



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 7, 2023

**MEMORANDUM FOR JESSICA MILANO, ACTING CHIEF RECOVERY OFFICER,
DEPARTMENT OF THE TREASURY**

FROM: Deborah L. Harker /s/
Assistant Inspector General for Audit

SUBJECT: Desk Review of State of California's Use of Coronavirus
Relief Fund Proceeds (OIG-CA-23-025)

Please find the attached desk review memorandum¹ on State of California's use of Coronavirus Relief Fund (CRF) proceeds. The CRF is authorized under Title VI of the Social Security Act, as amended by Title V, Division A of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Under a contract monitored by our office, Castro & Company, LLC (Castro), a certified independent public accounting firm, performed the desk review. Castro performed the desk review in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General*, which require that the work adheres to the professional standards of independence, due professional care, and quality assurance.

Castro personnel reviewed documentation for a non-statistical selection of 268 transactions reported in the quarterly reports and found 1 of the 268 transactions was an ineligible expenditure of \$6,952 related to the purchase of a 3-year software subscription (see attached schedule of monetary benefits).

Based on the results of Castro's desk review, documentation supporting the uses of CRF proceeds complied with the CARES Act and Treasury's Guidance, except for the questioned costs for the subscription of \$6,952. Additionally, Castro determined that the risk of unallowable use of funds is low. As such, Castro is not recommending Department of the Treasury (Treasury) Office of Inspector General (OIG) perform an audit of the State of California. However, Castro notified Treasury OIG that the State of California used CRF for \$6,952 of ineligible expenditures, and Castro is recommending that Treasury OIG confirm that appropriate corrections have been made within the grants portal, or if not, determine whether these funds have been returned to Treasury.

¹ The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) assigned the Department of the Treasury Office of Inspector General with responsibility for compliance monitoring and oversight of the receipt, disbursement, and use of Coronavirus Relief Fund (CRF) payments. The purpose of the desk review is to perform monitoring procedures of the prime recipient's receipt, disbursement, and use of CRF proceeds as reported in the grants portal on a quarterly basis.

In connection with our contract with Castro, we reviewed Castro's desk review memorandum and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express an opinion on the State of California's use of the CRF proceeds. Castro is responsible for the attached desk review memorandum and the conclusions expressed therein. Our review found no instances in which Castro did not comply in all material respects, with the *Quality Standards for Federal Offices of Inspector General*.

We appreciate the courtesies and cooperation provided to Castro and our staff during the desk review. If you have any questions or require further information, please contact me at (202) 486-1420, or a member of your staff may contact Lisa DeAngelis, Deputy Assistant Inspector General for Audit, at (202) 487-8371.

cc: Michelle. A. Dickerman, Deputy Assistant General Counsel, Department of the Treasury
Victoria Collin, Chief Compliance & Finance Officer, Office of Recovery Programs, Department of the Treasury
Kristin Shelton, Chief, Research and Analysis Unit, State of California
Audrey Bazos, Principal Program Budget Analyst, State of California
Wayne Ference, Partner, Castro & Company, LLC

Attachment

Schedule of Monetary Benefits

According to the Code of Federal Regulations,² a questioned cost is a cost that is questioned due to a finding:

- (a) which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;
- (b) where the costs, at the time of the review, are not supported by adequate documentation; or
- (c) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Questioned costs are to be recorded in the Department of the Treasury's (Treasury) Joint Audit Management Enterprise System (JAMES).³ The amount will also be included in the Office of Inspector General (OIG) Semiannual Report to Congress. It is Treasury management's responsibility to report to Congress on the status of the agreed to recommendations with monetary benefits in accordance with 5 USC Section 405(b) of the Inspector General Act of 1978.

<u>Recommendation</u>	<u>Questioned Costs</u>
Recommendation No. 1	\$6,952

The questioned cost represents amounts provided by Treasury under the Coronavirus Relief Fund. As discussed in the attached desk review, \$6,952 is the State of California's expenditures reported in the grant-reporting portal that were ineligible.

² 2 CFR § 200.84 – Questioned Cost

³ JAMES is Treasury's audit recommendation tracking system.

Desk Review of the State of California

June 29, 2023

OIG-CA-23-025

**MEMORANDUM FOR DEBORAH L. HARKER,
ASSISTANT INSPECTOR GENERAL FOR AUDIT**

FROM: Wayne Ference
Partner, Castro & Company, LLC

SUBJECT: Desk Review of the State of California

On August 10, 2021, we initiated a desk review of the State of California's use of the Coronavirus Relief Fund (CRF) authorized under Title VI of the Social Security Act, as amended by Title V Division A of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).¹ The objective of our desk review was to evaluate the State of California's documentation supporting its uses of CRF proceeds as reported in the GrantSolutions² portal and to assess the risk of unallowable use of funds. The scope of our desk review was limited to obligation and expenditure data for the period of March 1, 2020 through June 30, 2021 as reported in Cycles 1³ through 5⁴ in the GrantSolutions portal.

As part of our desk review, we performed the following:

- 1) reviewed the State of California's quarterly Financial Progress Reports (FPRs) submitted in the GrantSolutions portal through June 30, 2021;
- 2) reviewed the *Department of the Treasury's (Treasury) Coronavirus Relief Fund Guidance* as published in the Federal Register on January 15, 2021;⁵

¹ P.L. 116-136 (March 27, 2020).

² GrantSolutions, a grant and program management Federal shared service provider under the U.S. Department of Health and Human Services, developed a customized and user-friendly reporting solution to capture the use of CRF payments from recipients.

³ Calendar quarter ending June 30, 2020.

⁴ Calendar quarter ending June 30, 2021.

⁵ Coronavirus Relief Fund Guidance as published in the Federal Register (January 15, 2021) https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register_2021-00827.pdf

Desk Review of the State of California

- 3) reviewed Treasury Office of Inspector General (OIG) *Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping*,⁶
- 4) reviewed Treasury OIG's monitoring checklists⁷ of the State of California's quarterly FPR submissions for reporting deficiencies;
- 5) reviewed other audit reports issued, such as Single Audit reports, and those issued by the Government Accountability Office and other applicable Federal agency OIGs for internal control or other deficiencies that may pose risk or impact the State of California's uses of CRF proceeds;
- 6) reviewed Treasury OIG Office of Investigations, the Council of the Inspectors General on Integrity and Efficiency Pandemic Response Accountability Committee (PRAC),⁸ and Treasury OIG Office of Counsel input on issues that may pose risk or impact the State of California's uses of CRF proceeds;
- 7) interviewed key personnel responsible for preparing and certifying the State of California's GrantSolutions portal quarterly FPR submissions, as well as officials responsible for obligating and expending CRF proceeds;
- 8) made a non-statistical selection of contracts, grants, transfers, direct payments, aggregate reporting data,⁹ aggregate payments to individuals,¹⁰ and anomalies¹¹ identified through GrantSolutions reporting; and
- 9) evaluated documentation and records used to support the State of California's quarterly FPRs.

⁶ Department of the Treasury Office of Inspector General *Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping* OIG-20-028R; March 2, 2021.

⁷ The checklists are used by Treasury OIG personnel to monitor the progress of prime recipient reporting in the GrantSolutions portal. GrantSolutions quarterly submission reviews are designed to identify material omissions and significant errors, and where necessary, include procedures for notifying prime recipients of misreported data for timely correction. Treasury OIG follows the *CRF Prime Recipient Quarterly GrantSolutions Submissions Monitoring and Review Procedures Guide*, OIG-CA-20-029R to monitor the prime recipients quarterly.

⁸ Section 15010 of P.L. 116-136 established the Pandemic Response Accountability Committee within the Council of the Inspectors General on Integrity and Efficiency to promote transparency and conduct and support oversight of covered funds (see Footnote 17 for a definition of covered funds) and the coronavirus response to (1) prevent and detect fraud, waste, abuse, and mismanagement; and (2) mitigate major risks that cut across program and agency boundaries.

⁹ Recipients are required to report CRF transactions greater than or equal to \$50,000 in detail in the GrantSolutions portal. Transactions less than \$50,000 can be reported as an aggregate lump-sum amount by type (contracts, grants, loans, direct payments, and transfers to other government entities).

¹⁰ Obligations and expenditures for payments made to individuals, regardless of amount, are required to be reported in the aggregate in the GrantSolutions portal to prevent inappropriate disclosure of personally identifiable information.

¹¹ Treasury OIG has a pre-defined list of risk indicators that are triggered based on data submitted by recipients in the FPR submissions that meet certain criteria. Castro reviewed these results provided by Treasury OIG for the State of California.

Desk Review of the State of California

Based on the results of our desk review, documentation supporting the uses of CRF proceeds comply with the CARES Act and Treasury’s Guidance, except for those reported for Aggregate Reporting Less than \$50,000. Based on the totality of the work performed and because the total questioned costs within Aggregate Reporting Less than \$50,000 totaled only \$6,952, we determined the State of California’s risk of unallowable use of funds to be low. As such, Castro is not recommending that Treasury OIG perform an audit of the State of California. We notified Treasury OIG that the State of California used \$6,952 for ineligible subscription costs incurred outside of the covered period and recommend that Treasury OIG confirm that appropriate corrections have been made in the GrantSolutions portal, or if not, determine whether reimbursement has been made to Treasury.

Non-Statistical Transaction Selection Methodology

Treasury issued a CRF payment to the State of California of \$9,525,564,743.60. As of Cycle 5,¹² the State of California’s cumulative obligations and expenditures were \$9,177,289,698.71 and \$9,087,560,061.92, respectively. The State of California’s cumulative obligations and expenditures by payment type are summarized below:

Payment Type	Cumulative Obligated Amount	Cumulative Expenditure Amount
Contracts >= \$50,000	\$ 1,440,299,880.88	\$ 1,431,316,324.88
Grants >= \$50,000	\$ 747,000,000.00	\$ 747,000,000.00
Loans >= \$50,000	\$ -	\$ -
Transfers >= \$50,000	\$ 2,055,067,466.19	\$ 2,055,059,111.19
Direct Payments >= \$50,000	\$ 4,501,182,668.57	\$ 4,483,994,605.57
Aggregate Reporting < \$50,000	\$ 63,319,255.07	\$ 63,268,501.28
Aggregate Payments to Individuals (in any amount)	\$ 370,420,428.00	\$ 306,921,519.00
Totals	\$ 9,177,289,698.71	\$ 9,087,560,061.92

Castro made a non-statistical selection of Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Transfers¹³ greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals. Selections were made using auditor judgment based on information and risks identified in reviewing audit reports, the GrantSolutions portal reporting anomalies identified by the Treasury OIG CRF monitoring team, and review of the State of California’s FPR submissions. Castro noted that the State of California did not obligate or expend

¹² Calendar quarter ending June 30, 2021.

¹³ A transfer to another government entity is a disbursement or payment to a government entity that is legally distinct from the prime recipient.

Desk Review of the State of California

CRF proceeds for Loans greater than or equal to \$50,000; therefore, we did not make a selection from this category.

The number of transactions (69) we selected to test were based on the State of California's total CRF award amount and our overall risk assessment of the State of California. To allocate the number of transactions (69) by obligation type (Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals), we compared the obligation type dollar amounts as a percentage of cumulative obligations for Cycle 5.¹⁴ Additionally, as listed below, Treasury OIG provided information on anomalies identified for the State of California:

- 185 potential duplicate payments were selected by Castro for review;
- 18 transactions flagged by Treasury OIG as being an outlier based on risk, as discussed in footnote 9. Four of the outliers were already included in Castro's original transaction selection. Therefore, Castro added the remaining 14 outliers for testing.

These anomalies reported by Treasury OIG resulted in 199 additional transactions, for a total of 268 transactions tested.

Background

The CARES Act appropriated \$150 billion to establish the CRF. Under the CRF, Treasury made payments for specified uses to States; eligible units of certain local governments; the District of Columbia; U.S. Territories, including the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands; and Tribal governments. Treasury issued a CRF payment to the State of California for \$9,525,564,743.60. The CARES Act stipulates that a recipient may only use the funds to cover costs that—

- (1) are necessary expenditures incurred due to the public health emergency with respect to the coronavirus disease 2019 (COVID-19);
- (2) were not accounted for in the budget most recently approved as of March 27, 2020; and

¹⁴ Quarter ending June 30, 2021.

(3) were incurred between March 1, 2020 and December 31, 2021.¹⁵

Section 15011 of the CARES Act, requires each covered recipient¹⁶ to submit to Treasury and the PRAC, no later than 10 days after the end of each calendar quarter, a report that contains (1) the total amount of large covered funds^{17,18} received from Treasury; (2) the amount of large covered funds received that were expended or obligated for each project or activity; (3) a detailed list of all projects or activities for which large covered funds were expended or obligated; and (4) detailed information on any level of sub-contracts or sub-grants awarded by the covered recipient or its sub-recipients.

The CARES Act assigned Treasury OIG the responsibility for compliance monitoring and oversight of the receipt, disbursement, and use of CRF proceeds. Treasury OIG also has authority to recoup funds in the event that it is determined a recipient failed to comply with requirements of subsection 601(d) of the Social Security Act, as amended, (42 U.S.C. 801(d)).

Desk Review Results

Our review of the State of California's quarterly FPR submissions through June 30, 2021, found that FPR submissions were timely. Other than Aggregate Reporting less than \$50,000, transactions selected for detailed review were supported by documentation and were allowable expenditures in accordance with the CARES Act and Treasury's guidance. We noted that the tested Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Payments to Individuals, and anomalies were necessary expenditures due to the COVID-19 public health emergency, were not accounted for in the budget most recently approved as of March 27, 2020, and were incurred during the covered period. The transactions selected for testing were not selected

¹⁵ P.L. 116-260 (December 27, 2020). The period of performance end date of the CRF was extended through December 31, 2021 by the Consolidated Appropriations Act, 2021. The period of performance end date for tribal entities was further extended to December 31, 2022 by the State, Local, Tribal, and Territorial Fiscal Recovery, Infrastructure, and Disaster Relief Flexibility Act, Division LL of the Consolidated Appropriations Act, 2023, P.L. 117-328, December 29, 2022, 136 Stat. 4459.

¹⁶ Section 15011 of P.L. 116-136 defines a covered recipient as any entity that receives large covered funds and includes any State, the District of Columbia, and any territory or possession of the United States.

¹⁷ Section 15010 of P.L. 116-136 defines covered funds as any funds, including loans, that are made available in any form to any non-Federal entity, not including an individual, under Public Laws 116-123, 127, and 136, as well as any other law which primarily makes appropriations for Coronavirus response and related activities.

¹⁸ Section 15011 of P.L. 116-136 defines large covered funds as covered funds that amount to more than \$150,000.

Desk Review of the State of California

statistically, and therefore results cannot be extrapolated to the total universe of transactions.

The following table includes the total cumulative expenditure population amount and the cumulative expenditure amount tested. Additionally, this table includes a summary of Castro’s testing results over expenditure transaction balances. Within the “Exception Noted: IPA [Independent Public Accountant] Recommended for Treasury OIG Follow-up” section of this table, we have included a summary of unsupported and ineligible balances identified as questioned costs as a result of our desk review. These questioned costs do not comply with the CARES Act and Treasury’s Guidance. Additionally, in the far-right column, we have identified the expenditures that Castro tested without exceptions noted. See the Desk Review Results section below this table for a detailed discussion of questioned costs and other issues identified throughout the course of our desk review.

Summary of Expenditure Testing and Recommended Results – As of Cycle 5¹⁹

Payment Type	Cumulative Expenditure Population Amount	Cumulative Expenditure Tested Amount	Unsupported Exception	Ineligible Exception	Castro Reviewed Value Without Exception (per Support)
Contracts >= \$50,000	\$ 1,440,299,880.88	\$ 399,833,150.00	\$ -	\$ -	\$ 399,833,150.00
Grants >= \$50,000	\$ 747,000,000.00	\$ 143,272,303.00	\$ -	\$ -	\$ 143,272,303.00
Loans >= \$50,000	\$ 2,055,067,466.19	\$ 91,274,671.00	\$ -	\$ -	\$ 91,274,671.00
Transfers >= \$50,000	\$ -	\$ -	\$ -	\$ -	\$ -
Direct Payments >= \$50,000	\$ 4,501,182,668.57	\$1,265,388,110.00	\$ -	\$ -	\$ 1,265,388,110.00
Aggregate Reporting < \$50,000	\$ 63,542,567.00	\$ 40,275.00	\$ -	\$ 6,952.00 ²⁰	\$ 33,323.00
Aggregate Payments to Individuals (in any amount)	\$ 304,088,083.00	\$ 33,488,724.00	\$ -	\$ -	\$ 33,488,724.00
Totals	\$ 9,111,180,665.64	\$1,933,297,233.00	\$ -	\$ 6,952.00	\$ 1,933,290,281.00

¹⁹ Calendar quarter ending June 30, 2021.

²⁰ Subsequent to our testing, California made a correction in GrantSolutions during Cycle 11 (quarter ending December 31, 2022) for the ineligible portion of the subscription cost.

Desk Review of the State of California

Aggregate Reporting less than \$50,000

We determined that certain expenditures reported in the Aggregate Reporting less than \$50,000 were not in compliance with the CARES Act and Treasury's guidance. During our review of Aggregate Reporting less than \$50,000, an exception was identified related to a software subscription.

For the transaction tested, we identified \$6,952 of the total \$40,275 expenditure related to the purchase of a 3-year software subscription (for the period covering March 23, 2020 through March 22, 2023) which we deemed ineligible because it was incurred outside of the covered period to use the funds.

The State of California stated the 3-year subscription was purchased to save on cost versus purchasing a single year subscription. Since the order was procured using emergency procedures, the entire invoice had to be paid upfront whereas normally, only a 1-year subscription would be procured based on a 3-year pricing discount and paid annually.

Castro noted that the period of performance date was extended to September 30, 2022 by the issuance of the publication "Coronavirus Relief Fund Revision to Guidance Regarding When a Cost is Considered Incurred," dated December 14, 2021,²¹ which states:

"In light of the foregoing, Treasury is now revising the guidance to provide that a cost associated with a necessary expenditure incurred due to the public health emergency shall be considered to have been incurred by December 31, 2021, if the recipient has incurred an obligation with respect to such cost by December 31, 2021...Treasury's reporting framework currently permits recipients to record their expenditures through September 30, 2022."

Based on the issues noted above, we determined the State of California to be noncompliant with Treasury OIG Guidance OIG-CA-20-021²² because the official authorized to certify that the data was true, accurate, and complete did not ensure that its submission met all the Treasury OIG Guidance requirements. Additionally, we determined the State of California to be noncompliant with these requirements because its prepaid expenses extended beyond the allowable covered period.

Additionally, we determined the State of California to be noncompliant with Subsection 601 (d) of the Social Security Act, as amended, (42 U.S.C. 801 (d)), and

²¹ https://home.treasury.gov/system/files/136/CRF-Guidance_Revision-Regarding-Cost-Incurred.pdf

²² <https://home.treasury.gov/system/files/136/IG-Coronavirus-Relief-Fund-Recipient-Reporting-Record-Keeping-Requirements.pdf>

Desk Review of the State of California

Federal Register Notice Volume 86, Number 10,²³ *Coronavirus Relief Fund for States, Tribal Governments, and Certain Eligible Local Governments*, Treasury's Guidance, FAQ #31, because its prepaid expenses extended beyond the allowable covered period.

Conclusion

Based on our review of the State of California's documentation supporting the uses of CRF proceeds as reported in the GrantSolutions portal, except for the issues reported with Aggregate Reporting less than \$50,000, we determined that the expenditures comply with the CARES Act and Treasury's Guidance. Based on the totality of the work performed and because the questioned costs within Aggregate Reporting totaled only \$6,952, we determined the State of California's risk of unallowable use of funds to be low. As such, Castro is not recommending that Treasury OIG perform an audit of the State of California. However, Castro notified Treasury OIG that the State of California used \$6,952 for ineligible subscription costs incurred outside of the covered period and we recommend that Treasury OIG confirm that appropriate corrections have been made, or if not, determine whether these funds have been returned to Treasury.

All work completed with this letter complies with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Federal Offices of Inspectors General*, which require that the work adheres to the professional standards of independence, due professional care, and quality assurance to ensure the accuracy of the information presented.²⁴ We appreciate the courtesies and cooperation provided to our staff during the desk review.

Sincerely,



Wayne Ference
Partner, Castro & Company, LLC

²³ https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register_2021-00827.pdf

²⁴ <https://www.ignet.gov/sites/default/files/files/Silver%20Book%20Revision%20-%208-20-12r.pdf>