and focus on how well the organization is meeting its stated mission.

**Action Plan:** EDGA agrees with the audit findings and will take the following steps to address the finding:

- Develop application scoring rubric and application package checklist for consideration of use by all Board offices.
- 2A.
  - Additional language in recommendations describing COVID impact.
- 2B.
  - EDGA will recommend to Board offices to reduce award to less than 50% of entity's operating budget.
  - Recommend that Board office(s) seek approval for a waiver from County Counsel if they wish to make an award that exceeds 50% of an entity's operating budget, include language in the recommendation.
- 2C. Work with Board Offices to craft a process to assist their staff with any financial expertise needed to review fiscal statements.
- 2D. Conduct an assessment and further refine the requirements to propose clarifications in the Board Policy.

**Planned Completion Date:** August 25, 2023

**Contact Information for Implementation:** Toosdhi M. McGowan, Group Program Manager, (619) 782-2094

**OAAS Recommendation 3:** The Office of Economic Development and Government Affairs should evaluate BOS Policy B-58 to determine if existing CE eligibility requirements could be enhanced and/or clarified to ensure the process to award CE funds are clear and in compliance with the County's policy and any Federal regulations.

**Action Plan:** EDGA agrees with the audit findings and will take the following steps to address the finding:

- Conduct complete review of all policy elements in collaboration with Board offices to determine which elements of the policy should be revised and/or eliminated, add elements that strengthen the integrity of the process.

**Planned Completion Date:** August 25, 2023

**Contact Information for Implementation:** Toosdhi M. McGowan, Group Program Manager, (619) 782-2094

If you have any questions, please contact me at (619) 884-1923.

Sincerely,



CAROLINE SMITH, DIRECTOR

CS:tm