



**CITY OF RICHMOND**  
**City Auditor's Office**

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**DATE:** September 14, 2023

**TO:** Lincoln Saunders  
Chief Administrative Officer

**FROM:** Louis Lassiter *LL*  
City Auditor

**SUBJECT:** American Rescue Plan Act (ARPA) audit

The City Auditor's Office has completed the American Rescue Plan Act (ARPA) audit and the final report is attached.

We would like to thank the Administration for their cooperation and assistance during this audit.

Attachment

cc: The Richmond Audit Committee  
The Richmond City Council  
Traci DeShazor, DCAO of Human Services  
Jason May, Director of Budget & Strategic Planning

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*City of*  
**RICHMOND**  
**Office of the City Auditor**

Audit Report# 2024-04  
**American Rescue Plan Act (ARPA)**  
September 14, 2023

**Audit Report Staff**

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September 2023

## Highlights

*Audit Report to the Audit Committee, City Council, and the Administration.*

### Why We Did This Audit

The Office of the City Auditor conducted this audit as part of the FY2023 audit plan approved by the Audit Committee. The objective of this audit is to evaluate compliance with funding requirements and the program's effectiveness and efficiency.

### What We Recommend:

*The Chief Administrative Officer have departments overseeing the programs continue to develop, document, and monitor performance measures for City ran programs and third-party vendors according to contractual agreements.*

*The DCAO for Human Services ensures all ARPA contracts include clear financial obligations to minimize risk for the City.*



## American Rescue Plan Act (ARPA)

### Background

On March 31, 2021, the American Rescue Plan Act of 2021 (ARPA) was passed by the United States Congress and signed into law by President Biden. The \$1.9 trillion package was intended to provide additional relief to address the continued impact of COVID-19.

On May 10, 2021, the United States Department of Treasury released under ARPA the implementation of the State and Local Fiscal Recovery Fund (SLFRF) program along with the Interim Final Rule to provide guidance for the program. The SLFRF was created to deliver \$350 billion to states, local, and tribal governments across the country to aid in the recovery from the global pandemic. The City received a total of \$154,879,828.

### What Works Well

#### Expenditure Tracking and Review

The Budget Office maintains a spreadsheet that tracks all expenditures for each program and the auditors verified its accuracy. In addition, ordinances related to ARPA funding are all tracked and documented in a spreadsheet. The auditors reviewed a total of 30 expenditures for FY22 (5) and FY23 (25). All expenditures reviewed were appropriate, supported, and had contractual agreements on file.

#### Monthly Meetings and Quarterly reports

Monthly meetings are held between the Budget Office and Departments related to ARPA funds. These meetings are used to answer any questions and provide guidance to City Departments. These departments are also responsible for submitting reports to the Budget office regularly for Budget to submit the quarterly reports to the Federal government.

The auditors reviewed the six quarterly reports required to be submitted to the US Department of Treasury between 1/28/2022 and 4/23/2023. All six of the reports reviewed were submitted timely, had supporting documentation available, and matched the expenditures from RAPIDS.

### Needs Improvement

#### Finding #1 – ARPA Spending Plan Review

As of March 31, 2023, the auditors noted the City had spent 7% (\$10,597,695) in ARPA funds. The auditors reviewed the City's six spending categories, noting 24 reviewed were determined to be allowable and the remaining 3 were allowable with a small part of the funds not yet committed or placed in a reserve account. Additionally, the auditors reviewed the 27 programs. As of August 15, 2023, 19 had expenditures, and:

- 20 had agreements (6 had not started and 1 was a city administered program), and
- 16 had performance measures (8 had not started and 3 the auditors Could not conclude)

#### Finding #2 – Contractual Financial Obligations

The auditors reviewed 16 contracts under the Childcare and Parental Support program for the City's ARPA spending plan, noting the following: One contract did not have a maximum financial obligation.

Management concurred with 1 of 2 recommendations. We appreciate the cooperation received from management and staff while conducting this audit.

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## ***Richmond City Auditor's Report #2024-04***

*American Rescue Plan Act (ARPA)*

*September 14, 2023*

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## **BACKGROUND, OBJECTIVES, SCOPE, METHODOLOGY, MANAGEMENT RESPONSIBILITY and INTERNAL CONTROLS**

This audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objective.

### **BACKGROUND**

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On March 31, 2021, the American Rescue Plan Act of 2021 (ARPA) was passed by the United States Congress and signed into law by President Biden. The \$1.9 trillion package was intended to provide additional relief to address the continued impact of COVID-19.

On May 10, 2021, the United States Department of Treasury released under ARPA the implementation of the State and Local Fiscal Recovery Fund (SLFRF) program along with the Interim Final Rule to provide guidance for the program. The SLFRF was created to deliver \$350 billion to states, local, and tribal governments across the country to aid in the recovery from the global pandemic. The City received a total of \$154,879,828.<sup>1</sup> As of March 31, 2023, the City had spent \$10,597,695 in ARPA funds.

The Interim Final Rule provided detailed guidance for eligible and ineligible uses of the ARPA funds within four statutory categories, along with the administration of the program. The four key areas for spending include the following:

- Responding to the public health and negative economic effects of the COVID-19 pandemic.
- Providing premium pay to essential workers.
- Providing government services to the extent of revenue loss due to the pandemic.
- Making necessary investments in water, sewer, and broadband infrastructure.

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<sup>1</sup> Some City Departments received separate ARPA funding from outside sources to fund programs like the Combined Sewer Overflow program and DPU customer utility accounts.

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According to the Interim Final Rule, some of the eligible uses of the ARPA funds include the following (except revenue loss):

<b>Public Health</b>	<b>Economic Impacts</b>	<b>Premium Pay</b>	<b>Water, Sewer, and Broadband</b>
Covid-19 Mitigation and Prevention	Direct cash and loan interventions	Grants to 3 <sup>rd</sup> party employers with essential workers	Clean drinking water projects
Medical Expenses	Assistance to businesses and nonprofits	Premium pay to essential workers	Cybersecurity
Public Health and Public Safety Employees	Impacted industries and workers	Compensation up to \$13/per hour above regular wages	Climate Change and Resilience
Health Disparities	Housing and Community Development		New or expanded broadband access
Survivors Benefits	Homelessness		

Ineligible uses of the ARPA funds include the following:

- Federal matching requirements
- Premium pay (non-public safety employees)
- Pensions
- Infrastructure not directly addressed in ARPA
- Rainy day funds or Financial reserves
- Outstanding debt

### **KEY DATES**

- **June 17, 2021:** City received 1<sup>st</sup> tranche of approximately \$77 million.
- **June 21, 2022:** City received 2<sup>nd</sup> tranche of approximately \$77 million.
- **August 31, 2021:** Deadline for counties to submit first Interim Report to U.S. Treasury.
- **October 31, 2021:** Deadline for counties to submit first Quarterly Project and Expenditure Report.
- **April 1, 2022:** Final Rule was implemented on April 1, 2022 to broaden and expand the uses of the SLFRF funds as a response to feedback from stakeholders.
- **December 31, 2024:** Funds must be incurred and obligated. Funds may cover costs incurred from March 3, 2021, through December 24, 2024.
- **December 31, 2026<sup>2</sup>:** Funds must be expended to cover obligations and all work must be completed.

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<sup>2</sup> Any funds not obligated or expended for eligible uses by the timelines must be returned to the U.S. Treasury.

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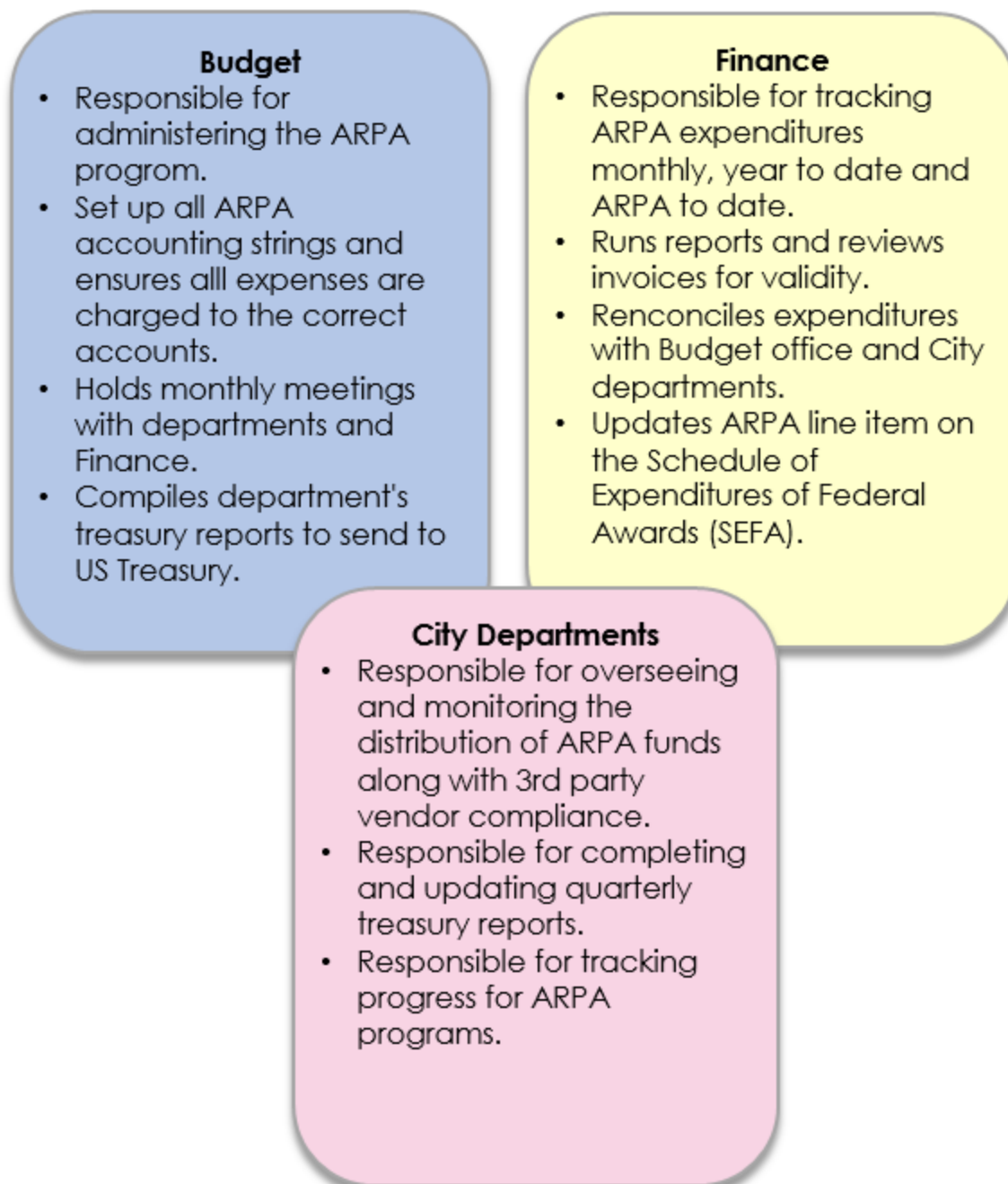
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The City's Department of Budget & Strategic Planning, the Department of Finance and City Departments all work together to oversee the SLFRF funds as noted in the chart below:



Appendix A has information on the six categories where the City plans to spend ARPA funds.

Appendix B contains further narrative details related to ARPA.

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### **OBJECTIVE**

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The objective of this audit is to evaluate compliance with funding requirements and the program's effectiveness and efficiency.

### **SCOPE**

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The scope of the audit is planned for the life-to-date expenditures through March 31, 2023, and the current operating environment.

The City Spending plan for ARPA funds will take place over a period of five years. This was the initial audit of a series of ARPA audits that may take place in the upcoming years. The auditors didn't review the expenditures of the third-party recipients in this initial review.

### **METHODOLOGY**

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The auditors performed the following procedures to complete this audit:

- Interviewed staff to understand the processes and procedures related to the ARPA expenditures, tracking, and reporting.
- Reviewed reports submitted on ARPA expenditures.
- Conducted testing to determine if programs were allowable based on ARPA guidelines.
- Reviewed all programs for an agreement and performance measures.
- Reviewed a sample of 25 expenditures based on programs and higher dollar amounts from FY2023 and 5 expenditures from 2022 to ensure the expense was allowable, supported, and an agreement was in place with the vendor.
- Conducted other tests, as deemed necessary.



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### **MANAGEMENT RESPONSIBILITY**

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City of Richmond management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

### **INTERNAL CONTROLS**

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According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

Based on the audit test work, the auditors concluded that both the Department of Budget and the Department of Finance have an efficient process in place, however, some areas may need to be improved. Details of these findings are discussed throughout the report.

## **FINDINGS and RECOMMENDATIONS**

### **What Works Well**

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#### ***Expenditure Tracking and Review***

The Budget Office maintains a spreadsheet that tracks all expenditures for each program and the auditors verified its accuracy. In addition, ordinances related to ARPA funding are all tracked and documented in a spreadsheet

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The auditors reviewed a total of 30 expenditures for FY22 (5) and FY23 (25). All expenditures reviewed were appropriate, supported, and had contractual agreements on file.

### ***Monthly Meetings and Quarterly reports***

Monthly meetings are held between the Budget Office and departments related to ARPA funds. These meetings are used to answer any questions and provide guidance to City Departments. These departments are also responsible for submitting reports to the Budget office regularly for Budget to submit the quarterly reports to the Federal government.

The auditors reviewed the six quarterly reports required to be submitted to the US Department of Treasury between 1/28/2022 and 4/23/2023. All six of the reports reviewed were submitted timely, had supporting documentation available, and matched the expenditures from RAPIDS.

### **What Needs Improvement**

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#### ***Finding #1 – ARPA Spending Plan Review***

Condition:

The timeline noted below depicts the progress of the City’s spending plan for ARPA funds:



As of March 31, 2023, the auditors noted the City had spent **7% (\$10,597,695)** in ARPA funds out of the **\$154,940,000** budgeted.

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The auditors reviewed the City's six spending categories to determine if the programs were allowable per the Federal guidelines and noted:

- 24 of the programs reviewed were determined to be allowable with three programs not yet committed to a specific project.
- 2 out of 27 programs are in allowable categories, but small parts of the funds were not yet committed to a program.
  - Building Back Stronger OCWB (\$20,000 out of \$1,500,000)
  - Investing in our Future Children – Childcare and Parental Support (\$200,000 of \$2,000,000)
- 1 out of 27 programs had funds committed to a reserve account. (\$1,339,828)

Additionally, the auditors reviewed the 27 programs<sup>3</sup> with expenditures, agreements and documented performance measures noting the following as of August 15, 2023, 19 of the programs had expenditures.

- 20 of the programs had agreements
  - (6) The program hadn't started and is not yet required
  - (1) Program was City administered and not required
- 16 of the programs had performance measures.
  - (8) The program had not started or there were no expenditures and performance measures were not yet needed.
  - (3) The auditors were not provided performance from the overseeing department and could not conclude if performance measures were on file.

### Criteria:

According to Federal guidelines:

- **December 31, 2024:** All funds must be incurred and obligated.

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<sup>3</sup> Some of these programs had sub-programs and if one sub-program was missing a piece, the whole program was noted as "could not conclude".

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- **December 31, 2026:** All funds must be expended to cover obligations and all work must be completed. Any funds not obligated or expended for eligible uses by the timelines must be returned to the U.S. Treasury.

Additionally, the U.S. Treasury requires the ARPA recipients to retain all financial records and supporting documents related to the award for a period of 5 years after all funds have been either expended or returned to the Treasury. These records should demonstrate the awarded funds were used for eligible purposes in accordance with ARPA, and Treasury's guidance for funds eligible usage.

The U.S. Treasury provides the following guidance for sub-recipient monitoring:

- State and Local Fiscal Recovery Fund (SLFRF) recipients are required to manage and monitor their sub-recipients to ensure compliance with the program.
  - Recipients should clearly identify the sub-recipient:
    1. The award is a sub-award of SLFRF funds.
    2. All compliance requirements for use of SLFRF funds.
    3. All reporting requirements for expenditures of SLFRF funds.
  - Evaluate each sub-recipients risk of noncompliance based on certain factors (prior experience in managing Federal funds, past audits, personnel, SOPs for award execution and oversight).
  - Develop written policies and procedures for sub-recipient monitoring and risk assessment and maintain records of all award agreements related.

### **Cause:**

As of March 31, the City was still early in the process of spending ARPA funds and some of the programs were still in the development phase. Most of the departments overseeing the funding work with the City Attorney to develop contract agreements to award the funds to third-party vendors. In addition, to getting City Council approval to release the funds.

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### Effect:

As of March 31, 2023 and nearly three years into the five year spending plan 7% of the City's ARPA funds have been spent. If the funds are not expended by the deadline, the City is at risk of having to return funds to the Federal Government.

### Recommendation:

- 1. We recommend the Chief Administrative Officer have departments overseeing the programs continue to develop, document, and monitor performance measures for City-run programs and third-party vendors according to contractual agreements.*

## ***Finding #2: Contractual Financial Obligations***

### Condition:

The auditors reviewed 16 contracts under the Childcare and Parental Support program for the City's ARPA spending plan noting the following:

- One of 16 contracts did not have a maximum financial obligation as the contract only included the vendor's hourly rate.

### Criteria:

Formal contracts serve as a record of rights, responsibilities and obligations. Additionally, effective contract management includes establishing clear goals and standards to protect the organization and minimize risk.

### Cause:

The Human Services administration indicated "the agreement assumes a standard work week at 40 hours per week. There is no overtime, and there is no max other than the duration of the agreement as executed".

### Effect:

Established financial obligations with total commitments outlined in the contractual agreement provide clear documentation on the maximum amount to be spent.

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**Recommendation:**

- 2. We recommend the DCAO for Human Services ensure all ARPA contracts include clear financial obligations to minimize risk for the City.*

ARPA Spending Plan By Priority Area				
CATEGORY	Appropriation to:	TOTAL ALLOCATION	YEAR 1 FUNDING	YEAR 2 FUNDING
<b>Building Back Affordable and Healthy Homes</b>		<b>\$32,300,000</b>	<b>\$22,300,000</b>	<b>\$10,000,000</b>
Affordable Housing Trust Fund	Housing & Community Development	\$20,000,000	\$10,000,000	\$10,000,000
Creighton Court Redevelopment Phase I	Capital Budget	\$6,800,000	\$6,800,000	-
Highland Grove Redevelopment Phase I	Capital Budget	\$5,500,000	\$5,500,000	-
<b>Building Back Healthier</b>		<b>\$5,000,000</b>	<b>\$2,500,000</b>	<b>\$2,500,000</b>
Health Equity Trust Fund	Finance	\$5,000,000	\$2,500,000	\$2,500,000
<p><i>Systemic racism in Richmond has taken an enormous toll on the health of Black residents for generations and persists in countless ways today. The Center on Society and Health at VCU found that residents of low-income Black communities in the East End of Richmond have a life expectancy that is 20 years shorter on average than White residents in wealthy West End neighborhoods. Recent data also shows that Black residents of Richmond accounted for 62% of the city's COVID-19 cases, though they make up only 47% of the city's population.</i></p> <p><i>These health disparities are primarily caused by the social determinants of health: the underlying conditions that determine a person's ability to be healthy and well, such as safe housing and neighborhoods, education and job opportunities, healthcare access and quality, and systemic and overt racism. The Health Equity Trust Fund will invest in efforts to dismantle the systems that help racism, trauma, and health disparities to persist.</i></p>				
<b>Investing in our Future - Children and Families</b>		<b>\$ 81,000,000</b>	<b>\$ 19,000,000</b>	<b>\$ 62,000,000</b>
<i>Transforming community centers into opportunity centers for residents (multigenerational approach)</i>				
Child care and parental support	Human Services	\$2,000,000	\$2,000,000	-
Family Crisis Funding	Finance	\$1,000,000	\$1,000,000	-
Parks Master Plan	Capital Budget	\$500,000	\$500,000	-
TB Smith	Capital Budget	\$20,000,000	\$1,000,000	\$19,000,000
Lucks Field	Capital Budget	\$20,000,000	\$1,000,000	\$19,000,000
Calhoun	Capital Budget	\$8,000,000	\$1,000,000	\$7,000,000
Southside Community Center	Capital Budget	\$16,000,000	\$8,000,000	\$8,000,000
James River Branch Trail Purchase and Development (Connects Southside offroad to JRPS)	Capital Budget	\$9,000,000	\$4,500,000	\$4,500,000
Crooked Branch Ravine Bridge - Connects Wythe to Fall Line Trail and Forest Hill Park	Capital Budget	\$1,000,000	-	\$1,000,000
Texas Beach/North Bank Tower Repair (Connects Maymont Neighborhood to JRPS)	Capital Budget	\$2,000,000	-	\$2,000,000
Property Acquisition for new Southside Parks (10 min walk gap)	Parks and Recreation	\$1,500,000	-	\$1,500,000

## ARPA Spending Plan By Priority Area

CATEGORY	Appropriation to:	TOTAL ALLOCATION	YEAR 1 FUNDING	YEAR 2 FUNDING
<b><i>Building Back Stronger</i></b>		<b>\$8,839,828</b>	<b>\$8,139,914</b>	<b>\$699,914</b>
Small business grant application support and outreach	Economic Development	\$1,000,000	\$1,000,000	-
Façade and city beautification improvements (trees, signs, etc.)	Public Works	\$2,000,000	\$1,500,000	\$500,000
OCWB Workforce Development and Community Ambassadors	Office of Community Wealth Building	\$1,500,000	\$1,500,000	-
CDFI Revolving Loan Fund	Finance	\$3,000,000	\$3,000,000	-
Covid-19 Administrative Response Reserve	Finance	\$1,339,828	\$1,139,914	\$199,914
<b><i>Building Back Greener and more Resilient</i></b>		<b>\$ 19,240,000</b>	<b>\$ 18,000,000</b>	<b>\$ 1,240,000</b>
Climate Risk Assessment and Implementation	Office of Sustainability	\$1,540,000	\$300,000	\$1,240,000
Lead Line Replacement	Public Utilities - Water	\$1,000,000	\$1,000,000	-
Stormwater	Public Utilities - Stormwater	\$12,500,000	\$12,500,000	-
Healthy Homes (Weatherization, Home Rehabilitation)	Finance	\$4,200,000	\$4,200,000	-
<b><i>Building Back Safer</i></b>		<b>\$ 8,500,000</b>	<b>\$ 7,500,000</b>	<b>\$ 1,000,000</b>
Gun violence prevention	Finance	\$1,500,000	\$1,500,000	-
First responders hazard pay	Non-Departmental	\$5,000,000	\$5,000,000	-
Enhanced Lighting (street and business) and cameras	Public Works	\$2,000,000	\$1,000,000	\$1,000,000
	<b>TOTAL:</b>	<b>\$154,879,828</b>	<b>\$77,439,914</b>	<b>\$77,439,914</b>



## Federal Reporting Requirements

The U.S. Treasury requires the ARPA recipients to retain all financial records and supporting documents related to the award for a period of 5 years after all funds have been either expended or returned to the U.S. Treasury. These records should demonstrate the awarded funds were used for eligible purposes in accordance with ARPA, and Treasury's guidance for funds eligible usage. Also, recipients are subject to a single audit if they expend more than \$750,000 in Federal awards during their fiscal year.

According to the SLFRF, the following reports are required as noted below:

- Interim Reporting- Required to submit one interim report that includes the recipient's expenditures by category at the summary level.
- Quarterly projects and expenditure reports- Required quarterly reports that include financial data, information on contracts and sub-awards over \$50,000, types of projects funded and other information regarding a recipient's utilization of award funds. Additionally, non-entitlement units of local government will be required to submit the project and expenditure report annually.
- Recovery Plan Performance Reports- Required annual report for residential populations that exceed 250,000 that includes descriptions of the projects funded, performance indicators and objectives of each award.

Additionally, the U.S. Treasury provides the following guidance for sub-recipient monitoring:

- SLFRF recipients are required to manage and monitor their sub-recipients to ensure compliance with the program.
  - Recipients should clearly identify the sub-recipient:
    1. The award is a sub-award of SLFRF funds.
    2. All compliance requirements for use of SLFRF funds.
    3. All reporting requirements for expenditures of SLFRF funds.
  - Evaluate each sub-recipient's risk of noncompliance based on certain factors (prior experience in managing Federal funds, past audits, personnel, SOPs for award execution and oversight).
  - Develop written policies and procedures for sub-recipient monitoring and risk assessment and maintain records of all award agreements related.

**APPENDIX C: MANAGEMENT RESPONSE FORM**

**2024-04 American Rescue Plan Act audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	We recommend the Chief Administrative Officer have departments overseeing the programs continue to develop, document, and monitor performance measures for City-run programs and third-party vendors according to contractual agreements.	<b>N</b>	None. Will continue to develop, document, and monitor performance measures for City-run programs and third-party vendors according to contractual agreements.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	We recommend the DCAO for Human Services ensure all ARPA contracts include clear financial obligations to minimize risk for the City.	<b>Y</b>	Human Services will review existing contracts and make modifications where necessary, as well as ensure all new contracts have clearly defined financial obligations stated.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DCAO of Human Services		11/15/2023
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION