



CITY AUDITOR REPORT
COVID RELIEF FUNDS USE, RECORDKEEPING & REPORTING
AUGUST 17, 2022

BACKGROUND/PROJECT OVERVIEW

The COVID-19 public health emergency caused extensive financial and operational challenges for organizations of all types. In response, the United States Congress passed several economic stimulus packages. The City of Olathe received two types of this stimulus assistance, and the City Council selected an audit of this funding as part of the City Auditor’s 2022 audit schedule. The two programs which the City received COVID relief funds through are:

- **\$4.3 million of Coronavirus Aid Relief and Economic Security Act (CARES) funds**, which were received as a subrecipient of Johnson County via reimbursement for CARES-eligible expenditures in 2020-2021
- **\$14.9 million of American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Funds (SLFRF)**, which were received in advance directly from the White House Office of Management & Budget (OMB)
 - **ARPA/SLFRF funding has not yet been allocated to spending projects or purposes**, and the use of these funds is under evaluation as part of the **2023 budget process**. ARPA/SLFRF funds can be used for eligible costs *incurred* from March 3, 2021 **through December 31, 2024**.

AUDIT SCOPE AND OBJECTIVES

This audit project reviewed:

- CARES relief expenditure activity, to determine expenditures were eligible, adequately documented, compliantly reported, reimbursed, and accurately recorded
- ARPA/SLFRF grant fund activity, to determine grant funds were received, accurately recorded, and that required information/activity was accurately and compliantly reported to the OMB

FOR THE METHODOLOGY USED TO CONDUCT THIS PROJECT, SEE APPENDIX I AT PAGES 5-6.

CONCLUSIONS

- CARES reimbursements tested were supported by adequate invoice documentation for eligible expenditures purchased within compliant timeframes
- Reports required by the CARES subrecipient agreement were filed accurately and timely
- Reimbursement payments for CARES-related expenditures were received from Johnson County. Accounting personnel discovered \$3.4 million in reimbursement for public health and safety salaries was not recorded in the E1 financial system as a reduction to salaries, but was instead allocated to CARES capital projects. The Auditor **does not view this as an exception**, since:
 - this **did not affect the validity of the CARES items/expense submitted for reimbursement**, and
 - **no net financial statement impact occurred**
 - the Auditor **does view the remaining year end CARES project balances as an indicator of needed control improvement**, since the project funds would have normally been ‘closed out’ to a zero balance at year end. This type of error has been central to material control weaknesses in the 2020 annual report and 2021 single audit. **Findings, recommendations, and management response related to this area are discussed at Grant Accounting Entries, on pages 2-4.**
- ARPA/SLFRF funds have been received and were appropriately recorded in E1 financial system accounts. Periodic reports have been submitted to the OMB as required.

The Auditor would like to thank the Finance and Accounting team for their extensive assistance with this project.

FINDING AND RECOMMENDATIONS

GRANT ACCOUNTING ENTRIES

Although all tested expenditures related to CARES prevention/mitigation, Accounting personnel discovered \$3.47 million in reimbursement payment for public health and safety salaries was instead recorded as an offset to CARES capital projects. \$534,000 of the balance created by this entry remained in the CARES capital projects after 2021 year end closing. The Accounting team believes this balance was not correctly closed out at year end due to staff turnover.

Effect of CARES reimbursement entry:

Accounting personnel researched and assessed the potential impact of the reimbursement entry made to CARES projects rather than salaries, and also discussed their analysis with the City's external auditors. Their assessment concludes the following:

- Had the entry been made to salary expense, a General Fund excess balance would have occurred.
 - This excess would ultimately be transferred to Capital Project Reserve (CPR), and then used to fund projects similar to the CARES capital projects. Both items are classified as governmental activities in the financial statements; based on this, no net financial statement impact occurred.
 - Additionally, their analysis concludes the \$534,000 remaining project account balance should have been closed at year end.
 - The Auditor concurs with this assessment, and recommends continuing control improvements to capital project accounts be evaluated, as this area has been part of the 2020 annual report and the 2021 single audit material control weaknesses. **For additional detail, see Recommendations on the following page.**
- The Auditor also discussed the potential of any potential compliance risk posed by the CARES capital project reimbursement entry with the City's external audit firm. In this situation, the external auditors concluded that **receiving reimbursement for documented, paid, CARES-relief eligible items fulfills grant eligibility requirements**, and viewed the subsequent accounting entry as unrelated to compliance.

(RECOMMENDATIONS on the following page)

RECOMMENDATIONS

Based on the challenges experienced with CARES capital project close out, **the Auditor recommends an evaluation of accounting structure and task guidance be considered for upcoming 2023 ARPA/SLFRF grant expenditures.**

1. Since Olathe is a direct recipient of ARPA/ SLFRF funds advanced by the OMB (Office of Management & Budget), **grant accounting and monitoring concepts may need evaluation.** Areas warranting consideration could **include (but may not be limited to):**
 - procedures to ensure project expenditures are recorded timely
 - alignment of the accounting structure with OMB reporting requirements, the expected nature of projects, and accounting standards
 - procedures to monitor and reconcile project accounting and spending levels
 - knowledge sharing/training for project personnel on eligibility requirements, documentation needs, and cost submission process/timing requirements
2. The Auditor also suggests the **U.S Treasury Department’s published SLFRF compliance and reporting guidance be analyzed by applicable Accounting and project personnel.** Key elements to consider include:
 - **required data for quarterly project expenditure reporting**, including:
 - project data, description, expenditure categories, and status of completion
 - project obligations and expenditures
 - project budgets
 - **expenditure eligibility** requirements
 - **conflict of interest** compliance needs
 - **reporting deadlines**, which may drive **project completion/closeout timing requirements**
3. Additionally, to limit the potential for project accounting errors, Accounting management **may wish to consider documenting guidance on the methods and procedures used for the SLFRF grant.** This will ensure relevant information is available for current and future personnel’s reference.

Overall Project Accounting Risks

The recent closing error which occurred in CARES capital projects highlights **overall financial accuracy risks related to all types of project accounting.** In addition, capital project closing has played a role in the 2020 City annual report’s material control weakness, and the 2021 single audit material control weakness. To limit this risk for grant and other project accounts, **the Auditor recommends the following be continued/considered:**

4. **The Accounting team is currently researching project account balances**, to ensure their accuracy and validity prior to transferring data as part of the Workday financial system implementation. **The Auditor encourages continuation of this effort.**
5. **To establish the optimal project structure in the near-future Workday system**, the Auditor suggests the Accounting team evaluate the City’s capital **project tracking needs, Workday system capabilities**, and **optimal internal control practices** (such as project monitoring and reconciliation).

(MANAGEMENT RESPONSE on the following page)

MANAGEMENT RESPONSE

In March 2022, accounting personnel noted a remaining balance of approximately \$534,000 in project 7-C-000-20. This project was used to account for expenditures reimbursed through CARES funding and a remaining balance was unexpected.

Upon further investigation, it was noted that reimbursements of payroll for public health and safety employees totaling \$3,474,753 had not been applied as a reduction in salaries but had been allocated to the capital projects fund. After verifying the capital project expenditures were not submitted to Johnson County for reimbursement through CARES, accounting personnel contacted Jonathan Nibarger, Assurance Vice President with AGH, L.C. (AGH), the City's external auditor, to discuss potential impacts on the 2020 ACFR and Single Audit Report, including the need for restatement.

AGH concluded that, based on their testing, the CARES funds received were used for expenditures as allowed under the grant. As such, any funds that remained in 7-C-000-20 could be transferred out and the project closed. Neither the 2020 single audit nor the ACFR needed to be restated.

It is the City's conclusion that if the \$3,474,753 had been recorded as a reduction in public safety salaries in E-1, excess funds would have remained in the general fund and been subsequently transferred to the Capital Projects Reserve (CPR) at 12/31/20. These funds would have then been used to fund projects which were similar to those found within 7-C-000-20.

Further, as the capital projects fund and the general fund are both classified as governmental activities in the government wide statements, the effect of these adjustments would be zero. The impact to the 12/31/20 fund balances on the governmental fund financial statements would also have been zero. The table below depicts the anticipated impact on the financial statement captions within the governmental funds.

	<u>General Fund</u>	<u>Capital Projects</u>
Total Expenditures	(3,474,753)	3,474,753
Transfers	3,474,753	(3,474,753)
Impact on fund balance – end of year	-	-

Accounting personnel continue to review the list of open projects and work with appropriate personnel to determine the current status and needed adjustments, if applicable.

State and Local Fiscal Recovery Funds (SLFRF) received by the City of Olathe of \$14,918,491 have been segregated within E-1. Management has elected the standard allowance of \$10 million in revenue loss. We have begun the 2023 budget process and plan to adopt the 2023 budget in September. As part of this process, the City is developing a plan to utilize the SLFRF funds. All required reporting has been submitted to the Treasury.

Lastly, we have partnered with AVAAP and met with other municipalities to ensure we implement strong internal controls and best practices across all workstreams within Workday.

APPENDIX I: AUDIT METHODOLOGY

This audit was conducted by performing the following procedures:

I. Tests of CARES reimbursed expenditures

CARES reimbursed spending filed with Johnson County totaled \$4,265,008 and was composed of two items:

- \$790,255 in protective equipment/prevention/mitigation efforts
 - \$3,474,753 in eligible public safety payroll reimbursement
\$4,265,008 TOTAL
- a. \$790,255 total CARES spending filed for reimbursement **was tested by reviewing supporting invoice documentation.**
- A sample of 24 invoices totaling \$451,211.48, representing 57.1% of these expenditures was reviewed for **eligibility and accuracy without exception.**
 - **Reimbursement forms filed with the grantor** were agreed to supporting invoices without exception
 - **A sample of filed items was traced to corresponding E1 financial system entries** and noted to be recorded in appropriate/reasonable accounts
- b. CARES submitted reimbursement filing for public safety salaries totaling \$3,474,753 was tested for legitimacy/validity by reviewing **the filing's E1 payroll register documentation for March – November 2020.**
- This review noted that March – November total public safety wages filed for reimbursement *exceeded* the \$3,474,753 unreimbursed grant balance; this indicates that **sufficient, valid public safety pay existed to support the \$3.4 million CARES reimbursement for this expense**
 - E1 financial system entries recording these reimbursed funds **were incorrectly entered in CARES project accounts, rather than as reductions to salary expense**
- c. The CARES project account expenditures *which were not filed for reimbursement (since public health and safety salaries instead were filed instead)* totaled approximately \$2.9 million.
- A sample of 72 invoices totaling \$1,162,602.25 (39.6%) was selected from this \$2.9 million in project activity and reviewed for the date and type of spending. This review noted spending within CARES-eligible timeframes which related to:
 - system automation/touchless service enhancements,
 - cleaning/sanitation,
 - protective equipment,
 - videoconferencing improvements,
 - ventilation enhancements
 - remote work capability, and
 - additional mobile phone capacity
- d. Adjusting entries to transfer the approximately \$534,000 **not closed/eliminated from the CARES capital project account were also reviewed to confirm their nature and amount**

II. Receipt of CARES reimbursement funds

The total of \$4,265,008 in CARES grant reimbursement funds was:

- **traced to 7 electronic deposits** in August and December 2020 on the applicable US Bank account statement, and
- **traced to corresponding entries** which recorded the deposits in the financial system bank account balance

APPENDIX I: AUDIT METHODOLOGY, continued....

III. CARES and SLFRF reporting to grantors

The following reports required by either the CARES recipient or SLFRF/OMB were reviewed for compliance with content and timing requirements:

- Initial CARES Subrecipient Risk Form filed with the recipient
- CARES Expenditure reports submitted to the recipient for reimbursement payments
- Supporting expenditure claim documentation submitted to the CARES recipient
- Interim SLFRF Report submitted to the OMB
- Quarterly SLFRF Project Expenditure Reports submitted to the OMB (which reported no spending had occurred, due to the upcoming 2023 budget allocation of these funds)