



January 19, 2021
2020-610

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

This letter report provides an update on our assessment of the State's management of federal funds related to Coronavirus Disease 2019 (COVID-19) as a high risk statewide issue. In August 2020, we designated the State's management of federal COVID-19 funds as high risk and indicated that the likelihood of mismanagement of these funds is great enough to create substantial risk of serious detriment to the State and its residents. This audit focuses on one of the sources of federal COVID-19 funds, the Coronavirus Relief Fund (CRF). The Department of Finance (Finance) is the state agency responsible for overseeing and reporting on the State's use of \$9.5 billion in federal funds from the CRF. We found that Finance's allocation of CRF funds resulted in smaller counties receiving significantly less funding per person than larger counties. We also have concerns with the Governor's Office of Emergency Services' informal review of cities' adherence to public health directives, which treated some cities inconsistently. Finally, Finance implemented a monitoring plan in late 2020 that, if implemented properly, will allow it to determine whether local governments' and state departments' uses of CRF funds comply with the requirements of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Background

In March 2020, Congress enacted the CARES Act, which provided \$150 billion to the CRF for the U.S. Treasury to make payments to state and local governments for certain expenditures related to their response to the COVID-19 pandemic.¹ The CARES Act requires state and local governments to use CRF funding only for necessary expenses that meet all of the following three conditions:

- The expense was incurred due to the public health emergency with respect to COVID-19.
- The expense was not accounted for in the budget the state or local government most recently approved as of March 27, 2020.
- The expense was incurred between March 1, 2020, and December 30, 2020.²

In accordance with the CARES Act, the U.S. Treasury allocated in May 2020 \$15.3 billion in CRF funding to California, which included \$5.8 billion that the U.S. Treasury paid directly to counties and cities with populations greater than 500,000. The U.S. Treasury paid the remaining \$9.5 billion directly to the State to use for necessary expenses incurred because of the COVID-19 public health emergency. The U.S. Treasury is

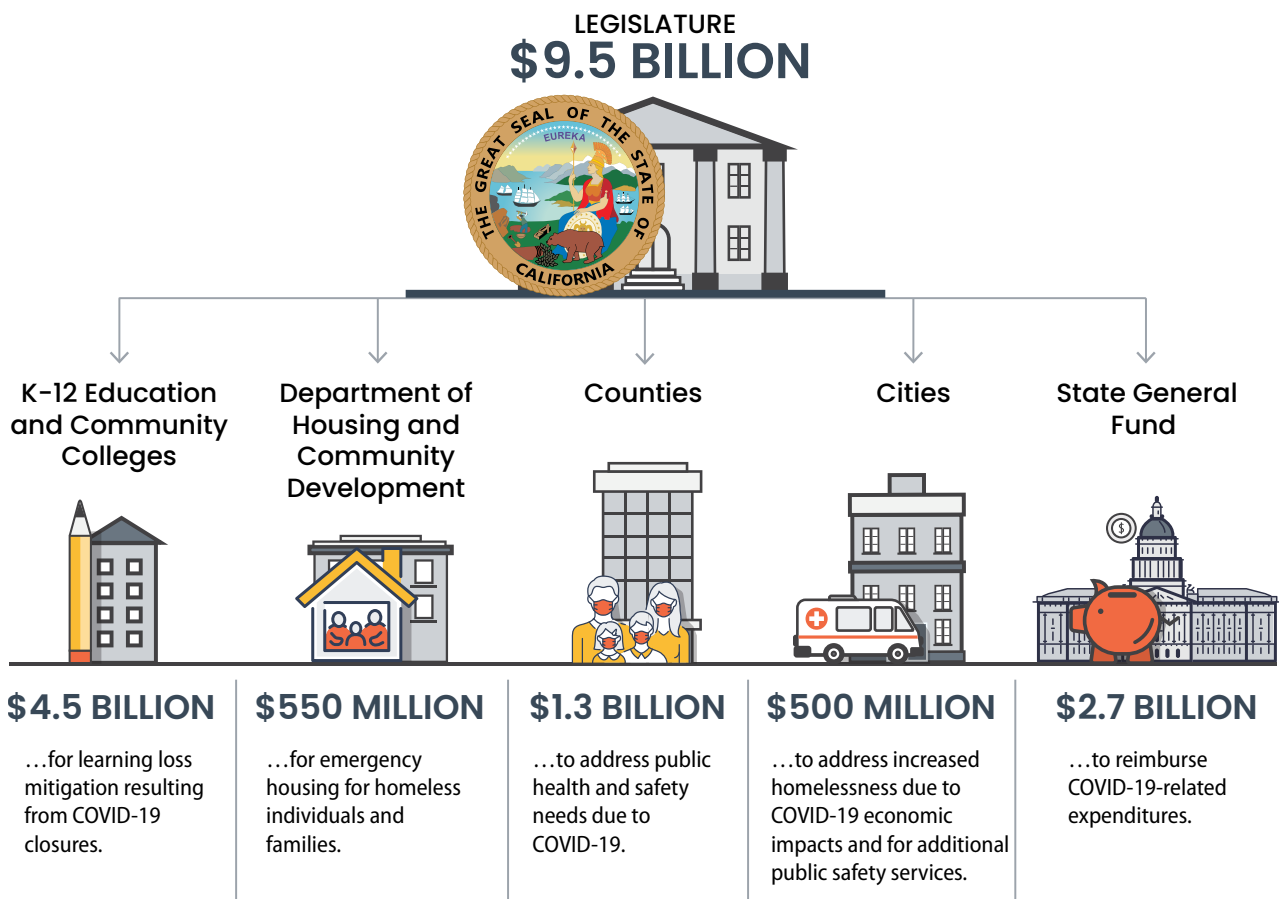
¹ The CARES Act also appropriated CRF funding for payments to tribal governments. For purposes of our report, we focused on CRF funds provided to state and local governments.

² In late 2020, this provision was amended to December 31, 2021.

responsible for monitoring and overseeing CRF funds and requires recipients to periodically report on their uses of those funds. Additionally, the U.S. Treasury is authorized to recover CRF funds from recipients if their uses do not comply with requirements of the CARES Act.

Finance is the state agency generally responsible for, among other things, overseeing and managing the \$9.5 billion in CRF funds that the U.S. Treasury paid to the State, and for reporting to the U.S. Treasury on amounts received, spent, or obligated, and the uses of the funds. As part of the State’s fiscal year 2020–21 budget process, Finance proposed allocations of the State’s CRF funds and the Legislature approved the final allocations, which we present in Figure 1. Because the budget directly allocates CRF funds to the California Department of Education, the Board of Governors of the California Community Colleges, and the California Department of Housing and Community Development, these departments are responsible for overseeing and managing their CRF funds. The Legislature also authorized Finance to reallocate unspent CRF funds for other allowable activities 10 days after providing a written notice to the Joint Legislative Budget Committee.

Figure 1
The Legislature Allocated \$9.5 Billion of the State's Coronavirus Relief Funds to Five Priority Areas



Source: The Governor’s summary of the State’s enacted budget for fiscal year 2020–21.

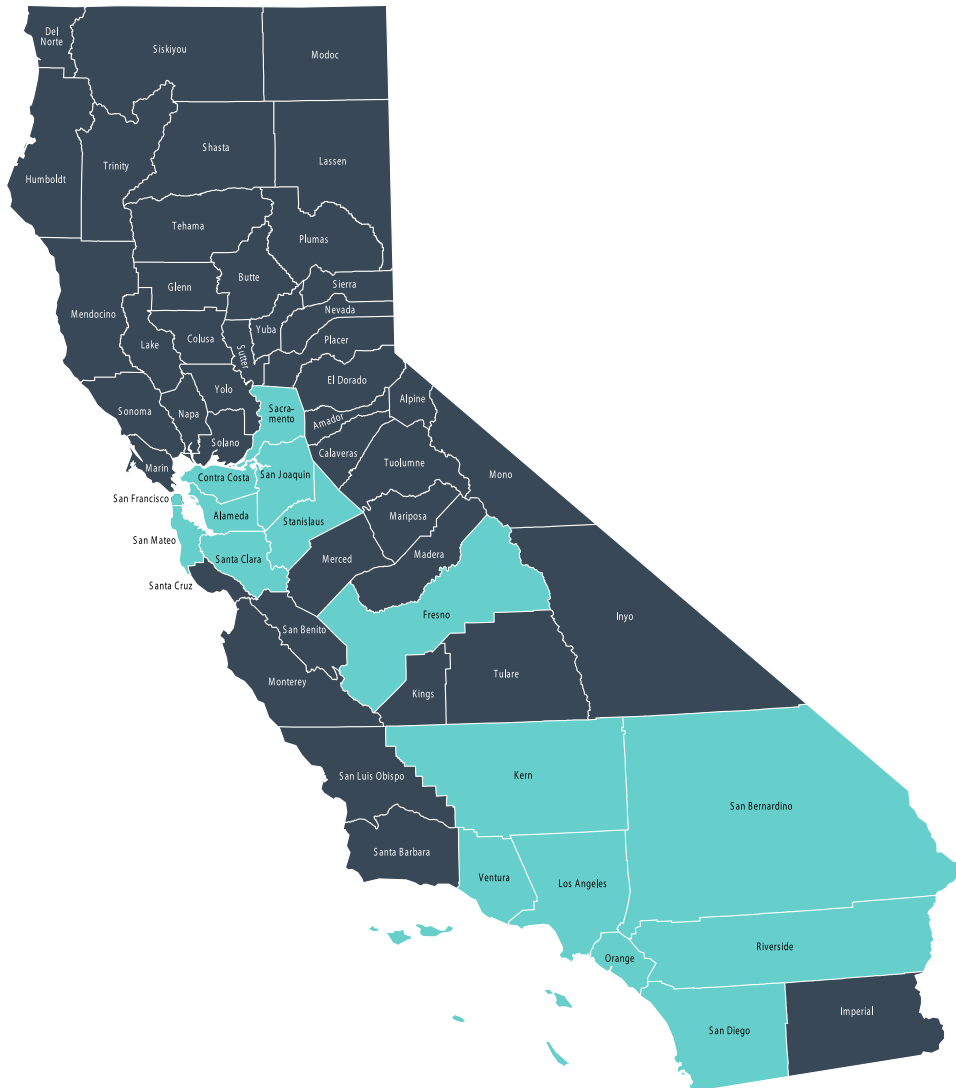
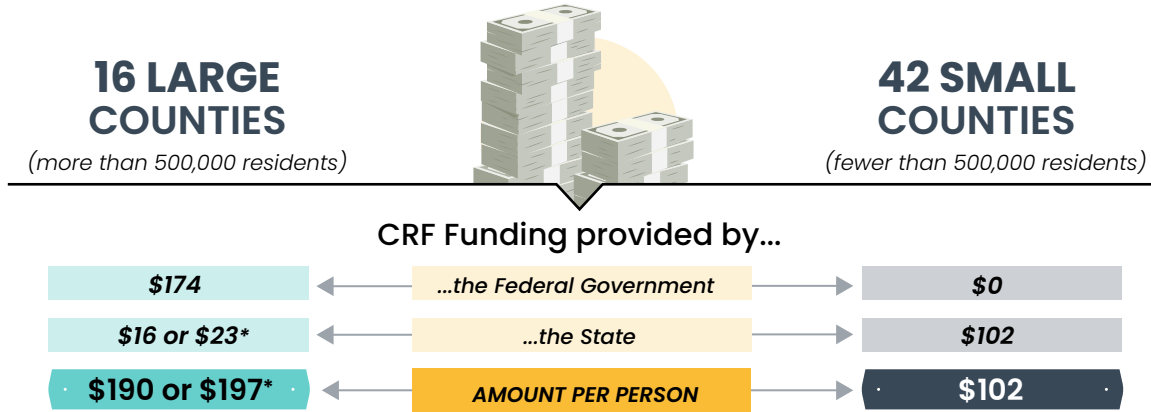
Finance Disadvantaged Smaller Counties When Allocating State CRF Funds

The method that Finance used to allocate \$1.3 billion in CRF funds to counties in the State disadvantaged smaller counties because they received significantly less funding per person than the State's 16 largest counties. Although the U.S. Treasury directly provided a total of \$4.5 billion in CRF funds to California's 16 largest counties, Finance also allocated half of the State's CRF funds designated for counties, to these large counties. Finance included a schedule of allocations totaling \$1.3 billion to counties in the May revision to the fiscal year 2020–21 budget. In approving the State's budget in June 2020, the Legislature directed Finance to allocate \$1.3 billion of the State's CRF funds to counties based on the share of each county's population relative to the total population of the State. The Legislature did not further specify how to allocate the funds to counties, but it directed Finance to take into account prior funding that the U.S. Treasury allocated directly from the federal CARES Act, including CRF funding to counties with populations greater than 500,000. In July 2020, Finance reported to the Legislature the final amounts of CRF funds allocated to cities and counties. Finance indicated that the final allocations included some small adjustments to the May revision amounts to account for more recent population numbers. These allocations included 50 percent of the \$1.3 billion earmarked on a per-person basis to the 42 counties that did not receive CRF funds directly from the U.S. Treasury.

However, because Finance allocated the remaining 50 percent of \$1.3 billion in CRF funds to the 16 largest counties that had already received U.S. Treasury allocations, those counties received a total per-person amount of CRF funding that was nearly double the total per-person amount Finance provided to the 42 smallest counties. As Figure 2 shows, large counties—those with more than 500,000 residents—initially received amounts equivalent to \$174 per person directly from the U.S. Treasury. Then, with its allocation to those same counties, Finance increased the per-person amount to at least \$190. In contrast, the 42 counties with fewer than 500,000 residents (small counties)—the ones that did not receive any CRF funds directly from the U.S. Treasury—received amounts equivalent to just \$102 per person from Finance, resulting in small counties receiving significantly less funding per person than larger counties.

In explaining the reason for the additional allocations of state CRF funds to the 16 large counties, Finance indicated that it believed there was a higher spread of COVID-19 in the 16 larger counties because of their greater population density. However, COVID-19 case data maintained by the California Department of Public Health (Public Health) does not support Finance's assertion. Specifically, for April through June 2020, both large and small counties had greater than 500 total COVID-19 cases per 100,000 residents, as Figure 3 shows. In fact, while two of the 16 large counties—Los Angeles County and Riverside County—had 989 and 776 COVID-19 cases per 100,000 residents, respectively, two smaller counties—Imperial County and Kings County—had significantly higher numbers of COVID-19 cases per 100,000 residents during the period—3,215 and 1,525 cases per 100,000 residents, respectively. Based on the COVID-19 case data for all counties, the needs of many small counties, as reflected in case rates, were at least the same if not greater than the needs of large counties, which is contrary to Finance's reason for allocating additional state CRF funds to the large counties.

Figure 2
Large Counties Received Nearly Double the CRF Funds per Person Than Did Small Counties

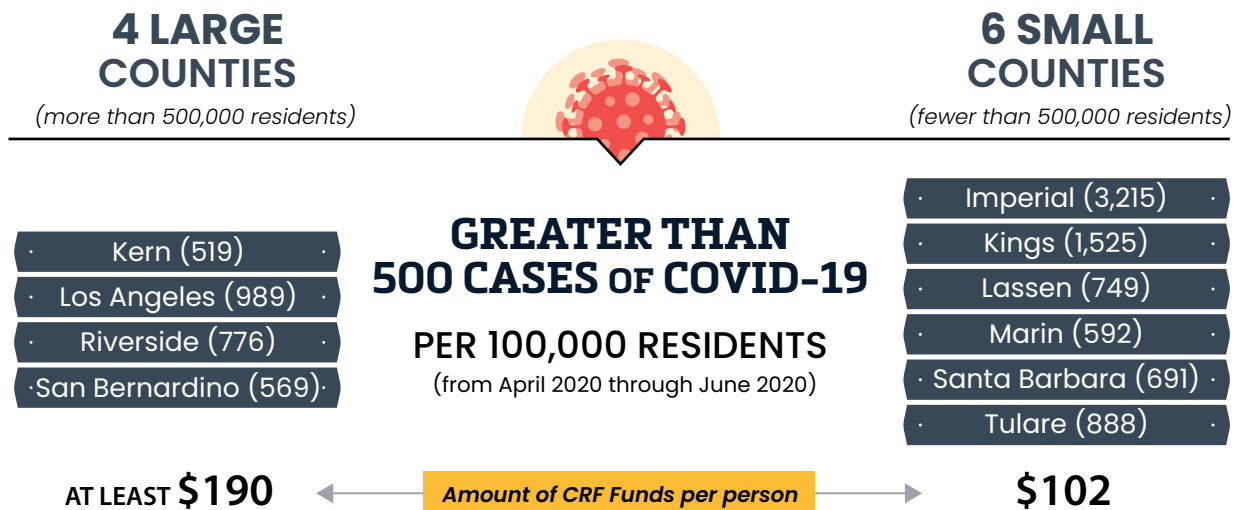


Source: Analysis of federal and state CRF allocations and county populations.

* For the 16 largest counties, Finance allocated \$290 million to five counties, or \$16 per person, and \$354 million to 11 counties, or \$23 per person.

Given the high COVID-19 case rates in both small and large counties, Finance should have allocated more CRF funds to small counties. Through a CRF frequently-asked-questions document issued in late May 2020, the U.S. Treasury recommended that states should treat local governments equitably, regardless of their population size. To equitably allocate the \$1.3 billion in CRF funds to all counties, given that the U.S. Treasury had already allocated \$4.5 billion in CRF funds to the 16 largest counties, Finance should have first allocated \$1.1 billion to the 42 smaller counties and the remaining \$200 million across all counties on a per-person basis, which would have resulted in all counties receiving \$179 per person in CRF funds. This allocation methodology would have addressed more counties' needs for COVID-19-related funding because each county would have received the same funding per person. Consequently, by not equitably providing counties with funds, there is greater risk that more small counties' COVID-19-related funding needs were unmet.

Figure 3
Some Small Counties Had COVID-19 Case Rates as High or Higher Than Large Counties



Source: Analysis of Public Health COVID-19 data and county populations; and analysis of federal and state CRF allocations.

The State Did Not Consistently Evaluate Cities' Adherence to State Public Health Orders

Finance relied on the Governor's Office of Emergency Services (Emergency Services) to evaluate whether cities met the requirements to receive CRF funding from the State, but Emergency Services could not demonstrate that it used a consistent process for conducting such evaluations. In the fiscal year 2020–21 budget, the Legislature directed \$500 million in CRF funds to cities contingent on their adherence to, among other things, the State's stay-at-home orders and other health requirements as directed in gubernatorial executive orders, and all Public Health's orders issued in response to the COVID-19 public health emergency. Cities were required to certify compliance to Finance in July 2020 using a form Finance developed. However, Finance also relied on Emergency Services to assess cities' adherence to public health orders because, according to Finance, Emergency Services has expertise in working with cities during emergencies and has developed contacts with local governments.

Based on information Emergency Services provided, Finance withheld CRF funds from two cities. In July 2020, Emergency Services sent letters to the cities of Coalinga and Atwater stating that each city had passed a resolution that was inconsistent with the State's public health orders and each was thus ineligible to receive CRF funds from the State totaling \$212,000 and \$387,000, respectively. Emergency Services explained that it became aware of these resolutions while working with local jurisdictions as they responded to the COVID-19 emergency and that it held meetings with Coalinga and Atwater to discuss their problematic resolutions and offer a solution. In the letters to the two cities, Emergency Services notified them that, in order to be eligible for funding, the cities needed to rescind their respective resolutions. Ultimately, Emergency Services determined that the cities did not rescind their resolutions, and as a result of this determination, Finance withheld all of the CRF funds it had designated for the two cities.

However, Emergency Services could not demonstrate that it had evaluated all cities. Emergency Services used an informal process to evaluate Coalinga's and Atwater's adherence with State public health orders, stating that it reviewed the resolutions, the subsequent city council meeting minutes, and the meeting webcasts to make its determination, but it did not develop written evidence of its assessments. In contrast, Public Health provided Finance with a robust analysis that displayed how it evaluated each of the 58 counties against several criteria related to COVID-19 testing and contact tracing, among others. This formal analysis allowed Finance to understand how Public Health arrived at its conclusions of each county's compliance with state public health guidance.

Emergency Services did not provide to Finance a similarly robust evaluation of all 476 cities' compliance with state public health orders. Instead, Emergency Services only provided information to Finance about Coalinga and Atwater. Because Emergency Services was unable to demonstrate that it reviewed all 476 cities, we question whether other cities may have passed similar resolutions and may not have been eligible for CRF funds. In fact, our review found that the city of Imperial (Imperial) passed a resolution in August 2020, the intent of which was to allow businesses to reopen without adhering to the State's timelines for reopening businesses. During its discussion of the resolution, the city council even considered the risk that the State could withhold its CRF funds if it passed the resolution, similar to how the State withheld CRF funds from Coalinga and Atwater because of their resolutions. However, Imperial continued to receive CRF funding of \$246,000. Emergency Services told us that it was aware of Imperial's resolution but believed that it was a symbolic gesture and had concluded that the resolution itself did not conflict with the State orders. However, according to a webcast of the meeting in which it passed the resolution, the city council discussed that the resolution would authorize local businesses to open ahead of the reopening timelines the State and county developed. Based on the discussion during that city council meeting, we believe the city council passed its resolution with the clear intent of not complying with the State's required timelines for reopening businesses, which should have also made Imperial ineligible to receive CRF funds.

Finance recently took steps to ensure residents of Coalinga and Atwater received at least some benefit from their allocated CRF funding. In late October 2020, we shared our concerns with Finance about the potential negative fiscal impact of withholding CRF funds from Atwater and Coalinga. Subsequently, Finance reallocated the CRF funding it withheld from Coalinga and Atwater—totaling about \$600,000—to Public Health to support additional testing in Coalinga and Atwater for COVID-19 so that these funds have tangible benefits for their residents. Specifically, under a contract Public Health has with a health provider, tests were to be offered during November and December 2020 in Coalinga and Atwater for individuals at high-risk of contracting COVID-19. However, if the State receives additional federal funding similar to the CRF funding and provides it to local jurisdictions, Finance should ensure it, or its designee, provides for equitable treatment of all cities by conducting a complete and documented review of their adherence to any requirements to receive the funding.

Finance Recently Implemented Additional Procedures to Improve Its Monitoring of CRF Expenditures

For allocations of CRF funds shown in Figure 1, Finance has taken steps to validate the expenditure data it collects from state departments, cities, and counties, but can improve its monitoring by continuing to implement its recently developed monitoring plan to ensure that recipients of CRF funds have appropriate documentation to demonstrate that their expenditures comply with the CARES Act. For the \$9.5 billion in federal CRF funds, the State must ensure that its use of the funds complies with the requirements of the CARES Act—for necessary expenses incurred because of the COVID-19 public health emergency—and that it follows the reporting and record retention requirements issued by the U.S. Treasury. Specifically, the U.S. Treasury requires the State to report the amount of CRF funds spent or obligated in specific categories and return funds that it determines the State spent on ineligible expenditures, or funds the State did not spend or obligate for costs incurred between March 1 and December 30, 2020.³ The State must also maintain for at least five years all documents and financial records sufficient to demonstrate that those expenditures adhere to the requirements of the CARES Act.

To comply with these reporting requirements, Finance developed a web portal to gather expenditure information from the state departments, cities, and counties that use State CRF funds and to facilitate the required reporting to the U.S. Treasury. Finance also provided guidance to state departments, cities, and counties that were recipients of CRF funding from the State. For example, Finance provided two training sessions to cities and counties that outlined the CARES Act requirements on the use of CRF funds and record retention, the U.S. Treasury's guidance on eligible CRF expenditures, and the process for reporting expenditures to Finance through the web portal—all of which mirrored the information issued by the U.S. Treasury. The guidance Finance provided to recipients of state-allocated CRF funding helps to ensure those recipients are aware of the requirements regarding how they may use the funds and how they must report those uses.

Although Finance has taken steps to validate the data it collects from recipients on their uses of CRF funds, it can further strengthen its monitoring by continuing to implement its recently developed plan to review documentation to ensure that recipients' uses of CRF funds are appropriate. As described in the Background, the CARES Act places three requirements on the use of CRF funds. Finance has collected reports of expenditure data from state departments, cities, and counties—one in early September 2020 and one in mid-October 2020.⁴ Finance reviewed the amounts and types of expenditures that recipients reported to ensure the amounts did not exceed the allocations and were placed into the federal reporting categories the U.S. Treasury developed. Through this review process, Finance was sometimes able to identify when local governments reported expenditures that did not comply with the CARES Act. For example, at least one entity reported expenditures in a category it created for indirect costs, which are not allowable expenditures. Because the recipient created a category named *indirect costs*, Finance was able to identify that these expenditures were not allowable. However, Finance only requires recipients to classify their total expenditures under each federal reporting category and does not require recipients to provide documentation that supports the nature of expenditures. Without reviewing more detailed information, Finance cannot evaluate whether recipients' expenses are appropriate. During our audit, Finance indicated that it had developed a plan to conduct robust monitoring of cities' and counties' uses of CRF funds. Although Finance asserts the details of its plan are confidential, based on our review, we believe its plan, if implemented as designed, will allow it to identify expenditures that do not comply with requirements of the CARES Act. Because Finance only began implementing its monitoring plan in late 2020 and has not completed any reviews, we were unable to assess whether it was following its plan appropriately.

³ In late 2020, this CARES Act requirement was amended to December 31, 2021.

⁴ Subsequent to our fieldwork, Finance also required recipients to report expenditure data in early January 2021.

In addition to increasing its monitoring of CRF funds through its monitoring plan, Finance should also work with departments to mitigate any risks it identified associated with departments' management of federal COVID-19 funding. In mid-2020, Finance conducted reviews of state departments' readiness to receive, spend, track, and report federal COVID-19 funding. As we discussed in our report 2020-602, *State High Risk Update: The California State Auditor Has Designated the State's Management of Federal COVID-19 Funding as a High Risk Issue*, several state agencies cited readiness reviews Finance conducted of them as evidence that they were poised to properly manage the federal COVID-19 funding they received or expected to receive. We reviewed, but cannot disclose, the contents of these reviews because Finance asserted they are confidential under the deliberative process privilege. However, we found that Finance followed a reasonable methodology to conduct the assessments and that the departments it designated as highest risk that received federal COVID-19 funds generally aligned with the risk assessment that we completed, which focused on each grant of federal COVID-19 funding. We believe readiness reviews are a valuable tool to identify risks in departments' management of COVID-19 funding and to help them develop appropriate strategies to mitigate those risks. To the extent that its readiness reviews identified risks, Finance should continue to monitor the respective departments to ensure they are taking appropriate steps to address those risks. Finance indicated that it has numerous broad responsibilities that include activities in which federal funding is reviewed, such as coordination of the single audit, tracking and monitoring the uses of federal COVID-19 funds by state and local governments, and informal check-ins with local governments. However, Finance does not have plans to conduct further reviews related to the specific concerns it identified in its readiness assessments.

Recommendations

In the event that the federal government provides California with additional funding that is similar to CRF funds and the Legislature decides to again direct such federal COVID-19 funds to local governments contingent on their adherence to certain requirements, Finance should ensure equitable treatment of local governments by doing the following:

- Propose a method to the Legislature to provide equitable funding to counties on a per-person basis or other basis that treats counties fairly and equitably.
- Ensure that it or its designee uses a formal process to evaluate all cities' adherence to the Legislature's requirements, and that this evaluation is documented and retained.

To prevent the State from having to return CRF funds to the federal government for inappropriate expenditures, Finance should continue to implement its monitoring plan to evaluate whether selected expenditures comply with the CARES Act.

To follow up on any concerns Finance may have identified during its readiness reviews, it should ensure that affected state departments have taken appropriate steps to resolve those issues.

Agency Perspective

Finance agreed to consider implementing two of our recommendations, but it indicated that it does not intend to implement our recommendation to follow up on concerns it may have identified during its readiness reviews.

We conducted this audit under the authority vested in the California State Auditor by Government Code section 8543 et seq. and according to 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 specified in the Scope and Methodology section of the report. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

A handwritten signature in black ink that reads "Elaine M. Howle". The signature is written in a cursive, flowing style.

ELAINE M. HOWLE, CPA
California State Auditor

Appendix

Scope and Methodology

State law authorizes the California State Auditor to establish a program to audit and issue reports with recommendations to improve any state agency or statewide issue that we identify as being at high risk for the potential of waste, fraud, abuse, and mismanagement or that has major challenges associated with its economy, efficiency, or effectiveness. In August 2020, we issued our latest assessment of high-risk issues that the State and selected agencies face. Because Finance is responsible for a portion of the State’s management of federal funds related to COVID-19, we performed this audit of its management and oversight of such funds, including the funding allocated from the CRF. We list the audit objectives we developed and the methods we used to address them in the table.

Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
Review and assess Finance’s management of CRF funds.	<ul style="list-style-type: none"> • Reviewed the methodology Finance used to allocate funds to counties. • Reviewed the process Finance used to determine whether cities and counties adhered to public health orders to be eligible to receive their state-provided CRF funds. • Evaluated the process Finance used to determine whether local governments will spend all of their state-provided CRF allocations by December 30, 2020, which was the original spending deadline in the CARES Act. Determined that Finance has a reasonable process to identify and monitor whether local governments will spend all of their state-provided CRF funds. • Interviewed Finance staff and reviewed documentation to identify General Fund expenditures it plans to reimburse with CRF funds. Finance released cost estimates in November 2020 to support the full use of CRF funds allocated for this purpose.
Evaluate Finance’s oversight of CRF funds and other state departments’ management of federal COVID-19 funds.	<ul style="list-style-type: none"> • Interviewed Finance staff and reviewed documentation related to Finance’s oversight of CRF expenditures. • Reviewed the guidance Finance provided to recipients of the State’s CRF funds. Compared the guidance Finance provided to the federal guidance and found that Finance had accurately conveyed relevant federal requirements. • Identified and evaluated the process Finance uses to verify that the expenditures it reports to the federal government are appropriate, comply with the CARES Act, and are adequately documented. • Reviewed the readiness assessments Finance conducted of state departments that received or expect to receive federal COVID-19 funds.

Source: Analysis of the information and documentation identified in the column titled Method.

In performing this audit, we relied on electronic data obtained from Public Health’s COVID-19 Cases Data Portal (COVID-19 Data). The U.S. Government Accountability Office (GAO), whose standards we are required to follow, requires us to assess the sufficiency and appropriateness of the computer-processed information that we use to support our findings, conclusions, or recommendations. To evaluate Public Health’s COVID-19 data, we reviewed existing information about the data and we performed data-set verification procedures. We found the data to be reliable for our purposes of evaluating the number of new cases of COVID-19 in the 58 counties.



Gavin Newsom ■ Governor

State Capitol ■ Room 1145 ■ Sacramento CA ■ 95814-4998 ■ www.dof.ca.gov

December 21, 2020

Elaine M. Howle, CPA*
California State Auditor
621 Capitol Mall
Suite 1200
Sacramento, CA 95814

The California Department of Finance appreciates the opportunity to respond to the findings and recommendations in the California State Auditor's report on the Coronavirus Disease 2019 (COVID-19) federal funds high-risk statewide issue.

In the 2020 Budget Act enacted on June 27, 2020, the Legislature appropriated the \$9.5 billion in Coronavirus Relief Fund (CRF) allocated to the State of California by the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. Relying upon the broad discretion provided in the CARES Act, the Legislature allocated CRF funding to counties, cities, community colleges, and schools, as well as for state expenditures responding to the COVID-19 pandemic, including housing for vulnerable homeless individuals.

The CARES Act specifies the CRF funds must be expended by December 30, 2020, and its uses reported to the U.S. Treasury quarterly. A recently announced Congressional stimulus package includes a proposal to extend this deadline to December 31, 2021. As the designated state CRF reporting entity, Finance filed the first of the required reports on December 14, 2020. Accordingly, over the past several months Finance has been, and continues to be, engaged in an intensive, time-sensitive effort to guide, monitor, and report the use of these funds consistent with the 2020 Budget Act and the CARES Act.

The report focuses on three aspects of Finance's work, and this letter responds to each below.

Allocation of CRF to Counties

The report disagrees with the joint policy decision by the Governor and Legislature to allocate \$1.3 billion of the state's CRF funds to counties generally based on their relative share of the state's population. ①

Finance allocated these funds consistent with the 2020 Budget Act. Before making the allocations, Finance submitted a letter to the Joint Legislative Budget Committee (JLBC) on July 16, 2020, describing the allocation methodology and enumerating each county's specific allocation. While Finance made a minor update for more recent population data, the basic methodology—allocating 50 percent of the funds to ②

* California State Auditor's comments begin on page 14.

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counties that received direct allocations from the CARES Act and 50 percent of the funds to the remaining counties—remained the same as the May Revision schedule presented to the Legislature for its consideration before it enacted the Budget Act. Finance received no indication from the JLBC that it had failed to correctly interpret and carry out legislative intent in making these allocations. Nor did the CARES Act mandate a different policy choice by the Legislature.

The report recommends, in the event that the state receives additional funding similar to the CRF and the Legislature decides to again allocate CRF funds to local governments, Finance should propose a method to the Legislature to provide equitable funding to counties on a per-person basis or other basis that treats counties fairly and equitably. Finance will take this recommendation under consideration should such a scenario come to pass, but must note this policy decision ultimately belongs to the Governor and the Legislature, not Finance. ②

Evaluation of Cities' Adherence to Federal and State Public Health Guidance and Orders

The report also questions the consistency of the process the Governor's Office of Emergency Services (OES) used to determine whether any of the 476 cities that were allocated CRF funds failed to comply with the Budget Act. Specifically, cities were required to adhere to federal guidance and state gubernatorial and California Department of Public Health orders, directives, and guidance issued in response to the COVID-19 public health emergency.

Cities were required to submit a form certifying they were in compliance with this requirement before receiving funds. In addition to relying upon these certifications, OES determined, before city funding was released, whether any city may have enacted a resolution or ordinance contrary to its certification and the Budget Act requirement. If such a resolution or ordinance was passed, OES then conducted a legal analysis of its effect. If the resolution or ordinance was determined to have the legal effect of violating the provision, OES notified Finance and Finance made the determination to withhold funds. This determination was made with respect to two cities. ③

The report disagrees with OES's legal analysis that a third city's resolution had no legal effect of violating the Budget Act requirement, and thus did not require the withholding of CRF funds. But this does not demonstrate that OES's process and analysis were inconsistent, only that the State Auditor came to a different conclusion regarding the legal effect of the resolution based on statements made at a city council meeting, as opposed to the actual language in the resolution. ④

The report suggests OES's analysis regarding city compliance should have been documented for all 476 cities and more similar to the analysis conducted with respect to county compliance. Counties have affirmative responsibilities and requirements to protect local public health that can be regularly assessed, whereas cities merely have to avoid taking formal and legally binding action inconsistent with public health guidance and orders—and the certifications they submitted to Finance. The analysis regarding city compliance was thus necessarily more reactive to the rare occasion when cities took such actions. ⑤

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The report recommends, in the event the state receives additional funding similar to the CRF and the Legislature decides to again direct such federal COVID-19 funds to local governments contingent on their adherence to certain requirements, Finance ensure that it or its designee use a formal process to evaluate cities' adherence to the Legislature's requirements and such evaluations are documented and retained. Should such a scenario come to pass, Finance will contemplate how to make these improvements to the evaluation process.

Finance's Recent Implementation of Additional Monitoring Procedures

Finally, the report describes Finance's current and intended efforts to implement procedures to monitor CRF expenditures to facilitate its federal reporting and states that Finance can further strengthen its monitoring by continuing to implement its plan to review documentation to ensure the use of CRF funds is appropriate.

The report recommends Finance continue to implement its monitoring plan to evaluate whether selected expenditures comply with the CARES Act. Finance intends to continue to monitor compliance with the CARES Act.

The report also recommends Finance should follow up on any concerns it may have identified during its readiness reviews to ensure affected state departments have taken appropriate steps to resolve those issues. Finance performed the readiness reviews to assist state departments in preparing for and managing federal COVID-19 funding and provided additional guidance as a result of those reviews. Finance will continue to provide guidance to state departments that received funding through federal stimulus bills such as the CARES Act. These efforts include, but are not limited to, the issuance of budget letters regarding the tracking and oversight of funds related to COVID-19, the annual Single Audit Act Audit Memo, updates as needed to the State Administrative Manual, and training. ⑥

At this time, Finance does not intend to conduct further reviews related to the readiness assessments because many of those departments are currently being audited under the Single Audit Act. However, Finance will take action, if warranted, to address and mitigate any activities that are inconsistent with federal or state laws. ⑥



Keely Martin Bosler
Director, Department of Finance

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE DEPARTMENT OF FINANCE

To provide clarity and perspective, we are commenting on Finance's response to our audit. The numbers below correspond to the numbers we have placed in the margins of Finance's response.

We disagree with Finance's statement that the allocation of the State's CRF funds to counties is generally based on their relative share of the state's population. To the contrary, as we state on page 3, Finance allocated 50 percent of \$1.3 billion to the large 16 counties that had already received funding from the U.S. Treasury, resulting in them receiving nearly double the total per person amount of CRF funding that Finance provided to the 42 small counties, because it believed there was a higher rate of COVID-19 spread in the 16 large counties due to their greater population density. However, as we also state on page 3, COVID-19 case data does not support Finance's assertion. Specifically, for April through June 2020, both large and small counties had greater than 500 total COVID-19 cases per 100,000 residents, as Figure 3 shows. In fact, while two of the 16 large counties—Los Angeles County and Riverside County—had 989 and 776 COVID-19 cases per 100,000 residents, respectively, two smaller counties—Imperial County and Kings County—had significantly higher numbers of COVID-19 cases per 100,000 residents during the period—3,215 and 1,525 cases per 100,000 residents, respectively. Therefore, we recommend that if the federal government provides California with additional funding to distribute to local governments, Finance should more equitably distribute that future COVID-19-related funding.

①

We agree that this policy decision ultimately belongs to the Governor and the Legislature. Although Finance states that it allocated the funds consistent with the 2020 Budget Act, the allocation method Finance used could have been more equitable. Further, Finance performs the financial analysis for the Governor and Legislature, which in this case, should have included an analysis that would have provided a more equitable distribution of CRF funds to the counties.

②

Finance overstates the analysis that Emergency Services performed. Specifically, Finance refers to a legal analysis conducted by Emergency Services, however, as we discuss on page 6, Emergency Services used an informal process to evaluate adherence with public directives and did not develop written evidence of its assessments.

③

Finance's response mischaracterizes our finding about the inconsistent treatment of cities. We did disagree with Emergency Services' conclusion about Imperial; however, our conclusion about Emergency Services' process and analysis is based on our discussion on page 6, where we state that Emergency Services did not provide to Finance a robust evaluation of all 476 cities' compliance with state public health orders.

④

We disagree with Finance's assertion that a reactive approach to assessing city compliance with state public health orders was necessary. To be fair to all cities, as well as to ensure thoroughness and transparency, Emergency Services should have documented its analysis so that the public could understand the process it used. Further, a reactive approach does not result in a thorough review of all cities nor does it result in adequate transparency of Emergency Services' analysis. Finance should have expected more from Emergency Services and required documentation of its analysis, similar to what it received from Public Health.

⑤

We are concerned with Finance's statement that it does not intend to conduct further reviews related to its readiness assessments because many departments are currently being audited under the Single Audit. Although the Single Audit can identify problems, this identification occurs only after the funds are spent. By not conducting follow up on concerns identified in its readiness assessments, Finance is missing an opportunity to help ensure that departments address potential problems before they occur and to correct departments' actions before they have spent the majority of their COVID-19-related funding.

⑥