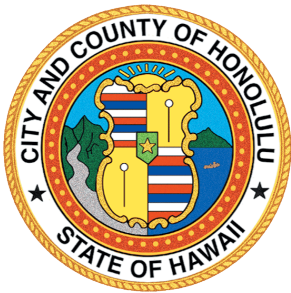




Office of the City Auditor



**City and County of
Honolulu
State of Hawai`i**

**Report to the Mayor
and the
City Council of Honolulu**

**Audit of Select CARES Act
Programs and Expenditures**

**Report No. 23-04
November 2023**

Audit of Select CARES Act Programs and Expenditures

A Report to the
Mayor
and the
City Council
of Honolulu

Submitted by

THE CITY AUDITOR
CITY AND COUNTY
OF HONOLULU
STATE OF HAWAII

Report No. 23-04
November 2023



OFFICE OF THE CITY AUDITOR

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November 7, 2023

The Honorable Tommy Waters, Chair
and Members
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawai'i 96813

Dear Chair Waters and Councilmembers:

Attached is a copy of our audit report, *Audit of Select CARES Act Programs and Expenditures*. This audit was self-initiated by the Office of the City Auditor, pursuant to Section 3-502.1(c) of the Revised Charter of Honolulu. The high dollar amount of federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funds the city received for pandemic response – \$387 million – and the relatively small window in which to spend it increased the risk for fraud, waste, and abuse. Additionally, according to the 2020 Honolulu National Community Survey Report, 42 percent of survey respondents somewhat disagreed or strongly disagreed with the city's COVID response. For these reasons, we initiated this audit.

The objectives of this audit were to:

1. Determine whether Coronavirus Relief Funds (CRF) were spent in accordance with the 2020 COVID-19 Recovery Act and subsequent amendments, and review the controls in place to sufficiently track, monitor, and report CRF expenditures;
2. Review select CRF program fund expenditures to determine whether they accomplished their intended purpose;
3. Determine the amount of CRF program funds spent on direct community benefit; and
4. Provide recommendations as appropriate.

Background

On March 4, 2020, the mayor issued a proclamation declaring a state of emergency in the City and County of Honolulu due to the COVID-19 outbreak. The proclamation was intended to 1) promote and protect public health, safety, and welfare of residents of the City and County of Honolulu, 2) prepare for and maintain the flexibility to take proactive, preventative, and mitigating measures to minimize the adverse impact that the emergency condition may cause on the city, and 3) work cooperatively and in conjunction with federal and state government.

Later that month, on March 27, the President of the United States signed the CARES Act into law. The CARES Act established the federal Coronavirus Relief Fund and appropriated \$150 billion for

distribution to state, local, and tribal governments to mitigate the impact of the COVID-19 outbreak and resulting economic crisis. The State of Hawai'i received \$1.25 billion in financial assistance through the federal CRF, of which \$387 million was allocated to the City and County of Honolulu. The funds were intended to cover the following costs:

- Necessary expenditures incurred due to the public health emergency with respect to COVID-19;
- Funds not accounted for in the budget most recently approved as of March 27, 2020 for the state or city government; and
- Expenses incurred between March 1, 2020 and December 31, 2020.

Initially, CRF funds not used by December 30, 2020 were to be returned to the U.S. Department of Treasury. However, on December 27, 2020, the deadline was extended to December 31, 2021. Among other actions, the Office of the Mayor established the Small Business Relief and Recovery Fund (SBRRF) as the primary means to assist businesses negatively impacted by COVID-19. Additionally, the Department of Community Services created the Household Hardship Relief Fund (HHRF) to provide supplemental income assistance for households that demonstrated economic hardship due to COVID-19. Finally, the city established a local Coronavirus Relief Fund, administered by the Department of Budget and Fiscal Services (BFS). To ensure proper use and oversight, BFS created a process to request use of CRF funds, including required checks and approvals for funding.

Audit Results

We found that the city exposed the SBRRF program to fraud and abuse by prioritizing quick distribution of funds over confirming applicant eligibility. Specifically, the city did not follow federal guidance related to self-certification of business need for assistance. As a result, the city increased the risk of applicants possibly having already been funded by other small business federal aid programs, exposing the program to *double-dipping*. 98 percent of SBRRF grant recipients in our sample also failed to provide all required documentation to verify eligibility, such as owner residency, operation from a physical commercial space, and registration with the Department of Commerce and Consumer Affairs.

Additionally, although both the SBRRF and HHRF programs began with an equal initial allocation of \$25 million, ultimately the SBRRF program was funded with \$175 million, nearly 45 percent of the city's total CRF allocation. In contrast, the HHRF did not receive additional funding beyond the initial allocation. The city's choice to prioritize small businesses over households ultimately led to the premature closure of the HHRF program, leaving over 2,000 applicants in need of an estimated \$9 million in emergency rental assistance.

Finally, we believe the city engaged in questionable purchases of municipal vehicles using CARES funds. In April 2020, the city committed nearly \$4 million for additional paratransit Handi-Van vehicles, despite having an existing purchasing contract in progress and experiencing significantly lower ridership. Also, the Honolulu Police Department purchased 40 All-Terrain Vehicles purportedly to enforce COVID-restrictions. However, by the time of our review, many new vehicles showed low mileage and many older ATVs had been rotated out of use, suggesting that CARES funds were used inappropriately to replace dated or inoperable equipment.

Honolulu City Council
November 7, 2023
Page 3 of 3

The audit report makes five recommendations to improve the efficiency and effectiveness of future programs, particularly those related to emergency funding. The Managing Director expressed general agreement with the audit findings and recommendations, and provided clarifying comments. We did not make any significant amendments to the audit report as a result of management's response, but made technical, non-substantive changes for purposes of accuracy, clarity, and style.

We would like to express our sincere appreciation for the cooperation and assistance provided us by the managers and staff of the numerous city departments involved in this audit, particularly the Department of Budget and Fiscal Services and the Department of Community Services. We are available to meet with you and your staff to discuss this report and to provide more information. If you have any questions, please call me at Ext. 8-3134.

Sincerely,



Arushi Kumar
City Auditor

c: Rick Blangiardi, Mayor
Michael D. Formby, Managing Director
Krishna Jayaram, Deputy Managing Director
Andrew Kawano, Director, Department of Budget and Fiscal Services

Table of Contents

Chapter 1 Introduction

Background of COVID-19.....	1
City and County of Honolulu Coronavirus Relief Fund	4
Audit Objectives, Scope and Methodology.....	11
Audit Results	13

Chapter 2 The City Exposed the Heavily-Funded \$175 Million SBRRF Program to Fraud and Abuse by Prioritizing Quick Distribution of Funds Over Confirming Applicant Eligibility

The City Did Not Follow Federal Guidance Issued to Assess Business Need for Assistance	15
98% Of Applicants Failed to Meet All of the SBRRF Eligibility Requirements, Ultimately Leading to the Disbursal of \$3.7 Million to Recipients Who Were Not Eligible.....	18
The City’s SBRRF Program Was Funded Six Times More Than Similar Jurisdictions’ Grant Programs.....	29

Chapter 3 Mismanagement of CARES Funds Resulted in Wasteful and Excessive Vehicle Purchases

DTS Tied Up Nearly \$4 Million of CARES Funds for Questionable Van Purchases, Most of Which Were Ultimately Never Delivered	35
The Honolulu Police Department Used CARES Funds To Purchase New All-Terrain Vehicles That Had Low Mileage After Two Years.....	38

Chapter 4 The City Did Not Distribute Emergency Rental Assistance Funds in an Equitable and Timely Manner

City Administration Prioritized CARES Act Funds for Small Business Relief Over Individual Household Relief.....	43
DCS Did Not Prioritize Timely Processing, Resulting In Excessive Processing Times And Unprocessed Applications for Nearly Half of All Applicants	49

Chapter 5 Conclusions and Recommendations

Recommendations	55
Management Response	55

Appendices

Appendix A	OIG Financial Progress Reports	61
Appendix B	Coronavirus Relief Funds by Expending Agencies.....	63
Appendix C	Organizational Chart of the City’s Roles and Responsibilities by Department to Administer the Coronavirus Relief Fund	65
Appendix D	Funding Request Process Flow Chart	67

List of Exhibits

Exhibit 1.1	COVID-19 Timeline, CY 2020	3
Exhibit 1.2	City’s Preliminary Spending Plan with Estimated Projections	5
Exhibit 1.3	Office of Inspector General Expense Categories Utilized by the City, and Associated Expensed and Encumbered Funds.....	6
Exhibit 1.4	Mayor’s Distribution of Coronavirus Relief Fund, CY 2020.....	8
Exhibit 1.5	Small Business Relief and Recovery Fund Distribution by Credit Unions, CY 2020	9
Exhibit 1.6	Department of Community Services’ Allocation of CRF Funds	10
Exhibit 1.7	Household Hardship Relief Fund Distribution by Non-Profit Partners.....	10
Exhibit 2.1	Executed Lease Documentation for Grant Awardees.....	20
Exhibit 2.2	Rental Reimbursement Documentation for Grant Awardees.....	21
Exhibit 2.3	Number of applicants with no DCCA registration documentation	22
Exhibit 2.4	Department of Commerce and Consumer Affairs Registration Status of Grant Awardees	23
Exhibit 2.5	Number of Applicants Who Did Not Provide Identification	24
Exhibit 2.6	Questionable Reimbursement Payments.....	28
Exhibit 2.7	SBRRF City Comparisons.....	30
Exhibit 2.8	SBRRF Phase Funding by Days.....	31
Exhibit 2.9	SBRRF Sample Repeat Applicant Percentages.....	33
Exhibit 2.10	SBRRF First Time Funding vs. Repeat Funding	34
Exhibit 3.1	Two Year Trend: Handi-Van Ridership, 2019-2020	36
Exhibit 3.2	Distribution of Handi-Vans Purchased and Delivered in 2020	37
Exhibit 3.3	New ATV Mileage by Police District.....	40
Exhibit 3.4	HPD Pre-COVID ATV Inventory by Age	41
Exhibit 3.5	Pre-COVID District ATV Counts and Operational Status.....	42
Exhibit 4.1	HHRF versus SBRRF Funding and Processing Analysis.....	45
Exhibit 4.2	Number of Applicants Turned Away From HHRF Program	47
Exhibit 4.3	SBRRF Program Funding Timeline versus HHRF Program Operation Timeline	48
Exhibit 4.4	HHRF Various Unprocessed Statuses, as Reported by Non-Profit Partners.....	50
Exhibit 4.5	Total Unprocessed Applications	51
Exhibit 4.6	Average Duration Between HHRF Application Submission and Application Status Update.....	52

Chapter 1

Introduction

This audit was self-initiated by the Office of the City Auditor pursuant to Section 3-502.1(c) of the Revised Charter of Honolulu. The high dollar amount of federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funds the city received for pandemic response – \$387 million – and the relatively small window in which to spend it, increased the risk for fraud, waste, and abuse. Additionally, according to the 2020 Honolulu National Community Survey Report, 42 percent of survey respondents somewhat disagreed or strongly disagreed with the city’s COVID response.¹ For these reasons, we initiated this audit. We reviewed the CARES Act funding received and spent by the City and County of Honolulu in 2020. The audit scope covered the period of March 1, 2020 through October 31, 2023. Specifically, the objectives of this audit were to:

1. Determine whether Coronavirus Relief Funds (CRF) were spent in accordance with the 2020 COVID-19 Recovery Act and subsequent amendments, and review whether controls in place were sufficient to track, monitor, and report CRF expenditures;
2. Review select CRF program fund expenditures to determine whether they accomplished their intended purpose;
3. Determine the amount of CRF program funds spent on direct community benefit; and
4. Provide recommendations as appropriate.

Background of COVID-19

In December 2019, the U.S. Centers for Disease Control and Prevention determined an outbreak of respiratory illness, identified as COVID-19, was caused by a novel coronavirus that was first detected in Wuhan, Hubei Province, China. The following month, the World Health Organization declared the COVID-19 outbreak a public health emergency of international concern and the U.S. Secretary of Health and Human Services declared the outbreak a public health emergency for the United States.

On March 4, 2020, the mayor issued a proclamation declaring a state of emergency in the City and County of Honolulu due to the COVID-19 outbreak by invoking the mayor’s authority under

¹ https://www.honolulu.gov/rep/site/oca/oca_docs/2020_National_Community_Survey_Final_Report.pdf

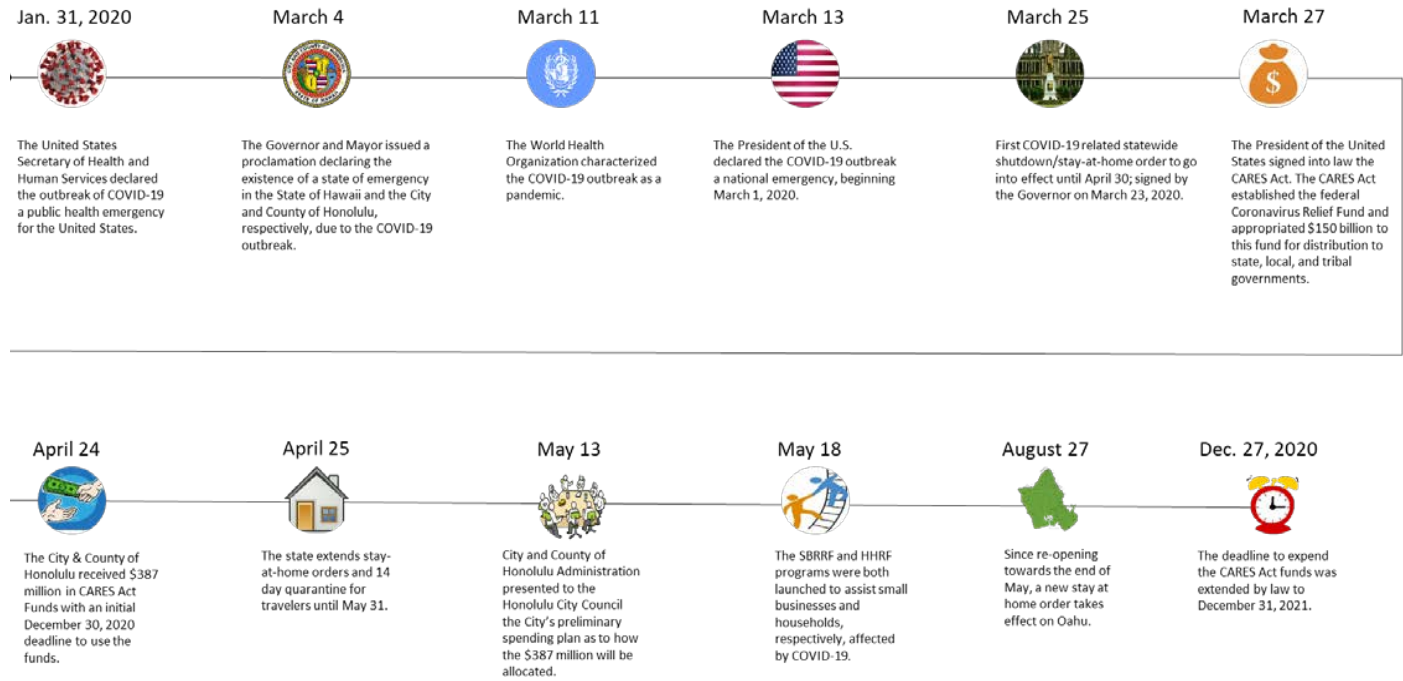
the Hawai'i Emergency Management Act. The proclamation was intended to 1) promote and protect public health, safety, and welfare of residents of the City and County of Honolulu, 2) prepare for and maintain the flexibility to take proactive, preventative, and mitigating measures to minimize the adverse impact that the emergency condition may cause on the city, and 3) work cooperatively and in conjunction with federal and state government.

The President of the United States signed the CARES Act into law on March 27, 2020. The CARES Act established the federal Coronavirus Relief Fund (CRF) and appropriated \$150 billion for distribution to state, local, and tribal governments to address the impact of the COVID-19 outbreak. The State of Hawai'i received \$1.25 billion in financial assistance through the federal CRF, of which \$387 million was allocated to the City and County of Honolulu. The purpose of these funds was to provide financial assistance to cover the following costs:

- Necessary expenditures incurred due to the public health emergency with respect to COVID-19;
- Not accounted for in the budget most recently approved as of March 27, 2020 (the date the CARES Act was enacted) for the state or city government; and
- Incurred during the period that begins on March 1, 2020 and ending on December 31, 2020.

Initially, the CARES Act policy stated that CRF funds not used by a government entity by December 30, 2020, were to be returned to the U.S. Department of the Treasury. However, on December 27, 2020, the deadline to expend CRF was extended by law to December 31, 2021. The timeline below illustrates the COVID-19 public health emergency in the U.S. and key dates for CARES Act funding.

Exhibit 1.1 COVID-19 Timeline, CY 2020



Source: Office of the City Auditor

City and County of Honolulu Coronavirus Relief Fund

On March 31, 2020, the Office of the Mayor notified the city's department directors and deputies that the CARES Act was passed by the U.S. Congress. The email notification announced the amount of funds that the State of Hawai'i and the City and County of Honolulu were estimated to receive. The email also identified specific departments that would be expected to utilize the funds.²

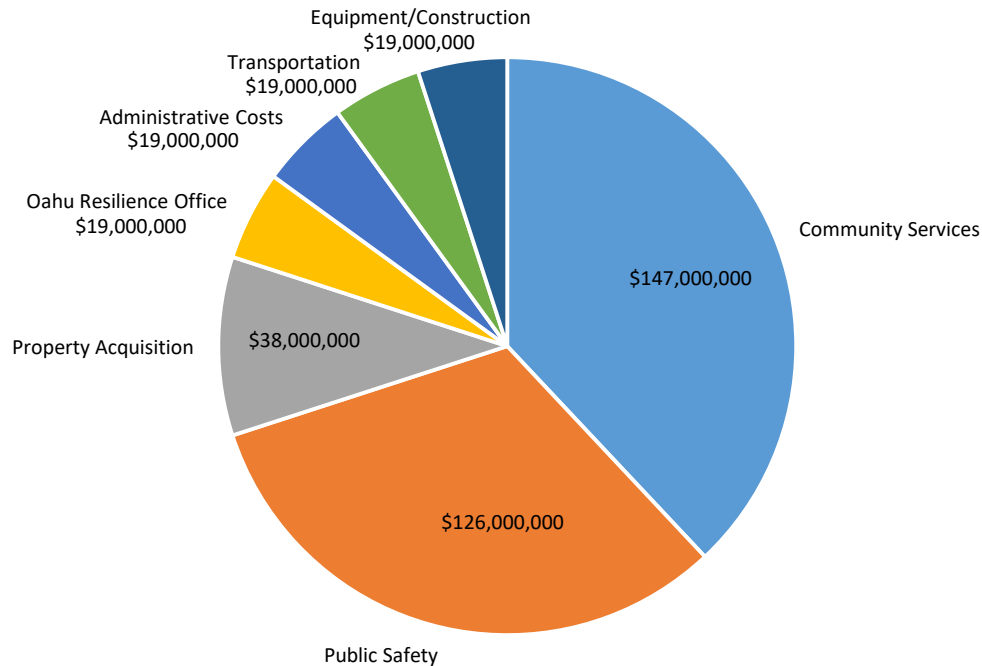
On April 24, 2020, the city received \$387 million in federal CRF, and the mayor held a meeting to discuss the process and guidelines for utilizing the funds. Participants included the mayor and executive branch directors, deputies, and private secretaries. The mayor's administration introduced a plan to assist city agencies, communities, families, workers, and other individuals and business by providing federal relief and recovery funds from the city's CRF allocation. Additionally, the city council established the Council Select Committee on Economic Assistance and Revitalization (EAR) that was tasked with developing recommendations for the best and most advantageous public use of federal CRF.

On May 13, 2020, city administration presented the CARES Act Funding Preliminary Estimates to the EAR Committee.³ The city's preliminary spending plan included estimated projections for allocating and distributing \$387 million, shown in Exhibit 1.2 below.

² Departments included: Department of Transportation Services, Department of Facility Maintenance, Department of Community Services, Department of Land Management, Honolulu Police Department, Honolulu Fire Department, and Honolulu Emergency Services Department.

³ https://honolulu.granicus.com/MetaViewer.php?view_id=3&clip_id=1313&meta_id=138549

Exhibit 1.2 City's Preliminary Spending Plan with Estimated Projections



Project	Department(s) ⁴	Amount	Total Funds	Description
Community Services	DCS, HOU	\$147,000,000	38%	Grants/loans for housing and childcare
Public Safety	HPD, HFD, HESD	\$126,000,000	32%	Recruitment, PPE ⁵ , equipment, sanitation, supplies, rapid response vehicles
Property Acquisition	DLM	\$38,000,000	10%	Shelter overflow and quarantine
Oahu Resilience Office	MDO	\$19,000,000	5%	Recovery planning and processing — staff, rent, equipment, incentives
Administrative Costs	All Departments	\$19,000,000	5%	Overtime and setup costs
Transportation	DTS	\$19,000,000	5%	Social distancing of medical patients: additional vehicles
Equipment/Construction	CSD, DDC, DES, DFM, DIT, DPP, DPR, ENV, RHB, DCS	\$19,000,000	5%	Computer equipment, program licenses, PPE ⁵ , sanitizing machines and supplies, testing, facilities, social distancing renovations
Total		\$387,000,000	100%	

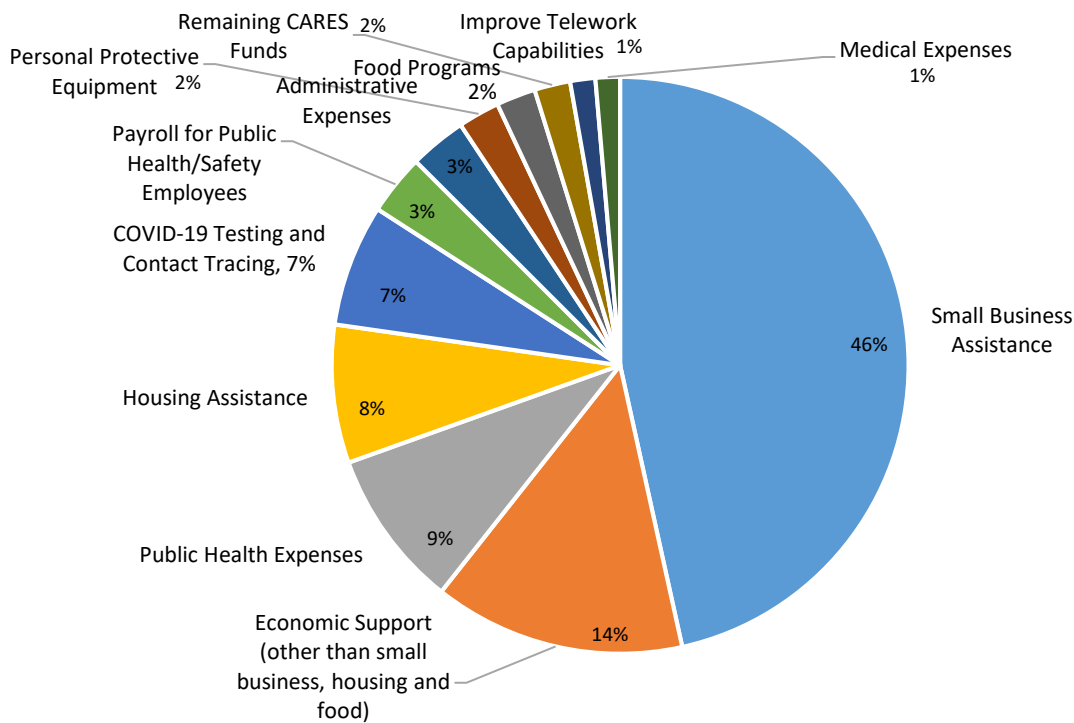
Source: Office of the City Auditor and the Department of Budget and Fiscal Services

⁴ Departments: Department of Community Services (DCS), Office of Housing (HOU), Honolulu Police Department (HPD), Honolulu Fire Department (HFD), Honolulu Emergency Services Department (HESD), Department of Land Management (DLM), Managing Director's Office (MDO), Department of Transportation Services (DTS), Customer Services Department (CSD), Department of Design and Construction (DDC), Department of Enterprise Services (DES), Department of Facility Maintenance (DFM), Department of Information Technology (DIT), Department of Planning and Permitting (DPP), Department of Parks and Recreation (DPR), Department of Environmental Services (ENV), Royal Hawaiian Band (RHB)

⁵ Personal protective equipment

As a direct prime recipient of CARES Act funds, the city was required to submit quarterly reports on its CRF spending to the U.S. Department of the Treasury Office of Inspector General (OIG)⁶ by 12 OIG expense categories shown in Exhibit 1.3. As of December 31, 2020, the city had expended or encumbered 98 percent of its \$387 million federal CRF fund.

Exhibit 1.3
Office of Inspector General Expense Categories Utilized by the City, and Associated Expended and Encumbered Funds



Expense Type	Sum of Expended Amount	Sum of Encumbered Amount	Grand Total	% Expended	% Encumbered	% Total
Small Business Assistance	\$161,781,118.98	\$17,473,439.75	\$179,254,558.73	90%	10%	46%
Economic Support (other than small business, housing and food)	\$37,136,431.99	\$17,164,737.75	\$54,301,169.74	68%	32%	14%
Public Health Expenses	\$22,849,466.51	\$11,361,150.35	\$34,210,616.86	67%	33%	9%
Housing Assistance	\$23,727,206.03	\$6,106,076.02	\$29,833,282.05	80%	20%	8%
COVID-19 Testing and Contact Tracing	\$22,490,564.22	\$3,835,788.33	\$26,326,352.55	85%	15%	7%
Payroll for Public Health/Safety Employees	\$13,026,320.67		\$13,026,320.67	100%	0%	3%
Administrative Expenses	\$9,533,503.21	\$2,752,408.22	\$12,285,911.43	78%	22%	3%
Personal Protective Equipment	\$6,698,620.57	\$2,281,213.62	\$8,979,834.19	75%	25%	2%
Food Programs	\$7,543,858.00	\$943,401.47	\$8,487,259.47	89%	11%	2%
Improve Telework Capabilities	\$3,761,669.84	\$1,663,402.34	\$5,425,072.18	69%	31%	1%
Medical Expenses	\$6,731,547.10	-\$1,452,812.17	\$5,278,734.93	128%	-28%	1%
Total	\$315,715,139.00	\$62,499,707.65	\$378,214,846.65	83%	17%	98%
Remaining CARES Funds			\$8,785,153.35			2%
Total CARES Funds			\$387,000,000.00			100%

Source: Office of the City Auditor and the Department of Budget and Fiscal Services

⁶ Prime recipients included state governments, local governments with populations greater than 500,000, Washington D.C., U.S. territories, and tribal governments. See Appendix A for OIG Financial Progress Reports.

The CRF funds were ultimately available to all City and County of Honolulu departments or agencies that incurred necessary COVID-19 expenditures, as defined by OIG due to the COVID-19 public health emergency. The top three most common expenses were improved telework capabilities, personal protective equipment, and public health expenses. See Appendix B for the use of CRF funds by expending agencies as of December 31, 2020.

The six agencies with the most CRF expenses – the mayor’s office, community services, police, emergency services, transportation services, and fire – spent a combined total of \$365.4 million, which represented 97 percent of the city’s coronavirus relief expenses. The mayor’s office directly administered over \$237 million in CRF funds (63 percent), while over \$69 million was administered through the Department of Community Services (18 percent).

Administration of CARES funds

Office of the Mayor

To administer the city’s CRF, the mayor worked with:

1. Department of Community Services (DCS)
2. Budget and Fiscal Services (BFS)
3. Corporation Counsel (COR)

To establish the process to oversee the administration and distribution of the CRF, departments were given instructions and guidelines to request CRF allocations and to ensure compliance with federal guidelines. See Appendix C for the organizational chart that depicts the roles and responsibilities of various departments involved.

The majority of the mayor’s CRF funds were initially directed to small business assistance. As shown in Exhibit 1.4, the mayor’s top priorities were small business assistance, COVID-19 testing and contact tracing, and economic support.

Exhibit 1.4 Mayor's Distribution of Coronavirus Relief Fund, CY 2020

Office of the Mayor	Total	%
Small Business Assistance	\$179,254,558.73	75%
COVID-19 Testing and Contact Tracing	\$21,145,541.81	9%
Economic Support (other than small business, housing, and food)	\$16,221,541.52	7%
Public Health Expenses	\$10,743,478.55	5%
Administrative Expenses	\$3,570,960.34	2%
Housing Assistance	\$3,000,000.00	1%
Food Programs	\$2,696,199.73	1%
Personal Protective Equipment	\$1,057,533.19	<1%
Improve Telework Capabilities	\$91,966.83	<1%
Other - Not Listed Above	\$43,496.00	<1%
Payroll for Public Health/Safety Employees	\$36,783.39	<1%
Total	\$237,862,060.09	

Source: Office of the City Auditor and the Department of Budget and Fiscal Services

Small Business Relief and Recovery Fund

The Office of the Mayor established the Small Business Relief and Recovery Fund (SBRRF) as the primary means to assist businesses negatively impacted by COVID-19. SBRRF was a grant program designed to reimburse small City and County of Honolulu businesses for qualified business expenses. Award amounts ranged from \$30,000 to \$50,000, depending on qualifications, for costs incurred by the pandemic. Applicants were required to submit proof of qualified business expense to be reimbursed. As shown in Exhibit 1.4, SBRRF was allocated \$179 million of CRF funds. The program was established and implemented quickly; the Office of the Mayor awarded the first round of grants on May 18, 2020, less than a month after the proposal.

In order to distribute the SBRRF grants to small business, the city contracted with five local credit unions to accept applications from small businesses, review and determine eligibility, and distribute the grants. Credit unions performed these tasks for a fee paid by CARES funds. From the program's launch in May 2020 through December 30, 2020, the amount disbursed to credit unions totaled \$185 million. Exhibit 1.5 below depicts the SBRRF contract totals by credit union.

Exhibit 1.5**Small Business Relief and Recovery Fund Distribution by Credit Unions, CY 2020**

	Grant Funding	Admin Cost	Total
Aloha Pacific Federal Credit Union	\$43,500,000.00	\$2,025,000.00	\$45,525,000.00
Hawai'i State Federal Credit Union	\$12,250,000.00	\$462,500.00	\$12,712,500.00
Hawaiian Financial Federal Credit Union	\$31,250,000.00	\$1,562,500.00	\$32,812,500.00
HawaiiUSA Federal Credit Union	\$46,283,489.13	\$2,164,174.45	\$48,447,663.58
Honolulu Federal Credit Union	\$43,500,000.00	\$2,025,000.00	\$45,525,000.00
Total	\$176,783,489.13	\$8,239,174.45	\$185,022,663.58

Source: Office of the City Auditor and the Department of Budget and Fiscal Services

The mayor's office also allocated \$19 million (five percent) to the Office of Economic Development, which was later reorganized into the Office of Economic Revitalization (OER). The funds were used to support recovery planning and processing, which included the offices' staff, rent, equipment, and incentives. The OER was established to focus on three areas:

- Expand testing;
- Connect residents and businesses to assistance; and
- Develop a plan to transition O'ahu to an economic future less reliant on tourism.

Department of Community Services

The city's efforts to utilize CRF to assist with housing related issues was assigned to the Department of Community Services (DCS). DCS administers federal-, state-, and county-funded programs to meet human service, workforce, and housing needs of economically challenged individuals and families with special needs in the City and County of Honolulu. The department also focuses on addressing homelessness, with emphasis on layering programs for added value and improved outcomes.

As shown in Exhibit 1.6 below, DCS directly administered over \$69 million of federal CRF, of which nearly \$63 million (91 percent) was allocated to Housing Assistance and Economic Support.

Exhibit 1.6 Department of Community Services' Allocation of CRF Funds

Economic Support (other than small business, housing, and food)	\$37,945,188.80	55%
Housing Assistance	\$25,000,000.00	36%
Food Programs	\$5,787,673.00	8%
Administrative Expenses	\$657,213.89	1%
Personal Protective Equipment	\$32,952.65	<1%
Payroll for Public Health/Safety Employees	\$27,468.67	<1%
Improve Telework Capabilities	\$4,508.87	<1%
Total	\$69,455,005.88	

Source: Office of the City Auditor and the Department of Budget and Fiscal

Household Hardship Relief Fund

DCS created the Household Hardship Relief Fund (HHRF) to provide supplemental income assistance for households that demonstrate economic hardship due to COVID-19. Families could receive up to \$2,000 per month for rent, mortgage, and certain utilities, and up to an additional \$500 per month for childcare services. The department contracted with three non-profit partners to assist the city with processing applications, screening required documents, determining eligibility, and issuing payments. Exhibit 1.7 below depicts HHRF contract totals broken down by contractor.

Exhibit 1.7 Household Hardship Relief Fund Distribution by Non-Profit Partners

	Grant Funding	Admin Cost	Program Fee ⁷	Total
Aloha United Way	\$6,745,173.04	\$787,332.00	\$378,000.00	\$7,910,505.04
Council for Native Hawaiian Advancement	\$14,183,563.54	\$1,550,556.00	\$711,225.00	\$16,445,344.54
Helping Hands Hawai'i	\$282,945.25	\$42,777.00	\$17,550.00	\$343,272.25
Total	\$21,211,681.83	\$2,380,665.00	\$1,106,775.00	\$24,699,121.83

Source: Office of the City Auditor and the Department of Community Services

⁷ Program Fee of \$225 for each unique household funded by HHRF for case management and other support

Department of Budget and Fiscal Services

The mayor placed responsibility for oversight and monitoring of CRF with the Department of Budget and Fiscal Services (BFS). BFS' mission is to deliver adequate resources to city agencies to ensure successful programs and projects in a fiscally prudent and responsible manner. BFS is the City and County of Honolulu's central financial agency, responsible for providing the city's centralized accounting, procurement, treasury, and budget functions.

The city established a local Coronavirus Relief Fund, which was maintained as a special fund. This fund was administered by BFS to carry out the provisions of the law under federally-established guidelines for the use of CRF dollars. According to those guidelines the funds were to be used for expenditures, which were *reasonably necessary* based on the judgment of city officials responsible for spending Fund payments.

To ensure the proper use and oversight of CRF funds, BFS created a process to request use of CRF funds, as well as the required checks and approvals for funding allocation. See Appendix D for the request process flow chart.

Audit Objectives, Scope and Methodology

The objectives of this audit were to:

1. Determine whether the city established and implemented the proper policies and procedures needed to ensure that Coronavirus Relief Funds (CRF) were spent in accordance with the 2020 COVID-19 Recovery Act and subsequent amendments, and review whether controls in place were sufficient to accurately track, monitor, and report CRF expenditures;
2. Review select CRF program fund expenditures to determine whether they accomplished their in-tended purpose;
3. Determine the amount of CRF program funds spent on direct community benefit; and
4. Provide recommendations for improving the allocation, distributions and management of future CRF and/or other emergency funding.

The scope focused on local CRF funds allocated, expensed, and encumbered from March through December 2020. We reviewed federal guidelines, regulations, and stipulations, as well as city policies and procedures that relate to the use and

administration of CRF. We examined the city's CRF COVID-19 emergency response plan, which established expenditure categories, methodologies for tracking monthly spending, and monitoring and reporting controls. Additionally, we reviewed city and departmental policies and procedures for approvals and appropriate allocation of CRF funds, financial schedules, purchases and procurement guidance, and other sources of information that support the CRF funds process. We also reviewed internal controls and responsibilities established by city departments as they related to our audit objectives. Finally, we interviewed previous and current city administrative staff responsible for overseeing CRF allocations, expenditure and tracking, monitoring, and reporting.

To determine the amount of CRF program funds spent on direct community benefit, we focused on the following areas: city expenditures, small business assistance, and housing assistance efforts.

To review city expenditures, we obtained a schedule of expenditures from BFS and reviewed costs and other related information to determine the appropriate use of CRF funds. We organized expenditures transactions by department, then further broke down transactions by payroll and non-payroll line items. We also selected a judgmental sample of 55 expenditures, including items that were more than 10 percent of the total expenditures amount and the top 5 highest expenditure transactions per department.

To review small business assistance and housing assistance efforts, we used applicant data processed by the credit unions and non-profit partners from March to December 2020 to select a statistically valid sample of applicants. The total number of SBRRF applicants in our criteria set was 19,014, and the total number of HHRF applicants in our criteria set was 14,912. We selected the parameter of our statistical sample, established a 90 percent confidence interval and a ± 10 percent margin of error, and randomly selected 350 SBRRF applications and 198 HHRF applications. We analyzed these applications to determine application processing time and examined supporting documentation to determine whether applicants met the qualifications to receive funds.

This audit was performed in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and 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. The work was performed from January 2021 to October 2023.

Audit Results

The City and County of Honolulu was entrusted with the distribution of \$387 million in Coronavirus Relief Fund (CRF) dollars aimed at mitigating the impact of the COVID-19 pandemic. At the peak of the pandemic, city officials committed to deploying federal resources strategically to maximize community benefit. However, the actions taken by the city in response to the COVID-19 crisis, through the establishment of the Small Business Relief and Recovery Fund (SBRRF) and Household Hardship Relief Fund (HHRF) programs, revealed disparities in the allocation of relief funds. Both programs were initiated with an equal initial allocation of \$25 million from CARES Act funds, but their trajectories and outcomes diverged significantly. A substantial portion of the CRF allocation, approximately \$175 million, was dedicated to the SBRRF, accounting for nearly 45 percent of the city's total CRF allocation, and only \$25 million was dedicated to the HHRF, accounting for only 6 percent of the city's total CRF allocation. The city's choice to prioritize small businesses over households ultimately led to the premature closure of the HHRF program, leaving over 2,000 applicants in need of an estimated \$9 million in emergency rental assistance. We question the disparity in funding allocation and whether the city did its job to ensure the \$387 million in CARES funds was equitably distributed.

Despite the SBRRF's heavy funding allocation, the city did not construct a strong control framework for the program and failed at establishing clear criteria and eligibility guidelines essential for safeguarding against fraud, waste, and abuse. We found that the city exposed itself to vulnerability by introducing questionable program contract amendments, acknowledging the potential for ambiguous guidance and the associated risks of fraud, waste, and abuse. Additionally, the city did not follow federal guidance which stated, *self-certification is not enough verification to determine business need for assistance*. As a result, the city increased the risk of applicants possibly having already been funded by other small business federal aid programs, exposing the program to *double-dipping*. The city accepted this level of risk in order to expedite the distribution of grant funds, as evidenced by the special contract provisions.

Our audit revealed that 98 percent of SBRRF grant recipients failed to provide the required documentation to verify essential eligibility criteria, such as owner residency, operation from a physical commercial space, and registration with the Department of Commerce and Consumer Affairs. This failure to enforce lease documentation requirements for eligible businesses led to a lack of assurance that the funds were reaching brick-and-mortar establishments, including small *mom-and-pop* businesses with commercial storefronts. Additionally, this lax enforcement created equity concerns, as home-based businesses were unable to meet the executed lease requirement and, consequently, were deemed ineligible for SBRRF assistance. The city's leniency in enforcing program controls potentially allowed numerous applicants to bypass the intended requirements and program objectives.

Lastly, we believe the city exercised questionable spending, particularly for the procurement of various municipal vehicles using CARES funds. The city committed nearly \$4 million for additional paratransit Handi-Van vehicles, despite having an existing purchasing contract and declining ridership during the pandemic. The Honolulu Police Department also purchased 40 All-Terrain Vehicles raising questions about their necessity and proper use of CARES funds, as the vehicles had low mileage and did not align with HPD's stated purpose for COVID-19 enforcement.

Chapter 2

The City Exposed the Heavily-Funded \$175 Million SBRRF Program to Fraud and Abuse by Prioritizing Quick Distribution of Funds Over Confirming Applicant Eligibility

The SBRRF program disregarded federal guidance issued to assess business need for assistance. The SBRRF program was intended to cover costs that businesses had not already been compensated for through other federally-funded programs. However, we found that over half of the applicants in our sample received both federal loans and SBRRF grants. Additionally, we found that the city's program eligibility requirements and monitoring of funds were flawed and unenforced, resulting in only two percent of applicants meeting all eligibility requirements. In our statistical sample, 98 percent of SBRRF applicants who received grant monies did not provide all of the required documentation totaling \$3.7 million in potentially ineligible funding. Lastly, the city did not establish clear and measureable performance metrics and outcomes for the heavily-funded program. Our analysis showed that the city's SBRRF program was funded six times more than similar jurisdictions' grant programs. Nearly one-half of the city's \$387 million share of the CARES Act funding went to the SBRRF program with little administrative oversight, controls, or accountability. By not establishing clear eligibility documentation requirements or meaningful controls to verify that applicants were legitimate businesses, the city left the \$175 million SBRRF program susceptible to fraud and abuse.

The City Did Not Follow Federal Guidance Issued to Assess Business Need for Assistance

The SBRRF program was intended to cover eligible costs incurred during the pandemic that businesses had not already been compensated for through other federally-funded programs. However, we found that over half of the applicants in our sample received both Paycheck Protection Program (PPP) funds and SBRRF grant monies. The city only required applicant *self-certification* to ensure that the SBRRF applicants had not already received federal funds for submitted expenditures. According to federal guidance, self-certification is insufficient verification to determine business need for assistance.

Federal guidance stated that:

In assessing the business' need for assistance, the city would need to take into account the business' receipt of the PPP or Economic Injury Disaster Loan (EIDL) loan or grant. If the business has received a loan from the [Small Business Administration (SBA)] that may be forgiven, the city should assume for purposes of determining the business' need that the loan will be forgiven. In determining the business' eligibility for the grant, the recipient should not rely on self-certifications provided to the SBA. If the grant is being provided to the small business to assist with particular expenditures, the business must not have already used the PPP or EIDL loan or grant for those expenditures.¹

For grantees who already received federal funds and applied for SBRRF, the city relied on self-certification; specifically, applicants were only required to certify by checking a box that stated that CARES Act funds not used, which affirmed that the applicant did not receive other funding for their business expenses. Furthermore, when the city contracted with credit unions to disburse SBRRF grant funds, they added a special provision into the contract that explicitly told the credit unions that they were not required to verify the information provided by the applicant or anyone else, and may assume the accuracy, validity and completeness of all information.

The Special Provision stated that:

The Credit Union shall review each applicant's completed application, material, information and documentation ("Information") and determine the applicant's eligibility for the Small Business Relief and Recovery Fund in good faith. The Credit Union is not required to verify the Information provided by the applicant or anyone else, and may assume the accuracy, validity and completeness of all Information without investigation. The CITY expressly agrees that the Credit Union may rely on the applicant's statement that the applicant is not engaged in unlawful activity. The CITY has determined that no identification or signature is required by the applicant or anyone acting on behalf of the applicant;

"...fraud, waste, and abuse was not a concern for the city."

Executive staff of one of the credit unions contracted by the city to process SBRRF grants stated that, "fraud, waste, and abuse was not a concern for the city. The city relied on us to handle everything and we had to really just trust the applicant's self-certification because there was no database to check whether SBRRF applicants already received PPP. Individual research would've caused a tremendous delay in getting funds out, possibly weeks." We acknowledge that during the height of the

pandemic, federal and local small business assistance programs were running simultaneously and it was difficult to verify program eligibility in real time. However, we believe that the city administration's disregard for federal guidance elevated the risk of applicants *double-dipping* and formally accepted that level of risk in an effort to ensure grant funds were distributed quickly. By not creating more strict verification controls to assess business need and check for PPP or EIDL funds, the city left the SBRRF program susceptible to fraud and abuse.

Federal investigators have documented millions of dollars used for ineligible purposes. For example, a defense contractor in Hawai'i misled lenders about how many employees he had and used subsidiary companies to mask the fact that he had already received \$12.8 million in pandemic relief funds, which effectively allowed him to *double-dip* into the program.

We found the following in our review of the SBRRF program:

- In our sample review of 258 grantees, 150 grantees who received \$2,103,415 in SBRRF funds had already received over \$7,425,190 in PPP funds.
- Of these 150 grantees, 44 grantees specifically requested payroll reimbursements totaling \$622,431. It is possible that the documentation submitted for SBRRF program was the same documentation used to apply for the PPP loan. We were unable to verify that the data was mutually exclusive.
- We also identified 7 applicants who requested SBRRF funds for payroll reimbursement using payroll dates that were the same dates submitted for a PPP loan.
- Finally, we found 2 applicants that were approved for both a PPP loan and SBRRF grant from the same credit union, further highlighting the ease with which businesses could access multiple sources of funding without adequate verification.

Despite federal guidance explicitly stating that *self-certification* is inadequate for determining business need, the city relied solely on applicant *self-certification* and did not implement more robust verification controls. This created a vulnerability in the program.

98% Of Applicants Failed to Meet All of the SBRRF Eligibility Requirements, Ultimately Leading to the Disbursal Of \$3.7 Million to Recipients Who Were Not Eligible

The city did not create clear and enforceable eligibility requirements or establish clear controls to verify that applicants were legitimate businesses, and therefore left the SBRRF program susceptible to fraud and abuse. On May 18, 2020, the city formally launched the SBRRF, which was established to:

- Reimburse small businesses for costs incurred from business interruption due to Emergency Proclamations; and
- Help businesses to continue operating by implementing safety precautions to prevent the spread of COVID-19.

City administration issued the following program qualification and requirements:

1. Eligible Business Types:
 - a. Businesses registered with the Hawai'i Department of Commerce and Consumer Affairs (DCCA) and sole proprietors.
 - b. Non-profit organizations registered with the Hawai'i DCCA and designated as tax-exempt under Section 501(c)(3) or 501(c)(19).
2. Businesses with less than FIVE MILLION AND NO/100 DOLLARS (\$5,000,000.00) in annual gross revenue verified by a copy of the 2019 tax return or annual GET reconciliation.
3. Proof of registration for doing business in the State of Hawai'i before March 20, 2020 via a current Hawai'i Compliance certificate, GET reconciliation document, or DCCA registration.
4. Owner must be a Hawai'i resident and business must be located in the City and County of Honolulu.
5. An eligible business must actually operate in a physical commercial space. An applicant must have a lease dated prior to March 20, 2020, or own the location from which it conducts its operations.²
6. Business must certify that expenses have not been reimbursed or were covered under another federally-funded CARES Act PPP or EIDL, etc.
7. Business must submit a clear and detailed summary of funds expended due to business interruption caused by required closures (effective March 20, 2020); any payment made prior to March 20, 2020 is not eligible.

However, our review of the SBRRF program found that the city established eligibility criteria that did not require credit unions to monitor or verify documentation in accordance with program

² Ineligible businesses include home-based businesses, home offices, and businesses with only a post office box (P.O. Box) or in-care-of address as its business address. A location must not be part of or attached to a residential structure.

criteria. This resulted in a variation of eligibility documentation and guidance:

- Many applicants did not provide a lease dated prior to March 20, 2020, or proof of ownership for the location from which they conduct its operations to ensure that the business is indeed actually operating in a physical commercial space;
- Businesses registered with the Hawai'i DCCA had questionable or inactive registration statuses;
- Not requiring applicants to provide a valid Hawai'i ID as a form of documentation to verify residency; and
- Requiring businesses to submit a clear and detailed summary of funds expended due to business interruption caused by required closures (effective March 20, 2020) but not providing the credit unions clear guidance on eligible reimbursements resulting in questionable payments.

According to the city's contract with credit unions:

The CITY acknowledges that the CITY's eligibility criteria may be ambiguous or may change, which may result in a greater likelihood of error by the Credit Union in administering the SBRRF. The Credit Union is not required to reexamine applications or awards to determine whether a clarification or change in eligibility criteria would affect the amount of an award already provided or other determination by the Credit Union.

In our review of 258 applicants, 254 (98 percent) did not fully meet the city's requirements as listed above. The 254 grantees did not provide proper documentation for one or more of the following eligibility requirements: owner residency, physical commercial space or DCCA registration. As a result, we identified \$3,682,593 in potential ineligible grants.

236 grant awardees did not provide an executed lease on file

In establishing grant eligibility requirements, the city required that businesses operate in a physical commercial space and provide a lease dated prior to March 20, 2020, or own the location from where they conducted operations prior to March 20, 2020. In our audit sample of 258 grantees, 236 (91 percent) did not have an executed lease on file. The 236 grantees in our sample that did not have an executed lease on file received \$3,342,429 in grant funds. By not enforcing the lease documentation requirement for eligible businesses, city administration failed to ensure that it was funding legitimate commercial *brick and mortar* businesses or *mom-and-pop* shops that were negatively impacted by the COVID-19 mandatory shutdown. Exhibit 2.1 shows the executed lease documentation for grant awardees

**Exhibit 2.1
Executed Lease Documentation for Grant Awardees**

	Credit Union A	Credit Union B	Credit Union C	Credit Union D	Credit Union E	Total
Sample Total	77	65	77	63	68	350
Sample Funded	51	40	60	53	54	258
# of Applicants Funded Without Executed Lease	47	39	56	52	42	236
Total Funded Without Lease	\$753,500	\$310,006	\$735,427	\$901,401	\$642,096	\$3,342,429

Source: OCA

Upon further review, we found that 66 percent of the applicants that were funded without a lease on file specifically requested grant funding for rental payments. The city paid a combined total of \$2,398,006 in 170 grants specifically for rental payments to applicants that had questionable documentation or missing lease documentation. For example, in our sample there was an application from a hair stylist who submitted a *rental payment* for their booth via Venmo³, and the only documentation of this payment provided was a screenshot of the payment made to an unidentifiable individual. In our review this is insufficient documentation to qualify for program funds. Exhibit 2.2 shows the rental reimbursement documentation for grand awardees.

³ Venmo is an application used to send and receive cash to electronically and from individuals. It can be used for personal and business purposes, such as paying for goods and services.

**Exhibit 2.2
Rental Reimbursement Documentation for Grant Awardees**

	Credit Union A	Credit Union B	Credit Union C	Credit Union D	Credit Union E	Total	%
Sample Total	77	65	77	63	68	350	
Sample Funded	51	40	60	53	54	258	74%
Number of Applicants Funded Without DCCA Registration	42	20	24	26	33	145	56%
Total Funded Without DCCA Documents	\$742,930	\$164,838.45	\$267,353	\$379,220	\$264,688	\$1,819,030	

Source: OCA

Additionally, for 19 grantees without a lease, we were unable to verify if they operated from their own physical location. Some of the grantees provided bank addresses, residential addresses, CPA firm addresses, and law firm addresses. These 19 grantees received a combined total of \$260,784 in questionable payments.

The city’s contract with the credit union stated that, *the Credit Union need not ask the applicant to confirm or provide evidence that the applicant leases or owns the location from which it conducts its operations; that the location is not part of or attached to a residential structure or the owner’s residence; or that the business operates in a physical commercial space.*

By not enforcing the lease documentation requirement for eligible businesses, city administration failed to ensure it was funding *brick and mortar* businesses, *mom-and-pop* shops, and those businesses with commercial storefront properties as intended by program eligibility criteria. Furthermore, by not enforcing the executed lease requirement, the city also opened the program to inequity issues, as home-based businesses were unable to provide an executed lease to verify location and were therefore not eligible for SBRRF assistance. The city’s disregard for enforcing program controls may have allowed many applicants to circumvent the requirements and program intentions.

145 applicants did not have DCCA registration on file

When the SBRRF grant reimbursement program was established, city administration identified the Hawai’i Department of Commerce and Consumer Affairs (DCCA) as a credible source to verify business legitimacy. The city defined eligible business types as businesses registered with the DCCA, as well as sole proprietors. Additionally, the city required that all non-profit organizations be designated as tax-exempt under Section 501(c)

(3) or 501(c)(19). However, sole proprietors are not required to be registered with the DCCA. By allowing business entities that identify as sole proprietors to be eligible for the program, the city’s ability to verify business applicants was weakened; it could not ensure that all applicants were valid businesses.

In our audit sample of 258 grantees, we found that 145 (56 percent) did not have DCCA registration verification documents on file. Although a portion of these applicants could have been sole proprietorships, there were no additional meaningful controls to ensure that sole proprietorship businesses met the same standards as other business entities that were registered with the DCCA. Credit unions lacked specific criteria to ensure equity and consistency in application eligibility and evaluation. As a result, we question if the 145 grant recipients in our sample who did not provide DCCA registration documentation were eligible for the \$1,819,030 they received in grant funds.

Exhibit 2.3
Number of Applicants with no DCCA Registration Documentation

	Credit Union A	Credit Union B	Credit Union C	Credit Union D	Credit Union E	Total	%
Sample Total	77	65	77	63	68	350	
Sample Funded	51	40	60	53	54	258	74%
Number of Applicants Funded Without DCCA Registration	42	20	24	26	33	145	56%
Total Funded Without DCCA Documents	\$742,930	\$164,838.45	\$267,353	\$379,220	\$264,688	\$1,819,030	

Source: OCA

Additionally, the city did not anticipate that businesses could be registered with the DCCA and still be ineligible. While conducting eligibility checks, we found that many of the sample awardees had registration status issues that made their funding eligibility questionable, such as:

- Not in good standing;
- Unable to find;
- Late registration; and
- Terminated.

The following table illustrates the various DCCA registration statuses broken down by credit union.

**Exhibit 2.4
Department of Commerce and Consumer Affairs Registration Status of Grant Awardees**

	Credit Union A	Credit Union B	Credit Union C	Credit Union D	Credit Union E	Total
Expired			2		2	4
Inactive	1	1				2
Not in Good Standing	1	5	4	4	1	15
Dissolved		1				1
Terminated	1	2		5		8
Registered after 3/20/2020	4	2	2	2	5	15
Unable to Find	4		5	1	6	16
Unable to practice			1			1
Forfeited				1		1
Total \$ Funded	\$197,450.26	\$96,875.00	\$158,453.40	\$312,723.43	\$195,915.00	63

Source: OCA

In a sample of 258 grantees, 63 grantees (24 percent) who received a combined total of \$961,417 were found to have DCCA status issues. We believe this could have been avoided by the city applying better guidance and criteria, such as applicant must be active, regular, and in good standing with the DCCA.

143 applicants did not provide proof of identification for Hawai'i residency documentation

In order to be eligible for the SBRRF grant program, a small business owner had to be a Hawai'i resident. According to the State of Hawai'i Newcomer's Guide, to become a resident of Hawai'i, an individual must have one or more of the following to establish proof of residence:

- Hawai'i driver's license;
- Voter or automobile registration;
- The appearance of a person's name on a city or town street list; or
- Rent, utility, mortgage, or telephone bills to provide tangible proof of residence.

However, the city did not require credit unions to collect residency documents from applicants and did not require credit unions to determine applicant residency to ensure that grant recipients were exclusively locally-owned businesses. In fact, the city’s Special Contract Provisions explicitly directed the credit unions to the contrary.

The CITY has determined that no identification or signature is required by the applicant or anyone acting on behalf of the applicant; acknowledges that grant awards will be mailed to the address provided by the applicant; and expressly assumes all risk in connection therewith, including without limitation fraud.

In our sample of 258 grantees, we found that 143 (55 percent) did not have a copy of a government-issued photo ID on file. Instead, some applicants provided proof of registration for doing business in the State of Hawai‘i to determine residency status. However, we believe that proof of registration for doing business in the State of Hawai‘i was a weak control to determine the owner’s residency status; a non-Hawai‘i resident business owner could live out of state and elect an individual who is a Hawai‘i resident to be a registered agent for their business, thus allowing them to conduct and own a business in the State of Hawai‘i. As a result, we question if the 143 grant recipients in our sample who did not provide a copy of a government-issued photo ID were eligible for the \$1,792,864 they received in grant funds.

**Exhibit 2.5
Number of Applicants who Did Not Provide Identification**

	Credit Union A	Credit Union B	Credit Union C	Credit Union D	Credit Union E	Total	%
Sample Total	77	65	77	63	68	350	
Sample Funded	51	40	60	53	54	258	74%
Number of Applicants Funded Without ID	45	33	60	2	3	143	55%
Total Funded Without ID	\$753,378.18	\$166,207.26	\$812,974.18	\$30,000.00	\$30,304.84	\$1,792,864.46	

Source: OCA

In our sample review, we found three applicants who provided questionable residency documentation received SBRRF grants totaling \$30,099. Of the three applicants in question, two provided out-of-state business mailing addresses or corporation addresses. The third provided an out-of-state driver’s license.

By not requiring applicant's Hawai'i Driver's License or proof of identification, the SBRRF program operated contrary to federal guidelines established for similar programs, such as the PPP, which required a copy of a government-issued photo ID, such as a state-issued driver's license or passport.⁴ Much like the SBRRF program, the PPP promised a streamlined, low-documentation process. But even with minimal controls, federal guidelines determined that proof of identification was necessary to provide additional assurance that the awardees met program eligibility criteria. Because the city's SBRRF program used federal monies, the city should have established clear and consistent guidance for the credit unions, including a requirement that all applicants submit a copy of a government-issued photo ID, such as a state-issued driver's license or passport. Requiring identity verification ensures that there is a real person behind the process, proves that the applicant is who he or she claims to be, and is eligible under program requirements.

The city did not provide the credit unions with specific eligibility reimbursement guidance, resulting in \$136,831.95 in questionable expenses

Based on application information, many business appeared to use SBRRF funds for ineligible or unauthorized purposes, and the city was unable to adequately monitor or control for this in real time. Due to the nationwide negative economic impacts of COVID-19, the CARES Act made federal funds available to business through a variety of programs, including PPP loan forgiveness. Federal requirements for PPP loan forgiveness included specific documentation requirements for *Non-payroll Eligible Reimbursements*:

- a. *Business mortgage interest payments: Copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or lender account statements from February 2020 and the months of the Covered Period through one month after and the end of the Covered Period verifying interest amount and eligible payments.*
- b. *Business rent or lease payments: Copy of current lease agreement and receipts or cancelled check verifying eligible payments from Covered Period; or lessor account statements from February 2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments.*
- c. *Business utility payment: Copy of the invoices from February 2020 and those paid during the Covered and receipts, cancelled checks, or account statements verifying those eligible payments.*

⁴ The federal Paycheck Protection Program was also designed to help small businesses and independent contractors who were negatively impacted by the coronavirus pandemic.

According to the Small Business Administration, eligible PPP loan forgiveness for *non-payroll reimbursements* had to fall within the three payment categories listed above. For example for business rent or lease payment reimbursement, a copy of an executed lease was necessary to provide additional assurance that federal awardees made rental payments to appropriate entities.

The SBRRF was a more expanded program which allowed reimbursements for rent, utilities, payroll and physical distancing measures. The city provided the following guidelines and examples to businesses for eligible reimbursable expenses incurred to implement physical distancing measures and safety precautions:

- Increasing physical separation between employees and worksites
- Increasing physical separation between employees and customers
- Implementing services remotely (phones, video, or internet/web)
- Cost associated with delivering products through curbside pick-up or delivery
- Provide hand sanitizers at least 60% alcohol
- Placing hand sanitizers in multiple locations to encourage hand hygiene

However, the city did not provide credit unions with these guidelines. Furthermore, the city did not require documentation or justification, but instead left the credit unions to apply their own varying discretion.

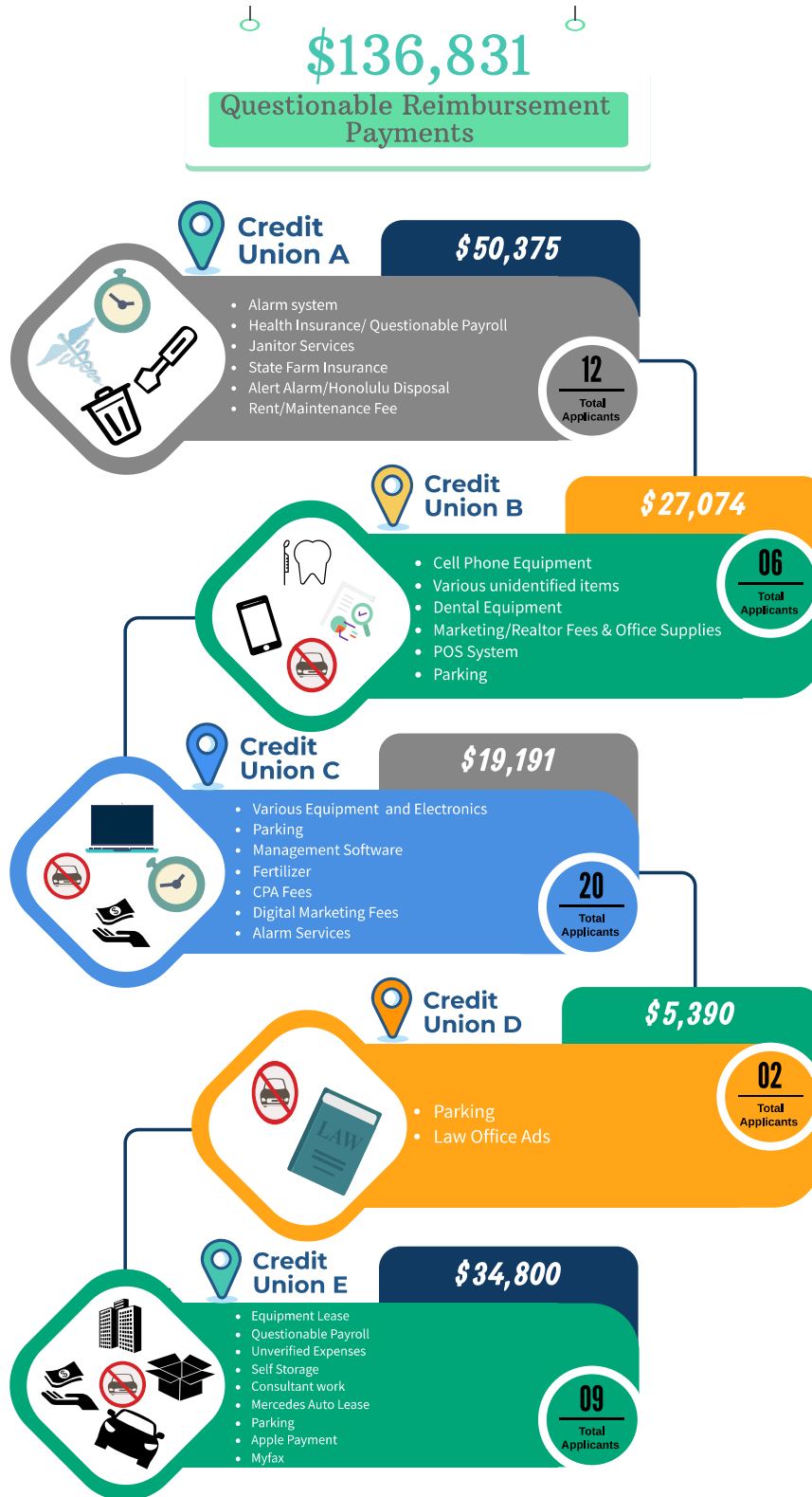
As a result, we found numerous questionable transactions, a lack of supporting documents for eligible expenses, and improper payments that varied by credit unions. In our sample, we identified:

- 49 reimbursement payments for various questionable expenses totaling \$136,832
- 40 payments that did not have the proper documentation to support their reimbursement request, resulting in questionable reimbursement payments totaling \$233,244

- 17 improper payments totaling \$119,075, of which included rent paid to an individual that was not the lease holder, rent paid directly to the business owner, overstatement in reimbursement costs, or utility payments made for properties that were not associated with the business address provided.

The exhibit below details what we identified in our sample review.

Exhibit 2.6
Questionable Reimbursement Payments



By not providing proper guidance and documentation requirements for eligible reimbursements, questionable reimbursements were funded, and the city could not properly track and monitor SBRRF funds. The city's decision to prioritize the swift distribution of funds over minimal verification measures exposed the SBRRF program to the risks of fraud, waste, and abuse. While we understand the challenges posed by the simultaneous operation of various small business assistance programs during the height of the pandemic, the city's deliberate disregard for federal guidance is concerning.

To mitigate such risks in the future, we recommend the city enforce minimal program requirements and consider establishing stricter verification controls to assess business need and to cross-reference applicant information with existing federal databases. By doing so, the city can ensure that funds are distributed to businesses in genuine need and can minimize the potential for double-dipping or misuse of funds.

The City's SBRRF Program Was Funded Six Times More Than Similar Jurisdictions' Grant Programs

To evaluate SBRRF program performance, we compared the city to similar jurisdictions that city administration itself used for comparison as it developed the SBRRF program. In reviewing the comparison data, we found that the City and County of Honolulu allocated over \$175 million to its SBRRF program, which is \$147.3 million more than the total amount awarded by four similar jurisdictions combined. Exhibit 2.7 provides the city comparison.

Exhibit 2.7
SBRRF City Comparisons

SBRRF Program

City and County of Honolulu, Hawaii

- March - December 2020
- 10,632 businesses awarded grants
- Business owner must be a Hawaii resident
- Registered with the Hawaii DCCA and sole proprietors
- Operate in a physical commercial space
- Have less than \$5M in annual gross revenue

Total Awarded
\$175 M



City Comparisons

Total Awarded
\$17 M

Denver, Colorado

- March 2020 - December 2021
- 3,352 grants awarded to businesses
- Business must have at least 1 full time employee (unless sole proprietorship)
- Began operations on or before 3/26/20
- Must be located in the City & County of Denver

Total Awarded
***\$6.7 M**

Boston, Massachusetts

- April 2020 - December 2024
- *1,850 businesses awarded
- Business must have fewer than 25 employees
- Must have a valid vendor ID from the City of Boston
- Show proof of a Boston business address

San Francisco, California

- March - June 2020
- 357 businesses awarded
- Phase 1 limited to storefront businesses with 1-5 employees
- Phase 2 expanded to businesses without employees and targeted businesses ineligible for other government funding

Boise, Idaho

- September - December 2020
- Number of businesses awarded was not available
- Business must have 100 employees or less
- Grant funds covered expenses due to COVID-19 public health emergency

Total Awarded
\$2.5 M



Total Allocated
\$1.5 M

*The number of business that received grants and total awarded in Boston, Massachusetts is as of September 1, 2021.

This city comparison shows that Honolulu’s SBRRF program was funded exponentially higher than similar programs in similar jurisdictions. According to the city’s former Chief Resilience Officer, *the city’s goal was to prudently expend all of the CARES money and get as much as possible out to as many individuals, small businesses and into where folks can stay, and try to circulate (as much as possible) into the economy.* However, the city did not provide clear justification for continued funding of this magnitude for this specific program throughout the year given competing priorities of other programs.

Additionally, in our review of other jurisdictions, we found that the City of San Francisco electronically published the total funds spent for their program and listed all recipients number of disbursements and amounts funded, similar to how the federal PPP program reported its performance numbers. The City of San Francisco’s reporting practice ensured program accountability between local and federal government, and lowered the risk for fraud, waste, and abuse. Honolulu did not maintain or report similar data.

The SBRRF program expanded exponentially from its initial allocation without clear and measurable outcomes

The SBRRF program was initially established as a one-time reimbursement program for expenses up to \$10,000 to qualified businesses that had 1) less than \$1,000,000 in gross annual revenues and 2) 30 or fewer employees. The mayor initially allocated \$25 million to the SBRRF program. However, after the first few weeks of operation, the SBRRF program had received over 5,000 applications and had already disbursed over \$20 million. The city decided that the SBRRF program needed additional funding. As the program progressed, guidelines were modified based on partner credit union input and program performance. The program expanded from a one-round reimbursement to a six-round program that disbursed over seven times more funds than its initial allocation amount. The funds were distributed throughout three phases as shown in Exhibit 2.8.

Although the program expanded, guidelines evolved, and criteria was modified, the city still did not establish clear and measurable goals, and no additional controls were implemented.

**Exhibit 2.8
SBRRF Phase Funding by Days**

	Phase 1 (5/18-9/18)	Phase 2 (9/21/-10/19)	Phase 3 (12/1-12/8)	SBRRF Total
Days	123	28	7	158
Total Funded	\$61,647,664.00	\$78,750,000.00	\$35,700,000.00	\$ 176,097,664.00
Funding %	35%	45%	20%	100%

Source: OCA

We found that over \$78 million, or 45 percent of the programs funds, were added and disbursed in Phase 2, a span of only 28 days. The program expansion included widening revenue brackets⁵ and allowed for previous applicants to reapply for additional funding. However, no additional controls were implemented with this expansion. In December 2020, the program was expanded again, disbursing an additional \$35 million. This final phase lasted only 5 days and was intended for businesses that closed in Tier 1 and were required to either stay closed or operate at a significantly reduced capacity. We acknowledge the city's effort to distribute funds as quickly as possible; however, we question the city's ability to actively track and monitor program performance and re-evaluate program objectives during such short time periods.

Program expansion resulted in over 51 percent of applicants returning for additional funds

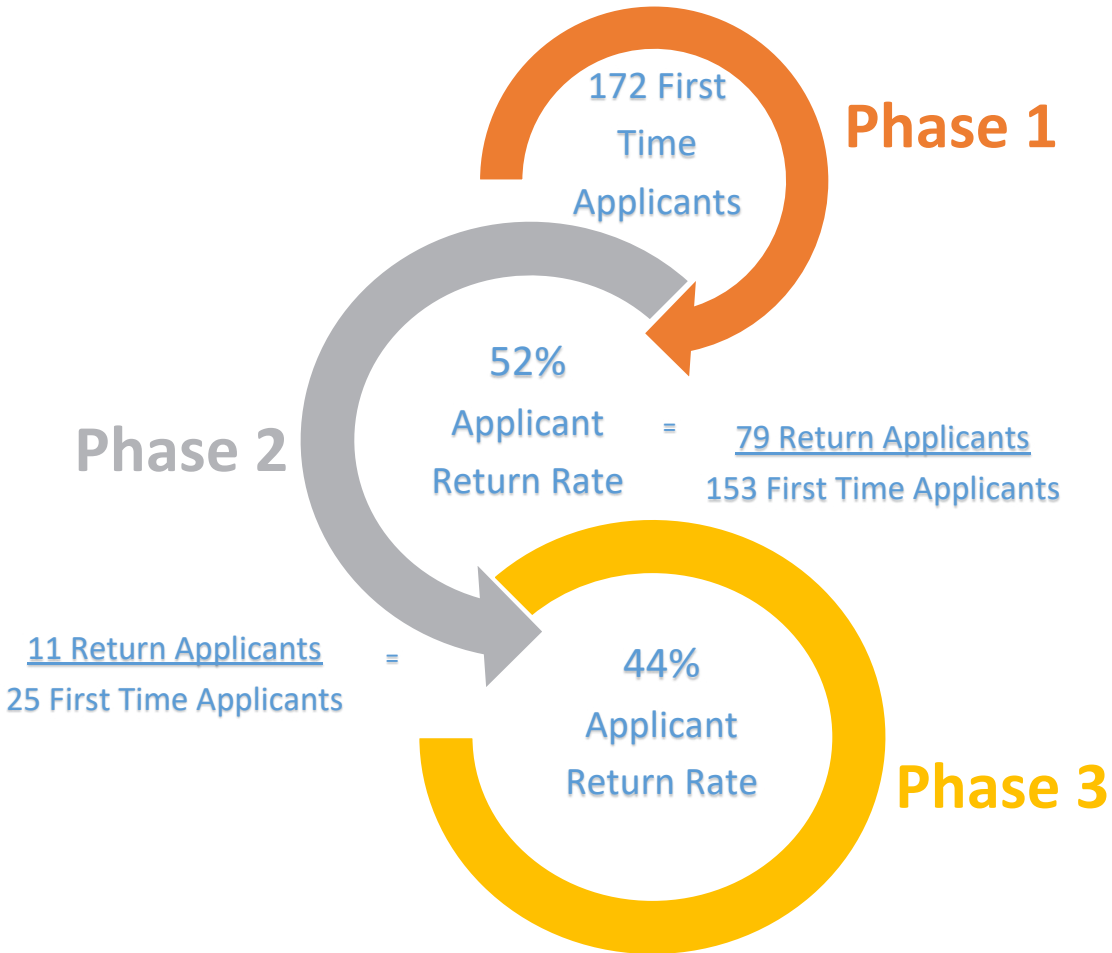
"...toward the end of the program, we experienced difficulty distributing funds due to a large amount of excess funding available..."

The city allowed grant recipients to reapply in each phase of the SBRRF program, essentially changing the program's initial intent of being a one-time grant disbursement up to \$10,000 per applicant to a multiple grant disbursements of up to \$50,000 per applicant.⁶ According to a credit union executive, "toward the end of the program, we experienced difficulty distributing funds due to a large amount of excess funding available and recurring applicants who were no longer eligible for funding." In the final phase of the SBRRF program, which lasted 5 days, city administration allowed *Bars and Nightclubs, Gyms and Fitness Facilities, Arcades and Commercial Recreational Boating* businesses to reapply for an additional one-time grant of up-to \$20,000, even if they had previously received a SBRRF grant or other CARES Act funding. We found over 51 percent of the total applicants in our sample applied for funds in numerous phases and received more than one payment. The table below shows the sample review totals of retuning applicant percentages by phase.

⁵ In Round 2 of SBRRF, a new set of grant amounts and annual revenue caps were established. The original \$10,000 grant was raised to \$20,000, and new grant amounts were set along with a new set of annual revenue limits, \$20,000 maximum for businesses with less than \$2 million in annual revenue; \$30,000 maximum for businesses with annual revenue from \$2 million to \$3 million; \$40,000 maximum for businesses with annual revenue from \$3 million to \$4 million; or \$50,000 maximum for businesses with annual revenue from \$4 million to \$5 million.

⁶ \$50,000 maximum for businesses with annual revenue from \$4 million to \$5 million.

Exhibit 2.9
SBRRF Sample Repeat Applicant Percentages

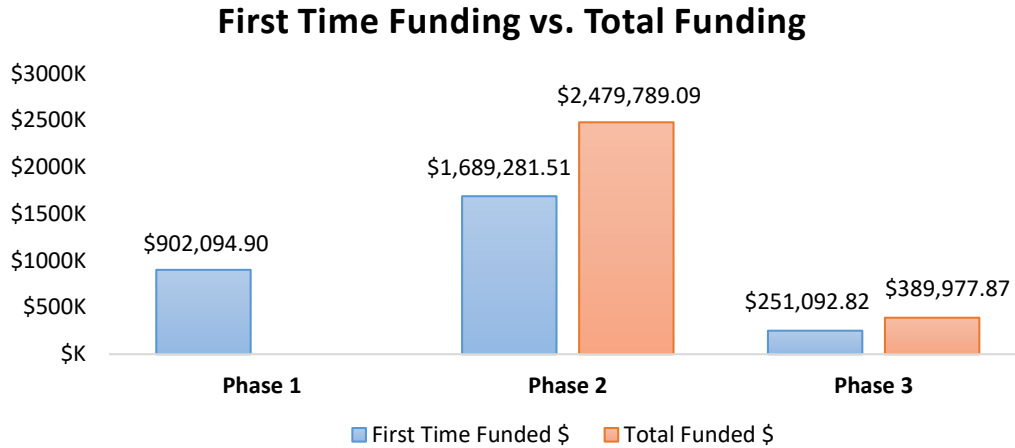


Source: OCA

Our analysis found that the percent of applicants reapplying in Phase 2 and Phase 3 was between 40 to 56 percent for the different credit unions. For one credit union, there were 27 applicants who applied in all three phases and received the maximum amount in each phase, totaling over \$1 million combined. We acknowledge that the expansion of the SBRRF program allowed for returning applicants, but question if the purpose of the program expansion was to help new, or additional small businesses, or just to spend federal funds as quickly as possible.

Lastly, we found that repeat applicants accounted for more than half of the funds distributed in phase 2 and 3 totaling \$1.7 million in additional funding to return applicants. The table below shows the sample review of funds disbursed to first time applicants versus total funds.

Exhibit 2.10
SBRRF First Time Funding vs. Repeat Funding



Source: OCA

Although expansion of small business grant funding was not uncommon among other jurisdictions, we found that those expansions were often strategically directed to include other businesses that were not previously included. For example, in the City of San Francisco’s phase 2, the program was expanded to include businesses without employees and targeted businesses ineligible for other government funding programs. Additionally, they tracked, monitored, and publicly reported recipient funding verifying that businesses did not receive multiple payments and ensuring that businesses ineligible for other government funding programs were provided an opportunity for funding. As a result of Honolulu’s continued expansion of the SBRRF program and allowance of repeat applicant submissions, the city missed an opportunity to ensure equitable access for all businesses to the SBRRF program.

Chapter 3

Mismanagement of CARES Funds Resulted in Wasteful and Excessive Vehicle Purchases

In April 2020, city administration tied up nearly \$4 million in CARES funds to enter into a purchase contract for 27 additional paratransit Handi-Van vehicles, despite having an existing contract for 63 vehicles soon to be delivered. The city attempted to expand its Handi-Van fleet size using emergency funds, resulting in questionable spending of over \$62,140, despite a decline in ridership during the pandemic. By authorizing department purchases above the existing contract rates and guidelines, the city exhibited wasteful spending. Additionally, the Honolulu Police Department (HPD) purchased 40 new All-Terrain Vehicles (ATV) in August of 2020 for \$454,400. The ATVs were to be used to access outdoor and all-terrain areas such as beaches, beach parks, and parks to educate, monitor, and increase enforcement of new and more restrictive COVID-19 related orders. However, ATV mileage analysis indicates low usage, and pre-COVID inventory suggests HPD used CARES funds to replace a dated and inoperable ATV inventory. The city's decision to use emergency CARES funds to expand its Handi-Van fleet and to purchase new HPD ATVs late in 2020 raises concerns about wasteful spending of public funds and lack of oversight in the use of federal funds.

DTS Tied Up Nearly \$4 Million of CARES Funds for Questionable Van Purchases, Most of Which Were Ultimately Never Delivered

In April 2020, the city administration approved DTS's request to purchase 27 new paratransit Handi-Van vehicles to be delivered by November 30, 2020 for nearly \$4 million in CARES funds. This allocation was questionable for numerous reasons:

- Between February 2020 and April 2020, Handi-van ridership decreased by more than 67 percent;
- DTS was already contracted to receive 63 additional Handi-Van vehicles by August 2020; and
- The price per vehicle was significantly higher in the April 2020 contract than in existing procurement contracts.

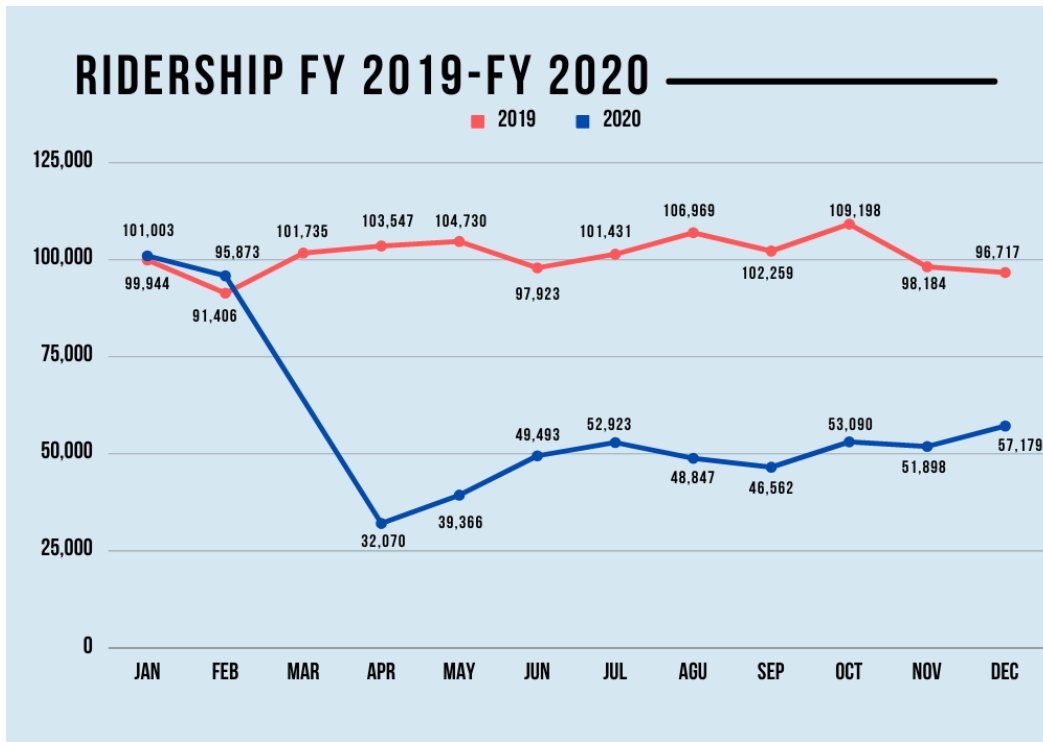
By November 30, 2020, only five Handi-Van vehicles had been furnished and delivered to the city, out of the original 27 vehicles that had been contracted for, costing the city \$738,715 in CARES funds. As a result, the remaining emergency funds, over \$3.2 million, needing to be quickly reallocated and used by the original federal deadline of December 30, 2020.

DTS sought to significantly expand Handi-Van vehicle fleet size at a time of greatly reduced ridership

Federal guidance for CARES funds stated that expenditures incurred must be used for actions taken to respond to the public health emergency. DTS justified the purchase of the 27 Handi-Van vehicles by citing the recommendation of more physical separation between passengers and that the maximum number of passengers on a van per trip had been reduced. In March 2021, the U.S. Department of the Treasury Office of Inspector General concluded that the documentation to support the purchase of Handi-Vans was appropriate and sufficient. However, the department was already in the midst of increasing their fleet size, while ridership had dramatically decreased.

In 2017, DTS forecasted to grow the Handi-van fleet size from 180 to 207 vehicles by FY2022. To that end, in June 2019, they entered into a contract to acquire 63 new Handi-Van vehicles by August 2020. Although that would have increased the fleet size to 243, well above the original goal of 207, we assume that some older vans would be taken out of rotation as the new vans were received. Although additional vehicles were requested to reduce the number of passengers per trip, the allocation of almost \$4 million in CARES funds to purchase 27 additional Handi-Vans appears to be an unnecessary expense given the drastic decrease in ridership demands. Exhibit 3.1 below illustrates the number of Handi-Van bus riders in 2019 and 2020.

Exhibit 3.1
Two Year Trend: Handi-Van Ridership, 2019-2020



Note: No available data for March 2020.

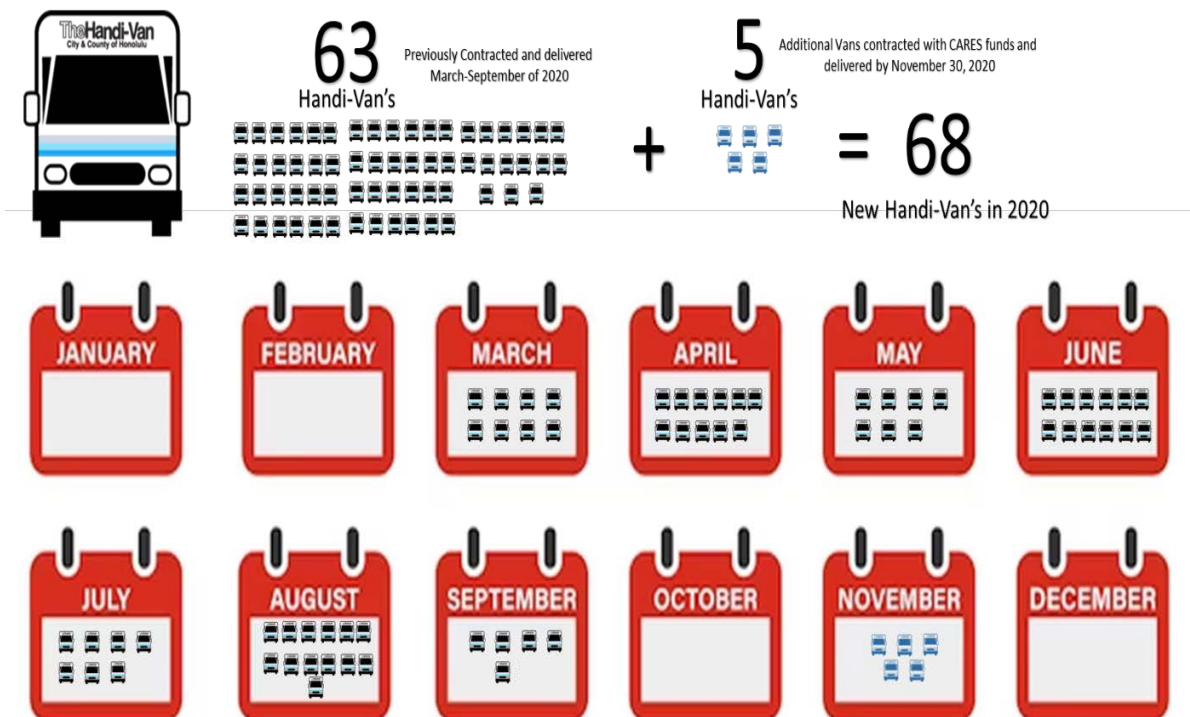
Source: Oahu Transit Services - The Handi-Van Monthly Performance Report and OCA Analysis

As illustrated in Exhibit 3.1, Handi-Van ridership had been significantly reduced since the onset of the pandemic in April 2020. In December 2020, ridership was still at less than 60 percent of the levels in December 2019. Despite the reduction in the number of passengers allowed per van due to COVID-19, the decrease in ridership numbers show that DTS should have been able to maintain social distancing with the current fleet size, which included the 63 new vans that were delivered over the course of six months. Therefore, we question the allocation of CARES funds for purchasing new Handi-Vans at a time where there should have been more consideration to other important community services needed to respond to the public health emergency.

DTS contracted with a vendor that extended contract delivery deadlines, at a time when federal funds had to be expended within a tight timeline, and at a higher price per vehicle than previous contracts

In the contract dated June 2019, DTS purchased 63 vans for \$8,524,885, approximately \$135,315 per van, and these vans were to be delivered by August 2020. However, DTS had to grant the vendor an extension to September 30, 2020, as the vans had not been all delivered on time. The vans were delivered over a span of 7 months, with the last vans being delivered by the new deadline. Exhibit 3.2 shows a timeline of the new Handi-Vans purchased and delivered.

**Exhibit 3.2
Distribution of Handi-Vans Purchased and Delivered in 2020**



As illustrated in Exhibit 3.2, the contractor was incrementally delivering Handi-Vans monthly in an effort to meet the August 2020 deadline stated in the June 2019 contract. The contractor continued to deliver vehicles after the original deadline and requested an extension to change the delivery date to September 30, 2020, citing COVID-19 pandemic impacts. We question why city administration approved the April 2020 contract for an additional 27 vans, when the contractor was already challenged with delivering their initial contracted vehicles. Moreover, the contract was for \$3,989,061, or \$147,743 per vehicle, an increase of nearly 10 percent over the previously contracted rate. The vendor ultimately only delivered five vans, but the city still paid 10 percent more per vehicle, at a cost of \$62,140. We question the city's decision to approve this contract and overpay for the five vehicles delivered.

As previously discussed, the federal government initially had a deadline of December 30, 2020 to expend all CARES. The city had many competing public health and economic priorities, and chose to keep nearly \$4 million tied up for van purchases, many of which were ultimately never received. The city then had just a few weeks to quickly reallocate that money to other priorities. The vendor requested an extension to deliver 63 vans in over 12 months, and meanwhile DTS was expecting the vendor to deliver 27 additional vehicles purchased with CARES funds in 6 months or less. Had the city carefully considered past performance by the vendor and evaluated this request against competing priorities, it might have had more funds available earlier to help the community in a time of great need.

The Honolulu Police Department Used CARES Funds To Purchase New All-Terrain Vehicles That Had Low Mileage After Two Years

In August 2020, the city administration approved HPD's request to purchase 40 new ATVs for \$454,000 in CARES funds. The justification for the purchase was that the equipment would be used to access outdoor and all-terrain areas such as beaches and parks to educate, monitor, and increase enforcement of new COVID-19 restrictions. However, as of October 2021, the new ATVs incurred low mileage. Additionally, many older ATVs from before 2020 have been rotated out of use. This suggests HPD used CARES funds to replace dated and inoperable equipment rather than to respond to a public health emergency.

40 All-Terrain Vehicles purchased in August 2020 have low mileage and questionable ties to COVID-19 response

According to federal guidance, CARES funds could not be used to cover expenditures that would not qualify as *necessary* under a public health emergency. The justification for purchasing ATVs indicates that the vehicles would have been used consistently to enforce COVID-19 restrictions. In March 2021, the U.S. Department of the Treasury Office of Inspector General concluded that the documentation to support the purchase of the ATVs was appropriate and sufficient. However, upon analysis of the mileage of the new ATVs in October 2021, we found that the usage was minimal. Therefore, we question whether the ATVs were a necessary expense, as the usage did not align with HPD's stated purpose.

To establish average ATV usage, we used the ATV mileage guide as a benchmark, which establishes an average conservative usage estimate of 1,000 miles per year. This analysis is supported by news reports in March 2021, when Federal officials questioned how HPD spent \$16.5 million in CARES Act funds, including the ATV purchases. The report noted that the ATVs were being stored at a HPD lot and had been idle there for weeks.¹

We found that of the 40 vehicles purchased, 25 vehicles were below the 1,000-mile benchmark, raising questions about their need and use during the pandemic. Furthermore, there were no reports on preventative maintenance measures, and as a result, we could not verify whether all 40 vehicles were even in use. Exhibit 3.3 shows the total actual mileage and daily average miles by police district, based on 20 working days per month.

¹ [Federal authorities question HPD's vehicle purchases with CARES Act funds](https://www.hawaiinewsnow.com) (hawaiinewsnow.com)

Exhibit 3.3
New ATV Mileage by Police District

TOTAL ATV MILES & AVERAGE DAILY MILES

DISTRICT	(As of October 2021)	TOTAL ATVS
01	24 total miles, 1 mile daily average	9
02	0 total miles, 0 miles daily average	9
03	73 total miles, 4 miles daily average	5
04	220 total miles, 11 miles daily average	14
05	13 total miles, 1 mile daily average	3
06	572 total miles, 29 miles daily average	12
07	71 total miles, 4 miles daily average	8
08	0 total miles, 0 miles daily average	10

Source: HPD's 40 ATVs Report as of 10/22/2021 and OCA Analysis

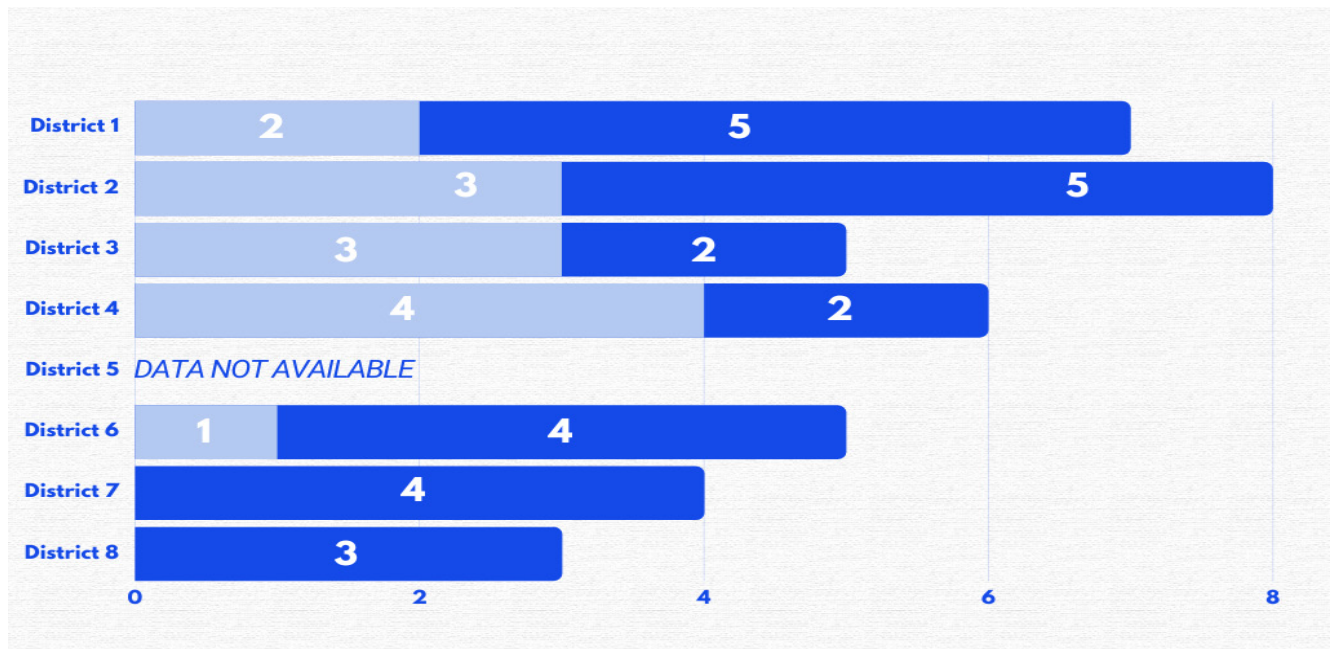
Our analysis of the districts found that District 4 and 6 had the highest overall monthly average usage compared to other districts. The combined monthly average of the eight new ATVs in District 4 was 220 miles. This translates to a daily average of 11 miles, given a 20-day working month. Similarly, the combined monthly average of the eight new ATVs in District 6 was 572 miles, translating to a daily average of 29 miles.² Based on this data and analysis, we conclude that several of the 40 new ATVs were under utilized, may not have been in use as intended, and therefore their purchase may not have been a necessary expense incurred due to the public health emergency. This raises questions about the appropriateness of using CARES funds for this purpose and whether the funds could have been better used for more effective COVID-19 related measures.

² District 4 encompasses Kaneohe/Kailua/Kahuku. District 6 covers Waikiki.

HPD may have used CARES funds to replace their dated and inoperable ATV inventory

At the time of HPD’s request to use CARES funds to acquire 40 new ATVs in August 2020, the department already possessed an inventory of 39 ATVs, of which 15 were over a decade old and 9 were deemed inoperable. In its request to purchase new ATVs with CARES funds, HPD noted that the 10+-year-old ATVs currently in inventory had significantly high mileage, rusted frames, and aging components. Exhibit 3.4 shows a detailed breakdown of the HPD’s pre-COVID ATV counts by age and district.

**Exhibit 3.4
HPD Pre-COVID ATV Inventory by Age**



Note: Light blue represents ATVs older than 10 years and dark blue represents ATVs newer than 10 years old.

Source: HPD Assigned District ATVs Pre Covid Report as of 08/2020 and OCA Analysis

Exhibit 3.5 presents a breakdown of HPD pre-COVID ATV counts and operational status by district, as well as how the new ATVs were distributed.

**Exhibit 3.5
Pre-COVID District ATV Counts and Operational Status**

	Pre-Covid Status and Totals			Actual Pre-Covid Count Based on Operational Status & OCA Analysis	Purchased During COVID	Total Inventory Count*
	Operational	Inoperable	Total			
District 1	5	2	7	5	4	9
District 2	5	3	8	5	4	9
District 3	3	2	5	3	2	5
District 4	6	0	6	6	8	14
District 5	1	0	1	1	2	3
District 6	4	1	5	4	8	12
District 7	4	0	4	4	4	8
District 8	2	1	3	2	8	10
Total	30	9	39	30	40	70

*Total Inventory County: OCA methodology based on *Actual Pre-COVID Count Based on Operational Status and Age*

Source: HPD Assigned District ATVs Pre Covid Report as of 08/2020 and OCA Analysis

In order to purchase 40 new ATVs using CARES funds, the department and city administration had to justify that this expenditure was necessary due to the public health emergency and had not been previously budgeted. Our review and analysis of the data showed that HPD’s request for new ATVs in 2020 was not included in the FY2020 budget. However, we found that the minimal mileage of the new ATVs raises questions about the necessity of this purchase, particularly as it was not directly used to respond to public health emergencies during the pandemic. We question if the department and city administration may have used the allocation of CARES funds inappropriately to replace a dated and inoperable ATV inventory as a means of filling budgetary shortfalls. This could have allowed them to cover a capital expenditure that would not have otherwise qualified for CARES funding. The approval by city administration of the purchase of 40 new ATVs for HPD is a potential example of unsound financial practice that potentially resulted in excessive and wasteful spending of federal COVID-19 funds.

Chapter 4

The City Did Not Distribute Emergency Rental Assistance Funds in an Equitable and Timely Manner

City administration prioritized CARES Act funds to small business relief over individual household relief, despite city council and community stakeholders' demands to ensure the equitable distribution of CARES funds. The city's decision to minimally fund the Household Hardship Relief Fund (HHRF) program resulted in early program closure, turning away over 2,000 applicants and leaving \$9 million in unmet community need. Because the Department of Community Services (DCS) did not prioritize timely processing, the program experienced excessive processing times resulting in unprocessed applications for nearly half of all applicants who applied. We found 51 percent of all applications were left unprocessed and only 41 percent of applicants who applied were funded at least once. The inadequate management of the HHRF program and the city's decision to prioritize small businesses over individual households not only resulted in prolonged application processing times, but also worsened capacity constraints, ultimately leading to the rejection of thousands of potentially qualified applicants.

City Administration Prioritized CARES Act Funds for Small Business Relief Over Individual Household Relief

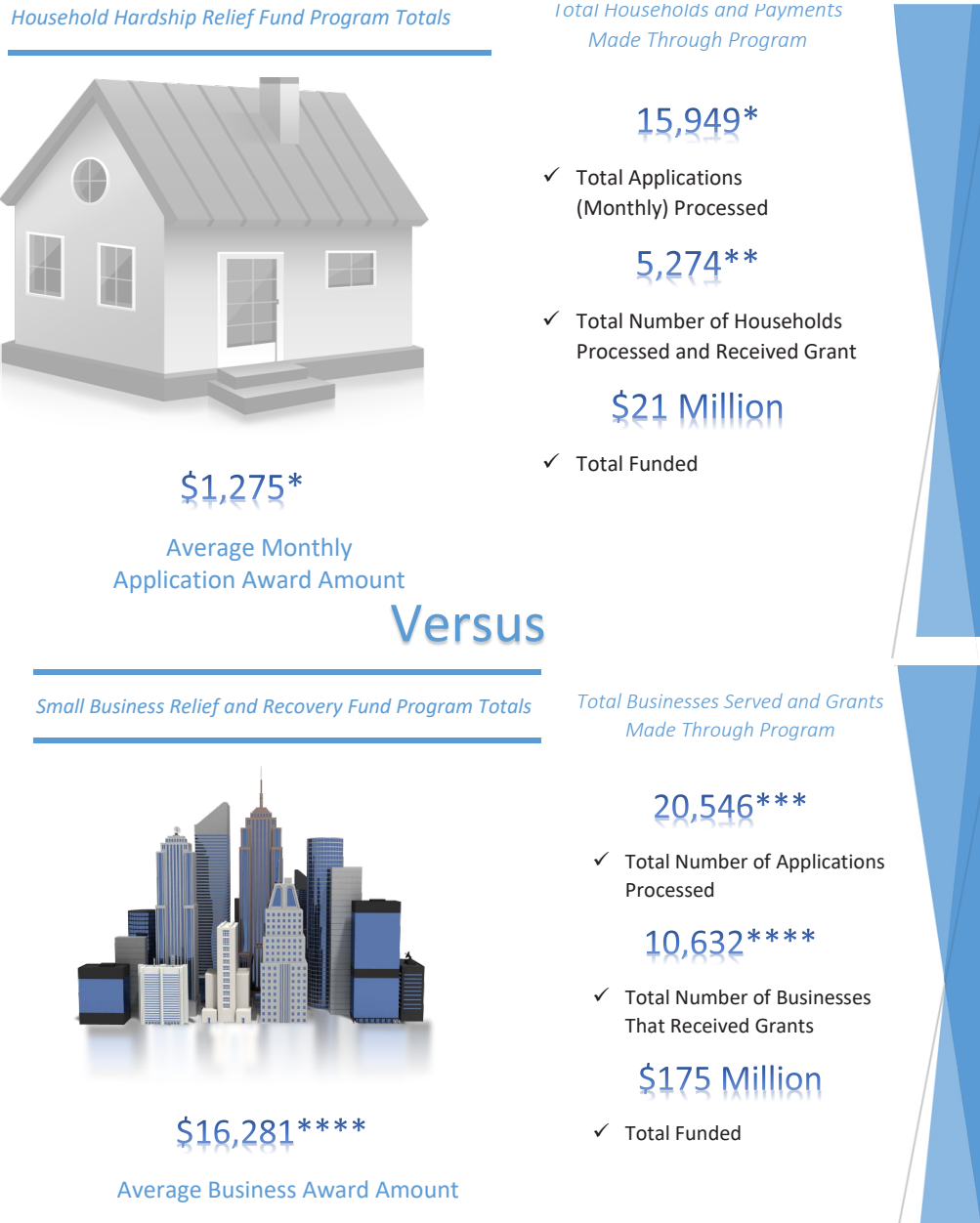
On May 18, 2020, the City and County of Honolulu implemented two emergency relief programs: the Small Business Relief and Recovery Fund (SBRRF) and the HHRF. The SBRRF provided emergency relief to small business owners for expenses incurred due to business interruptions or closures caused by emergency proclamations. Funds were disbursed directly to applicants. Comparatively, the HHRF's primary objective was to support households suffering from employment or business interruptions due to the COVID-19 health crisis. The program was set up to disburse grants for monthly household expenses such as rent or mortgage, utilities, and child care.

Both programs were launched with an initial allocation of \$25 million in CARES funds. When application portals opened, both programs experienced significant demand in the initial weeks. Despite the significant demand shown by both programs, the city chose to quickly address the demands of business owners by prioritizing additional funding for SBRRF, but did not add funding for HHRF. Specifically, city administration added \$150

million more funds to the SBRRF program over a seven month period. Comparatively, the HHRF program did not receive any additional funding despite non-profit partners reporting being overwhelmed by high application volume and requests for additional funding. DCS administrators acknowledged that they were aware of the high demand for the program and the predictions of early program closure due to exhaustion of funds, but did not reassess the program's need for additional funding.

A comprehensive analysis of the distribution of funds revealed that the city's SBRRF program received funding 14 times more than that allocated to the HHRF program. Consequently, nearly half of the city's \$387 million share of the CARES Act funding was allocated to support small businesses, while only 6 percent was directed towards assisting individual households in need. While over 10,000 small businesses received grants, only 5,247 households received assistance, despite similar numbers of applications. Additionally, the total average monthly award per HHRF application was only \$1,275, which is less than the average monthly rent cost of \$1,300 for a one-bedroom apartment in Honolulu. The disparity in funding allocation highlights the need for the city to have provided a more equitable and responsive approach to emergency relief programs. While supporting small businesses is essential for economic stability, it is equally crucial to provide robust support to households facing immediate financial challenges during times of crisis. A more balanced and thoughtful allocation of resources could have better addressed the diverse needs of the community, ensuring that both businesses and households received the assistance they required during a state of emergency. Exhibit 4.1 below compares the processing times and funding amounts for the SBRRF and HHRF programs.

Exhibit 4.1 HHRF versus SBRRF Funding and Processing Analysis



* The total applications per month processed is the amount of monthly applications (inclusive of renewal).

**Total number of Households Processed and Received Grant is total number of individual households awarded (identified by address).

***Includes all Phases 1, 2, 3 plus 2nd Chance in Phase 1, Special Grant in Phase 3, and Small Commercial Fishermen.

****Phase 1 grant awardees were allowed to reapply in Phase 2 for up to \$20,000 (businesses that were eligible for only \$10,000 previously) and some did not; these numbers accounted for in the final totals.

Source: OCA and Office of the Mayor

City council and community stakeholders questioned the city's ability to ensure the equitable distribution of CARES funds

On September 9, 2020, the Honolulu City Council adopted Resolution 20-206 establishing the Council's commitment to equity and social justice and calling for equitable outcomes for frontline communities through COVID-19 pandemic economic recovery programs. The resolution urged the administration to ensure that the remaining CARES funds and future American Rescue Plan Act funds were deployed into the community and that the voices of frontline communities who suffered most during the pandemic were prioritized. Additionally, the resolution called for investment in social services with high economic multiplier effects, such as the Supplemental Nutrition Assistance Program (commonly known as SNAP), childcare, affordable housing programs such as the city's Section 8 Housing Assistance Payments Program, and other loan programs for low and moderate income homeowners.

Public Testimony on Resolution 20-206 strongly supported the resolution and the need for the city to commit to equitable practices and social justice, calling it *their obligation to help out the most vulnerable members of the community that have been affected the hardest by COVID*. One testimony specifically addressed the need for the city to address:

"...city processes seem clogged adding another layer of bureaucratic barriers to families' receipt of intended resources."

The barriers to these families applying and receiving Federal CARES Act funds, particularly household Hardship Relief funds. The Working Families Coalition, Hawai'i Appleseed, and other advocates in the community have shared "best practices" for ensuring that funds reach those intended, most hardhit families in legally responsible ways. But city processes seem clogged adding another layer of bureaucratic barriers to families' receipt of intended resources.

Resolution 20-206 emphasized the importance of upholding equitable distribution of CARES funds. By the time the resolution was approved in September 2020, there were still three months remaining in the calendar year to reallocate CARES funds as necessary, in compliance with the original federal deadline of December 31, 2020. In our assessment the city did not adhere to the spirit and intent of resolution 20-206 through its inaction to further assess and consider additional HHRF funding.

The city's low funding allocation to HHRF resulted in early program closure, turning away 2,000 applicants and leaving \$9 million in unmet community need

We found a significant gap between the demand for household assistance and the amount of allocated funding. Because city administration did not address the concerns of the non-profit partners and provide additional funding and support, we estimate that the HHRF experienced an unmet need exceeding \$9 million dollars. Exhibit 4.2 shows the number of applicants turned away, and the amount of potential unmet need.

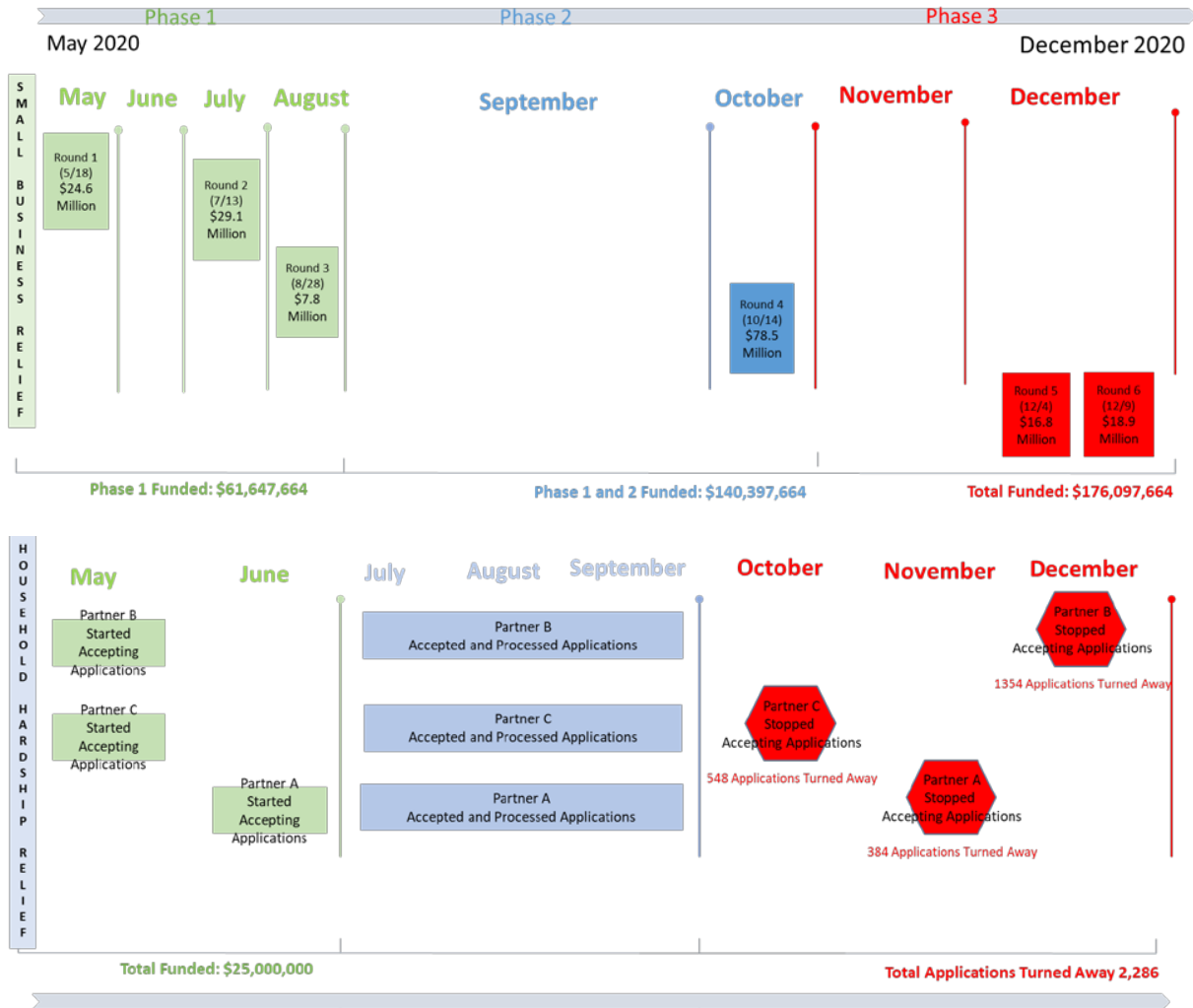
**Exhibit 4.2
Number of Applicants Turned Away From HHRF Program**

PARTNER A	PARTNER B	PARTNER C	TOTAL
Total applicants turned away	Total applicants turned away	Total applicants turned away	Total applicants turned away
384 ^{1/626}	1354 ^{1/7339}	548 ^{1/6947}	2286 ^{1/14912}
or 61%	or 18%	or 8%	or 15%
Total unmet program need	Total unmet program need	Total unmet program need	Total unmet program need
\$2,304,000	\$2,708,000	\$4,348,000	\$9,396,000

Source: OCA

The inadequate management of the HHRF and the city's decision to prioritize small businesses over individual households ultimately led to the rejection of thousands of potentially qualified HHRF applicants. An analysis of the two programs' timelines show how the city actively funded the SBRRF program, whereas the HHRF program had limited funds show in Exhibits 4.3.

Exhibit 4.3 SBRRF Program Funding Timeline versus HHRF Program Operation Timeline



Source: OCA

The city’s lack of oversight and monitoring of the HHRF program’s ongoing performance needs and requirements reflects the choice to prioritize small businesses over individual households. Over an eight-month period, the city progressively allocated an additional \$150 million to the SBRRF program. By comparison, the HHRF program began turning away applicants as early as the fifth month, during which time the city had already provided three separate funding installments to the SBRRF program, totaling \$140,397,644 as of October 14, 2020.

By December 2020, all three contractors for the HHRF program had depleted their funds. Comparitively, in the same month, the city chose to add an extra \$35.7 million into the SBRRF program over the course of just five days. Overall we found that the city did not respond to the community demand for the HHRF program. This led to the premature closure of the HHRF program, leaving over 2,000 applicants in need of an estimated \$9 million in emergency rental assistance.

DCS Did Not Prioritize Timely Processing, Resulting In Excessive Processing Times And Unprocessed Applications for Nearly Half of All Applicants

In addition to the minimal funding allocated to the HHRF, the program was also adversely impacted by the slow disbursement of funds. As the city agency responsible for HHRF oversight, DCS had the responsibility to establish a program eligibility requirements. DCS contracted the services of three different non-profit partners to administer the HHRF. These non-profit partners were contracted to receive and assess all eligibility documents and determine eligibility based on DCS criteria. Of the \$25 million allocated to the HHRF, DCS had distributed approximately \$21 million when the program ended on December 31, 2022. The program received a total of 14,462 applications, and not all applicants received program funds.

We found that the city established eligibility criteria for the HHRF program that was difficult for the non-profit partners to enforce in a timely manner. Non-profit partners reported the HHRF having *overly burdensome application requirements that blocked residents from obtaining the assistance they desperately needed*. DCS confirmed that many applicants could not provide bank statements or unemployment insurance notices to prove COVID-19 hardship, which resulted in denial or additional processing time. This contributed to extended processing time and delays.

In August 2020, media reports questioned the city's ability to handle the demand for residents who needed rental assistance help. In the report, city administration acknowledged that paperwork had been an obstacle. The former mayor commented, *we hope that we can break this logjam to get more money out to individuals along with businesses*. However, non-profit partners blamed the city for the delays saying, *The city doesn't want to be left on the hook just as much as we don't if money gets distributed that shouldn't have been, so instead of taking more aggressive approach to distribution, it's overly burdensome documentation*. These overly burdensome documentation requirements were the exact opposite approach that the city had towards small businesses, where they prioritized quick distribution of funds over rigorous applicant eligibility review.

51 percent of all applications were left unprocessed and only 41 percent of applicants who applied were funded

A review of a statistically valid sample of HHRF applications found that 51 percent of the sample applicants were identified as *unprocessed*. Unprocessed applications include the following statuses: transfer to city and county, finance, consolidated, hold, withdrawn, ready for disbursement, not provided, filed with another household, and incomplete. The following exhibit illustrates the various unprocessed statuses broken down by partner.

**Exhibit 4.4
HHRF Various Unprocessed Statuses, as Reported by Non-Profit Partners**

	Partner A	Partner B	Partner C	Total	%
Closed*	46			46	46%
Transferred	2			2	2%
Withdrawn	1	2	1	4	4%
Incomplete		32		32	32%
Filed With Another Household		2		2	2%
Transferred to City and County			2	2	2%
Finance			2	2	2%
Hold			8	8	8%
Ready for Disbursement			1	1	1%
Not Provided			1	1	1%
Grand Total				100	100%

*Applications that were not successfully processed and did not receive status determination of approved or denied.

Source: OCA

DCS did not actively monitor and track program performance outcomes and was unable to provide complete program data that included unprocessed applicants. The departments only monitored applicants that obtained approval and received funds. Program contract provisions required partners to furnish monthly reports detailing approved applicants, which in turn served as billable receipts for payment. A review of the various determination statuses identified 46 percent of our statistical sample as being closed meaning they were not successfully processed and did not receive status determination.

Rather, these applicants were left unnotified of their application status and only received program closeout letters after the program had already exhausted its funds. Exhibit 4.5 shows a total unprocessed applications per non-profit partner.

Exhibit 4.5 Total Unprocessed Applications

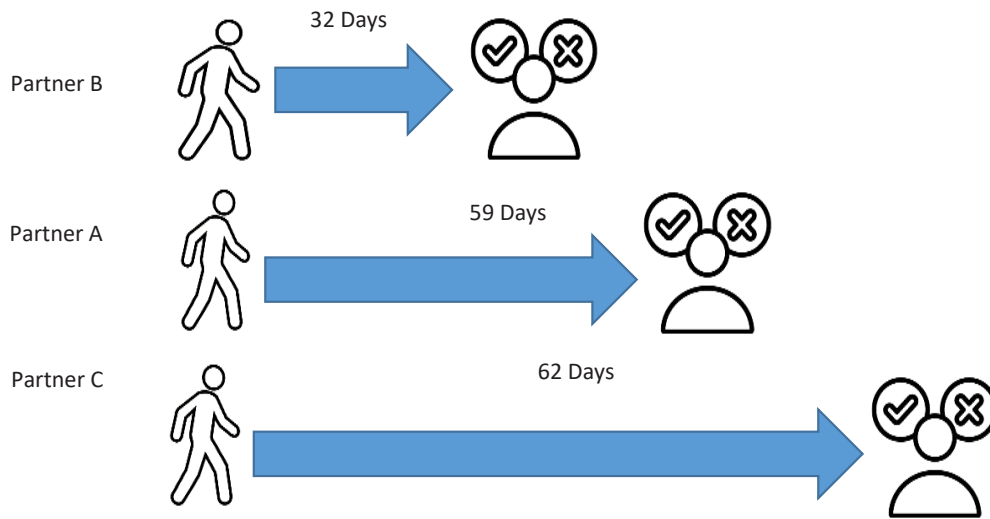
	Partner A	%	Partner B	%	Partner C	%	Total	%
Sample Total	62	100%	68	100%	68	100%	198	100%
Sample Denied	3	3%	2	3%	11	16%	16	8%
Sample Funded	10	37%	30	44%	42	62%	82	41%
Sample Unprocessed	49	58%	36	53%	15	22%	100	51%

Source: OCA Analysis

DCS hands off approach led to incomplete applications not being closed and left with open or indefinite statuses, as well as non-profit partners issuing final determination letters well after the program had officially concluded.

The city's failure to notify applicants about their application status impacted the accuracy of program application processing times, ultimately preventing the city from ensuring timely processing and applicant notification. On average, HHRF applicants experienced a 51-day wait time to receive an update on their application status, which is a significant difference from the contract's set requirement of seven business days. Although the processing times varied among the non-profit partners, none of them managed to meet the seven business day notification requirement. The following exhibit provides a breakdown of the average processing times for each non-profit partner.

Exhibit 4.6
Average Duration Between HHRF Application Submission and Application Status Update



Source: OCA

The city did not adequately monitor and ensure the timely processing of HHRF program applications nor did it enforce established contractual requirements that were designed to ensure that applicants could receive critical emergency relief funds promptly. Allowing applicants to remain in an uncertain status for an average of 51 days was an excessively prolonged process, particularly given the critical circumstances at hand.

Chapter 5

Conclusions and Recommendations

Under the 2020 COVID-19 Recovery Act, procurement and other routine checks and balances applicable to government programs were suspended to ensure that the usual government bureaucracy did not impede the quick distribution of funds to those in need. This offered the city administration a rare opportunity to exercise flexibility in allocating and reallocating funds in real-time. Although the usual controls associated with city budgets and program execution were suspended for CARES Act programs, it did not suspend the city's duty to exercise sound judgment and care in administering public funds. Although the city administration distributed \$387 million dollars in CARES Act funding, we found that the city did not fully exercise sound planning or execution in distributing those funds.

Overall, we view the city's handling and allocation of CARES funds as a unique and unprecedented event that presents an opportunity to learn valuable lessons for future emergency relief efforts. While we acknowledge the evolving guidance from the U.S. Treasury and the complexities involved with managing a prudent response to pandemic relief, we question the city's allocation of over \$4 million in CARES funds that was specifically earmarked for various municipal vehicles purchases. More specifically, we identified two instances we believe to be wasteful spending and question if the purchases of additional paratransit Handi-Vans and All-Terrain Vehicles align with federal guidelines given for COVID-19-related municipal purchases.

From a program administration perspective, the City and County of Honolulu established two major emergency relief programs designed to provide direct community assistance. In response to the COVID-19 crisis, our evaluation of the SBRRF and HHRF programs revealed significant disparities in the allocation of relief funds. Despite both programs starting with an initial allocation of \$25 million from CARES Act funds, their paths and outcomes differed significantly. The SBRRF program received substantial additional funding, totaling approximately \$175 million, representing nearly 45 percent of the city's total CRF allocation. In contrast, the HHRF received only \$25 million, constituting only 6 percent of the city's CRF allocation.

This funding gap highlights the need for a more equitable and responsive approach to emergency relief programs. While we acknowledge that small businesses are essential to our local economy, we believe it is equally important to provide robust support to households facing immediate financial challenges as being equally crucial during times of crisis.

In parallel with the financial concerns of inequitable distribution of funds, the city had difficulties in actively managing both programs. City administration faced challenges when constructing a control framework for the SBRRF program and fell short in establishing clear criteria and eligibility guidelines essential for safeguarding against fraud, waste, and abuse. The city exposed itself to vulnerability by introducing questionable program contract amendments, acknowledging the potential for ambiguous guidance and the associated risks of fraud, waste, and abuse. Additionally, the city overlooked federal guidance regarding self-certification and accepted the risk and possibility of applicants *double-dipping* by receiving both SBRRF and PPP or EIDL loans. The city's lax enforcement program guidance created equity concerns and potentially allowed applicants to bypass program requirements. In contrast the HHRF program had a stringent application verification process which contributed to various program constraints, such as extended processing times and monthly recertification. We believe the city's approach to managing the HHRF program failed to meet city council and community stakeholder concerns regarding equitable distribution of CARES funds by their inaction to further fund the HHRF program. As a result, the program closed prematurely leaving over 2,000 applicants in need of assistance.

The City is responsible for ensuring that emergency funds effectively reach those who genuinely require assistance, addressing both the needs of businesses and households during times of crisis. We firmly believe that moving forward, the City and County of Honolulu should prioritize sound financial management and contract oversight, adhere to federal guidelines, and establish robust controls to protect public funds, while simultaneously maintaining a balanced approach to the distribution of emergency resources.

Recommendations

Although the CARES Act program and funding was a one-time event, future emergency funding programs are likely. The shortcomings identified in this report can serve as a *lessons learned* opportunity so that future programs can operate more efficiently and effectively. The goal is to balance the need to expedite funds quickly, while maintaining a sufficient level of internal control. With that in mind, we offer the following recommendations for future emergency funding programs.

The city administration should:

1. Conform to federal guidelines issued with emergency relief funds;
2. Enforce minimal program and contract requirements and controls;
3. Establish program performance standards and metrics so that administrators can monitor and assess program effectiveness in real-time;
4. Establish a formal internal audit function within the Office of the Managing Director to oversee contract and funds distribution, conduct proper oversight to ensure contractors are conforming to contract requirements and controls; and verify all contract language to protect the city from instances of fraud, waste, and abuse; and
5. Ensure that future emergency funding relief efforts are allocated and distributed in an equitable manner that includes input from stakeholders such as the city council, department heads, and the public.

Management Response

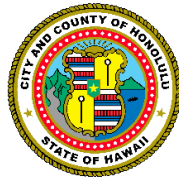
In response to a draft of this audit report, the Managing Director's Office expressed general agreement with the report's findings and recommendations. Management provided additional information pertaining to the city's vehicle purchases, as discussed in Chapter 3. We added information about the U.S. Treasury Office of the Inspector General's findings and relevant meeting minutes to the report. They also acknowledged the disparity between the Small Business Relief and Recovery Fund and the Household Hardship Relief Fund allocations. They noted that the allocation decision was influenced by factors such as the capacity of non-profit partners to process applications and the tight timeline for disbursement, but also recognize, in hindsight, the importance of

allocating additional funds to build capacity for programs like the Household Hardship Relief Fund prior to program launch. Finally, we acknowledge and appreciate management's comments regarding the unprecedented challenges faced by this administration and the prior administration during the global pandemic and resulting economic crisis. We believe the recommendations in this audit will help to improve the efficiency and effectiveness of future programs, aligning with the community's demand for transparency and accountability in public administration. We also made technical, non-substantive changes to the report for purposes of accuracy, clarity and style. A copy of the management's full response can be found on page 57.

**OFFICE OF THE MAYOR
KE KE'ENA O KA MEIA
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RICK BLANGIARDI
MAYOR
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MICHAEL D. FORMBY
MANAGING DIRECTOR
PO'O HO'OKELE

KRISHNA F. JAYARAM
DEPUTY MANAGING DIRECTOR
HOPE PO'O HO'OKELE

October 20, 2023

MEMORANDUM

TO: Arushi Kumar, City Auditor
Office of the City Auditor

FROM: Michael D. Formby, Managing Director
Office of the Managing Director

 Digitally signed by
Formby, Michael
Date: 2023.10.20
08:21:01 -10'00'

SUBJECT: Response to Audit of Select CARES Act Programs and Expenditures

This is the Administration's response to the Office of the City Auditor's September 29, 2023 draft report, "Audit of Select CARES Act Programs and Expenditures." The audit was self-initiated by the Office of the City Auditor pursuant to Section 3-502.1(c) of the Revised Charter of Honolulu due to the high dollar amount of federal Coronavirus Aid Relief and Economic Security (CARES) Act funds the City received and the relatively small window of time in which to spend the funds.

We appreciate the time and resources dedicated to this audit by the Office of the City Auditor, and express our appreciation to you and your staff for the recommendations contained therein.

In addition to the response detailed herein, we have two overarching comments. First, we agree with your articulation that for this administration, that came into office in 2021 after the programs started and expenditures commenced, these recommendations serve as *lessons learned* to make sure future programs can operate more efficiently and effectively. Second, we are cognizant of the fact that the prior administration was operating in the context of an unprecedented global crisis and it was an extraordinarily challenging time and environment. Accordingly, we agree with all the recommendations, and offer only a few departmental perspectives on the CARES Act.

Arushi Kumar, City Auditor
October 20, 2023
Page 2

RECOMMENDATIONS AND RESPONSES

1. For future emergency funding programs, the city administration should conform to federal guidelines issued with emergency relief funds.

Agree.

2. For future emergency funding programs, the city administration should enforce minimal program and contract requirements and controls.

Agree.

3. For future emergency funding programs, the city administration should establish program performance standards and metrics so that administrators can monitor and assess program effectiveness in real-time.

Agree.

4. For future emergency funding programs, the city administration should establish a formal internal audit function within the Office of the Managing Director to oversee contract and funds distribution, conduct proper oversight to ensure contractors are conforming to contract requirements and controls; and verify all contract language to protect the city from instances of fraud, waste, and abuse.

Agree, however, that function might not necessarily be within the Office of the Managing Director and there is also project level oversight that might be conducted at a departmental level.

With respect to the Honolulu Police Department's \$454K purchase of all-terrain vehicles and the Department of Transportation Services' \$738K purchase of Handi-Van vehicles, the U.S. Treasury Office of the Inspector General reviewed the spending and noted in a March 4, 2021 meeting minutes that "The supporting documentation is appropriate and sufficient to determine eligible use of (Coronavirus Relief Fund) proceeds." In response to the questions and concerns raised in the Office of the City Auditor's audit, these vehicles were purchased as a precautionary measure and out of an abundance of caution as the departments did not know how the pandemic and attendant restrictions would unfold.

5. For future emergency funding programs, the city administration should ensure that future emergency funding relief efforts are allocated and distributed in an

Arushi Kumar, City Auditor
October 20, 2023
Page 3

equitable manner that includes input from stakeholders such as the city council, department heads, and the public.

Agree. With respect to the disparity in allocation between the Small Business Relief and Recovery Fund and the Household Hardship Relief Fund, while the City expended far more CARES Act dollars on the former, that was partially a function of our non-profit partners' capacity to process applications and a function of the compressed timeline in which disbursement was made. The disparity was perhaps less of a choice, and driven more by operational conditions. In retrospect, additional funds to build capacity for the Household Hardship Relief Fund before program launch was critical.

Thank you for the opportunity to provide comments and responses to the audit report. Please contact me at (808) 768-6634 should you have any questions or require additional information.

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Appendix A

OIG Financial Progress Reports

OIG Financial Progress Report

Program Name: Coronavirus Relief Fund
Grantee Name: HONOLULU, CITY & COUNTY OF
Report Name: OIG Financial Progress Report
Report Period: 03/01/2020 to 06/30/2020
Report Status: Submission Accepted by CO

Report Sections

1. *Prime*
2. *Projects*
3. *Sub-Recipient Organizations*
4. *Contracts >=\$50,000*
5. *Grants >=\$50,000*
6. *Loans >=\$50,000*
7. *Transfers >=\$50,000*
8. *Direct >=\$50,000*
9. *Aggregate Awards of <\$50,000*
10. *Aggregate Payments to Individuals*
11. *Totals*

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Appendix B

Coronavirus Relief Funds by Expending Agencies

Top Six City Agencies' Coronavirus Relief Fund Expenditures

Office of the Mayor	
GRAND TOTAL	\$237.9 M
-Small Business Assistance	\$179.2 M
-COVID-19 Testing & Contact Tracing	\$21.1 M
-Economic Support	\$16.2 M
-Public Health Expense	\$10.7 M
-*Other Expenses	\$10.7 M

Community Services	
GRAND TOTAL	\$69.9 M
-Economic Support	\$37.9 M
-Housing Assistance	\$25 M
-Food Programs	\$5.8 M
-*Other Expenses	\$1.2 M

Police	
GRAND TOTAL	\$26.6 M
-Payroll for Public Health & Safety Employees	\$12.6 M
-Public Health Expense	\$6.7 M
-Administrative Expenses	\$6 M
-*Other Expenses	\$1.3 M

Emergency Services	
GRAND TOTAL	\$16 M
-Medical Expenses	\$4.8 M
-Personal Protective Equipment	\$3.6 M
-COVID-19 Testing & Contact Tracing	\$3.3 M
-Public Health Expense	\$3 M
-*Other Expenses	\$1.3 M

Transportation Services	
GRAND TOTAL	\$7.7 M
-Personal Protective Equipment	\$3,793
-Public Health Expense	\$7.7 M

Fire	
GRAND TOTAL	\$7.3 M
- Personal Protective Equipment	\$3.5 M
-COVID-19 Testing & Contact Tracing	\$1.7 M
-Administrative Expenses	\$900,231
-*Other Expenses	\$ 1.1 M

*Other expenses may include categories such as administrative expenses, economic support, food programs, housing assistance, improved telework capabilities of public employees, medical expenses, payroll for public health and safety procedures, personnel protective equipment, and public health expense

Remaining City Agencies' Coronavirus Relief Fund Expenditures

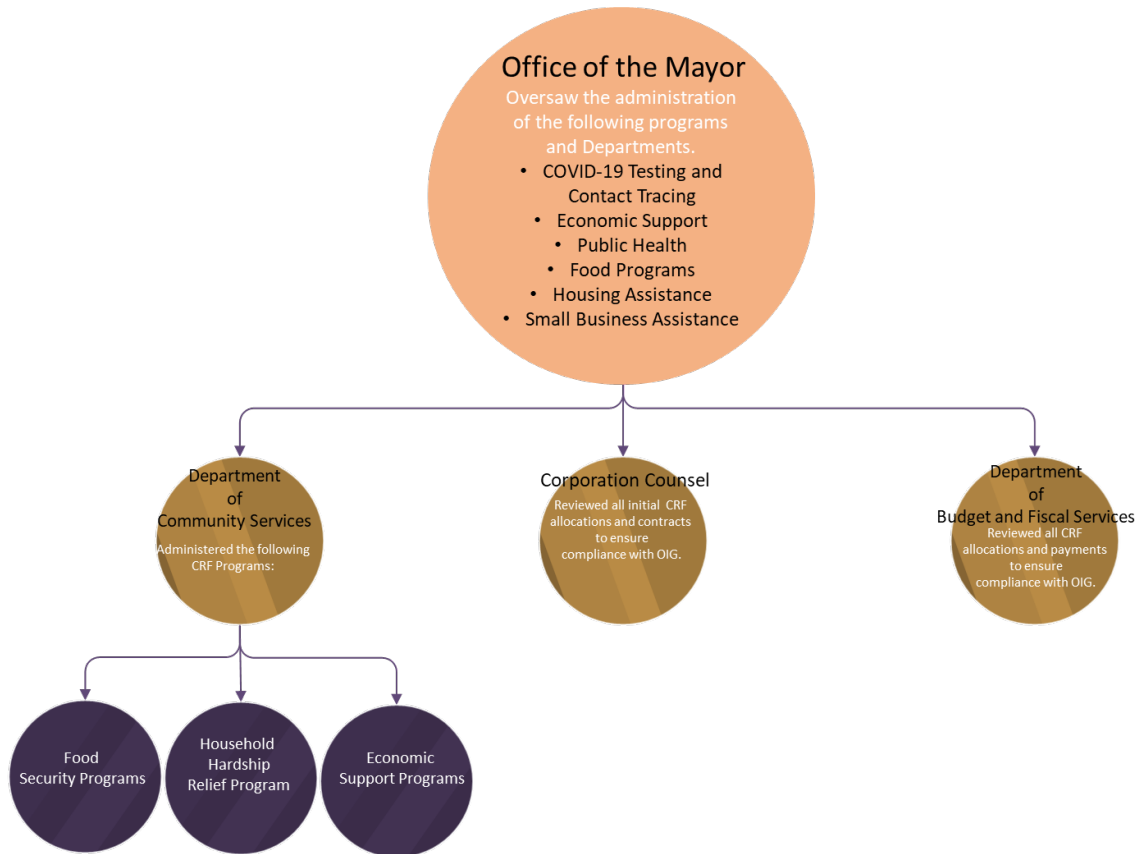
	Administrative Expenses	Housing Assistance	Improve Telework Capabilities	Personal Protective Equipment	Public Health Expense	*Other Expenses	Grand total
Information Technology			\$3.7	\$287	\$420	\$3943	\$3.7 M
Land Management	\$3,101	\$1.8 M	\$939	\$2,552	\$103,192		\$1.9 M
Emergency Management	\$40,404		\$240	\$1,487	\$1.6 M	\$8,693	\$1.6 M
Customer Services	\$1 M		\$16,162	\$70,047	\$280,213	\$73,625	\$1.5 M
Design & Construction			\$38,602		\$1.3 M		\$1.4 M
Board of Water Supply					\$915,359		\$915,359
Budget and Fiscal Services	\$63,567		\$128,895	\$3,702	\$380,261	\$171,339	\$747,764
Parks and Recreation			\$14,518	\$349,436	\$103,270	\$20,334	\$487,558
Enterprise Services			\$9,251	\$46,550	\$68,670	\$49,960	\$174,431
Prosecuting Attorney	\$2,905		\$11,278	\$3,069	\$78,920		\$96,172
Facility Maintenance			\$2,488		\$78,652		\$81,140
City Council	\$3,500		\$26,258	\$309	\$36,922		\$66,989
Planning and Permitting	\$336		\$35,810		\$13,185		\$49,331
Environmental Services				\$29,204			\$29,204
Corporation Counsel	\$16,715		\$11,623	\$161	\$448		\$29,947
Medical Examiner						\$22,187	\$22,187
Human Resources			\$10,090	\$7,588	\$1,135		\$18,813
City Auditor				\$84			\$84
Council Services				\$84			\$84
TOTAL							\$12.8 M

*Other expenses may include categories such as budgeted personnel and services, economic support, food programs, medical expenses, and payroll for public health and safety procedures

Source: Office of the City Auditor and the Department of Budget and Fiscal Services

Appendix C

Organizational Chart of the City's Roles and Responsibilities by Department to Administer the Coronavirus Relief Fund

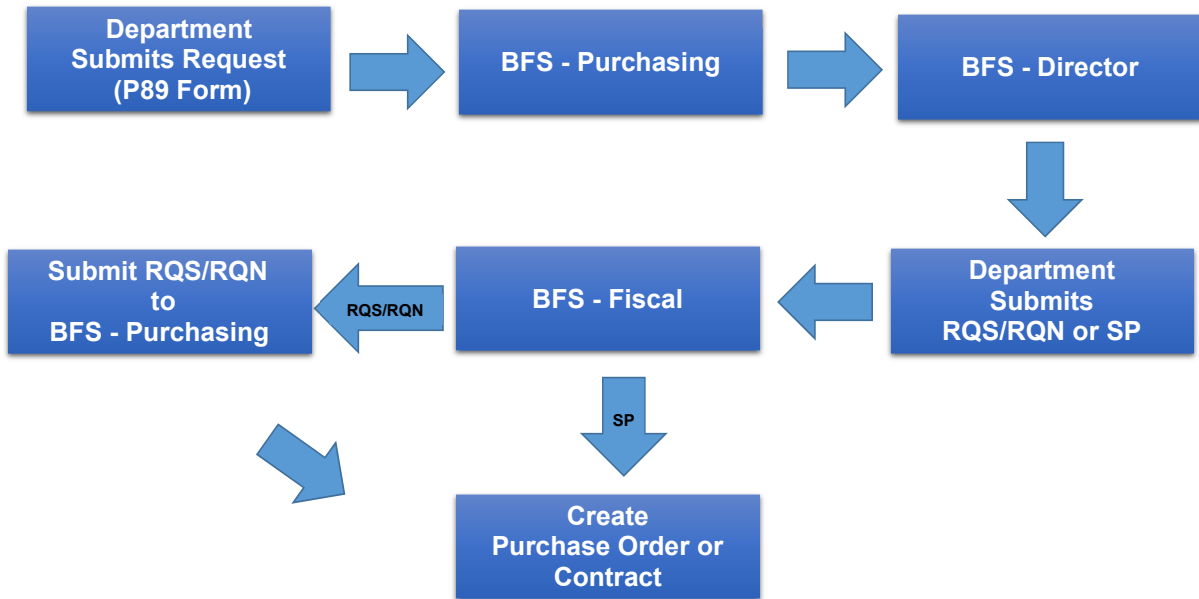


Source: Office of the City Auditor

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Appendix D

Funding Request Process Flow Chart



Note: RQS (Standard Requisition), RQN (Requisition), SP (Small Purchase Order)

Source: Office of the City Auditor and the Department of Budget and Fiscal Services

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