

OFFICE OF AUDITS & ADVISORY SERVICES



CARES ACT ECONOMIC STIMULUS PROGRAM

FINAL REPORT

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County of San Diego

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JUAN R. PEREZ
CHIEF OF AUDITS

August 17, 2023

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

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: CARES ACT ECONOMIC STIMULUS PROGRAM AUDIT

Enclosed is our report on the CARES Act Economic Stimulus Program 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:RC:nb

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

INTRODUCTION

Audit Objective The Office of Audits & Advisory Services (OAAS) completed an audit of the CARES Act Economic Stimulus Program. The objective of the audit was to assess the program's compliance with federal guidance and CARES Act provisions.

Background In 2019, the Coronavirus pandemic led to a devastating economic impact across the United States as well as the County. Section 601 (a) of the Social Security Act, as added by section 5001 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act established the Coronavirus Relief Fund and appropriated \$150 billion to the fund. The CARES Act provides that payments from the fund 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 (COVID-19);
2. Were not accounted for in the budget approved as of March 27, 2020 (the date of enactment of the CARES Act) for the state or local government; and
3. Were incurred during the period that begins on March 1, 2020 and ends on December 31, 2021.

The County of San Diego (County) received approximately \$334 million in CARES Act relief funding from the US Treasury. The Board of Supervisors (The Board) approved a total of \$47.5 million for the Small Business Stimulus Grant program, which was funded by the CARES Act and the County General Fund, to be equally distributed by Supervisorial Districts. Small Business Stimulus Grant funding was proposed to provide economic assistance to help local businesses and non-profit entities impacted by COVID-19.¹ Financial Assistance was allocated to eligible small businesses and non-profit entities with final award recommendations made by the individual district offices based on the availability of funds, program guidelines, and the submission of all required information and supporting documentation.

Applications were made available by the County via an online portal and were initially accepted through October 16, 2020, subject to funding availability. Applications were submitted to each Supervisorial District for review and recommendation of awards. Recommended awards were submitted to The Board for final review and approval from September 2020 through September 2021. Final award information was posted to the online portal. Successful applicants were required to enter into a grant agreement with the County immediately after approval. All grant agreements require grantees to follow federal guidance.

¹ The \$47.5 million was comprised of approximately \$27.5 million from CARES funds and \$20 million from the general fund.

The Office of Financial Planning (OFP) in the Chief Financial Officer's office was the initial Administrator of grant agreements since the program's inception in May 2020 through the end of the grant award period in 2021. The Office of Economic Development and Government Affairs (EDGA) took over the remaining responsibilities of collecting outstanding expenditure documentation on July 1, 2022.

The Administrator uses the Power Apps as the system of record for the Small Business Stimulus Program to manage the status of grant awards, maintain supporting documentation, and follow-up with grantees regarding outstanding information.

As a prime recipient of Coronavirus relief payments, the County was required to report COVID-19 related costs incurred during the covered period into the GrantSolutions portal quarterly. The County must report detailed information on grant awards as part of this reporting requirement. Records to support compliance may include grant agreements entered into and all documents related to such awards.

Audit Scope & Limitations

The scope of the audit included a review of business eligibility, the application approval process, grant agreements, grantee expenditures, administrative access to the Power Apps system, collection efforts for unauthorized expenditures, and unused funds not returned to the Treasury.

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:

- Interviewed key personnel regarding processes, and requirements relevant to the Small Business Stimulus Grant Program.
- Examined federal guidance, CARES Act provisions, Board meeting minutes, and memorandums related to the Small Business Stimulus Grant Program.
- On a sample basis, examined documentation and verified eligibility to receive grant awards and the accuracy of award amounts.
- On a sample basis, reviewed grantee expenditures and verified that grant awards were used in compliance with grant agreements and federal guidance.
- Reviewed user access for the grant program's system of record.

- On a sample basis, inspected grantee delinquent account data and verified collection efforts.
- Examined revenue accounts and trust fund balances to verify that unused CARES monies were appropriately settled.

AUDIT RESULTS

Summary

Within the scope of the audit, OAAS determined that the CARES Act Economic Stimulus Program followed federal guidance and overall was managed in accordance with CARES act provisions.

However, in making this determination, we noted certain areas warranting management's attention. These areas of concern are presented in the following Findings and Recommendations section.

Finding I:

CARES Related Small Business Stimulus Refunds and Collections Were Not Properly Administered

OAAS performed a review of unused Small Business Stimulus funds held on account in preparation for return to the Treasury. During our review, we noted:

1. The Office of Revenue and Recovery (ORR) collected \$20,992.30 from delinquent grantee accounts, which were transferred into the General Fund Small Business Stimulus Recovered Expenditures revenue account. Of that amount, \$11,553 was funded by CARES Funds.
2. OFP transferred \$30,576.03 in refunds to the General Fund Small Business Stimulus Recovered Expenditures revenue account. The full amount was funded by CARES Funds
3. OFP also transferred an additional \$867.33 in refunds funded by CARES Funds to a miscellaneous revenue account. The full amount was funded by CARES Funds

OFP did not transfer any off these monies back to the CARES Act Trust Fund because a process had not been established to account for refunds and collections, despite the CARES reporting deadline (12/30/22) having passed. The \$20,992.30 (1) in collections is still in the revenue account, and the \$31,443.36 (2 & 3) in refunds fell to fund balance. As a result, a total of \$42,996.36 of unused Small Business Stimulus funds was not transferred back to the CARES Act Trust Fund to cover other appropriate CARES expenditures or be returned to the Treasury.

Federal CARES guidance, states "Any remaining amount of payments from the Fund not used for eligible expenses incurred during the covered period must be returned to the Department of the Treasury." However, the Treasury's Closeout Procedures Guide also indicates that, if after

the closeout period, a prime recipient determines that a correction is required with respect to obligations and/or expenditures reported for any period prior to December 31, 2022, the authorizing official should make a written request to Treasury OIG to reopen the GrantSolutions final report for correction.

Recommendation: To address the issues noted above, EDGA should:

1. Identify additional Small Business Stimulus funds that are CARES funded that could be at risk of being returned to the Treasury, including refunds and collections.
2. Communicate to the County CARES Authorizing Official the details regarding the total funds identified in Recommendation 1 above. This will enable the CARES Authorizing Official to evaluate the most suitable approach to address these amounts in reporting.

Finding II

Collection Efforts Were Not Adequate

OAAS selected a sample of 20 delinquent grantee accounts to review the program's collection efforts. Of the 20 accounts reviewed, 19 had not been referred to ORR for collections due to delayed action by the program staff, which was partly a result of insufficient resources.

Grantees were required to return any expenditure amount disallowed by the grant administrator in accordance with the grant agreement. If a grantee failed to provide a refund to the County, the program staff should have marked the account as delinquent and referred it to ORR for collections.

The collectability of delinquent accounts drops significantly over time. Therefore, the County may not collect on the funds owed for disallowance unless delinquent accounts are sent to ORR timelier.

Recommendation: EDGA should ensure all delinquent grantee accounts are referred to ORR.

Finding III:

System Access Not Terminated Timely

OAAS conducted a review of user access within the program's system of record, Power Apps. During this review, we discovered that six business users who had left the program still retained their access privileges in Power Apps. Program Management did not consistently perform quarterly access reviews. Additionally, the quarterly review duties are not documented, and the program has had frequent reassignments of the staff responsible for performing the reviews.

The program's standard practice requires Management to review access reports quarterly and submit requests to revoke access for employees who have transferred or terminated employment. In accordance with item 0400-03 of the CAO Administrative Manual, the program must submit these requests promptly to ensure that user accounts are disabled by the last day of needed access.

As a result of the above, the County incurred costs for unused licenses. These licenses cannot be reassigned until the previous user's access has been removed. Additionally, this situation increases the risk of unauthorized users gaining access to sensitive records.

Recommendation: EDGA should ensure their Power Apps user access lists are periodically reviewed and documented.

Finding IV: The Program Did Not Maintain Sufficient Documentation

OAAS selected a sample of 30 grant awards from FY 2020-2021 and reviewed the associated expenditures for compliance with the grant agreement. Of the 30 grant awards reviewed, we found the following exceptions:

- 2 instances where the program was unable to locate the grant agreement.
- 6 instances where grantee was required to submit a refund; however, the program had no documentation of a request for refund.
- 1 instance where the program allowed a business to submit an unallowable expenditure. A grantee used \$3,532 of its grant funds to pay federal taxes for employees, which is unallowable by 42 C.F.R 26 and should have been disallowed.
- 3 instances of missing eligibility documentation (W-9, tax returns, IRS letter with either TIN or EIN, financial statements, payroll report, or exempt status from California Attorney General)

In accordance with subsection 601 (d) of the Social Security Act, as amended, (42 U.S.C. 801 (d)), recipients shall maintain all documents and financial records sufficient to establish compliance. Records shall be maintained for a period of five years after payment is made using relief monies. These record retention requirements are applicable to all prime recipients and their grantees. Otherwise, the County would be unable to make records to support compliance available to the Treasury OIG upon request.

Recommendation: EDGA should ensure all documents and financial records are maintained in accordance with CARES requirements.

Office of Audits & Advisory Services

Compliance Reliability Effectiveness Accountability Transparency Efficiency

VALUE

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



County of San Diego

CAROLINE SMITH
DIRECTOR

OFFICE OF ECONOMIC DEVELOPMENT AND GOVERNMENT AFFAIRS

1600 PACIFIC HIGHWAY, SUITE 152, SAN DIEGO, CA 92101-2437

August 15, 2023

TO: Juan R. Perez
Chief of Audits

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

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: CARES Act Economic Stimulus Program

Finding I: CARES Related Small Business Stimulus Refunds and Collections Were Not Properly Administered

OAAS Recommendation: In To address the issues noted above, EDGA should:

1. Identify additional Small Business Stimulus funds that are CARES funded that could be at risk of being returned to the Treasury, including refunds and collections.
2. Communicate to the County CARES Authorizing Official the details regarding the total funds identified in Recommendation 1 above. This will enable the CARES Authorizing Official to evaluate the most suitable approach to address these amounts in reporting.

Action Plan: As noted in the audit report, EDGA took oversight of the CARES Act program on July 1, 2022, eight months after the conclusion of the grant awards approval deadline of September 2021. EDGA's role was to retain oversight over documentation and reporting needed for outstanding grant awards. EDGA identified the same gap in reporting to ORR and instated a process for maintain records of refunds owed. For refunds collected, EDGA reports to County CARES Authorizing Officials monthly, the refunds received, from which awardees, and if the funds returned are an entire grant award or partial grand award funds. EDGA will continue to rely on guidance provided by the CARES Act fiscal team to ensure compliance.

Planned Completion Date: Completed last fiscal year, process is currently in place.

Finding II: Collection Efforts Were Not Adequate

OAAS Recommendation: EDGA should ensure all delinquent grantee accounts are referred to ORR.

Action Plan: As noted in the audit report, EDGA took oversight of the CARES Act program on July 1, 2022, eight months after the conclusion of the grant awards approval deadline of September 2021. EDGA's role was to retain oversight over documentation and reporting needed for

outstanding grant awards. EDGA identified the same gap. In October 2022, EDGA reviewed all incomplete CARES funded awards in PowerApps to determine compliance. Awardees that had submitted documentation to OFP but had not been reviewed were reviewed and closed by EDGA and where necessary, EDGA contacted awardees to collect missing documentation. Awardees that did not respond have been or will be referred to ORR as ORR staff resources permit.

Planned Completion Date: Completed last fiscal year. All outstanding delinquent awards were referred to ORR.

Finding III: System Access Not Terminated Timely

OAAS Recommendation: EDGA should ensure their Power Apps user access lists are periodically reviewed and documented.

Action Plan: EDGA does not have administrative access to PowerApps. EDGA Grants team staff coordinates with Group IT coordinator to ensure that Peraton provides an accurate and timely list of licenses to review and update. We will continue to request that Peraton confirm when list updates are complete.

Planned Completion Date: Completed. Process to request is in place.

Finding IV: The Program Did Not Maintain Sufficient Documentation

OAAS Recommendation: EDGA should ensure all documents and financial records are maintained in accordance with CARES requirements.

Action Plan: As noted in the audit report, EDGA took oversight of the CARES Act program on July 1, 2022, eight months after the conclusion of the grant awards approval deadline of September 2021. EDGA's role was to retain oversight over documentation and reporting needed for outstanding grant awards. EDGA identified the same gap and implemented additional policies with the Board Offices who award the grants and maintain the applications including: Creating a SharePoint site for each district to house all required documentation for grant awards; removal of award recommendations for any item that does not have all required documents uploaded to the SharePoint site; the implementation of a checklist tool to assist the Board Offices in completing this task. However, that only helps with prospective grant programs. In addition to these grant awards being completed eight months prior to EDGA's oversight, the grants were awarded by the Supervisorial offices, three of whom left office in December of 2020 along with all of their staff, and one who subsequently left office in May of 2023. Therefore, there is no way to revisit the records of awards made by former Supervisors Gaspar, Jacobs, Cox, and more recently, Fletcher to retroactively obtain the documentation collected by those Supervisors' teams. We did, however work with the Supervisorial Offices still in office at the time records were discovered to be missing certain pieces of documentation.

Planned Completion Date: Completed. All retroactive work on past grants was completed last fiscal year. All new processes to ensure compliance have also already been completed. For FY23/24, implementing the use of the checklist process for Board Offices in reviewing their application packages. EDGA will verify checklist against documents submitted. If

documents/information cannot be validated, the recommended award is removed from the Board Memo draft prior to finalizing. The Board Office staff members from all five districts were trained on the process and requirements on July 25, 2023, with ongoing training opportunities provided to them.

If you have any questions, please contact Toosdhi McGowan, Grants Program Manager, at Toosdhi.McGowan@sdcounty.ca.gov.

A handwritten signature in cursive script that reads "Caroline Smith".

Caroline Smith
Director