
PERFORMANCE AUDIT OF THE CITY'S USE OF CARES ACT FUNDING

Finding 1: The City's financial management process generally followed best practice to provide reasonable assurance of compliance with CARES Act funding requirements and should be formalized.

Finding 2: The City significantly overpaid for portable showers, and two contracts still need to be approved by City Council.

Finding 3: The City's use of paid leave may not have been consistent with CARES Act regulations.

Finding 4: The Emergency Rental Assistance Program did not have sufficient documentation by San Diego Housing Commission staff to verify income eligibility and economic hardship.

Office of the
City Auditor

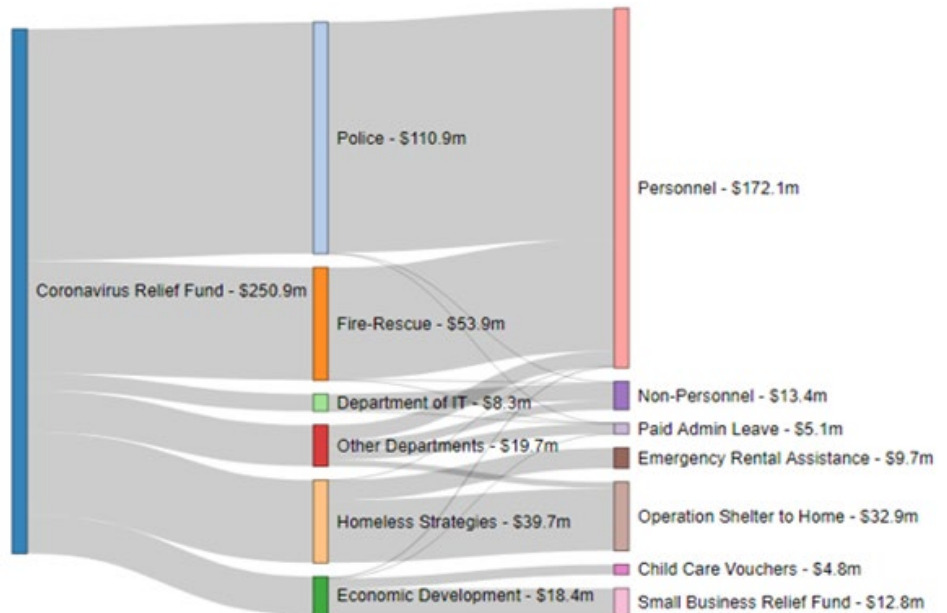
City of San Diego



Performance Audit of the City's Use of CARES Act Funding

What OCA Found

We found that the City developed a sound financial management process to ensure CARES Act funds were spent in accordance with the Act. The City spent over \$250 million from the Coronavirus Relief Fund (CRF) to mitigate pandemic effects by sheltering homeless individuals, providing grants to small businesses and rental relief to landlords and tenants. The CRF also provided funding to public safety departments to continue essential services, as well as other City department staff dedicated to responding to the effects of the pandemic—including personnel staffing Operation Shelter to Home.



We found instances where the need for expediency and the continuation of essential services led to some expenditures that we identified for further scrutiny to determine eligibility under the CARES Act.

Finding 1: The City's financial management process generally followed best practice to provide reasonable assurance of compliance with CARES Act funding requirements and should be formalized.

Finding 2: For Operation Shelter to Home, the City paid \$1.118 million over its contracted rate for portable showers, and two contracts still need to be approved by City Council.

Finding 3: The City's use of paid leave may not have been consistent with CARES Act regulations. In an early communication to management, we identified \$1.74 million in expenditures that may not have met the requirements, and the City took corrective action.

Finding 4: The Emergency Rental Assistance Program did not have sufficient documentation by San Diego Housing Commission staff to verify income eligibility for all potential household income.

Why OCA Did This Study

We conducted this study to determine if CARES Act money was spent in compliance with requirements, if programs were effective, and if the City had internal controls to mitigate waste, fraud, and abuse.

What OCA Recommends

We make 4 recommendations to retain institutional knowledge, fully comply with the City's procurement procedures, and ensure eligibility for resident programs is fully documented.

Key recommendations include to:

- Formalize the process for documenting, reviewing, and submitting disaster-related costs in a City Standard Operating Procedure or Process Narrative;
- Determine if the City should pursue a refund from the vendor for up to \$1.118 million in payments made by the City above the contracted rate for the portable showers;
- Bring the portable shower and food service contracts to City Council for approval; and
- Update the SDHC procedure manual to require documentation of final determination of household size and income.

For more information, contact Andy Hanau, City Auditor at (619) 533-3165.



THE CITY OF SAN DIEGO

July 21, 2021

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is a performance audit report of the City's Use of CARES Act Funding. This report was conducted in accordance with the City Auditor's Fiscal Year 2021 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. Audit Objectives, Scope, and Methodology are presented in Appendix B. Management's responses to our audit recommendations are presented after page 38 of this report.

We would like to thank staff from the Department of Finance, Economic Development Department, Human Resources Department, and the San Diego Housing Commission. All of their valuable time and efforts spent on providing us information is greatly appreciated. The audit staff members responsible for this audit report are Danielle Kish, Joe Picek, Danielle Novokolsky, Chris Kime, and Danielle Knighten.

Respectfully submitted,

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Table of Contents

Background.....	1
Audit Results.....	13
Finding 1: The City’s financial management process generally followed best practice to provide reasonable assurance of compliance with CARES Act funding requirements and should be formalized.	13
Finding 2: The City significantly overpaid for portable showers, and two contracts still need to be approved by City Council.	17
Finding 3: The City’s use of paid leave may have not been consistent with CARES Act regulations.....	22
Finding 4: The Emergency Rental Assistance Program did not have sufficient documentation by San Diego Housing Commission staff to verify income eligibility and economic hardship.....	27
Lessons Learned: When the City allocated CRF funding to the Small Business Relief Fund Program, program eligibility expanded but the City did not solicit new applications and no longer required formal documentation of number of employees.	30
Appendix A: Definition of Audit Recommendation Priorities.....	34
Appendix B: Audit Objectives, Scope, and Methodology	35

Background

The City spent over \$250 million from the Coronavirus Relief Fund to mitigate pandemic effects.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed on March 27, 2020, and expenditure and reporting guidance for the Coronavirus Relief Fund was developed by the Department of the Treasury Office of the Inspector General (Treasury OIG) throughout July 2020.¹ The City has been awarded funds through a variety of CARES Act sources, including direct funding (Coronavirus Relief Fund), funding through the Department of Housing and Urban Development (HUD), funding through the Department of Commerce, the Federal Aviation Administration (FAA), and the Department of Justice (DOJ). The Treasury OIG is responsible for determining if expenses charged to CARES Act funds are eligible. Ineligible uses of funds become a debt to the federal government.

The Coronavirus Relief Fund (CRF) requires that expenditures be used for actions taken to respond to the public health emergency. These may include expenditures incurred to allow the City to respond directly to the emergency, such as by addressing medical or public health needs, as well as expenditures incurred to respond to second-order effects of the emergency, such as by providing economic support to those suffering from unemployment or business interruptions due to COVID-19-related business closures. However, revenue replacement is not a permissible use of the CRF.

In San Diego, these second-order effects included reaching an unemployment rate as high as 15.2 percent in May 2020, and an estimated regional economic impact of a \$7–\$10 billion decline in gross regional product. Furthermore, these losses were not felt evenly across the region; individuals in the lowest paying jobs were disproportionately impacted. According to SANDAG, while jobs that required a college education and are considered white collar recovered quickly, nearly 40 percent of the jobs that pay below \$27,000 a year were lost at the onset of the pandemic

¹ The CARES Act funds for our scope are predominately those included in the Coronavirus Relief Fund, CFDA # 21.019. The City was awarded approximately \$248.5 million and spent an additional \$2.4 million in interest earned on the fund for eligible expenses.

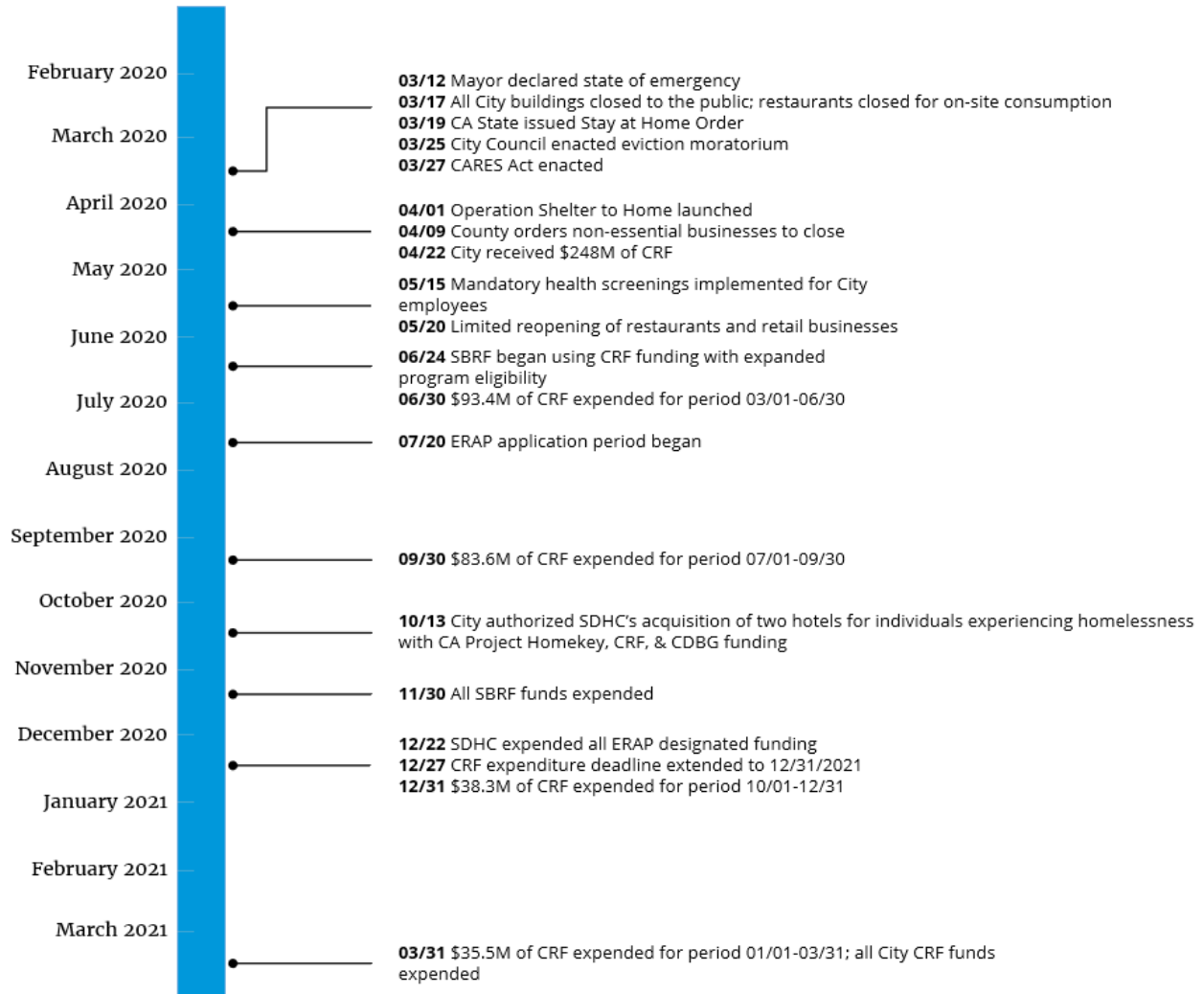
and 25 percent remained lost as of December 2020. The City also has a large population of individuals experiencing homelessness, some of whom were housed in homeless shelters that were unable to implement health protocols, such as social distancing. As a result, some of these individuals needed to be moved to a new location to prevent the spread of COVID-19.

The City used CARES Act funds to establish several new programs for responding to the pandemic effects, including an Emergency Rental Assistance Program; childcare vouchers; the Small Business Relief Fund; and Operation Shelter to Home, the City's program for sheltering homeless individuals at the Convention Center and transitioning them to housing. The CRF has also provided funding to public safety departments, substantially dedicated personnel from other departments, and reimbursed expenditures for purchases and activities necessary for responding to the pandemic.

Exhibit 1 summarizes local key events during the pandemic as well as the City's response efforts. **Exhibit 2** summarizes the departments and expenses reimbursed from the CRF.

Exhibit 1:

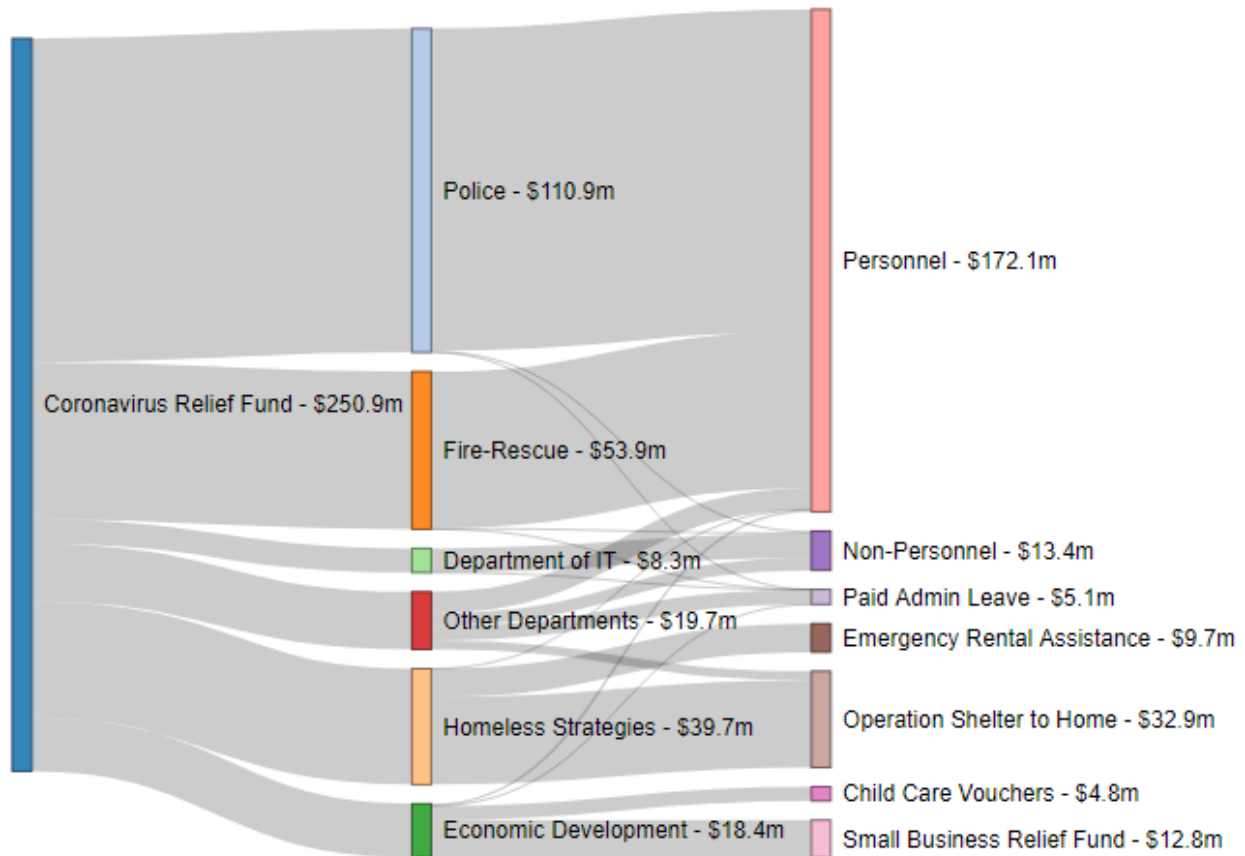
Timeline of City Pandemic Response Efforts



Source: Auditor generated based on City documents, County of San Diego documents, State of California documents, and the CARES Act.

Exhibit 2:

The City Spent over \$250 Million from the Coronavirus Relief Fund



Source: Auditor generated from Department of Finance CRF reports.

The CARES Act provided funding for the City's pandemic response.

Public safety employees continued to provide essential services throughout the pandemic. Additionally, public safety is the largest portion of the City's General Fund budget, and the City was able to use over \$165 million from the CRF to pay for public safety payroll. According to the Treasury OIG CRF guidance, the CRF was intended to provide assistance to address increased expenses and to allow recipients facing budget pressures not to have to lay off or furlough employees who would be needed to assist with the health emergency. The guidance also specifically states that governments may presume that payroll costs for

public safety employees are for services substantially dedicated to mitigating or responding to the public health emergency.

To meet the needs of the pandemic, some of the personnel from other City departments—including Parks and Recreation, Economic Development, and Library—were substantially dedicated to responding to the effects of the pandemic, including staffing Operation Shelter to Home. Since these employees were not performing their regular duties, the City was able to use the CRF to pay for their time spent responding to the pandemic.

CARES Act funds reimbursed the City for supplies necessary for City employees to adapt services to pandemic restrictions, such as \$8.3 million for network services and laptops for working remotely, and \$3.6 million for personal protective equipment.

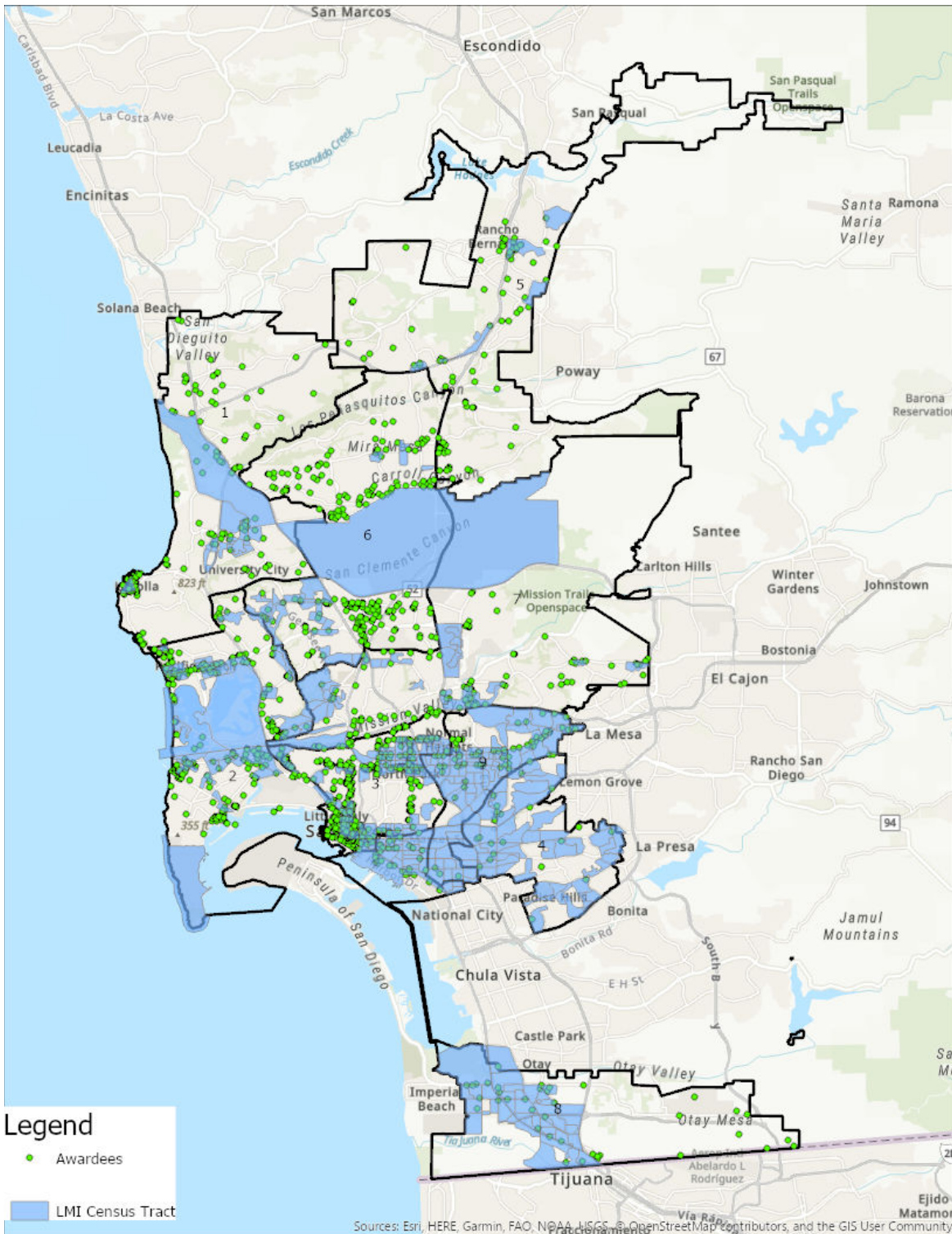
The CARES Act provided \$32.9 million in funding for the City's pandemic response for homeless individuals with Operation Shelter to Home. This included funding for rent at the Convention Center, meals for residents and staff, portable showers for residents, personal protective equipment, cleaning supplies, and security.

The City's Small Business Relief Fund (SBRF) originally used existing Community Development Block Grant (CDBG) funds, but interest in the program exceeded available resources. The City then used CRF funds to supplement the program and provide additional grants to businesses that were not eligible for grants from CDBG funds. Less than a month after the City Council approved allocating an additional \$12.8 million (including contracts costs) in CRF funding, EDD began disbursing CRF funded awards. The program included the requirement that at least 50 percent of the funding be for businesses located in low-to moderate-income (LMI) areas, federally designated Opportunity Zones, or the San Diego Promise Zone. A study from the Office of Evaluative Sciences at the Government Services Administration found that, although basic first-come, first-served methods can disadvantage applicants from historically underserved groups, set asides within first-come, first-served is a way to increase the funding going to historically underserved groups. In August, the City Council re-allocated

\$700,000 for the purpose of specialized outreach, technical assistance, and grants to at-risk businesses. By the end of November, all \$12.1 million of CRF funded SBRF awards were disbursed, providing grants to 1,857 businesses across the City. Awards varied in size from \$2,500 to \$10,000, and as directed by City Council, businesses located in Promise Zones, Opportunity Zones, or LMI Census Tracts were awarded a \$500 bonus. See **Exhibit 3** for the business locations of SBRF award recipients.

Exhibit 3:

The Small Business Relief Fund Distributed \$12.1 Million in CRF-Funded Grants throughout the City from 07/06/2020 to 11/19/2020



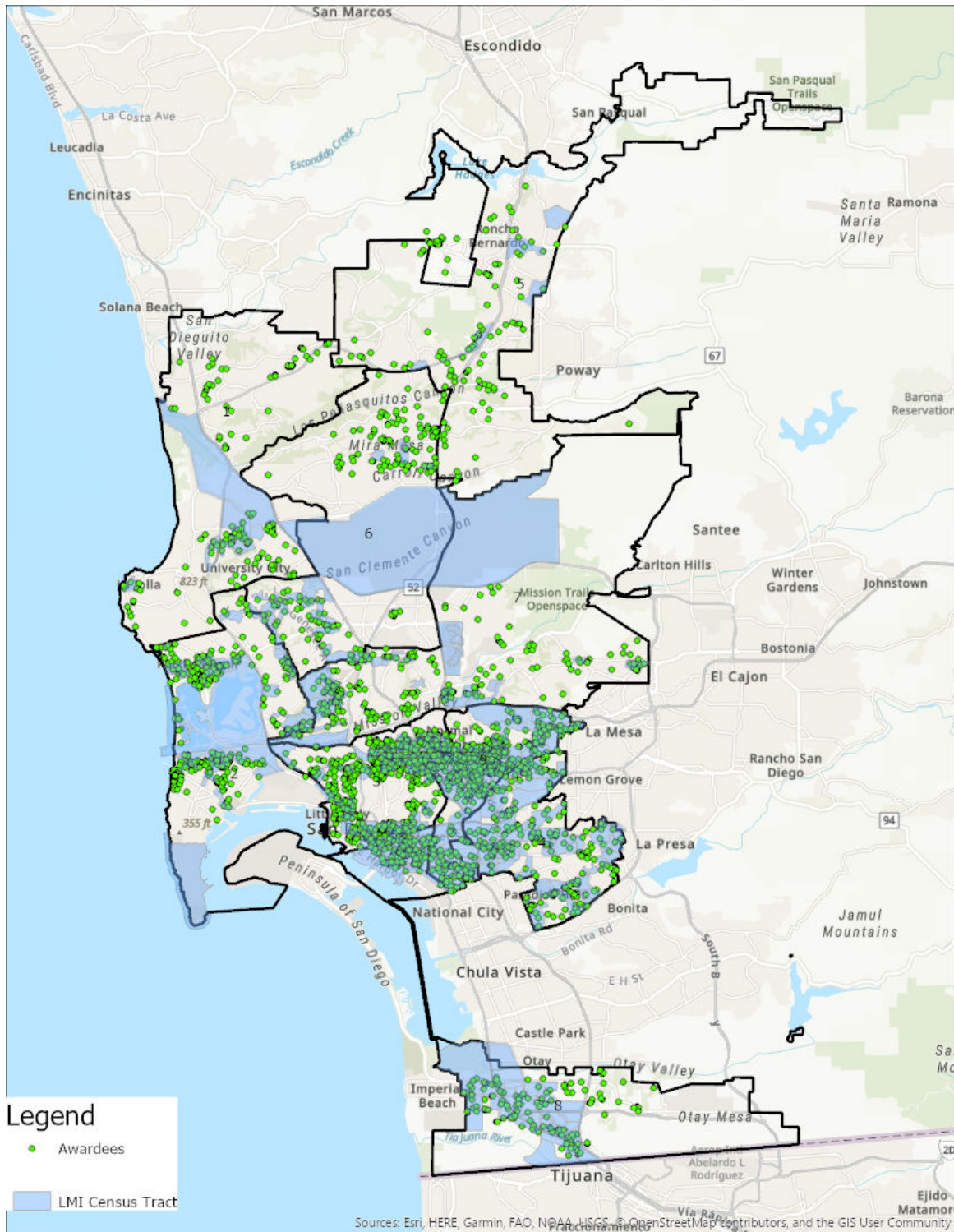
Source: Auditor generated from EDD and ArcGIS data.

The City's Emergency Rental Assistance Program, managed by the San Diego Housing Commission (SDHC), provided up to \$4,000 to landlords for renters who were economically impacted by COVID-19, including impacts such as unemployment, reduced work hours, or increased medical bills due to COVID-19. The City allocated a total of \$15.1 million (including administrative costs), including funds from the City's existing CDBG entitlement, CARES Act CDBG funds, and \$9.7 million of CRF funds to create the program. The City signed a memorandum of understanding with the SDHC to administer the program. Based on the parameters established by the City Council, awardees needed to have income below 60 percent of the area median income (AMI). Federal criteria for CRF funds did not establish an AMI threshold, but the City chose to target renters below 60 percent AMI.

SDHC received more than 13,000 applications and assisted 3,735 households. As can be seen from the map in **Exhibit 4**, the highest concentration of applications and awardees was in low-to moderate-income census tracts.

Exhibit 4:

The Emergency Rental Assistance Program Helped Renters and Landlords throughout the City with \$13.7 Million in Awards from 09/10/2020 to 12/21/2020



Source: Auditor generated from SDHC and ArcGIS data.

Scope & Objectives

In accordance with the Office of the City Auditor's approved Fiscal Year 2021 Audit Work Plan, we conducted a Performance Audit of the City's Use of CARES Act Funding. Our audit included the following objectives:

Objective 1: Does the City have sufficient internal controls to ensure that CARES Act funds are distributed in compliance with Federal requirements?

Objective 2: Are CARES Act funds being used efficiently, effectively, and equitably for addressing the effects of the pandemic?

Objective 3: Are internal controls sufficient to mitigate fraud, waste, and abuse?

As part of our audit, we sent a memorandum to the Chief Operating Officer on May 14, 2021 to notify management of some potential issues to ensure the City follows CARES Act requirements.² We asked that the Chief Operating Officer, in conjunction with the Chief Compliance Officer and applicable City departments, evaluate certain expenses and submit a written response to the Office of the City Auditor to provide justification for those expenditures. In addition to the justification provided, we asked that management decide if these expenditures should remain as CARES Act expenditures or if they should be funded under another revenue source and that management consider substitution of all or some of the expenditures with those that more closely align with the CARES Act's compliance requirements. In the response, dated June 9, 2021, Management provided context for the decision to pay more than double the contracted rate for portable showers, provided the justification for some IT-related expenses, and made an accounting adjustment of \$1.74 million to move some leave-related expenses to public safety payroll expenses.

² Early communication of potential issues or audit findings is cited in Government Auditing Standards as important because of relative significance and the urgency for corrective follow-up action and also noted as a tool for accountability and transparency in the United States Government Accountability Office report on lessons learned from the American Recovery and Reinvestment Act of 2009.

It is worth noting that the \$1.74 million in leave-related costs, in addition to the \$721,000 overpayment identified from the CRF in Finding 2, totals \$2.46 million. This is less than 1 percent of the \$250.9 million spent from the CRF to mitigate pandemic effects.

While federal guidance evolved during the pandemic, the City needed to balance the need for expediency with good stewardship.

Evolving guidance, combined with the unfolding nature of the pandemic emergency, created a challenging environment for the City to make operational decisions.

In the management response received June 9, 2021, the Chief Operating Officer included a section on the dynamic environment in which the City was operating at the time the CARES Act funding was spent:

As a general note, it is important to consider the context within which the City was operating as the nature of the pandemic unfolded. For example, initial guidance from the U.S. Treasury on the eligible uses of CARES Act was very broad, and subsequently clarified through several iterations set forth in "Frequently Asked Questions" documents. The City actively engaged with other CRF recipient cities, the United States Conference of Mayors, federal and state officials, and other stakeholders to determine eligible uses of the City's allocation of CRF monies. In an environment of rapidly changing information, the City established a rigorous control framework to review and allocate CRF monies for eligible uses. Over the same time period, the City was making critical daily decisions based on constantly changing information regarding maintaining City services, protecting our workforce, managing numerous sources of emergency funding, and standing up a massive emergency homeless shelter at the San Diego Convention Center.

The evolving guidance was also noted in the Treasury OIG's memorandum titled "American Rescue Plan – Application of Lessons Learned from the Coronavirus Relief Fund," which stated:

The lack of comprehensive, timely guidance on eligible uses caused confusion among recipients, and in some

cases was a factor in ineligible uses of CRF payments. For ARP programs, we recommend that Treasury management finalize guidance concurrent with funds distribution in order to facilitate efficient administration of programs and minimize recipient confusion and misuse of funds. In addition, FAQs are an effective tool to clarify existing guidance, but should not be used to establish new guidance.

In a public sector knowledge brief, the Institute of Internal Auditors also commented on the challenges faced as a result of the pandemic:

Clearly, the pandemic poses unique challenges. Due to the urgency to mobilize medical staff and researchers, procure equipment for first responders, deliver scarce goods, provide relief to citizens and shuttered businesses, and enforce social distancing on a national scale, government bodies had to move quickly to ensure both the public and private sector had the flexibility needed to respond. As a result, the number of regulatory changes that have taken place in a short time are more in line with a wartime scenario than with any regional disaster public sector internal auditors may have experienced in the past.

While an internal control framework was established early in the pandemic, we found instances where the need for expediency and the continuation of essential services led to some expenditures that we identified for further scrutiny to determine eligibility under the CARES Act.

Audit Results

Finding 1: The City's financial management process generally followed best practice to provide reasonable assurance of compliance with CARES Act funding requirements and should be formalized.

We found that the City of San Diego developed a sound financial management process to ensure CARES Act funds were spent in accordance with the Act that included a system for collecting, processing, and submitting U.S. Treasury cycle reports. Many of the techniques used are found in the Department of Homeland Security Office of the Inspector General's (OIG) report on "Audit Tips for Managing Disaster-Related Project Costs." However, the City has not formalized the process that was used for CARES Act cost recovery. This would be beneficial to provide a roadmap for any future occurrences of this type of federal assistance, incorporate lessons learned, and help provide continuity if key personnel are lost.

Formalizing the process would be beneficial to provide a roadmap for any future occurrences of this type of federal assistance, incorporate lessons learned, and help provide continuity if key personnel are lost.

The City of San Diego Office of Homeland Security has a Declared Disaster Operating Booklet with details on understanding Federal Emergency Management Agency (FEMA), State of California Office of Emergency Services and County of San Diego Emergency Services requirements for disaster relief documentation and processing. The booklet is extensive and covers specific information related to cost recovery for disasters, such as fires, floods, earthquakes, landslides and explosions. However, it is predicated on a sequence of events beginning with a disaster event and the activation of an Emergency Operations Center.

A standard operating procedure or process narrative not dependent on the activation of an Emergency Operations Center

would be beneficial for cost recovery of federal assistance awards, such the CARES Act, the American Rescue Plan, or potentially the proposed federal infrastructure funding.

The Department of Homeland Security OIG released a report on "Audit Tips for Managing Disaster-Related Project Costs" in September of 2017 to assist recipients and subrecipients of FEMA disaster grants to document and account for disaster-related costs, maximize financial recovery, and prevent fraud, waste, and abuse of disaster funds.

While geared towards FEMA reimbursement, the guide has several key points related to cost recovery for disasters applicable to the CARES Act funds. These include to:

- Designate a person to coordinate the accumulation of records;
- Establish a separate and distinct account for recording revenue and expenditures;
- Ensure that the final claim for each project is supported by amounts recorded in the accounting system;
- Ensure each expenditure is recorded in the accounting books and is referenced to supporting source documentation (checks, invoices, etc.) that can be readily retrieved; and
- Ensure that expenditures claimed under the project are reasonable and necessary, are authorized under the scope of work, and directly benefit the project.

The City generally followed best practice for managing CARES Act funds.

Prior to the receipt of the CARES Act funds, the City established an internal order code on March 23, 2020 for all productive time related to COVID-19. The code was used to record personnel time for anything that would not have been done if COVID-19 did not exist. This recording of COVID-related time was consistent with CARES Act requirements that expenditures were incurred due to the public health emergency with respect to COVID-19 and were not accounted for in the budget most recently approved as of the date of the enactment of the bill. To ensure that expenditures would be allowable under the Act, the Department of Finance (DOF) Director sent a memorandum to

Department Directors and Department Analysts with Coronavirus Relief Fund (CRF) reporting and record retention requirements. The memorandum had updated guidance from the Department of the Treasury Office of the Inspector General (Treasury OIG) on documentation requirements, described the DOF's lead role in uploading documentation for CRF expenditures, and emphasized City departments' role in maintaining an audit trail to comply with any OIG or oversight bodies' audits. Further department detail was provided in a link to the internal DOF CityNet site. The memorandum also identified the City's Chief Compliance Officer as the primary point of contact for documentation, record retention, and expenditure eligibility-related questions. The DOF Assistant Director and a Principal Accountant were also identified as contacts for questions on the reimbursement process.

The department detail linked in the memorandum had information on the documentation and approval process for submitting CRF expenditures. The process included department appointing authority approvals, the CRF fund number, the use of the internal order for personnel and non-personnel cost, attaching vendor invoices and instructions to email the Chief Compliance Officer for review and attestation to the eligibility of the expenditures followed by the DOF's review, and posting the needed accounting entries. In addition, the DOF had a detailed internal process for compiling, reviewing, and submitting the U.S. Treasury cycle reports in the format provided by the Treasury OIG. Treasury reports were submitted through the Treasury Grant Solutions Portal.

However, without a formalized process for documenting, reviewing, and submitting disaster-related costs, any lessons learned, or institutional knowledge may be lost. This could impact the effectiveness and efficiency of cost recovery efforts in the form of lost funding or staff efficiency in recording and processing reimbursement requests. As mentioned earlier in this report, the process was developed as the federal guidance was updated, thus the focus was on implementing the reimbursement process, not on formally documenting the process.

Recommendation 1

We recommend the Department of Finance, in conjunction with the Chief Compliance Officer, formalize the process for documenting, reviewing, and submitting disaster-related costs in a City Standard Operating Procedure or Process Narrative to establish the requirements to:

- Designate a person to coordinate the accumulation of records;
- Establish a separate and distinct account for recording revenue and expenditures;
- Ensure that the final claim for each project is supported by the amounts recorded in the accounting system;
- Ensure each expenditure is recorded in the accounting books and is referenced to supporting source documentation (checks, invoices, etc.) that can be readily retrieved; and
- Ensure that expenditures claimed under the project are reasonable and necessary, are authorized under the scope of work, and directly benefit the project.
(Priority 3)

Management Response: **Agree** with target implementation date of December 2021.

See pg. 40 for full response.

Finding 2: The City significantly overpaid for portable showers, and two contracts still need to be approved by City Council.

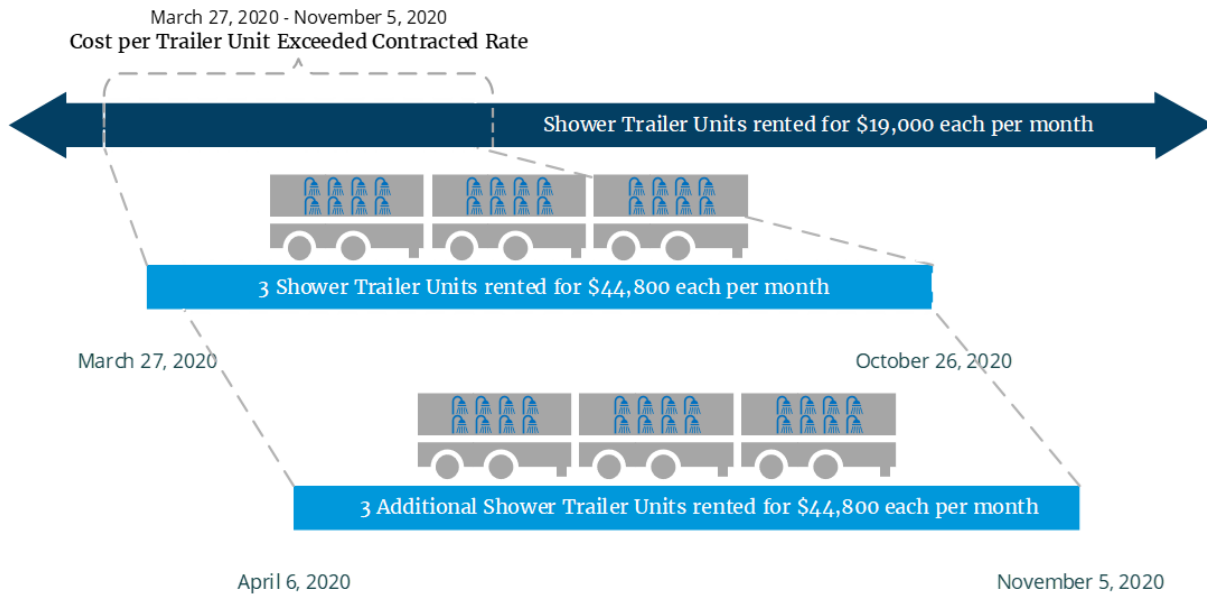
The City paid over twice its contracted rate for portable showers.

Although there was a financial management system in place for documentation review and approval, the City paid its portable shower vendor more than double its contracted rate. City management decided to pay the increased rate due to the need to quickly accommodate the influx of people at the San Diego Convention Center. As part of Operation Shelter to Home's services, the City rented portable shower units for homeless shelters at the San Diego Convention Center. The City had an existing contract with a vendor establishing a monthly price of \$20,000 per 8-stall portable shower trailer. However, from March through November 2020, the vendor charged the City more than double its contracted rate, overcharging the City by about \$1,118,000, including more than \$721,000 that was reimbursed from the Coronavirus Relief Fund (CRF).

The City rented three trailers at \$44,800 each per month from March 27, 2020 through October 26, 2020 for Operation Shelter to Home. The City rented three more trailers at \$44,800 each from April 6, 2020 through November 5, 2020. The vendor reduced the monthly unit cost to \$19,000 thereafter. **Exhibit 5** shows the timeline for the higher priced shower rentals, from March through November.

Exhibit 5:

Higher Priced Shower Rental Timeline



Source: Auditor generated based on vendor invoices.

Federal guidance states, "Agencies must continue to use standard best practices that include the internal controls necessary for prudently planning for, awarding, and managing contracts, grants, loans, and other forms of assistance. Where the new relief legislation requires agencies to undertake new or modify existing activities that affect payments, agencies are to balance the imperatives of expediency and good stewardship."

Also, according to federal guidance, the reasonableness of costs includes considering market prices for comparable goods and services and significant deviations from the established practices of the governmental unit which may unjustifiably increase the cost to federal award. To justify the deviation from the City's established contract price, the City would need to consider the market prices for comparable goods. The City's emergency procurement process requires that in the event of an emergency, the department provides a memo documenting:

- The date of the emergency;
- The action taken by the vendor to assist the City in handling the emergency event;

- Acknowledgement of unusual procurement method;
- Acknowledgement of SDMC §22.3208; and
- The total cost of goods or services.

Additionally, the City's procedures for procurement allow for an emergency procurement without a bidding process. However the Purchasing Agent must immediately report the emergency award and its justification to the City Council in writing, and the resulting emergency contract must be approved by a two-thirds vote of the City Council, per San Diego Municipal Code §22.3208(b).

According to the Chief Operating Officer's memo dated June 9, 2021:

Context is important in examining this transaction. First, at this point in the pandemic, there were severe disruptions in the supply chain for a broad spectrum of goods. Shower units were in especially high demand. For example, the southern United States was experiencing hurricanes, severe wildfires were ongoing throughout the western United States, and hospitals and health care facilities were overloaded and seeking ways to temporarily expand—these conditions significantly contributed to market scarcity for portable shower stalls.

Second, the City team was operating under an accelerated emergency timeframe, with only a few days to secure and position shower trailers at the San Diego Convention Center prior to initially admitting more than 700 homeless clients. Acquisition of the shower trailers was critical to meeting the health and safety needs of the shelter residents. Even in the face of these conditions, the City team made best efforts to procure the shower trailers in a fiscally responsible manner.

The City's incident management team contacted other vendors, and the verbally quoted rates were much higher than the initial rates quoted by the City's contracted vendor. The vendor was facing a scarcity of shower units throughout their service area. Nevertheless, the vendor

prioritized the City's needs and emergency timeframes, and procured trailers for the City's use from outside of the state, which necessarily resulted in the increased emergency rates.

However, the emails we received between the City and the vendor did not provide a reason for the increased rate other than the national emergency environment. According to the emails, the City requested three shower trailers for Operation Shelter to Home on March 21, 2020. On March 22, 2020, the vendor stated that they had three trailers available. On March 25, 2020, the City requested the price for shower trailers, and the vendor replied that the City's contracted rate was \$20,000 per trailer per month but the trailers were currently going for an emergency rate of \$50,400. Ultimately, the actual quote provided was for \$44,800 per trailer per billing cycle. The vendor did not state that there was a shortage. Therefore, the communications we received did not support the market conditions and the expediency required for a deviation from contracted prices.

The City needs to bring two contracts to the City Council for approval.

We also found that the City did not obtain City Council approval for the increase in the portable showers contract, which increased from \$3,000,000 to \$6,092,608 in October 2020. The City's established contract had a maximum value of \$3,000,000, above which City Council approval is required per San Diego Municipal Code §22.3206(e) requirements. According to the Chief Operating Officer's June 9, 2021 memorandum to the Office of the City Auditor, City staff are preparing to bring the portable showers contract back to City Council in July 2021 to obtain approval for the overage.

Additionally, the contract for food services at Operation Shelter to Home has not been ratified by City Council, per San Diego Municipal Code §22.3208(b) requirements. The Chief Compliance Officer explained that the City provided multiple updates to City Council on the contract during updates of Operation Shelter to Home and the City is working to docket the contract for ratification, but that it has not yet been ratified.

The City's procurement manual confirms that emergency procurement activities can be ratified by City Council after the event and still align with process and policy.

Recommendation 2

The Chief Compliance Officer should work in conjunction with the Purchasing and Contracting Department and the City Attorney's Office to determine if the City should pursue a refund from the vendor for up to \$1.118 million in payments made by the City above the contracted rate for the portable showers. If a refund is provided, the Department of Finance should also reallocate the \$721,000 in overcharged funds reimbursed from the Coronavirus Relief Fund to other eligible expenses and revise reporting to the the Department of Treasury Office of the Inspector General accordingly. (Priority 2)

Management Response: **Agree** with target implementation date of December 2021.

See pg. 40 for full response.

Recommendation 3

To ensure the City has followed its own procedures on all Coronavirus Relief Fund-reimbursed procurements, the Purchasing and Contracting Department should bring the portable shower and food service contracts to City Council for approval. (Priority 3)

Management Response: **Agree** with target implementation date of October 2021.

See pg. 40 for full response.

Finding 3: The City's use of paid leave may have not been consistent with CARES Act regulations.

The CARES Act included eligible expenditures for increased administrative costs of public employees who could not telework in the event of a stay at home order or a case of COVID-19 in the workplace. As stated in the March 13, 2020 City Temporary COVID-19 Protocols, the COVID-related scenarios included: employees diagnosed with COVID-19, symptomatic employees, exposed or potentially exposed employees, employees who have recently traveled, employees 65 or older, employees with serious underlying health conditions, employees caring for others diagnosed with COVID-19, and employees impacted by school or childcare closures.

The Families First Coronavirus Response Act (FFCRA), effective April 2, 2020, established paid leave requirements for sick leave or expanded family and medical leave with limits on the hours and pay amounts eligible under the FFCRA. The FFCRA allowed employers to exclude emergency responders from FFCRA eligibility requirements, which the City elected to do.

Based on the leave requirements of the CARES Act, we identified \$1.74 million of expenditures that may have not met these requirements. They were in the following categories:

CARES ACT LEAVE TYPE	AMOUNT
PAYMENTS IN EXCESS OF FFCRA LIMITS	\$412,301
USE OF COVID-19 ADMIN LEAVE AFTER APRIL 3, 2020	\$644,924
USE OF ADMINISTRATIVE LEAVE BY PUBLIC SAFETY EMPLOYEES	\$686,281
TOTAL	\$1,743,506

As stated earlier in the report, we sent a memorandum to the Chief Operating Officer on May 14, 2021 to notify Management of these issues to ensure the City follows CARES Act requirements. In the response, dated June 9, 2021, Management provided context for the decisions to use CARES Act funds for

these leave-related expenditures, but in order to avoid any eligibility questions going forward, Management deducted \$1,743,506 for the expenditures described above, and replaced them with public safety payroll expenses that more closely align with CARES Act eligibility requirements.

Payments made to employees in excess of FFCRA limits were included as eligible CARES Act expenditures.

The FFCRA, supplemental legislation to the CARES Act, identifies aggregate limits for paid sick leave and stipulates that FFCRA leave types Care of Other and Child Care are to be paid at two-thirds of the employee regular rate of pay. However, we found that employees' full rate of pay was included as an expense by the City for CARES Act reimbursement. The City could elect to pay employees the full rate, but only two-thirds was eligible for CARES Act reimbursement based on the specified caps. With a total of \$1,236,904 paid in FFCRA leave types Care of Other and Child Care, we estimate an overbilling of one-third of that amount totaling \$412,301 of CARES Act funds.

Management responded that:

Working within the guidelines established by FFCRA and the United States Department of Labor, the City elected to provide employees with FFCRA Emergency Paid Sick Leave at a rate equal to 100 percent of their regular rate of pay for all qualifying COVID-19 related reasons. This decision was made in the best interest of City employees and allowed the City to continue to provide critical services to the community without placing employees in financial hardship due to COVID-19. Working with consultation from the City Attorney's Office, the Human Resources Department was given direction to implement the policy decision from the Mayor's Office, Chief Operating Officer, and Assistant Chief Operating Officer.

The City has charged the \$412,301—equaling one-third of FFCRA Child Care and Care of Others leave types—back to the originating departments and allocated that amount to Public Safety expenditures related to mitigating and preventing the spread of COVID-19 consistent with Department of Treasury Office of the Inspector General (Treasury OIG) guidance.

COVID-19 Admin Leave used after the April 3, 2020 deadline may have been subject to FFCRA guidelines, which placed limits on the amount of leave and reimbursable amount per employee.

During our review, we found almost 31,500 hours of Paid Administrative Leave COVID-19 (COVID-19 Admin Leave) for a total of \$644,924 included in CARES Act expenditures that may have met the FFCRA requirements and therefore may have been subject to the specified caps on hours and dollar amounts allowable under this Act. FFCRA absence codes were created in the City's timekeeping system on April 17, 2020, but COVID-19 Admin Leave continued to be used by employees.

With the adoption of the FFCRA, certain employers were required to provide their employees with paid sick leave or expanded family or medical leave for specified reasons related to COVID-19, which included employees unable to work or telework due to a need to take leave because the employee is subject to a federal, state, or local quarantine or isolation related to COVID-19. Guidance from the Department of Labor under "How much paid leave can employees take?" clarified that employees following a federal, state, or local quarantine or stay-at-home order, or are quarantined by a health care provider, could take time off at the levels described under the FFCRA.

The City guidance provided in an April 1, 2020 employee notification mirrored the federal language stating that the use of COVID-19 Admin Leave was to end on April 3, 2020 with the adoption of the FFCRA regulations for all employees except for public safety. Specifically, the notification stated: "Upon implementation of this protocol, the City of San Diego will cease the use of Paid Admin Leave for COVID-19-related events. All employees will use FFCRA Leave, Accrued Leave and/or Leave Without Pay in accordance with City Leave Procedures and the Families First Coronavirus Response Act."

In the management response to our memo, it was stated that:

The decision to expand the use of Paid Administrative Leave beyond April 4, 2020 was a policy decision provided to the Human Resources Department from the Mayor's Office, Chief Operating Officer, and Assistant Chief Operating Officer working in consultation with the City Attorney's Office.

Further, in response to federal, state, and local stay at home orders issued in March, April, and May of 2020 related to COVID-19, the City closed all its City Libraries, Parks, and Recreation Centers. These closures left hundreds of City employees without a workplace to continue their normal employment functions and they did not qualify for wage replacement leave under the FFCRA program. The City decided to place these employees on Paid Administrative Leave until alternative work assignments could be established. These alternative work assignments included standing-up and supporting the temporary homeless shelter at the San Diego Convention Center and supporting critical City services in other departments. Affected employees worked with their department payroll specialists to ensure their timecards were coded correctly and employees did not use personal Accrued Leave.

To ensure compliance with CARES Act requirements, the City deducted the \$644,924 of COVID-19 Admin Leave from the Coronavirus Relief Fund (CRF) and charged it back to the originating departments. The funds were then reallocated to Public Safety expenditures related to mitigating and preventing the spread of COVID-19 consistent with Treasury OIG guidance.

The use of COVID-19 Admin Leave by Public Safety employees appears allowable, but the City has deducted the expense from CARES Act expenditures.

In the memo to the Chief Operating Officer, we asked for justification of the \$686,281 of COVID-19 Admin Leave for Public Safety employees categorized as eligible Cares Act expenses. It was not clear at the time if the COVID-19 Admin Leave was applicable to quarantine protocols, substituted for other covered benefits, or used for some other reason. Management responded that:

The federal Families First Coronavirus Response Act (FFCRA) allowed jurisdictions the ability to exclude Public Safety employees from the leave options provided within the Act. Working within the guidelines established by FFCRA and the U.S. Department of Labor, and with approval from the Mayor's Office, Chief Operating Officer, Assistant Chief Operating Officer, the San Diego Police (SDPD) and San Diego Fire Rescue Departments (SDFR)

opted to exclude public safety employees from the leave options provided by FFCRA. This decision was made due to critical staffing needs by both departments and the impact FFCRA could have to the safety services provided to the community. SDPD and SDFR offered Paid Administrative Leave to staff affected by COVID-19 related events offered under FFCRA; however, the allotted leave was tailored to meet public safety services and the specific needs of the employee.

In addition to the management response, we received the Temporary Covid-19 Protocol for Public Safety Departments: Notification/Telework Leave and the SDFD health screening and isolation protocols. COVID-19 Admin Leave was allowed if an employee was not approved to telework or participate in an alternative work schedule. Supervisors were to contact Human Resources for access to the COVID-19 Admin Leave code for that leave usage.

While procedures were in place for the use of the COVID-19 Admin Leave code and the FFCRA does state that Emergency Responders may be excluded from that leave type, the City, as a precaution for any adverse federal interpretation, charged the \$686,281 of COVID-19 Admin Leave back to the originating departments. The remaining CRF funds were allocated to Public Safety expenditures related to mitigating and preventing the spread of COVID-19 consistent with Treasury OIG guidance.

No recommendation is necessary based on the corrective action already taken by Management for Finding 3.

Finding 4: The Emergency Rental Assistance Program did not have sufficient documentation by San Diego Housing Commission staff to verify income eligibility and economic hardship.

The City's Emergency Rental Assistance Program (ERAP), managed by the San Diego Housing Commission (SDHC), provided up to \$4,000 to landlords for renters who were economically impacted by COVID-19, including impacts such as unemployment, reduced work hours, or increased medical bills due to COVID-19. ERAP required that all household income be below 60 percent of the area median income based on the household size and that applicants show that they experienced a financial loss due to COVID-19.

However, we found that documentation of eligibility was incomplete. For 29 percent of applicants awarded emergency rental assistance (68 of 235 in our sample), there were residents on the lease who did not disclose any income information. In these cases, the housing specialist did not document confirmation that the additional residents did not contribute to household income.³ We also found that 11 percent of awarded applications (27 out of 235 in our sample) did not have complete hardship documentation to demonstrate that the applicant experienced a financial loss due to COVID-19.

Additional residents on a lease without income information is a red flag

The presence of additional residents on a lease who did not submit income verification indicates that the submitted income verification may not account for all household income and should be a red flag for application review. SDHC stated that the housing specialists would resolve a question of household

³ We reviewed a random sample of 359 Emergency Rental Assistance Program applications to achieve a statistical significance of $\pm 5\%$ at a 95% confidence level. This included 235 approved applications, 123 rejected applications, and 1 application approved by SDHC but denied by the applicant's landlord.

for possible unreported household income.

membership over the phone and record the conclusions in the memo section of the application portal. However, SDHC's Emergency Rental Assistance Program procedure manual did not include steps for housing specialists to take if a lease showed that other potential income earners were in the household, and we did not find such conclusions in the memos for the awarded applications we identified. As a result, there is a potential that some ineligible households received assistance awards.

We discussed the process with SDHC, which reported that it operated under the presumption that other individuals on the lease were not members of the household. SDHC stated that members of the community the program served often need co-signers or lack reliable documentation, so the presence of additional non-household individuals on the lease is not unexpected. SDHC also stated that additional documentation requirements or added screening criteria would have created potential barriers for these households, especially during the pandemic, and would have delayed disbursement of payments.

However, this should not prevent SDHC housing specialists from following up and documenting applicant responses if they identify red flags in applicant files, such as leases that contain more residents than documented income earners.

11 percent of awarded applicants did not have complete hardship documentation.

Additionally, we found that 11 percent of awarded applicants did not have complete hardship documentation. SDHC's ERAP manual required that housing specialists verify that provided documentation supported any of the following:

- Loss of income due to reduction of paid work hours due to COVID-19;
- Loss of income due to sickness with COVID-19 or caring for a household/family member who is/was sick with COVID-19;
- Loss of income due to compliance with a recommendation from a government health authority to stay home, self-quarantine, or avoid congregation with others during the state of emergency;
- Loss of income due to other factors resulting from the COVID-19 emergency; or

- Increase in medical expenses incurred as a direct result of COVID-19.

However, in 11 percent of awarded applicants, the documentation was missing, did not support a financial loss, or the loss was not related to COVID-19. As with household income, requiring additional documentation during the pandemic may have created potential barriers for these households or delayed disbursement of payments. However, documenting follow-up and final determination by housing specialists of the hardship's financial impact and relation to COVID-19 would provide additional assurance that awardees meet program eligibility criteria.

The current Housing Stability Assistance Program requires self-certification of hardship and does not require supporting documentation of hardship. This self-certification includes an attestation by the applicant that all information is true and correct under penalty of perjury. As a result, there is no recommendation to address hardship documentation in this current program.

Recommendation 4

For the remaining Housing Stability Assistance Program, the San Diego Housing Commission should update its procedure manual to require documentation of final determination of household size and income that clearly ties to supporting documentation showing case managers followed up in instances where residents listed on the lease exceeded the number of individuals providing income verification. (Priority 3)

Management Response: **Agree** with target implementation date of August 2021.

See pg. 42 for full response.

Lessons Learned: When the City allocated CRF funding to the Small Business Relief Fund Program, program eligibility expanded but the City did not solicit new applications and no longer required formal documentation of number of employees.

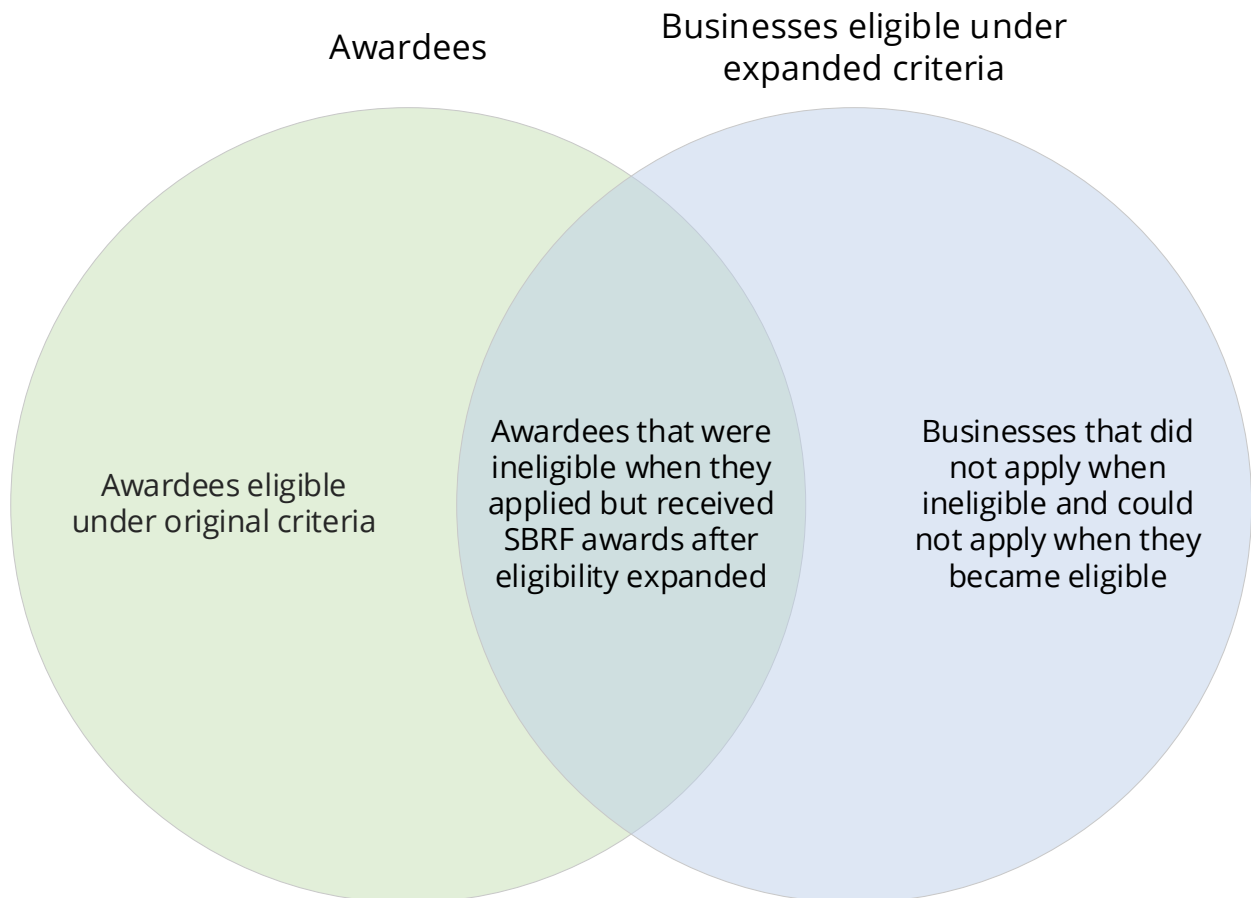
Established to provide grants to small San Diego businesses impacted by the pandemic, the City's Small Business Relief Fund (SBRF) program launched in March 2020, funded by \$6.1 million in Community Development Block Grants (CDBG). The SBRF program changed its eligibility requirements after the application period closed on April 14, 2020 and some eligible businesses did not have the opportunity to apply under the newly expanded criteria. The CDBG grants required that recipient businesses have employees in addition to the owner, operate outside the home, and have owners who reside in the City. When the City allocated Coronavirus Relief Fund (CRF) funding to the pre-existing SBRF program on June 9, 2020, the eligibility criteria became less restrictive and more businesses were potentially eligible for support. For instance, under the expanded criteria, sole proprietorships, home-based businesses, and businesses located in the City with owners residing outside the City (but within the County) qualified for CRF-funded SBRF awards.

However, newly eligible businesses that did not apply during the SBRF application period were not provided the opportunity to apply when they became eligible under the expanded criteria. Instead, the Economic Development Department (EDD) used the existing pool of more than 10,000 applications, including previously rejected applications, as they stated all applications, including denials, were kept in case funding became available that had different eligibility criteria. According to EDD, the original applicant pool was used to determine the revised eligibility criteria to ensure more applicants that originally

applied would become immediately eligible for funding. EDD noted that applicants were very confused based on the multitude of funding resources federally, regionally, and locally that were becoming available, and EDD used applicant data to identify the types of businesses and avoid additional delay of another application process. By not reopening the application portal when SBRF criteria expanded, the City did not allow additional eligible businesses impacted by the pandemic to apply. **Exhibit 6** shows how businesses who did not apply during the original application period were excluded from applying for SBRF awards when they became eligible under the newly expanded criteria.

Exhibit 6:

Businesses that did not apply when they were ineligible did not have an opportunity to apply when they became eligible.



Source: Auditor generated based on program criteria.

Other programs with changing eligibility kept application periods open. For example, when the eligibility criteria for the federal government's Paycheck Protection Program (PPP) changed, the Small Business Association application period remained open to allow for previously excluded businesses, who may not have previously applied, to submit applications.

EDD relied on self-certification of businesses' number of full-time employees (FTEs), which directly correlated with the size of the CRF-funded SBRF award.

EDD stated that once the eligibility criteria broadened to include sole proprietorships and family member FTEs, it no longer required a payroll report to verify businesses' FTEs because such businesses would not have such documentation. EDD shared instructions to assist business owners in calculating their FTEs; however, EDD did not require business owners to provide a payroll report or other documentation to verify the number of FTEs for CRF-funded SBRF awards. EDD noted that it was difficult for businesses to respond to the required W-9 and electronic funds transfer form to receive the funds, and they worked within the documentation businesses had available and reduced the additional required documentation to ensure expeditious and informed review.

Without a requirement for businesses to provide evidence for the number of FTEs, SBRF applicants may incorrectly calculate the number of FTEs, which could result in incorrect award sizes. Specifically, EDD created an award tier system based on businesses' 2019 revenue and the number of FTEs as of February 28, 2020. See the award tier matrix in **Exhibit 7**.

Exhibit 7:

SBRF Award Tier Matrix

Tiered Structure Matrix				
Revenue	<0.5 FTE	0.5 – 1 FTE	>1 – <5.5 FTE	≥5.5 FTE
<\$200,000	\$2,500	\$5,000	\$7,500	\$10,000
<\$500,000		\$5,000	\$7,500	\$10,000
<\$1,000,000			\$7,500	\$10,000
<\$3,000,000				\$10,000

Source: Auditor generated based on Economic Development Department's Case Management Form.

In our review of a random sample of 360 SBRF applications, we did not find an incorrect award size, based on business owners' self-certified FTE numbers. However, there is still a risk that the self-certified FTE numbers were incorrect.

Other business assistance programs mitigated this risk by requiring documentation, such as a detailed payroll report for the County of San Diego or a payroll summary form that lists the weekly hours worked per employee before and after the start of the pandemic for the City of San Jose. Similarly, the City's Purchasing & Contracting Department requires businesses to complete a work force report to participate in the Equal Opportunity Contracting program.

Lessons Learned

After review of the Small Business Relief Fund program, we identified the following lessons learned to incorporate going forward:

- If a small business grant program expands applicant eligibility criteria during the execution of the program, the City should reopen the applicant pool to allow all eligible small businesses to apply.
- For federally funded small business grant programming, the City should require additional documentation to corroborate the number of FTEs at a business, to reduce the risk of miscalculated FTEs to ensure the appropriate size of an award.

Appendix A: Definition of Audit Recommendation Priorities

The Office of the City Auditor maintains a priority classification scheme for audit recommendations based on the importance of each recommendation to the City, as described in the table below. While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration's responsibility to establish a target date to implement each recommendation, taking into consideration its priority. The City Auditor requests that target dates be included in the Administration's official response to the audit findings and recommendations.

Priority Class ⁴	Description
1	<p>Fraud or serious violations are being committed.</p> <p>Significant fiscal and/or equivalent non-fiscal losses are occurring.</p> <p>Costly and/or detrimental operational inefficiencies are taking place.</p> <p>A significant internal control weakness has been identified.</p>
2	<p>The potential for incurring significant fiscal and/or equivalent non-fiscal losses exists.</p> <p>The potential for costly and/or detrimental operational inefficiencies exists.</p> <p>The potential for strengthening or improving internal controls exists.</p>
3	<p>Operation or administrative process will be improved.</p>

⁴The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation that clearly fits the description for more than one priority class shall be assigned the higher priority.

Appendix B: Audit Objectives, Scope, and Methodology

Audit Scope & Objectives

In accordance with the Office of the City Auditor's approved Fiscal Year 2021 Audit Work Plan, we conducted a Performance Audit of the City's Use of CARES Act Funding. The overall objective of the audit was to review the controls in place to ensure that all CARES Act Funding, retained for internal use and provided for external use, are properly managed, supported, and tracked to meet federal requirements. Our audit included the following objectives:

Objective 1: Does the City have sufficient internal controls to ensure that CARES Act funds are distributed in compliance with requirements?

Objective 2: Are CARES Act funds being used efficiently, effectively, and equitably addressing the effects of the pandemic?

Objective 3: Are internal controls sufficient to mitigate fraud, waste, and abuse?

Objective	Methodology
Does the City have sufficient internal controls to ensure that CARES Act funds are distributed in compliance with requirements?	<ul style="list-style-type: none">• Reviewed documentation on the City's Emergency Rental Assistance Program (ERAP) objectives, review procedures, and fiscal tracking. Compared documentation to funding requirements.• Reviewed random sample of ERAP applications to determine if applications met program objectives and funding requirements.• Reviewed documentation of ERAP reporting to the City on program progress.• Reviewed documentation on the City's Small Business Relief Fund (SBRF) program objectives, review procedures, fiscal tracking, and outreach contracts. Compared documentation to funding requirements.

**Are CARES Act funds
being used efficiently,
effectively, and
equitably addressing
the effects of the
pandemic?**

- Reviewed random sample of SBRF applications to determine if applications met program objectives and funding requirements.
- Reviewed financial records and reports to the Department of Treasury Office of the Inspector General for Coronavirus Relief Fund.
- Reviewed all purchase orders for direct recipients of over \$50,000 in Coronavirus Relief Fund (CRF) reporting cycles 1-3.
- Reviewed financial management procedures for approving, tracking, and reporting CRF reimbursements. Reviewed sample of CRF reimbursements to determine if reimbursements met CRF eligibility requirements.
- Reviewed CRF cycle reports for accuracy, completeness, and timeliness.
- Reviewed instructions for departments to identify, document, and request CRF reimbursements.
- Reviewed CRF process for critical junctures to determine if succession plans exist for critical roles.
- Reviewed CARES Act Revolving Loan Fund program documentation and progress to date.
- Reviewed ERAP procedures for prioritizing, reviewing, and distributing awards.
- Reviewed ERAP application review timelines.
- Conducted GIS analysis of ERAP awards to determine if recipients were equitably distributed.
- Reviewed ERAP program reports to City.
- Reviewed SBRF procedures for prioritizing, reviewing, and distributing awards.
- Reviewed SBRF application review timelines.
- Conducted GIS analysis of SBRF awards to determine if recipients were equitably distributed.
- Reviewed SBRF touchback survey methodology and results.

Are internal controls sufficient to mitigate fraud, waste, and abuse?

- Reviewed SBRF reports to City Council and its committees.
- Reviewed CRF, ERAP, and SBRF procedures for mitigating fraud, including Fraud Hotline information.
- Reviewed purchase orders for CRF direct recipients over \$50,000 for overcharging.
- Reviewed direct recipients over \$50,000 for debarment.
- Reviewed system controls for ERAP and SBRF application management software.
- Reviewed SBRF recipients for duplicates and eligibility. Informed EDD of one duplicate and referred two SBRF recipients over to the Fraud Investigator for investigation based on address matching. The Fraud Investigator determined the cases to be unsubstantiated.
- Reviewed ERAP awards for duplicates and informed SDHC of one duplicate.

Internal Controls Statement

The internal controls principals significant to these audit objectives were: the oversight body should oversee the entity's internal control system; management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives; management should define objectives clearly to enable the identification of risks and define risk tolerances; management should identify, analyze, and respond to risks related to achieving the defined objectives; management should consider the potential for fraud when identifying, analyzing, and responding to risks; management should identify, analyze, and respond to significant changes that could impact the internal control system; management should design control activities to achieve objectives and respond to risks; management should implement control activities through policies; management should internally communicate the necessary quality information to achieve the entity's objectives; and management should externally communicate the necessary quality information to achieve the entity's objectives.

Our findings, conclusions, and recommendations are included in the audit report. Our methodology to evaluate these internal controls is described above.

Compliance Statement

We conducted this performance 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 OF SAN DIEGO

MEMORANDUM

DATE: July 20, 2021

TO: Andy Hanau, City Auditor

FROM: Matthew Vespi, Chief Financial Officer

SUBJECT: Management Response to Office of the City Auditor's *Performance Audit of the City's Use of CARES Act Funding*

Management appreciates the opportunity to respond to the recommendations set forth in the Office of the City Auditor's *Performance Audit of the City's Use of CARES Act Funding*.

As a general note, Management appreciates that the audit highlights the fact that the City established sound financial management practices and a rigorous control framework to ensure that CARES Act funds were expended in accordance with the Act. Further, the audit acknowledges that the City was effective in allocating CARES Act funding in an environment of constantly evolving federal guidance, while at the same time making critical daily decisions to continue to deliver City services, while protecting the City's workforce and residents as the COVID-19 pandemic unfolded. Finally, Management appreciates the City Auditor's early identification of certain questioned CARES Act expenditures. In each of those instances, the Department of Finance has already made the necessary accounting adjustments to ensure that all expenditures have been moved to clearly eligible CARES Act categories.

Management agrees with the City Auditor's recommendations and the specific responses to the recommendations follow below.

RECOMMENDATION 1: We recommend the Department of Finance, in conjunction with the Chief Compliance Officer, formalize the process for documenting, reviewing, and submitting disaster-related costs in a City Standard Operating Procedure or Process Narrative to establish the requirements to:

- Designate a person to coordinate the accumulation of records;
- Establish a separate and distinct account for recording revenue and expenditures;
- Ensure that the final claim for each project is supported by the amounts recorded in the accounting system;
- Ensure each expenditure is recorded in the accounting books and is referenced to supporting source documentation (checks, invoices, etc.) that can be readily retrieved; and

- Ensure that expenditures claimed under the project are reasonable and necessary, are authorized under the scope of work, and directly benefit the project. (Priority 3)

Management Response: Agree. Management agrees to create and promulgate a general framework and process document for disaster-related expenditures that includes the elements set forth in the recommendation.

Target Implementation Date: December 31, 2021

RECOMMENDATION 2: The Chief Compliance Officer should work in conjunction with the Purchasing and Contracting Department and the City Attorney's Office to determine if the City should pursue a refund from the vendor for up to \$1.1 million in payments made by the City above the contracted rate for the portable showers. If a refund is provided, the Department of Finance should also reallocate the \$721,000 in overcharged funds reimbursed from the Coronavirus Relief Fund to other eligible expenses and revise reporting to Treasury OIG accordingly. (Priority 2)

Management Response: Agree. During the course of the audit, Management provided information to the City Auditor regarding the necessity and rationale for the acquisition of the shower trailers to support the emergency need for Operation Shelter to Home, and that information is reflected in the audit. Subsequently, Management has engaged with the vendor to obtain more detail on the shower trailer pricing, and we continue to review that information, as appropriate. The Chief Compliance Officer will coordinate with the Purchasing and Contracting Department and City Attorney's Office to determine next steps and whether to seek recoupment of costs. Additionally, the Department of Finance has already taken steps to move the expenditure of these questioned costs to a more clearly eligible expense category. Specifically, the Department has reallocated \$721,494 in shower trailer expenditures to personnel Public Safety expenditures related to mitigating and preventing the spread of COVID-19 consistent with the U.S. Department of Treasury guidance.

Target Implementation Date: December 31, 2021

RECOMMENDATION 3: To ensure the City has followed its own procedures on all CRF-reimbursed procurements, the Purchasing and Contracting Department should bring the portable shower and food service contracts to City Council for approval. (Priority 3)

Management Response: Agree. The emergency contract for the food services is currently routing for City Council docketing. The citywide portable showers contract staff report is currently being prepared for docketing and will move forward for City Council review and approval shortly.

Target Implementation Date: Although both items would be subject to Council President's decision as to when the items could be docketed, Management anticipates that both items could be heard by October 31, 2021.

Page 3
Andy Hanau, City Auditor
July 20, 2021

RECOMMENDATION 4: For the remaining Housing Stability Assistance Program, SDHC should update their procedure manual to require documentation of final determination of household size and income that clearly ties to supporting documentation showing case managers followed up in instances where residents listed on the lease exceeded the number of individuals providing income verification. (Priority 3)

Management Response: This recommendation is directed to the San Diego Housing Commission.

Thank you again for the opportunity to provide responses to these recommendations. Management appreciates the City Auditor team's professionalism and collaborative approach throughout this review.



Matthew Vespi
Chief Financial Officer

MV/MH/cb

cc: Paola Avila, Chief of Staff, Office of the Mayor
Jay Goldstone, Chief Operating Officer
David Nisleit, Chief, San Diego Police Department
Colin Stowell, Chief, Fire-Rescue Department
Kristina Peralta, Deputy Chief Operating Officer
Jeff Sturak, Deputy Chief Operating Officer
Matt Helm, Chief Compliance Officer
Jessica Lawrence, Director of Policy, Office of the Mayor
Claudia Abarca, Director, Purchasing & Contracting Department
Jonathan Behnke, Chief Information Officer, Department of IT
Kirby Brady, Director, Performance & Analytics Department
Rolando Charvel, Director and Comptroller, Department of Finance
Julie Rasco, Director, Human Resources Department
Jeffrey Peelle, Assistant Director, Department of Finance
Jeremy Culuko, Deputy Director, Human Resources Department



SAN DIEGO
HOUSING
COMMISSION

MEMORANDUM

To: Andy Hanau, City Auditor

From: Richard C. Gentry, President & CEO, San Diego Housing Commission

Date: July 19, 2021

Subject: Response to the Performance Audit of the City's Use of CARES Act Funding – Finding No. 4 Regarding the COVID-19 Emergency Rental Assistance Program

This memorandum provides the San Diego Housing Commission's (SDHC) response to the Performance Audit of the City of San Diego's Use of Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding – Finding No. 4 Regarding the COVID-19 Emergency Rental Assistance Program.

The Office of the City Auditor demonstrated professionalism and diligence in its review of the City of San Diego COVID-19 Emergency Rental Assistance Program as part of its Performance Audit. SDHC appreciates your staff's approach throughout this process.

The audit report included the following recommendation:

RECOMMENDATION 4: For the remaining Housing Stability Assistance Program, SDHC should update their procedure manual to require documentation of final determination of household size and income that clearly ties to supporting documentation showing case managers followed up in instances where residents listed on the lease exceeded the number of individuals providing income verification. (Priority 3)

Management Response: SDHC agrees with Recommendation 4. SDHC will update the procedure manual for the current COVID-19 Housing Stability Assistance Program. The procedure manual will include a process to ensure memos are added into application files to confirm that staff screened applications with leases that identified more residents than the number of household members for whom income verification documents were submitted. The memo will confirm that no additional household income exists, or if unreported income does exist, that SDHC obtained verification of the additional income in the eligibility determination. This process will be implemented with new applications submitted after August 1, 2021.

For the current COVID-19 Housing Stability Assistance Program, to promote program integrity, SDHC conducts quality assurance reviews to ensure payments are made only for eligible households and in the correct amounts. In addition, SDHC has formed a Program Integrity Committee, to which staff refer cases in which the documentation and interactions with the applicant demonstrate inconsistency and potential alleged impropriety. This committee

San Diego Housing Commission 1122 Broadway, Suite 300 San Diego, CA 92101 619.231.9400 www.sdhc.org

completes an Integrity Assurance Review form that includes the committee's conclusion and recommended action.

As noted in the audit report, in the current program, SDHC requires self-certification of a hardship due to COVID-19 without supporting documentation, based on national best practices for this type of program and to expedite assistance to families in need, which has been approved by the State Department of Housing and Community Development. Importantly, the emergency rental assistance program the State of California administers also uses the applicant's self-certification for items such as each household member's income, the household's COVID-19 hardship, and whether or not they have received other subsidies to help with rent payments.

Previous COVID-19 Emergency Rental Assistance Program

The previous COVID-19 Emergency Rental Assistance Program (ERAP) that is the subject of Finding No. 4 in the performance audit has concluded. SDHC designed ERAP to maximize accessibility for households with low income and allow for the disbursement of payments as quickly as possible for qualifying households to prevent housing instability.

To support program integrity, SDHC created ERAP policies and procedures for the determination of eligibility for assistance through ERAP. Applicants were required to self-report the number of household members and the annual income for the household. Before submitting the application, the applicant was required to complete a self-certification, confirming all the information they provided in the application was true and correct, under penalty of perjury. This self-certification, along with the document requirements listed in the Implementation Plan and procedural manual, were also used to validate the eligibility for assistance. SDHC did not include overly restrictive documentation requirements that would have deterred or prevented low-income households from accessing the program.

SDHC program staff reviewed applications and followed up with applicants to resolve issues regarding eligibility. However, as the audit report noted, better documentation of follow-ups and final determinations conducted by housing specialists would have helped provide additional assurance of program integrity.

ERAP also was a newly created program specifically to provide one-time rental assistance payments on behalf of households with income at or below 60 percent of San Diego's Area Median Income (AMI) who experienced financial hardship due to the COVID-19 pandemic. Guidance and "lessons learned" available today from the operation of this and similar programs did not exist at the time ERAP was developed. However, SDHC developed ERAP in a manner that provided for program integrity while also making the program accessible.

SDHC began making one-time rental assistance payments on behalf of qualifying households on September 10, 2020. As of November 30, 2020, SDHC disbursed \$13,590,000 to assist 3,673 households that consist of more than 10,700 individuals. SDHC had fully expended all of the funds designated for one-time rental assistance payments through this program as of November 25, 2020. However, the program was oversubscribed. Subsequently, SDHC utilized unexpended administrative funding to assist additional qualifying households and private donations to assist

households whose landlords declined to accept payment. SDHC also adjusted the program expenditures during December 2020 based on payments returned to SDHC for different reasons. Overall, at the conclusion of ERAP, SDHC had disbursed more than \$13.7 million to assist 3,735 households. Every household that applied and qualified pursuant to the program's criteria received assistance from ERAP.