

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Joe Rois
City Auditor

**SUBJECT: PRELIMINARY REVIEW OF
DOCUMENTATION FOR COSTS INCLUDED
IN THE JULY 2020 CORONAVIRUS RELIEF
FUND INTERIM REPORT**

DATE: October 9, 2020

RECOMMENDATION

We recommend that the City Council accept the City Auditor's preliminary review of documentation for COVID-19 related costs to support receipt of emergency public assistance through the federal Coronavirus Relief Fund (CRF).

SUMMARY

The State of California (State) and the federal government have made nearly \$300 million in emergency assistance available to the City of San José (City) to support its efforts to respond to the severe nature of the COVID-19 emergency. This includes \$178.3 million in Coronavirus Relief Fund (CRF) assistance through the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, as well as funding through the Department of Housing and Urban Development, the Federal Emergency Management Agency, and other State and federal funding programs.

As a direct (prime) recipient of CRF funds, the City is required to submit quarterly reports on the City's CRF spending. The first interim report, due on July 17, 2020, contained \$62.6 million in expenses incurred from March 1 to June 30, 2020. This included \$58 million for labor and personal expenses and \$4.6 million in non-personal expenses across six program areas.¹ The objective of this audit was to review the documentation gathered in support of the expenses included in the City's CRF interim report.

CRF guidance requires that the City document CRF costs and show that the expenses were necessary for the COVID-19 emergency response. While the City has continued to make improvements to track and document expenses, we have identified risk areas in its current processes.

- Documentation for some personal and non-personal costs are stored in multiple locations and in some instances not attached to the actual expenses in the City's Financial Management System

¹ These included homeless sheltering and support, food and necessities distribution, remote work facilitation, communication and translation services, facility improvements, and personal protective equipment and cleaning. On September 21, 2020, the City submitted an updated report to the Office of Inspector General in the US Department of Treasury identifying the total expenses through June 30, 2020. This included about \$8.3 million in additional expenses that had not been identified and included in the July interim report.

(FMS). Documentation of non-personal expenses—such as expense approvals, justifications, and vendor communications—were, in some cases, not readily available or easily located. For example, resource request forms to process emergency expenses were not readily traceable to expense transactions in FMS. In other cases, documentation was stored in multiple locations, including in an employee’s email. As a result, locating documentation to substantiate expenses is difficult.

- In our review of labor expenses, we found that some staff-entered timecard comments for work performed under the COVID-19 emergency did not include all City-required information, such as start and end times of the work. Additionally, a small number of entries did not include any required comments or were coded incorrectly.

Although the City has continued to implement processes to document emergency expenses in accordance with various guidelines, greater consistency in documentation will be important to maximize potential reimbursements. The City Auditor’s Office will continue to monitor risks associated with tracking and documenting emergency expenses as needed.

BACKGROUND

On January 21, 2020, the Centers for Disease Control and Prevention (CDC) confirmed the first diagnosed case of a U.S. resident with the Novel Coronavirus Disease (COVID-19), a new, highly infectious virus. In response, the City established its Pandemic Management Team and activated a Pandemic Response Plan. On March 16, Santa Clara County issued a shelter-in-place order, providing that individuals could only leave their residence to perform essential activities. On the same day, the City’s Emergency Operations Center (EOC) reached full operation. Since that time, the City has continued operations to support the continuity of essential City services (such as public safety), and began providing emergency-related services including food distribution, sheltering services to at-risk communities, working with local school districts to enhance remote schooling efforts, and others.

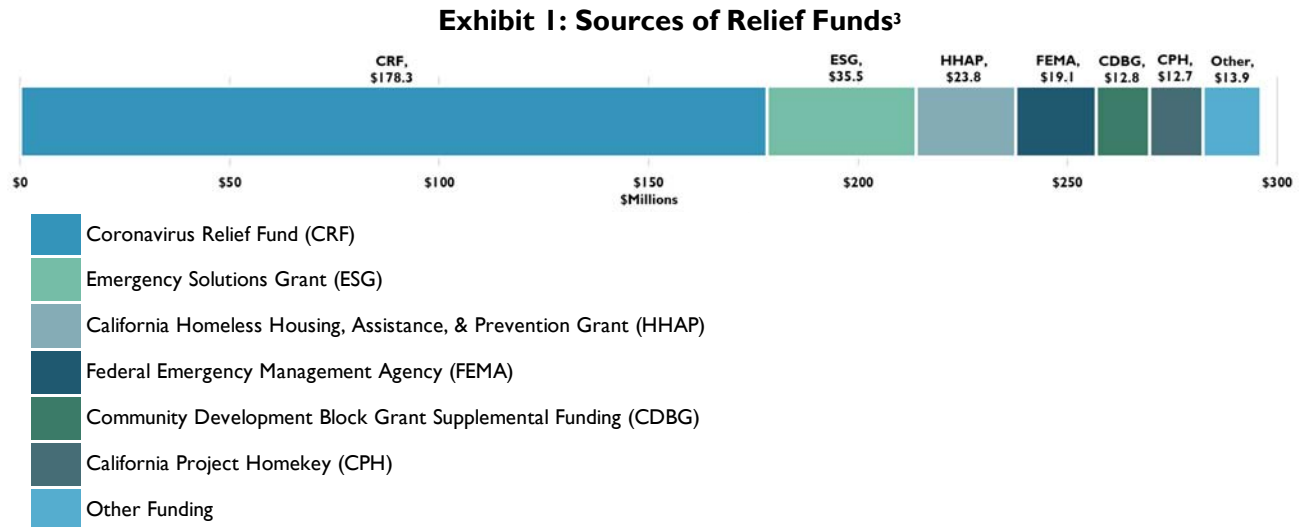
The COVID-19 emergency has had a profound effect on the City’s operations and budget. The City set up new programs to address the emergency and scaled back or stopped providing other City services.² The economic impacts of the emergency were also felt and the City closed revenue gaps in its budget for both fiscal years (FY) 2019-20 and 2020-21.

Federal and State Assistance

Because of the severe nature of the COVID-19 emergency, the State and federal governments have made nearly \$300 million in emergency assistance available to the City. On March 27, 2020, the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law, which established a \$150 billion Coronavirus Relief Fund (CRF). The City received \$178.3 million in CRF assistance. Additional funding has come through the Federal Department of Housing and Urban Development’s housing programs, the Federal Emergency Management Agency (FEMA), and various other federal and

² As the City has proceeded into the emergency recovery stages, it has begun resuming City services.

State programs. Exhibit I provides detail on the sources of the \$296 million in relief funds the City has received or anticipates receiving.



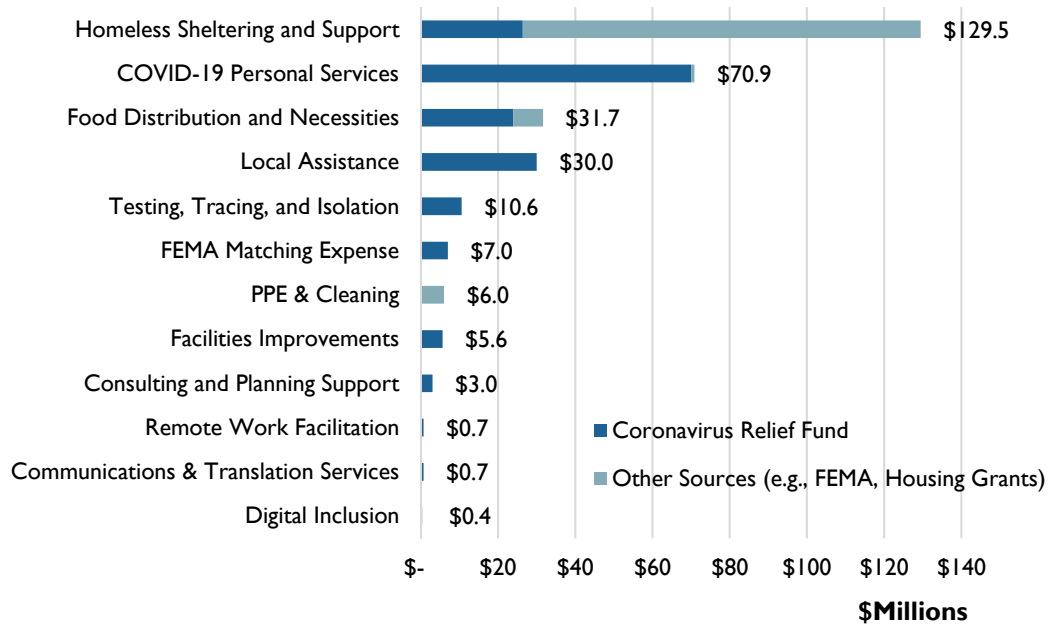
Source: Auditor analysis of Finance/Recovery’s memo for the September 22, 2020 City Council meeting.

Note: All funds are in millions. Other funding includes: California Affordable Housing (\$4.3 million), California Emergency Homeless Housing (\$3.9 million), HOME Investments Partnership Program (\$2.0 million), Housing Authority Litigation Award funds (\$2.0 million), US Department of Justice – Bureau of Justice Assistance (\$866,000), Santa Clara Office of Education (\$400,000), and Housing Opportunities for Person with AIDS (\$349,700). Not included in this chart are \$11 million of the City’s general fund money the City set aside for relief efforts, and \$65.6 million in Airport relief funds received through the CARES Act.

The Finance/Recovery sections of the EOC allocate emergency expenses in various program areas depending on what funds are available for different activities. With relief funds from multiple sources available, the City has developed a spending plan that shows how these funds will cover past and ongoing emergency measures. The City’s spending plan currently includes nearly \$300 million in relief funds across 12 different program areas.

³ This chart is based on the revised spending plan, as of September 22, 2020. Earlier iterations of the spending plan were presented to City Council through the City’s budgeting process in May 2020 and June 2020.

Exhibit 2: Spending Plan by Program Area⁴



Source: Auditor summary of Finance/Recovery’s memo for the September 22, 2020 City Council meeting.

In addition to the spending plan for non-City funding sources, as shown in Exhibit 2, the City has identified \$11 million from the City’s own funds for emergency-related expenses. This includes \$6 million towards digital inclusion, \$3 million towards BeautifySJ illegal dumping, and \$2 million towards remote work facilitation.

Previous Work

On May 29, 2020, our Office published the *Preliminary Review of Controls to Document COVID-19 Recovery Costs*.⁵ In this memo, we noted that the City had taken steps to maximize federal grant reimbursement for emergency-related costs, such as establishing a Recovery Documentation Plan, assigning documentation liaisons in each EOC branch, developing sample contract language, establishing an emergency procurement process, and instituting separate pay codes within the City’s human resource management system (PeopleSoft) to track emergency-related personal costs.

⁴ This chart is based on the revised spending plan, as of September 22, 2020. Earlier iterations of the spending plan were presented to City Council through the City’s budgeting process in May 2020 and June 2020.

⁵ <https://www.sanjoseca.gov/home/showdocument?id=59134>

We also identified five areas where documentation and backup are critical for recovery, the work done so far in each area, and the next steps for the City to take. These areas included:

1. Defining program areas such that FEMA-eligible expenditures are clearly delineated from other funding sources;
2. Incorporating processes to ensure procurements meet City and FEMA requirements;
3. Recording and documenting expenditures for supplies, materials, vehicles, and equipment;
4. Tracking labor and personnel expenses by program area; and
5. Documenting donated resources.

The City has since made efforts to improve accountability and processes around the tracking of emergency and recovery funds. The City formed a Finance Recovery Oversight Group composed of City leadership to provide oversight and direction in the City's recovery efforts. Additionally, the City has contracted with two consultants: Witt O'Brien's to provide funding source assistance and guidance on eligible costs, and Ernst & Young to support the City in funding source management, disaster cost accounting, and disaster procurement support.

CARES Act Interim Report

CRF assistance under the CARES Act is the largest source of assistance from federal or State sources provided to the City. CRF assistance accounts for \$178.3 of the \$296 million the City has received or is expected to receive. The CARES Act only allows CRF payments to cover expenses that:

1. *are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);*
2. *were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and*
3. *were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.*

As a direct (prime) recipient of CRF funds, the City is required to submit quarterly reports on the City's CRF spending. The first interim report, due on July 17, 2020, included \$62.6 million in expenses incurred from March 1 to June 30, 2020.⁶ As described in more detail later, this included \$58 million for labor and personal expenses and \$4.6 million in non-personal expenses across six program areas.

The objective of this audit was to review documentation gathered in support of the expenses included in the City's Coronavirus Relief Fund July 17, 2020 interim report.

⁶ This does not include expenses that were incurred after the submission of the report, or expenses that were later to be funded by CRF. The City submitted a quarterly report with updated expenses for FY 2019-20, on September 21. This included about \$8.3 million in additional expenses for FY 2019-20 (or about \$71 million in total expenses). Additionally, the report included \$6.4 million in net obligations for contracts and was accepted by the Office of Inspector General (OIG) in the US Department of Treasury on September 25.

KEY AUDIT FINDINGS

CRF guidance requires that the City document CRF costs and show that these expenses were necessary for the COVID-19 emergency. However, given the dynamic nature of the emergency, federal guidance on the use of CRF funds has been evolving. The US Department of Treasury has continued to update its guidance through releases of frequently asked questions to clarify CRF guidelines and requirements.

The City's Recovery Documentation Plan was developed to adhere to FEMA guidelines which, at the time, were the most comprehensive set of requirements for reporting and documenting emergency expenses. The City's guidelines include tracking emergency-related labor and non-personal costs as well as collecting documentation, such as receipts and invoices for supplies and equipment. It also requires documentation supporting where resources were used and for what purpose.

The COVID-19 pandemic required a rapid response from the City that spanned multiple City departments and staff. Because of this, the emergency has resulted in decentralized decision-making around how to document and track expenses. EOC leadership has stated that they are in the process of conducting a preliminary operational assessment report to further improve the organization's operations, analyzing what has worked well so far and what changes may need to occur.

I. Labor and Personal Service Costs

To document staff time spent on COVID-19 related activities, the City uses PeopleSoft as the primary record of labor expenses. In March 2020, the Finance Department distributed timekeeping guidance that included instructions to staff entering their time into PeopleSoft. COVID-19 related activities are tracked through a specific activity code for the COVID-19 emergency.⁷ The City also initially had required EOC leadership to complete daily activity logs, known as 214 forms, to document their time and key decision points.⁸ FEMA made these forms available as one possible method to document labor costs. As the emergency response grew and more staff joined the EOC, the City expanded its use of comment fields in PeopleSoft to document COVID-19 related activities. Staff are required to document details of their work, location, and start and end times in the timecard comments.

Preliminary Audit Observations

The City budgeted \$60 million of the CRF funds to cover labor and personal expenses in FY 2019-20. The interim report on CRF expenses included \$58 million in labor and personal expenses. Although the majority were incurred by the Fire and Police departments, 17 different City departments had personal expenses included in the interim report.

- The Fire Department (\$40.6 million) and Police Department (\$5.6 million) accounted for the largest portion of reported personal expenses. CRF guidance has stated that local governments “may presume that payroll costs for public health and public safety employees are payments for services substantially dedicated to mitigating or responding to the COVID-19 public health

⁷ Though these instructions were later updated in May 2020, they still require staff to track their hours via a specific activity code.

⁸ While the City has required 214 forms, we found they were not consistently used, with fields like supervisor sign-offs not being completed, for example. EOC leadership attribute these inconsistencies to a lack of training on the purpose and method of completing these forms. They cite the speed and scope of the emergency response as challenges to implementing such training.

emergency.” Additional guidance from the Office of the Inspector General with the US Department of Treasury has noted that while recipients do not need to show that a public health or public safety employee’s work was substantially dedicated to mitigating the emergency, they must still maintain records and documentation supporting payroll costs paid for using CRF funds.

- There were \$11.8 million in expenses for City staff that were deemed *Personnel & Services Diverted to a Substantially Different Use* under CRF guidelines. This included \$3.5 million in labor costs from the Department of Parks, Recreation and Neighborhood Services, \$2.7 million from the City Manager’s Office, and \$1.5 million from the Department of Public Works. Twelve other departments or offices also had labor costs in this category. Labor expenses included City employees working with food distribution, working at the City’s homeless shelter sites, and outfitting City facilities with necessary precautions to prevent the spread of COVID-19.

In our preliminary review of the labor and personal costs we observed:

- Costs included in the City’s Financial Management System (FMS) do not readily tie to the supporting documentation in PeopleSoft, which is the central location for substantiating the work. When employees enter their time into PeopleSoft, their associated labor costs are allocated to a specific fund and account code. Many of the labor costs in the CRF interim report were originally charged to the General Fund or another special fund. Later, when personal service costs were identified as CRF-eligible costs, they were transferred to the City’s CRF fund. Because these dollars were transferred in a lump sum instead of by individual payroll entries, the shift created a disconnect between the cost data and the supporting documentation data.

As a result, for some departments that have staff working in different COVID-19 related programs, it may difficult to tie summary-level costs in FMS to the detailed information in PeopleSoft that substantiate the expenses. Addressing this disconnect will be important to separate and document labor costs across different funding sources. Finance/Recovery staff intend to analyze and reconcile the detailed PeopleSoft payroll information to the summary-level FMS expenditures.

- Timecard comments did not include all City-required information.
 - In a sample of 6,840 timecard entries reviewed, 31 percent of entries did not include start and end time details in their comments.⁹ While CRF guidance does not explicitly require specifying start and end times, such a requirement is included in the City’s internal timekeeping guidelines. CRF guidance also requires recipients submit “payroll, time records, [and] human resource records to support costs incurred for payroll expenses related to addressing the public health emergency due to COVID-19.”

⁹ As a secondary source of documentation, the Planning Section of the EOC created daily sign in/out logs for EOC staff. These logs include the individual’s name, location, EOC section, and the associated time stamp. The Personnel Branch has created a similar log for field staff.

- A small number of time entries did not include required comments in PeopleSoft or were coded incorrectly. In total there were about 660 such entries, or about 1 percent of the total entries reviewed for this analysis.

Some departments have more detailed information in timekeeping guidance with examples of ideal comments that include the federal and City requirements. Finance/Recovery staff intend to publish a reminder to City staff regarding what detail is necessary to be included in the PeopleSoft timesheet comments field.

2. Non-Personal Expenses

Non-personal expenses refer to operating costs that are not related to labor and personal services, such as supplies, contracted services, and equipment. To justify these costs, City guidance requires the collection of receipts or invoices, as well as documentation showing where resources were used and for what purposes. The City is using FMS and other source systems to store associated documentation related to expenses.¹⁰

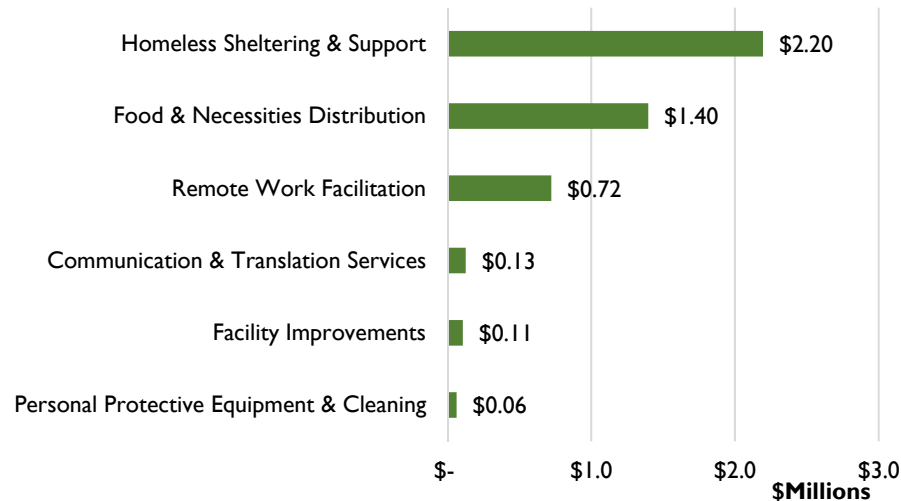
The City has automated its emergency resource requisition approval process (known as the 213RR process). While CRF guidance does not explicitly require 213RRs, the City uses this process to document justifications for emergency expenses and to manage budgets. In addition, the Finance Department has developed internal procurement guidelines for all federally funded emergency purchases. These guidelines were originally intended to be used only for FEMA reimbursements; however, to maximize reimbursement flexibility, the City expects staff to follow these guidelines for all procurements.

Preliminary Audit Observations

Non-personal expenses totaled \$4.6 million in the City's interim report to the Office of Inspector General in the US Department of Treasury. The City distributed the expenses into different program areas as shown in Exhibit 3.

¹⁰ In the City's guidelines, "other source systems" refer to GILES, the City's public online records portal; SimpliGov, the City's online 213RR portal; and SharePoint, a centralized file sharing system.

Exhibit 3: Non-Personal Expenses in the CRF Interim Report by Program Area



Source: The City's interim report on CRF expenses in fund 401 for FY 2019-20 submitted by July 17, 2020.

In our preliminary review of reported non-personal expenses, we found that supporting documentation for expenses, such as expense approvals and justifications, are stored in multiple locations and not always linked to the actual expenses in FMS, which makes documentation difficult to locate. The City's Cost Recovery Submission guidelines for non-personal expenses require all supporting documentation, including 213RRs and purchase orders, to be uploaded into FMS or other source systems, including a centralized file system set up by Office of Emergency Management.¹¹ At the time of review, the City did not have standardized documentation processes across the organization, in part because of the urgent pace and unprecedented scope of the emergency, as well as the involvement of multiple departments. We noted in our sample review that:

- City staff are responsible for placing orders, verifying invoices, and maintaining documentation. However, EOC branches manage agreements with vendors in different ways, which can make it difficult to substantiate expenses and even risk the loss of important documentation. For example, although invoices for an equipment rental purchase order were available in FMS, other supporting documentation was not stored in the locations specified by the City's guidelines. In one instance, the Purchasing Division, which maintains a list of COVID-19 related purchase orders, did not have the most updated price list available to confirm equipment rates.

In another example, Food and Necessities Branch staff maintain documentation related to food and necessities distribution in a vendor's online portal, a centralized shared file system, and even an individual employee's email. Not only is documentation stored in email at risk of loss if an employee leaves City employment or deletes the correspondence, it can make it difficult to readily verify expenses.

¹¹ In addition, the Department of Homeland Security's Office of the Inspector General (OIG) recommends that jurisdictions "ensure each expenditure is recorded in the accounting books and is referenced to supporting source documentation (checks, invoices, etc.) that can be readily retrieved."

- CRF expense entries do not always tie directly to the original expense entry recorded in FMS that contains the supporting documentation—a result of some expenses being shifted from other funds into the CRF fund, as described in the Labor and Personal Service Cost section. Tracking documentation requires contacting the staff who originally entered the expense into FMS.
- The City uses its 213RR process to request emergency resources and document the purpose, justification, and approval of emergency expenses. However, this documentation is not readily traceable to expense transactions in FMS. Additionally, multiple iterations of this process have led to these forms being stored in at least two locations (in the City’s shared filing system and in the automated 213RR portal). In some cases, approvals which previously occurred over email have since been lost, requiring retroactive approvals. As the City approves 213RRs through the online portal moving forward, it should ensure there is a means to readily locate these forms for specific emergency expenses.

OTHER AREAS TO MONITOR

In our ongoing work related to COVID-19 expenses, we have identified additional issues that could affect the City’s ability to maximize federal or State reimbursements.

I. Procurement Guidelines

Not all purchase orders the City has used for emergency expenses meet FEMA procurement requirements. While CRF guidance on procurements is currently less comprehensive than FEMA guidelines, it has been the City’s approach to adhere to FEMA guidelines to maximize reimbursement flexibility. FEMA requires certain contract clauses to be included in agreements. However, some purchase orders dating to the early stages of the emergency did not contain FEMA provisions, including an existing purchase order related to rental equipment. Documentation to explain the justification for these procurements will be important, and Finance/Recovery staff report they are currently onboarding support staff to collect such justifications as appropriate.

FEMA requires an independent cost/price analysis to be done prior to all procurements above the simplified acquisition threshold, currently set at \$250,000. Purchasing staff note that this step has not been regularly incorporated into the procurement process for agreements during the emergency, but that a template is being developed.

2. Agreements with Other Jurisdictions and Entities

In setting up a county-wide food and necessities distribution network, the City has incurred expenses outside of its geographic jurisdiction. Because of the rapid need to set up an effective food distribution network and the lack of established documentation processes early in the emergency, vendor invoices did not always distinguish San José from non-San José expenses. In our review, invoices showed food distribution sites outside of San José, including schools in Gilroy, Campbell, Mountain View, and Milpitas. This may make it difficult to identify expenses that may be covered by the City’s own federal funds and those that potentially could be reimbursed by other jurisdictions.

CARES guidance has not yet specified whether CRF funds can cover expenses incurred outside of the City’s boundaries. Should CARES guidance in the future clarify that the use of funds for expenses incurred

outside of San José are not eligible for CRF funding, the City may need to cover these costs with the General Fund if it does not receive reimbursement from other jurisdictions. The City is in the process of negotiating agreements with other jurisdictions to obtain reimbursement.

Moreover, the City relies on external school partners to report on meals received and distributed. Although schools provide information to the City to substantiate expenses and show that residents are being served, the City currently does not have formal agreements with all schools detailing expectations on reporting and documentation for food distribution.

3. Undetermined Local Cost Share for FEMA May Require CRF Funds

Under federal law, FEMA will reimburse approved FEMA-eligible expenses at a 75 percent cost share, requiring a local match of 25 percent. In past emergencies, the State has provided 75 percent of the local cost share (18.75 percent of the total), leaving the City to cover 6.25 percent of the overall emergency cost. As of this memo's publication date, apart from the Great Plates Program, the State had not declared its cost share for all FEMA programs. The City will be responsible for its share of costs, which could range from 6.25 percent to 25 percent for programs not covered by the State.

FEMA has since clarified that local jurisdictions will be able to use CRF and Community Development Block Grant funds towards its local match. Recovery Section staff report that they are monitoring this issue and has allocated \$7 million of CRF funding towards the local match.

4. Personal Protective Equipment Inventory Controls

In addition to using Personal Protective Equipment (PPE) for COVID-19 related activities, the City has used PPE for additional emergencies. Recent wildfires created smoke that resulted in an unhealthy air quality, requiring the City to provide specific masks to protect employees.¹² The City purchased these masks originally for the COVID-19 emergency event and planned for reimbursement through FEMA and CRF funding. CRF guidelines, however, indicate that expenses need to be "necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19)".

The City has been making efforts to begin tracking the use of PPE for different purposes and emergencies.¹³ Finance/Recovery staff have since created specific account codes and updated the City's resource requests forms to include the other emergencies.

5. Monitoring City Vehicle Usage

City employees have been utilizing City vehicles for emergency programs, including delivering food, distributing PPE, police patrolling the City for compliance with the public health order, and the use of Fire Department vehicles. During the period under review City staff spent more than 1,000 hours driving to distribute food and necessities. Additionally, Police staff spent about 2,600 hours patrolling the city to

¹² The State requires employers to distribute specialized masks (e.g., N95 masks) that protect against the hazards of smoke inhalation, if the air quality index (AQI) reaches 151 or above.

¹³ FEMA also required the City to provide "an internal plan for accounting for intake, distribution, tracking, and handling of excess commodities and personal protective equipment..." It also noted that the recipient "must provide the current burn rate for each identified category of PPE."

ensure businesses comply with the public health order. While the City maintains driving logs for vehicles used for food distribution, it did not have logs for all City vehicles being used for the emergency. Further, the driving logs for food distribution did not always identify location, a FEMA-required field.

If the City wishes to seek future reimbursement for the use of its vehicles and fleet, it should ensure that it tracks the vehicles and includes all required information in its logs.

CONCLUSION

The City of San José received \$178.3 million from the Coronavirus Relief Fund through the CARES program. As a requirement of this funding, the City is to provide interim and quarterly reports on spending to the US Department of Treasury. In preparing these reports and reconciling the use of funds how this funding is used, it must ensure appropriate documentation for potential future federal audits.

We reviewed this report with the City Manager's Office, Finance and Recovery Branch Section Coordinators within the Emergency Operations Center, and the City Attorney's Office. In lieu of a formal response, we incorporated their views and feedback into this memorandum. The City Auditor's Office thanks the management and staff from the City Manager's Office, City Attorney's Office, and all groups within the Emergency Operations Center for their time, information, insight, and cooperation during the preparation of this report.



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APPENDIX A

Scope, and Methodology

In accordance with the City Auditor's FY 2020-21 workplan, we have completed a preliminary review of documentation for COVID-19 related costs to support receipt of emergency public assistance through the federal Coronavirus Relief Fund. This is the second in a series of reports the City Auditor's Office is issuing related to compliance with State and Federal reimbursement guidelines resulting from the COVID-19 disaster.¹ The objective of this audit was to review documentation gathered in support of the expenses included in the City's Coronavirus Relief Fund July 17, 2020 interim report.²

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.³

To test controls and ensure appropriateness of submitted expenses we reviewed a sample of personal and non-personal expenses selected from the City's financial management system (FMS) and PeopleSoft. We assessed compliance with City and federal guidance on documenting staff time for personal expenses and the sufficiency and appropriateness of supporting documentation for non-personal expenses such as invoices, receipts, justification of purchase was available in the City's systems. We also reviewed the associated contracts to ensure necessary federal requirements were included.

We should note that our review only includes expenses that were included in the July 17, 2020 interim report. All CRF funds must be utilized prior to December 30, 2020 and expenses will continue to be incurred until that time.

- We sampled \$2.9 million in non-personal transactions for compliance with City and federal documentation requirements.
 - We selected a random sample by dollar amount based on a percentage of transactions between three category types – purchased through a vendor, purchased using a procurement card, and where the vendor field was blank.⁴ We sampled: 100 percent of

¹ In December 2019, the City finalized a Recovery Annex (Annex) to the Emergency Operations Plan that provides a framework for the recovery process and identifies the roles and responsibilities of City departments. In the Annex, the role of the City Auditor's Office is to: Support the Budget Office, Office of Emergency Management, and Finance Department with cost recovery oversight, including compliance with federal and State record-keeping, procurement, and audit requirements, as requested.

² On September 21, 2020, the City submitted a quarterly report that provides up-to-date information on CRF related expenditures as of June 30, 2020. This quarterly report was accepted by the Office of Inspector General in US Department of Treasury on September 25 and included \$71 million in total expenses with an additional \$6.4 million in net obligations for contracts.

³ We should note that some staff in the City Auditor Office have been designated as Disaster Service Workers (DSW) by City policies. As such DSWs may be asked to serve at locations, times and under conditions other than normal work assignments and these assignments may include duties within the EOC, in the field, or at another designated location. In order to maintain structural independence to provide audit services, as well as provide services as DSWs, the City Auditor's Office developed an interim organizational chart that functionally segregates the two responsibilities. Specifically, staff that are assigned to work for emergency operations as DSWs are overseen by the respective EOC section coordinator and report to the City Auditor. Staff that are assigned to work under the Emergency Operations Plan, Base Plan and the Recovery Annex are overseen by a Supervising Auditor who reports to the City Auditor.

⁴ Blank entries in the vendor field typically indicated that they were a part of the general ledger system and had been monies originally charged to one fund and were later moved to be paid for using the CRF fund.

transactions greater than \$250,000 (2 transactions); 55 percent of transactions \$10,001-\$250,000 (42); and 15 percent of transactions \$1-\$10,000 (52).⁵

- Additionally, we also reviewed vehicle logs for food distribution for compliance with federal requirements.
- For personal transactions we reviewed 32,271 hours of labor hours reported in the City's human resource management system, PeopleSoft, to ensure compliance with City timekeeping policies under the COVID-19 emergency, and federal reporting guidance. This sample included 20 departments and offices working in the emergency.
 - Due to the disconnect between supporting documentation for labor hours to the costs submitted to the US Department of Treasury, we selected our sample of labor expenses based on all labor coded to the COVID activity code in the City's human resources management system (PeopleSoft), from March 16, 2020 – June 30, 2020.
 - We selected two full weeks, April 5-11 and June 7-13 to review data entered after the first timekeeping instructions were released and a week after the second set was released.

Additionally, we reviewed the following:

- Federal guidance:
 - Guidance from the US Department of Treasury addressing the Coronavirus Relief Funds (June 2020 and September 2020)
 - Frequently Asked Questions from the US Department of Treasury's Office of the Inspector General (May 2020, July 2020, August 2020, and September 2020)
 - Code of Federal Regulations, Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award
 - FEMA's Public Assistance Program and Policy Guide (April 2018)
 - FEMA Public Assistance Contracting Requirement Checklist (October 2018)
 - FEMA's Procurement Disaster Assistance Team Field Manual (September 2019)
 - FEMA Fact Sheet on Procurement Under Grants Conducted Under Exigent or Emergency Circumstances (March 2020)
- Reviewed relevant City policies from the City Policy Manual (CPM):
 - CPM 5.1.1: *Procurement and Contract Process Integrity and Conflict of Interest – Administrative Procedures*
 - CPM 5.1.2: *City Procurement Cards*
 - CPM 5.1.3: *Source Selection Plan*
 - CPM 5.1.4: *Brand Name and Sole Source Procurements*

⁵ We reviewed transactions with the greatest amounts first, as these were deemed higher risk. As we progressed through our sample, patterns emerged quickly in our initial review; therefore, we did not review our entire sample.

- CPM 5.1.6: *Procurement with Grant Funds*
- CPM 5.1.7: *Procurement of Supplies, Materials, and Equipment*
- City procedures and guidelines related to the use and documentation of Coronavirus Relief Funds:
 - The City of San José Emergency Operations Plan, Base Plan (February 2019)
 - Recovery Support Annex to the Emergency Operations Plan (June 2019)
 - Timekeeping Instructions for Exempt (Salaried) Employees (March 2020 & May 2020)
 - Timekeeping Instructions and FAQs For Benefited, Non-Exempt (Hourly) Employees March 17, 2020 Until Further Notice (March 2020 & May 2020)
 - Procurement Card Usage During COVID-19 Event (June 2020)
 - Instructions for Financial Reporting Processing During the COVID-19 Event (March 2020)
 - Guidance to Fiscal Officers on Accounting for COVID-19 Expenses (June 2020)
 - Purchasing Guidelines and Checklist for Federally Funded Procurements (August 2020)
 - COVID-19 Non-Personnel Costs: Cost Recovery Submittal Requirements (June 2019)
 - COVID-19 Recovery Documentation Plan (July 2020)
- City Budget and Spending Plans, including:
 - City's Proposed Operating Budget for FY 2020-2021
 - City Manager's Budget Addendum #20 (June 2020)
 - Fiscal Recovery Update and Coronavirus Relief Fund Rebalancing (September 2020)
- Memos to City Council, including:
 - Coronavirus Relief Fund and Resident Assistance (June 2020)
 - Actions Related to the Coronavirus Relief Fund (May 2020)
 - Actions Related to Food Distribution Agreements (June 2020 & August 2020)
 - Santa Clara County Food Reimbursement Agreement (May 2020 & June 2020)
- Attended regular Recovery Section and Operations Section meetings
- Interviewed City staff from the following departments and offices: Finance Department; Parks, Recreation and Neighborhood Services Department; Police Department; Fire Department; City Attorney's Office; Human Resources Department; City Manager's Office; and the Office of Emergency Management.