United States Government Accountability Office

Report to Congressional Addressees

December 2023

COVID-19 RELIEF

Treasury Could Improve Its Administration and Oversight of State and Local Fiscal Recovery Funds

Accessible Version

GAO-24-106027

GAO Highlights

Highlights of GAO-24-106027, a report to congressional addressees

December 2023

COVID-19 RELIEF

Treasury Could Improve Its Administration and Oversight of State and Local Fiscal Recovery Funds

Why GAO Did This Study

In March 2021, the American Rescue Plan Act of 2021 appropriated $350 billion through the SLFRF to help tribal governments, states, localities, the District of Columbia, and U.S. territories cover costs stemming from the health and economic effects of the COVID-19 pandemic.

The CARES Act includes a provision for GAO to report on its ongoing monitoring and oversight efforts related to the pandemic. GAO was also asked to review Treasury's administration of SLFRF. This report, part of a series on COVID-19 assistance to recipients, examines selected states' and localities' (1) actions to administer their awards, and (2) benefits and challenges they experienced, as well as (3) Treasury's plan to monitor the use of awards and the extent to which it has been implemented.

GAO reviewed documents and interviewed officials in 18 states and 18 localities (one per state) selected based on SLFRF funding amount, population size, and geographic region. Combined, these states represent nearly 60 percent of the U.S. population and were allocated 60 percent of SLFRF funds. GAO also reviewed Treasury's policies and procedures for monitoring recipients' award uses and reviewing spending reports and single audit findings.

What GAO Recommends

GAO is making four recommendations to Treasury, including assessing future Contact Center staffing needs and improving the documentation and timeliness of award monitoring processes. Treasury generally agreed with the four recommendations.

View GAO-24-106027. For more information, contact Jeff Arkin at (202) 512-6806 or ArkinJ@gao.gov or M. Hannah Padilla at (202) 512-5683 or PadillaH@gao.gov.

What GAO Found

Nearly all—$325.5 billion—of the $350 billion in State and Local Fiscal Recovery Funds (SLFRF) was allocated to state and local governments. As of March 31, 2023, states reported obligating 60 percent and spending 45 percent of SLFRF awards they received. Localities reported obligating 54 percent and spending 38 percent, of SLFRF awards they received. Recipients have until December 31, 2024, to obligate, and until December 31, 2026, to spend their awards.

Officials in all 18 selected states and most larger selected localities GAO reviewed said they expanded their capacity to manage their awards, such as by reassigning existing or hiring new staff. Officials in most smaller localities said they administered their SLFRF awards with their existing staff and processes.

Officials in most selected states and localities told GAO they benefitted from using their SLFRF awards to replace revenue lost during the pandemic—an allowable use under the SLFRF program. Specifically, they said that using funds to replace lost revenue (1) enhanced spending flexibilities by allowing funding of a broad range of government services; and (2) made it easier to meet the Department of the Treasury's reporting requirements.

State and local officials identified a range of challenges in using their SLFRF awards, such as those related to

- **Performance indicators.** Officials in some selected states and one selected locality told GAO that the performance indicators they are required to report do not always align with their uses of SLFRF awards. Treasury established these indicators to understand and aggregate program outcomes across SLFRF recipients. However, some selected state and local officials said they needed clarity from Treasury on how to report on required performance indicators when they do not align with their uses of SLFRF awards and spending categories. Based on GAO's analysis, Treasury updated its guidance on November 30, 2023, to clarify reporting on these indicators.
- **Treasury assistance.** Officials in most selected states and some selected localities told GAO that the assistance Treasury provided by telephone or email through its Contact Center was not timely and did not meet their needs. Treasury established the center to field and respond to recipients' inquiries about programs administered by Treasury, but these officials said limited resources affected Treasury's assistance. Treasury has assessed some, but not all, of its staffing needs, limiting its ability to provide timely and useful assistance going forward.

Treasury has established monitoring procedures for reviewing states' and localities' spending reports and annual single audit findings. Treasury modified its procedures for reviewing spending reports, adapting to lessons it learned. However, it did not document those changes in key internal program guidance, creating a risk that the new procedures will not be implemented consistently. Additionally, Treasury did not issue timely management decisions pertaining to SLFRF findings in recipients' single audit reports. As a result, Treasury does not have reasonable assurance that unallowable uses of funds are identified or remediated.

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Abbreviations

ARPA	American Rescue Plan Act of 2021
FAC	Federal Audit Clearinghouse
FY	fiscal year
IFR	interim final rule
NEU	non-entitlement unit of local government
OCA	Office of Capital Access
OMB	Office of Management and Budget
ORP	Office of Recovery Programs
Q2	second quarter
SAM.gov	System for Award Management
SLFRF	Coronavirus State and Local Fiscal Recovery Funds

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U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

December 14, 2023

Congressional Addressees

The COVID-19 pandemic caused a serious public health crisis and had a rapid and severe effect on the U.S. economy, including state and local governments. In March 2021, the American Rescue Plan Act of 2021 (ARPA) appropriated $350 billion for the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) to help tribal governments, states, localities, the District of Columbia, and U.S. territories cover costs stemming from the negative health and economic effects of the pandemic.[1] Nearly all of those funds—$325.5 billion—were allocated to state and local governments. The Department of the Treasury (Treasury) is responsible for distributing SLFRF awards to recipients and overseeing their use of the funds.

The CARES Act includes a provision for us to report on our ongoing monitoring and oversight efforts related to the COVID-19 pandemic.[2] We were also asked to review Treasury's administration of the SLFRF program. This report examines selected states' and localities' (1) actions to administer their SLFRF awards, and (2) benefits and challenges encountered in administering their SLFRF awards, as well as (3)

[1]Pub. L. No. 117-2, tit. IX, subtit. M, § 9901, 135 Stat. 4, 223 (2021), *codified at* 42 U.S.C. §§ 802-803 (ARPA). Sections 602 and 603 of the Social Security Act, as added by section 9901 of ARPA, appropriated $350 billion in total funding for two funds—the Coronavirus State Fiscal Recovery Fund and the Coronavirus Local Fiscal Recovery Fund. For purposes of this report, we discuss these two funds as one—the SLFRF. See 42 U.S.C. §§ 802-803. For purposes of the SLFRF, ARPA establishes that the District of Columbia is considered to be a state. 42 U.S.C. §§ 802(g)(5), 803(g)(9).

[2]Pub. L. No. 116-136, § 19010(b), 134 Stat. 281, 580 (2020), which is reprinted in 31 U.S.C. § 712 note. We regularly issue government-wide reports on the federal response to the COVID-19 pandemic. For the latest report, see GAO, *COVID-19: GAO Recommendations Can Help Federal Agencies Better Prepare for Future Public Health Emergencies*, GAO-23-106554 (Washington, D.C.: July 11, 2023). As part of our work, we have also issued reports on recipients' (including tribal governments, states, localities, and U.S. territories) uses of COVID-19 funds. All of our reports related to the COVID-19 pandemic are available at https://www.gao.gov/coronavirus.

Treasury's plan to monitor states' and localities' use of SLFRF awards and the extent to which it has been implemented.[3]

To address our first two objectives, we interviewed officials responsible for administering SLFRF awards in selected states and localities. Specifically, we interviewed officials in budget offices in 18 states: Arizona, Arkansas, California, Connecticut, Florida, Illinois, Maine, Maryland, Michigan, Minnesota, Nebraska, Nevada, New York, North Carolina, Pennsylvania, Texas, Washington, and Wyoming.[4] We based our selection on a range of factors, including

- range in the amount of SLFRF allocations states received (based on Treasury data);[5]
- range in the percentage of the U.S. population represented (based on Census Bureau data);[6]
- range in unemployment rates (based on Bureau of Labor Statistics data);[7] and
- geographic region (based on Census Bureau data).

Combined, the 18 states were allocated 60 percent of SLFRF funds and represent about 60 percent of the U.S. population. Figure 1 provides a

[3]We excluded tribal governments, U.S. territories, and local governments in the territories from our review. We reported on federal agencies' distribution of COVID-19 relief funds, including the SLFRF, to tribal recipients in GAO, *COVID-19 Relief Funds: Lessons Learned Could Improve Future Distribution of Federal Emergency Relief to Tribal Recipients,* GAO-23-105473 (Washington, D.C.: Dec. 15, 2022). We also recently reported on the U.S. territories' use of COVID-19 relief funds, including the SLFRF. See GAO, *COVID-19: U.S. Territory Experiences Could Inform Future Federal Relief*, GAO-23-106050 (Washington, D.C.: Sept. 19, 2023).

[4]We also recently issued a report on the experiences of eight of these states in managing and using funds across COVID-19 relief programs: California, Florida, Illinois, Minnesota, New York, Pennsylvania, Texas, and Washington. For additional information, see GAO, *COVID-19 Relief Funds: State Experiences Could Inform Future Federal Relief Funding,* GAO-24-106152 (Washington, D.C.: Nov. 15, 2023).

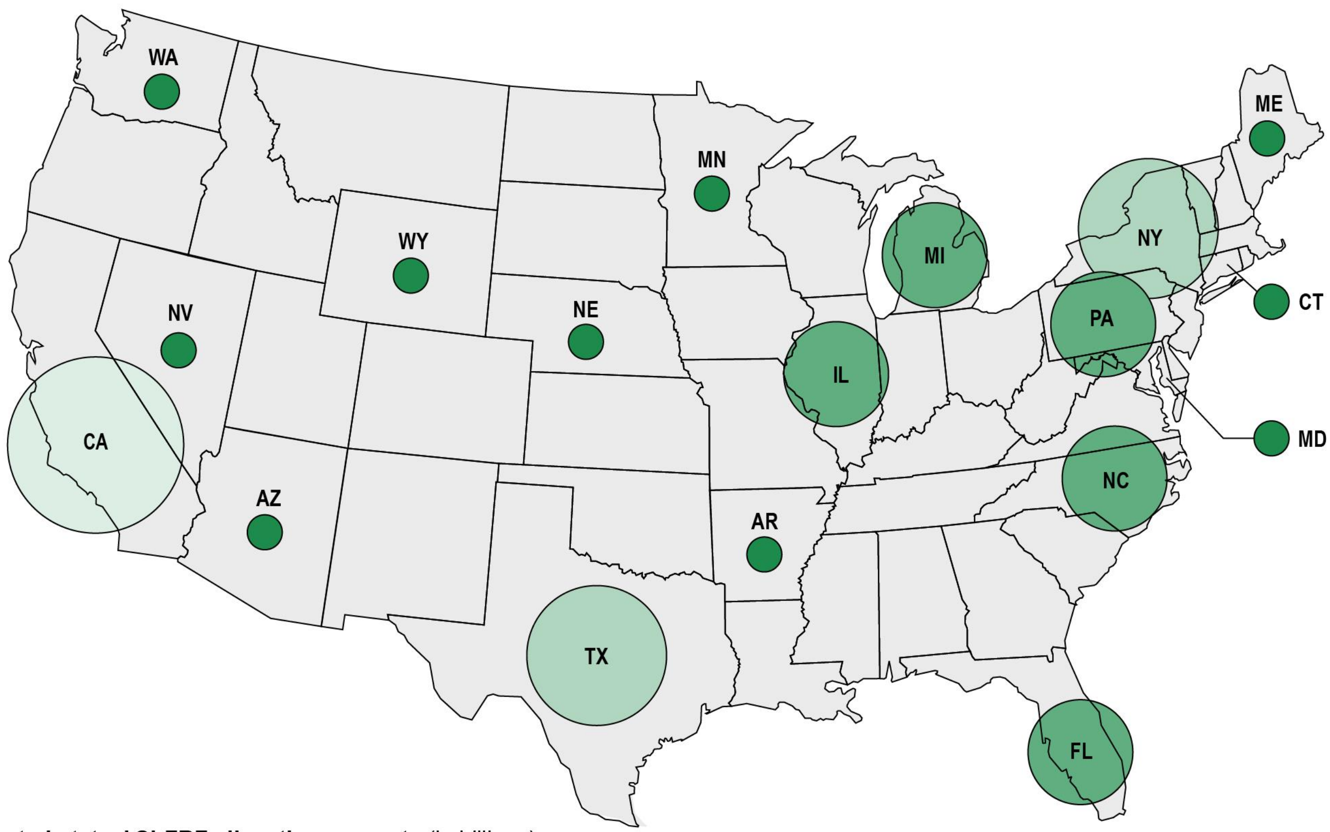
[5]We grouped the states according to low, medium, and high SLFRF awards, based on our calculation of the percentage of total state SLFRF allocations that each state received.

[6]We grouped the states according to low, medium, and high populations, based on the state's percentage of the national population estimate.

[7]We grouped the states according to low, medium, and high unemployment rates, based on the Bureau of Labor Statistics reported average unemployment rates for 2021.

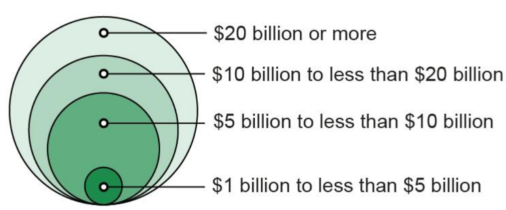
breakdown of the selected states in our review and their SLFRF allocation amounts.

Figure 1: Coronavirus State and Local Fiscal Recovery Fund (SLFRF) Allocation Amounts for Selected States



Selected states' SLFRF allocation amounts (in billions)

Arizona	$4.2	Minnesota	$2.8
Arkansas	$1.6	Nebraska	$1.0
California	$27.0	Nevada	$2.7
Connecticut	$2.8	New York	$12.7
Florida	$8.8	North Carolina	$5.4
Illinois	$8.1	Pennsylvania	$7.3
Maine	$1.0	Texas	$15.8
Maryland	$3.7	Washington	$4.4
Michigan	$6.5	Wyoming	$1.1



Sources: GAO analysis of Department of the Treasury data. | GAO-24-106027

Accessible data table for Figure 1: Coronavirus State and Local Fiscal Recovery Fund (SLFRF) Allocation Amounts for Selected States

State	Allocation
Arizona	$4.2 ($1 billion to less than $5 billion)
Arkansas	$1.6 ($1 billion to less than $5 billion)
California	$27.0 ($20 billion or more)
Connecticut	$2.8 ($1 billion to less than $5 billion)
Florida	$8.8 ($5 billion to less than $10 billion)
Illinois	$8.1 ($5 billion to less than $10 billion)
Maine	$1.0 (Less than $1 billion)
Maryland	$3.7 ($1 billion to less than $5 billion)
Michigan	$6.5 ($5 billion to less than $10 billion)
Minnesota	$2.8 ($1 billion to less than $5 billion)
Nebraska	$1.0 ($1 billion to less than $5 billion)
Nevada	$42.7 ($1 billion to less than $5 billion)
New York	$12.7 ($10 billion to less than $20 billion)
North Carolina	$5.4 ($5 billion to less than $10 billion)
Pennsylvania	$7.3 ($5 billion to less than $10 billion)
Texas	$15.8 ($10 billion to less than $20 billion)
Washington	$4.4 ($1 billion to less than $5 billion)
Wyoming	$1.1 ($1 billion to less than $5 billion)

Source: GAO analysis of Department of the Treasury data. | GAO-24-106027

Note: States' SLFRF allocation amounts are rounded to the nearest $100 million.

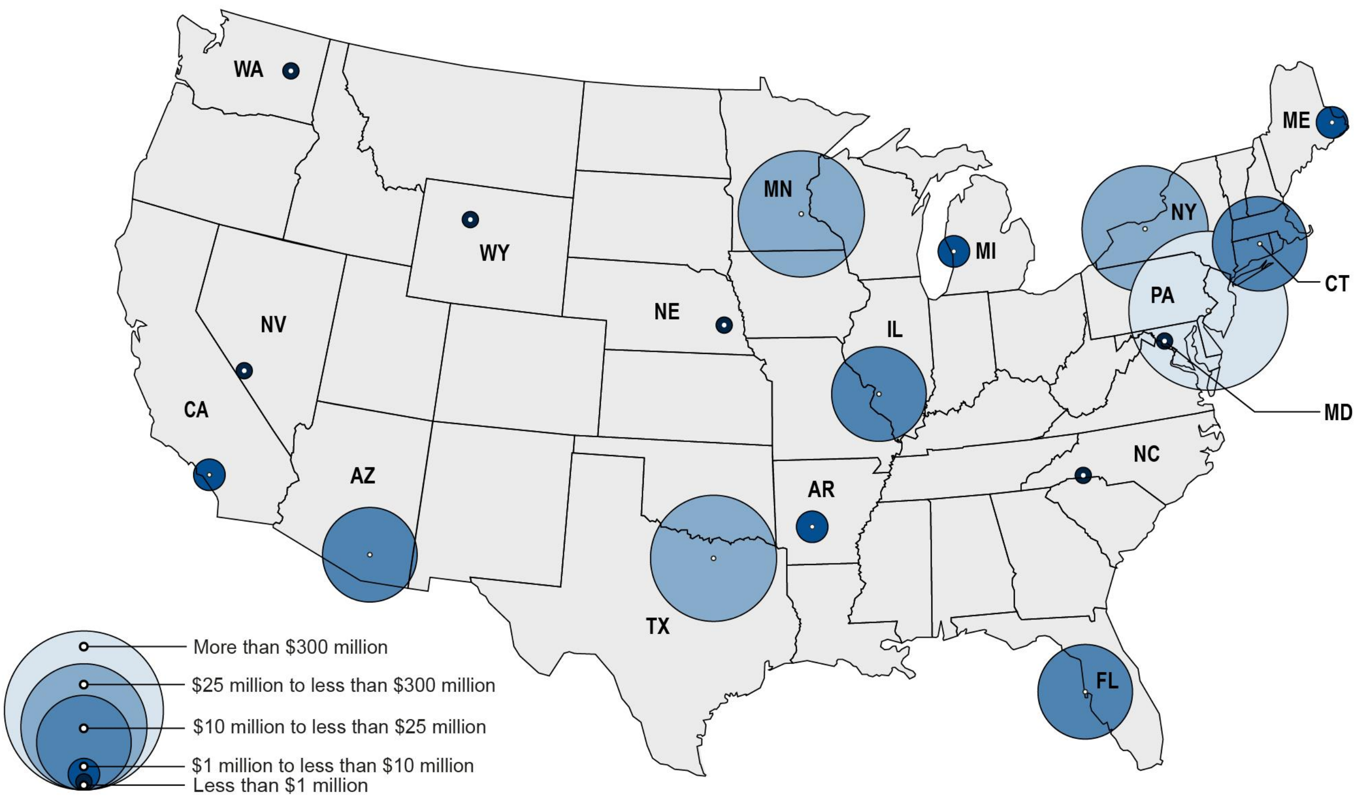
We also interviewed local officials in one randomly selected locality in each of the 18 selected states. Using Treasury data, we based our selection on (1) type of jurisdiction—metropolitan city (which we refer to as a city throughout this report), county, and smaller unit of government, referred to as non-entitlement unit of local government (NEU)—and (2) range in the amounts of SLFRF awards each jurisdiction received—large, medium, small.[8] We selected six localities within each of the three types

[8]A metropolitan city is defined as the central city within a metropolitan area (i.e., a standard metropolitan statistical area as established by the Office of Management and Budget) or any other city within a metropolitan area that has a population of 50,000 or more. 42 U.S.C. §§ 803(g)(4), 5302(a)(4). A metropolitan city includes cities that relinquish or defer their status as a metropolitan city for purposes of receiving allocations under 42 U.S.C. § 5306, for fiscal year 2021. NEUs are local governments typically serving populations of less than 50,000. 42 U.S.C. §§ 803(g)(5), 5302(a)(5). NEUs include cities, villages, towns, townships, or other types of local governments.

of jurisdictions, which resulted in: two large, medium, and small cities; two large, medium, and small counties; and two large, medium and small NEUs.[9] Figure 2 provides a breakdown of these localities by their jurisdiction types and SLFRF allocation amounts.

[9]For the purposes of our selection, we considered small to be within the bottom 25th percentile of SLFRF allocation amounts received; medium to be between the 40th and 60th percentiles of SLFRF allocation amounts received; and large to be within the top fifth percentile of SLFRF allocation amounts received.

Figure 2: Coronavirus State and Local Fiscal Recovery Fund (SLFRF) Allocation Amounts and Jurisdiction Type in Selected Localities



Selected localities' jurisdiction type and SLFRF allocation amounts (in millions)

Sahuarita, Arizona	Large non-entitlement unit (NEU)[a]	$10.5	Minneapolis, Minnesota	Large city	$271.2
Clark County, Arkansas	Medium county	$4.3	Murdock, Nebraska	Small NEU	$0.04
Arcadia, California	Small city[b]	$8.9	Esmeralda County, Nevada	Small county	$0.17
East Hartford, Connecticut	Medium city	$24.6	Monroe County, New York	Large county	$144.1
Dunedin, Florida	Large NEU	$18.3	Waco, North Carolina	Small NEU	$0.07
Belleville, Illinois	Medium city	$15.8	Philadelphia, Pennsylvania	Large city	$1,395
Washington County, Maine	Medium county	$6.1	Denton County, Texas	Large county	$172.3
Glen Echo, Maryland	Medium NEU	$0.27	Wilbur, Washington	Medium NEU	$0.24
Norton Shores, Michigan	Small city	$3.6	Hot Springs County, Wyoming	Small county	$0.86

Sources: GAO analysis of Department of the Treasury data. | GAO-24-106027

Accessible data table for Figure 2: Coronavirus State and Local Fiscal Recovery Fund (SLFRF) Allocation Amounts and Jurisdiction Type in Selected Localities

Locality	Jurisdiction type	SLFRF allocation
Sahuarita, Arizona	Large non-entitlement unit (NEU)[a]	$10.5 ($10 million to less than $25 million)

Locality	Jurisdiction type	SLFRF allocation
Clark County, Arkansas	Medium county	$4.3 ($1 million to less than $10 million)
Arcadia, California	Small city[b]	$8.9 ($1 million to less than $10 million)
East Hartford, Connecticut	Medium city	$24.6 ($10 million to less than $25 million)
Dunedin, Florida	Large NEU	$18.3 ($10 million to less than $25 million)
Belleville, Illinois	Medium city	$15.8 ($10 million to less than $25 million)
Washington County, Maine	Medium county	$6.1 ($1 million to less than $10 million)
Glen Echo, Maryland	Medium NEU	$0.27 (Less than $1 million)
Norton Shores, Michigan	Small city	$3.6 ($1 million to less than $10 million)
Minneapolis, Minnesota	Large city	$271.2 ($25 million to less than $300 million)
Murdock, Nebraska	Small NEU	$0.04 (Less than $1 million)
Esmerelda County, Nevada	Small county	$0.17 (Less than $1 million)
Monroe County, New York	Large county	$144.1 ($25 million to less than $300 million)
Waco, North Carolina	Small NEU	$0.07 (Less than $1 million)
Philadelphia, Pennsylvania	Large city	$1,395 (More than $300 million)
Denton County, Texas	Large county	$172.3 ($25 million to less than $300 million)
Wilbur, Washington	Medium NEU	$0.24 (Less than $1 million)
Hot Springs County, Wyoming	Small county	$0.86 (Less than $1 million)

Source: GAO analysis of Department of the Treasury data. | GAO-24-106027

[a]A non-entitlement unit refers to a non-entitlement unit of local government as defined in 42 U.S.C. § 803(g)(5).

[b]For the purposes of this report, city refers to a metropolitan city as defined in 42 U.S.C. § 803(g)(4).

For the purposes of our state and locality sample selections, we determined that the Census Bureau, Treasury, and Bureau of Labor Statistics data we used were sufficiently reliable for the purposes of this report. Our data reliability assessments included reviewing relevant documentation, interviewing relevant agency officials, and reviewing the data for obvious errors or outliers.

We developed and administered a semi structured interview to budget and related officials responsible for administering SLFRF awards in each of the 18 selected states and 18 selected localities. Specifically, we asked about steps they took to administer their SLFRF awards and any benefits and challenges they encountered in administering their awards.[10] We also analyzed related documents from these selected states and localities. Throughout this report, we use the terms "some" and "most" to characterize the number of states or localities that were similarly situated for a particular issue. Unless otherwise noted, we defined "some" to characterize between two and nine states or localities and "most" to characterize 10 or more states or localities. The results of these interviews are not generalizable to all states and localities.

To address our third objective, we reviewed Treasury's processes for reviewing SLFRF recipients' reporting to Treasury and their single audit reports; policies and procedures outlining the steps to be performed for those processes; and summary documentation of those reviews as implemented.[11] We compared Treasury's processes to criteria outlined in federal law, Office of Management and Budget (OMB) and Treasury guidance, and *Standards for Internal Control in the Federal Government*.[12]

To address all objectives, we interviewed officials from Treasury's Office of Recovery Programs and Office of Inspector General.

We conducted this performance audit from May 2022 to December 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[10]To provide context for and supplement our understanding of states' and localities' administration of their SLFRF awards, we met with a number of associations that represent state and local governments, which included the National Association of Counties; Government Finance Officers Association; National League of Cities; National Association of State Auditors, Comptrollers, and Treasurers; International City/County Management Association; National Governors Association; and the Association of Local Government Auditors.

[11]The Single Audit Act establishes requirements for nonfederal entities that receive federal awards to undergo single audits (or, in limited circumstances, program-specific audits) of those awards annually (unless a specific exception applies) when they spend at least $750,000 in federal awards in their fiscal year. 31 U.S.C. §§ 7501-06.

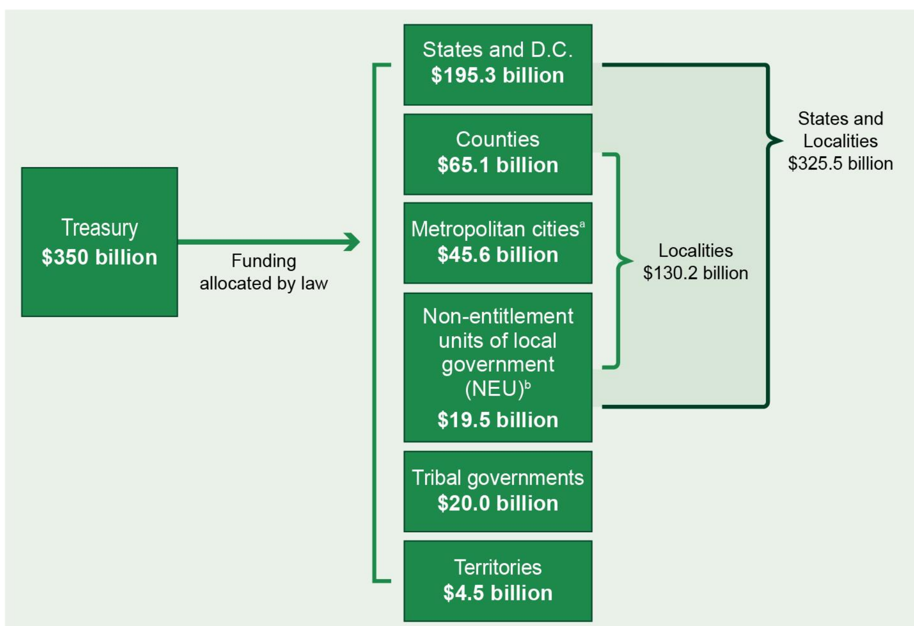
[12]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 10, 2014).

Background

SLFRF Allocations and Distributions

Under ARPA, $325.5 billion of the $350 billion appropriated for the SLFRF was allocated to the 50 states and the District of Columbia and 30,678 localities.[13] Localities consist of metropolitan cities (which we refer to as cities throughout this report), counties, and smaller local governments—those typically serving populations of less than 50,000—referred to as non-entitlement units of local government (NEU), as figure 3 shows.

Figure 3: Coronavirus State and Local Fiscal Recovery Funds Allocations by Recipient Type



Source: GAO analysis of the American Rescue Plan Act of 2021. Pub. L. No. 117-2, 135 Stat. 4 (2021). | GAO-24-106027

[13]The remaining $24.5 billion was allocated to tribal governments and U.S. territories.

Accessible text for Figure 3: Coronavirus State and Local Fiscal Recovery Funds Allocations by Recipient Type

1) Treasury ($350 billion) funding allocated by law.
    a) States and D.C., $195.3 billion
    b) Counties, $65.1 billion
    c) Metropolitan cities /a/, $45.6 billion
    d) Non-entitlement units of local government /b/, $19.5 billion
    e) Tribal governments, $20.0 billion
    f) Territories, $4.5 billion

Source: GAO analysis of the American Rescue Plan Act of 2021. Pub. L. No. 117-2, 135 Stat. 4 (2021). | GAO-24-106753

[a]A metropolitan city is defined as the central city within a metropolitan area (i.e., a standard metropolitan statistical area as established by the Office of Management and Budget) or any other city within a metropolitan area that has a population of 50,000 or more. 42 U.S.C. §§ 803(g)(4), 5302(a)(4). A metropolitan city includes cities that relinquish or defer their status as a metropolitan city for purposes of receiving allocations under 42 U.S.C. § 5306 for fiscal year 2021.

[b]NEUs are local governments typically serving populations of less than 50,000. 42 U.S.C. §§ 803(g)(5), 5302(a)(5). NEUs include cities, villages, towns, townships, or other types of local governments.

As part of its responsibility to administer the SLFRF, Treasury employed a number of methodologies to determine the size of each state's and locality's SLFRF award based on specific factors, such as population size and unemployment rates. Most states and all localities were required under ARPA to receive their SLFRF awards in two equal tranches approximately one year apart.[14] Treasury sent direct payments to all SLFRF recipients except NEUs. ARPA required that states receive NEU funds from Treasury and then distribute payments to each NEU within

[14]According to Treasury, states that had experienced a net increase of more than 2 percentage points in their unemployment rate from February 2020 to the date of the latest available data at the time the state certified for their payment received their full award in a single payment. Under ARPA, to the extent practicable, states receive award funds not later than 60 days after certifying that the state requires the payment to carry out the activities specified in statute and will use the funds in compliance with the eligible uses. 42 U.S.C. § 802(b)(6), (d)(1). Metropolitan cities, states (for distribution to NEUs), and counties received award funds in two equal tranches, providing the first payment 60 days after March 11, 2021, to the extent practicable, and the second payment no earlier than 12 months after the first. 42 U.S.C. § 803(b)(7). After receiving award funds for distribution to NEUs, states had 30 days to make those distributions, unless Treasury granted an extension. 42 U.S.C. § 803(b)(2)(C).

their respective states, based on the states' verification of the NEU's eligibility.[15] Under ARPA, states have 30 days to distribute funds to NEUs, once they receive the funds from Treasury. States can receive a 30-day extension if the distribution causes an "excessive administrative burden." States can receive subsequent extensions if the state provides a written plan for distributing funds and Treasury determines that the plan is "reasonably designed" to distribute such funds.[16]

Treasury began distributing SLFRF awards to recipients in May 2021. Recipients have until December 31, 2024, to obligate their SLFRF awards, in accordance with ARPA.[17] Recipients also have until December 31, 2026, to liquidate those obligations (spend their awards).[18] In its 2022 Final Rule implementing the SLFRF, Treasury explained that it set the obligation deadline based on its interpretation of the statutory requirement that eligible costs must be "incurred" by December 31, 2024.[19]

SLFRF Reporting

As authorized under ARPA, the SLFRF allows for a broad range of eligible uses to respond to the COVID-19 pandemic and its economic

[15]ARPA requires states to allocate and distribute to NEUs an amount that is the same proportion to the amount of the payment as the population in the NEU is to the share of the total population of all NEUs in the state, subject to a cap. 42 U.S.C. § 803(b)(2)(C).

[16]42 U.S.C. § 803(b)(2)(C).

[17]Treasury defines obligation as an order placed for property and services and entering into contracts, subawards, and similar transactions that require payment. It also means a requirement under federal law or regulation or provision of the award terms and conditions to which a recipient becomes subject as a result of receiving or expending funds. 31 C.F.R. § 35.3.

[18]87 Fed. Reg. 4338, 4340 (Jan. 27, 2022). The Consolidated Appropriations Act, 2023, authorized SLFRF funding for certain infrastructure and community development projects that meet existing eligibility criteria. Pub. L. No. 117-328, div. LL, § 102, 136 Stat. 4459, 6097 (2022). Funds for certain infrastructure and community development projects must be obligated by December 31, 2024, and liquidated by September 30, 2026. For example, this includes funds for the Bridge Investment Program, National Highway Performance Program, and Surface Transportation Block Grant Program, among other programs, and activities under section 105(a) of the Housing and Community Development Act of 1974. 42 U.S.C. § 802(c)(5)(A)-(E).

[19]87 Fed. Reg. 4338, 4433 (Jan. 27, 2022). Treasury also stated that it interprets "incurred" to be equivalent to the definition of "obligation."

effects, as discussed below.[20] Recipients of SLFRF awards are required to meet reporting requirements established by Treasury—and authorized under ARPA—to detail their uses of funds. Specifically, SLFRF recipients are required to submit "project and expenditure reports" to provide information on how they used their awards, including obligation and expenditure amounts and descriptions of projects they have undertaken.[21]

States and localities are to submit these reports through Treasury's online reporting portal quarterly or annually, depending on the type of recipient and the award size.

- Quarterly reporting is required of (1) states, metropolitan cities, and counties with more than 250,000 residents or those that were allocated more than $10 million in SLFRF funds; and (2) NEUs that were allocated more than $10 million in SLFRF funds.
- Annual reporting is required of (1) metropolitan cities and counties with fewer than 250,000 residents that were allocated less than $10

[20]ARPA established that recipients can use their SLFRF awards to cover costs incurred by December 31, 2024, to (1) respond to the COVID-19 public health emergency or its negative economic impacts; (2) provide premium pay to essential workers, or grants to employers with essential workers; (3) provide government services up to the amount of the reduction in revenue; and (4) make necessary investments in water, sewer, or broadband infrastructure. 42 U.S.C. §§ 802(c), 803(c). Subsequently, the Consolidated Appropriations Act, 2023, established that recipients may also use their awards to provide emergency relief from natural disasters or the negative impacts of natural disasters. Pub. L. No. 117-328, div. LL, § 102, 136 Stat. 4459, 6098 (2022), which is classified at 42 U.S.C. §§ 802(c)(1)(E), 803(c)(1)(E). Based on Treasury guidance, recipients may not provide premium pay for work performed after April 10, 2023, when the COVID-19 National Emergency ended but may award premium pay for work performed prior to that date. There are several restrictions on recipients' uses of SLFRF awards. Recipients other than tribal governments may not deposit SLFRF awards into a pension fund. 42 U.S.C. §§ 802(c)(2)(A), 803(c)(2). Also, recipients that are states or territories may not use SLFRF awards to offset a reduction in net tax revenue resulting from the recipient's change in law, regulation, or administrative interpretation. 42 U.S.C. § 802(c)(2)(A). The constitutionality of the offset provision is currently being litigated in several courts. In addition, recipients may not use SLFRF awards directly to service debt, satisfy a judgment or settlement, or contribute to a "rainy day" fund. 87 Fed. Reg. 4338, 4394 (Jan. 27, 2022).

[21]In addition to the project and expenditure report, Treasury requires an interim report and a recovery plan performance report from certain recipients. The interim report was a one-time requirement due in 2021 that provided an initial overview of recipients' status and uses of funding. The recovery plan performance report is an annual report that provides information on the projects large recipients are undertaking, including how they plan to ensure program outcomes are achieved effectively, efficiently, and equitably. NEUs were not required to submit an interim report. Only states, the District of Columbia, U.S. territories, and metropolitan cities and counties with a population that exceeds 250,000 residents are required to submit recovery plan performance reports.

million in SLFRF funds, and (2) NEUs that were allocated less than $10 million in SLFRF funds.

In completing project and expenditure reports, SLFRF recipients are required to report on their uses of award funds across seven spending categories (see fig. 4).[22]

Figure 4: Coronavirus State and Local Fiscal Recovery Funds Spending Categories in Treasury Project and Expenditure Reports, as of Mar. 31, 2023

Public health

Funds for COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and other public health services.

Negative economic impacts

Funds to respond to the negative economic impacts of COVID-19 on households, small businesses, nonprofits, and impacted industries.

Public sector capacity[a]

Funds to support public sector workforce and capacity, including payroll and benefits for public safety workers and rehiring public sector staff.

Premium pay[b]

Funds for premium pay to eligible public and private sector workers performing essential work during the COVID–19 pandemic.

Infrastructure

Funds for necessary investments to improve clean drinking water access and wastewater and stormwater infrastructure, and provide locations with an identified need with new or expanded broadband access.

Revenue replacement

Funds for providing government services to the extent of a reduction in revenue due to COVID-19.

Administrative

Funds to cover expenses for managing awards, such as fees for consultants to ensure program compliance and facility or administrative function costs.

Source: GAO analysis of Department of the Treasury information; GAO (icons). | GAO-24-106027

[22]Treasury published an interim final rule implementing amendments to the SLFRF program in the Consolidated Appropriations Act, 2023. 88 Fed. Reg. 64986 (Sept. 20, 2023); see also Pub. L. No. 117-328, 136 Stat. 4459 (2022). Treasury officials told us they expect to finalize changes to the reporting portal, reflecting the expanded eligible uses available in the interim final rule, and issue relevant guidance before the October 2023 project and expenditure reports are due.

Accessible text for Figure 4: Coronavirus State and Local Fiscal Recovery Funds Spending Categories in Treasury Project and Expenditure Reports, as of Mar. 31, 2023

Public health	Funds for COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and other public health services.
Negative economic impacts	Funds to respond to the negative economic impacts of COVID-19 on households, small businesses, nonprofits, and impacted industries.
Public sector capacitya	Funds to support public sector workforce and capacity, including payroll and benefits for public safety workers and rehiring public sector staff.
Premium payb	Funds for premium pay to eligible public and private sector workers performing essential work during the COVID–19 pandemic.
Infrastructure	Funds for necessary investments to improve clean drinking water access and wastewater and stormwater infrastructure, and provide locations with an identified need with new or expanded broadband access.
Revenue replacement	Funds for providing government services to the extent of a reduction in revenue due to COVID-19.
Administrative	Funds to cover expenses for managing awards, such as fees for consultants to ensure program compliance and facility or administrative function costs.

Source: GAO analysis of Department of the Treasury information; GAO (icon). | GAO-24-106753

[a]Treasury guidance refers to this category as Public health-Negative economic impact: Public sector capacity.

[b]Based on Treasury guidance, recipients may not provide premium pay for work performed after April 10, 2023, when the National Emergency related to COVID-19 ended, but may award premium pay for work performed prior to that date.

Of the seven spending categories, revenue replacement provides recipients with the most flexibility in their use of SLFRF awards and streamlined reporting requirements, according to Treasury guidance. Under this category, recipients may use their funds to cover a broad range of government services (i.e., generally any service traditionally provided by a government) up to the amount of revenue loss experienced during the pandemic. Recipients may use SLFRF awards for revenue replacement for projects that also are eligible under the other spending categories because those categories include services that governments provide.

Recipients have two options for calculating revenue loss. They may calculate revenue loss using a formula that Treasury established, or they may elect a $10 million “standard allowance,” which allows them to spend up to $10 million or the maximum of their SLFRF awards, whichever is less, over the course of the SLFRF program.[23]

In their project and expenditure reports, SLFRF recipients can report funds used to replace lost revenue as a single project, even if the project description notes that funds are used for more than one activity or purpose. Furthermore, for projects under the revenue replacement category, Treasury has issued guidance that portions of a project that a SLFRF recipient passes through to other entities are not considered subawards since the public purpose of the SLFRF award as authorized by law is achieved once the recipient replaces lost revenue.[24]

We recently reported that, as of March 31, 2023, states reported obligating 60 percent ($118.3 billion) and spending 45 percent ($88.2 billion) of SLFRF funds they received. Localities reported obligating 54 percent ($67.5 billion) and spending 38 percent ($47.9 billion) of their awards. States and localities each reported spending the largest amount of their awards to replace lost revenue. States reported spending 45 percent of their awards ($39.5 billion) to replace lost revenue; localities reported spending 68 percent ($32.4 billion) to replace lost revenue. [25]

Treasury and Recipient SLFRF Administration

Treasury's Office of Capital Access (OCA)—previously known as the Office of Recovery Programs—is responsible for administering the SLFRF program and other COVID-19-related relief and recovery

[23]Treasury offered the "standard allowance" option in its 2022 final rule implementing the SLFRF. 87 Fed. Reg. 4338, 4401-03 (Jan. 27, 2022). Subsequently, the "standard allowance" was codified into law. Pub. L. No. 117-328, div. LL, § 102, 136 Stat. 4459, 6097 (2022), *codified at* 42 U.S.C. §§ 802(c)(1), 803(c)(1).

[24]Treasury has determined that there are no subawards under the revenue replacement category, based on the definition of "subrecipient" in OMB's *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards,* which is reprinted in 2 C.F.R. part 200 (Uniform Guidance). See 2 C.F.R. § 200.1. Specifically, the definition of a subrecipient in the Uniform Guidance provides that a subaward is provided to "carry out" a portion of a federal award. According to Treasury, recipients' use of funds for replacing revenue does not give rise to subrecipient relationships given that there is no federal program or purpose to carry out in the case of the revenue replacement portion of the award. See Department of the Treasury, *Coronavirus State and Local Fiscal Recovery Funds Final Rule: Frequently Asked Questions* (as of July 2023), 13.14.

[25]For more information, see GAO, *COVID-19 Relief: States' and Localities' Fiscal Recovery Funds Spending as of March 31, 2023*, GAO-24-106753 (Washington, D.C.: Oct. 11, 2023).

programs.[26] Among other things, OCA staff are responsible for providing information to recipients to help them manage their awards, reviewing recipient reporting, and monitoring and overseeing recipients' use of their awards. For example, OCA has issued guidance to recipients on various aspects of SLFRF administration, including using the funds, distributing funds to NEUs, and meeting reporting requirements.

All states and localities—including NEUs—are direct recipients of SLFRF awards. Thus, they are responsible for all programmatic, financial, and administrative aspects of their awards, including determining eligible uses, designing controls to deter the misuse of funds, meeting reporting requirements, and monitoring subrecipients.

In addition, SLFRF recipients may be subject to single audits, as required by the Single Audit Act and OMB's implementation guidance.[27] The act establishes requirements for nonfederal entities (including states and local governments) that receive federal award funds to undergo single audits (or, in limited circumstances, program-specific audits) of those awards annually (unless a specific exception applies) when they spend $750,000 or more in federal award funds during their respective fiscal years.[28]

[26]The Office of Recovery Programs was renamed the Office of Capital Access as of November 2, 2023, according to Treasury officials.

[27]The Single Audit Act is codified, as amended, at 31 U.S.C. §§ 7501-06, and implementing (OMB) guidance is reprinted in 2 C.F.R. part 200 subpart F.

[28]Some SLFRF recipients are eligible to undergo an Alternative Compliance Examination Engagement instead of a single audit. Eligible recipients include entities that would not otherwise be required to undergo an audit pursuant to 2 C.F.R. § 200 Subpart F, if it were not for the expenditures of SLFRF funds directly awarded by Treasury. These engagements are conducted in accordance with *Government Auditing Standards* and the American Institute of Certified Public Accountants *Statements on Standards for Attestation Engagements*. SLFRF recipients provide these reports to Treasury by uploading them to Treasury's reporting portal and the Federal Audit Clearinghouse, which is the repository of record where nonfederal entities are required to transmit the information required by the Single Audit Act and OMB's implementing guidance. These engagements are described in detail in OMB's 2021 Compliance Supplement, Part 8, Appendix VII Technical Update. The compliance supplement is a document that identifies existing, important compliance requirements that the federal government expects to be considered as part of an audit required by the Single Audit Act.

Officials in All Selected States and Localities Reported Taking a Range of Steps to Administer Their SLFRF Awards

Officials in All Selected States and Most Larger Selected Localities Reported Expanding Their Capacity to Administer Their SLFRF Awards

Officials in all of the 18 selected states and most of the larger selected localities (i.e., entities that received a range of between tens of millions and tens of billions of dollars in SLFRF awards) told us they expanded their capacity to administer their SLFRF awards. These states and localities are using their awards to fund a range of projects across entities within their jurisdictions. Officials from some of these states and localities told us that managing and coordinating their SLFRF awards across multiple entities—such as collecting information for required reporting—has been a substantial effort and required additional resources as well as developing and implementing new policies and procedures. Steps that these states and localities reported taking to expand their capacity included:

Reassigning existing or hiring new staff. Officials in all 18 selected states and most of the larger selected localities told us they reassigned existing staff or hired new staff—including consultants or contractors. Officials from some of these states and localities said they did so to manage their increased workload and to help ensure they possessed the experience, knowledge, and skills needed to administer their awards. For example:

- **Maine** reassigned its Director of Internal Audit (responsible for reviewing state agencies' internal controls) to manage multiple SLFRF-related administrative tasks. In this reassigned role, the Director is responsible for (1) reviewing state agencies' proposed SLFRF-funded projects to ensure their compliance with SLFRF requirements and (2) managing the state's required reporting to Treasury.
- **Washington** created new staff positions to manage the state's SLFRF award within its Office of Financial Management. State officials told us they hired new staff to fill those positions. For example, the office created and hired a Federal Funds Reporting

Coordinator to respond to Treasury reporting requirements, among other responsibilities.

- **Dunedin, Florida** retained a consultant with substantial experience in helping cities manage federal awards. A Dunedin official told us that the city had limited experience with receiving funds directly from the federal government. As a result, the consultant was hired to advise Dunedin on a range of issues, including allowable uses of SLFRF funds, reporting requirements, and monitoring subrecipients to ensure their appropriate uses of funds.

Developing new or adapting existing IT systems. Officials from most selected states and some selected localities told us they developed new or adapted existing IT systems to administer their SLFRF awards. Officials in these states and localities told us that the new systems helped them manage required documentation more effectively and efficiently to meet Treasury reporting requirements. For example:

- **Illinois** officials told us that the state adapted an online portal, managed by the state's Department of Commerce and Economic Opportunity, to collect the required documentation from NEUs before distributing their awards. Illinois officials also told us that the portal facilitated the process for distributing awards to NEUs efficiently.
- **Pennsylvania** developed and implemented a new financial system for managing and reporting its SLFRF award. Pennsylvania officials said that the state's core financial system captured SLFRF financial data, such as obligations and expenditures, but did not have the capability to capture other related SLFRF programmatic data, such as performance information. The new system allows the state to capture all required data, facilitating easier reporting.
- **Monroe County, New York** developed an online portal to collect documentation from applicants applying for SLFRF funds. County officials told us that the portal enables the county to collect all required documentation from grantees in a central location, which facilitates the county's administration of the funds.

Implementing new or modifying existing internal controls. Officials in most selected states and some larger selected localities told us they implemented new internal controls or modified their existing internal controls. Officials in some of these states and localities told us they did so to help ensure oversight of, and accountability for, their use of SLFRF awards. For example:

- **Nevada's** Governor's Finance Office—responsible for administering the state's SLFRF award—developed new internal controls to support its implementation of the program. These controls included procedures for managing SLFRF-related contracts and subawards to state agencies, nonprofit organizations, and businesses. Nevada officials told us that this office generally does not manage grants and lacked internal controls prior to receiving the state's SLFRF award. The new internal controls are intended to ensure the office's compliance with SLFRF rules and regulations.
- **North Carolina** modified its existing statewide internal controls to help ensure the state's compliance with SLFRF requirements. For example, the state created a Pandemic Recovery Office to oversee, coordinate, and ensure proper reporting and accounting for the state's use of COVID-19 recovery funds. The office is responsible for reviewing state agencies' documentation on planned SLFRF-funded projects to ensure their compliance with Treasury requirements.
- **Denton County, Texas** added SLFRF-specific internal controls to its existing processes for administering federal funds. For example, the county developed a process for checking each expenditure made by subrecipients, such as nonprofit organizations. County officials told us that this new process allows the county to ensure that its award is being used only for eligible expenses.

Establishing new or leveraging existing offices. Officials in most selected states and one larger selected locality told us they established new or leveraged existing offices to oversee the administration of their SLFRF awards. Officials in some of these states and the one locality noted that administering SLFRF awards through existing offices or management structures was not feasible, given the size and scope of their SLFRF awards. For example:

- **Minnesota** created a COVID-19 Response Accountability Office earlier in the pandemic to track and monitor COVID-related funds, including the SLFRF. Housed within the Minnesota Management and Budget office, the newly created office is responsible for coordinating with state agencies as well as with Minnesota Management and Budget's budgeting and accounting divisions over SLFRF funds. The office is also responsible for ensuring that state recipients, including subrecipients of SLFRF funds, meet Treasury reporting requirements.
- **California** established a Federal Funds Accountability and Cost Tracking Unit within the state's Department of Finance to monitor, track, and report on its use of its SLFRF award. Earlier in the pandemic, the state had tasked department staff with managing

COVID-19 relief funding, including awards from the Coronavirus Relief Fund.[29] California determined that given the size of its SLFRF award ($27 billion) and anticipated projects across a wide range of state agencies, the department's existing staff levels would not be adequate to administer the state's SLFRF award. The state expects that the new unit and its dedicated staff will be able to ensure consistency in data gathering and reporting across the state. Once the SLFRF award expires, California plans to operate its new unit through the state's general fund. Specifically, the state plans to use the unit to streamline and improve tracking and reporting and oversee future federal funds, such as those for economic stimulus and natural disaster response and recovery.

- **Philadelphia, Pennsylvania** leveraged its COVID-19 Recovery Office—established in the spring of 2020—to manage state and federal COVID-19 relief funds, including the SLFRF. A steering committee comprised of city leaders from the Mayor's Office, the City Council, and programmatic departments oversees the office's activities. According to Philadelphia officials, these activities include (1) identifying the city's SLFRF spending priorities, (2) ensuring adherence to federal rules and requirements, and (3) reporting to Treasury. Philadelphia officials told us that this management structure has helped to ensure the city's effectiveness in implementing federal COVID-19 relief funds, including the SLFRF.

Officials in Most Smaller Selected Localities Reported Administering Their SLFRF Awards with Existing Staff and Processes

Officials in most of the smaller selected localities—those that received between tens of thousands of dollars and $10 million in SLFRF allocations—told us they generally administered their SLFRF awards with their existing staff and processes. Some local officials told us that their additional responsibilities for administering SLFRF awards increased their workloads, but not unreasonably so. For example:

- **Glen Echo, Maryland's** town manager assumed responsibility for managing the town's approximately $266,000 SLFRF award as part of

[29]The CARES Act appropriated $150 billion to Treasury for the Coronavirus Relief Fund for direct assistance to tribal governments, states, the District of Columbia, localities, and U.S. territories for necessary expenses incurred due to the COVID-19 public health emergency. 42 U.S.C. § 801.

the position's normal duties, according to the town manager. At one time, Glen Echo had considered pooling SLFRF funds with nearby towns to hire a consultant for helping manage the funds. However, the Glen Echo town council decided that the cost to hire a consultant was not feasible. The town manager told us that, as the town's only full-time employee, being responsible for administering the SLFRF has increased her workload.

- **Hot Springs County, Wyoming's** clerk told us that the county did not hire additional staff to assist with administering the county's SLFRF awards. As a result, the county clerk assumed primary responsibility for administering the awards, including reviewing Treasury guidance for allowable uses and managing the county's required reporting. The clerk's experience working for a Certified Public Accountant firm, including auditing financial statements and conducting single audits, helped with effective management of the funds, according to the clerk. The clerk added that there have not been any major challenges in managing the SLFRF awards.
- An official in **Murdock, Nebraska** told us that two of the town's part-time volunteers, who regularly help to manage the town's operations, have assumed the management and administration of the town's SLFRF award into their day-to-day duties. The official said that prior to receiving SLFRF funds, Murdock had never received funds directly from the federal government. This town official told us that Treasury's reporting guidance is complex and the volunteers do not have a solid understanding of the reporting requirements, given their limited experience. As a result, the volunteers must rely heavily on Treasury for assistance.

Officials in Selected States and Localities Identified Benefits and Challenges in Administering Their SLFRF Awards

State and Local Officials Reported Benefits from Enhanced Spending Flexibilities and Eased Reporting Burdens

Most of the 18 selected states and localities have spent all or a portion of their SLFRF awards on replacing revenue.[30] Officials in some of these states and localities said that using funds to replace revenue for government services enhanced spending flexibilities and eased their reporting burdens.

Enhanced spending flexibilities. Officials in most selected states said that spending funds under the revenue replacement category provided additional spending flexibilities by broadening the allowable uses, including the populations targeted by spending. Connecticut, Florida, Illinois, Maine, Michigan, and New York officials told us that using revenue replacement allowed them to fund programs, such as important services and responses to changing pandemic response priorities, that were not clearly identified as allowable in Treasury's other spending categories. For example, to address the impact of lost instructional time during the pandemic, Connecticut used some of its SLFRF award to fund services to students beginning in pre-kindergarten. Connecticut officials explained that, based on their understanding of Treasury policy, funding these services is allowable under Treasury's Negative Economic Impacts spending category, but only for students beginning kindergarten. Officials said the state categorized its spending as revenue replacement to allowably expand services to pre-kindergarten students, whom the state identified as also being affected by lost instructional time during the pandemic.

[30]We recently reported on states' and localities' spending of their SLFRF awards. Specifically, as of March 2023, all 50 states (including the District of Columbia) reported to Treasury that they spent 45 percent ($88.2 billion) of their total SLFRF awards toward replacing revenue while more than 26,410 localities had reported spending 68 percent ($32.4 billion) of their total SLFRF awards for this purpose. For additional information, see GAO, *COVID-19 Relief: States' and Localities' Fiscal Recovery Funds Spending as of March 31, 2023*, GAO-24-106753 (Washington, D.C.: Oct. 11, 2023).

Officials in most selected localities said that spending funds to replace revenue increased their flexibility to address the needs of their local citizens. For example, officials in Sahuarita, Arizona; Dunedin, Florida; and Belleville, Illinois, told us that revenue replacement enhanced spending flexibilities because these entities are not responsible for services—such as public health—that fall under Treasury's other spending categories. Belleville officials said that most of the allowable uses in Treasury's Public Health spending category are not activities typically within the city's purview; rather, the county in which the city is situated is responsible for most public health activities. Therefore, the city focused on other activities within its area of responsibility that were allowable under the revenue replacement category, such as roadway replacement.

Eased reporting burdens. Officials in some selected states told us that using SLFRF awards to replace revenue also significantly eased their reporting burdens, particularly because Treasury does not require that recipients report data on subawards for projects categorized as revenue replacement. As noted earlier, Treasury does not consider portions of a project that a SLFRF recipient passes through to other entities to be subawards, as the public purpose of the SLFRF award as authorized by law is achieved once the recipient replaces lost revenue. Connecticut, Maryland, North Carolina, Pennsylvania, and Texas officials told us that revenue replacement also eased the reporting burdens for state agencies that received SLFRF funds, which, for some of these states, have limited experience meeting federal reporting requirements.

Additionally, officials in some selected localities said they planned to report all SLFRF spending under the revenue replacement category to accommodate the locality's limited capacity. For example, officials in Waco, North Carolina (a city of under 500 residents), told us they have limited experience with federal financial assistance, having received only one grant—passed through from the state—in 2016. Waco officials said that using the standard allowance of up to $10 million for revenue loss significantly simplified reporting to Treasury, compared to using Treasury's formula to calculate revenue loss. With the standard allowance, officials said that the city was confident that it could meet Treasury's reporting requirements by funding all of its projects under general government services within the revenue replacement category.

State and Local Officials Identified a Range of Challenges in Administering Their SLFRF Awards

Selected states and localities reported experiencing a range of challenges in administering their SLFRF awards, which included unclear and changing Treasury guidance, technical issues with Treasury's reporting portal, difficulties in distributing awards to NEUs, and challenges in obtaining assistance from Treasury.

Treasury Guidance

State and local officials identified areas where they found Treasury's guidance to be unclear or where continuing changes to Treasury's guidance resulted in challenges that slowed spending or altered spending plans and created administrative burdens.

Obligation deadlines. Officials in some selected states told us they needed additional clarity from Treasury on how to obligate state employee salaries and remain in compliance with the December 31, 2024, deadline for obligating funds. For example, officials in Connecticut, Maine, Michigan, Nevada, and Wyoming told us that employee salaries are authorized by the state legislature during the state's annual (i.e., every year) or biennial (i.e., every 2 years) budget cycle and cannot be legislatively authorized prior to that budget cycle.[31] That is, states cannot obligate anticipated staff salaries for 2026—the year in which recipients are required to liquidate their SLFRF obligations—prior to the obligation deadline of December 31, 2024. Maine, for example, operates on a biennial budget cycle covering 2024 and 2025. The state's 2026 and 2027 budget will likely not be approved until after the obligation deadline of December 31, 2024.

Treasury guidance directed SLFRF recipients, such as states, to follow state or local law and each state's practices and policies regarding when they are considered to have incurred an obligation. However, according to officials from associations representing state and local governments, states typically cannot incur obligations outside of an approved budget,

[31]Michigan operates on an annual budget cycle, which means the budget provides for appropriations for one year. Connecticut, Maine, Nevada, and Wyoming operate on a biennial cycle, which means the budget provides for appropriations for 2 years.

and states may not be able to establish authority providing otherwise to meet the SLFRF's timeline.

Some state officials told us they have had to consider alternative solutions to funding staff salaries to meet the December 31, 2024, obligation deadline, such as creating multiyear contracts for state employees. State officials said they are not sure whether those solutions will comply with Treasury program requirements.

In addition, officials in Arizona, Connecticut, Illinois, Maine, Nebraska, North Carolina, and Texas said that Treasury's guidance is not clear on the circumstances in which SLFRF recipients can reobligate SLFRF funds after the December 31, 2024, deadline but before the December 31, 2026, expenditure deadline.[32] For example, Connecticut and Illinois officials noted that if a state were to cancel a contract after the December 31, 2024, obligation deadline—due to a contractor's failure to perform remaining work—officials were not clear if they are allowed to reobligate the funds or required to return them to Treasury. Illinois officials further said that, in the absence of clear guidance, they have been hesitant to obligate funds to larger, longer-term projects, which could involve substantial work after the December 31, 2024, obligation deadline.

Further, in a letter to Treasury dated September 14, 2023, a number of associations representing state and local governments expressed similar concerns regarding a need for clarity on these issues.[33] For example, associations raised concerns that some state and local governments may not have the authority to establish a policy that would clarify their ability to obligate payroll expenses on the necessary timeline for the SLFRF program. They also noted that Treasury's existing guidance is subject to interpretation, while additional guidance would assist governments to meet the intended purpose of the SLFRF.

In August 2023, Treasury officials told us they were aware of states' and localities' concerns over obligating staff salaries and reobligating SLFRF funds to meet the statutory deadlines. The officials further said they were

[32]Reobligation is the obligation of deobligated funds for a different authorized use. Deobligation is the cancellation or downward adjustment of previously incurred obligations. Deobligated funds may be reobligated within the period of availability of an appropriation.

[33]The associations included the Government Finance Officers Association; the National Association of State Auditors, Comptrollers and Treasurers; the National Association of State Budget Officers; and the National League of Cities.

in the process of considering actions to address these concerns—such as providing information on how recipients can remain in compliance with obligation deadlines in these circumstances—but had not yet done so.

In a draft of our report we provided to Treasury officials on November 2, 2023, for their review and comment, we recommended that Treasury clarify guidance to address actions that recipients may take on obligating and reobligating SLFRF funds to remain in compliance with the deadlines established for the SLFRF program.

Subsequently, on November 20, 2023, Treasury issued an interim final rule (IFR) to amend the definition of "obligation" to provide flexibility and guidance to recipients regarding the amendment and replacement of contracts and subawards.[34]

- Treasury revised the definition of obligation, such that recipients are considered to have incurred an obligation by December 31, 2024, with respect to a requirement under federal law or regulation or a provision of the SLFRF award terms and conditions to which the recipient becomes subject as a result of receiving or expending funds.[35] Recipients may use funds to cover costs, including personnel costs, related to reporting and compliance requirements and single audit costs, among others. For example, a recipient may consider SLFRF funds obligated by December 31, 2024, if the recipient plans to use the funds to pay the salaries of staff who manage the project and expenditure reporting to Treasury. To take advantage of this flexibility,

[34]*Coronavirus State and Local Fiscal Recovery Funds*, 88 Fed. Reg. 80584 (Nov. 20, 2023), *to be codified at* 31 C.F.R. pt 35. The interim final rule (IFR) was published in the *Federal Register* and became effective on November 20, 2023. Treasury stated that immediate implementation of the amendments to the obligation deadline will enable recipients to complete their internal budgeting processes in time to meet the statutory deadline to incur costs by December 31, 2024. Treasury is seeking public comment on the IFR through December 20, 2023. Interim final rules are considered final rules that carry the force and effect of law. Agencies may revise and replace an IFR with a non-interim final rule after the agency considers post-promulgation public comments received. The IFR also clarified that subrecipients are not subject to the December 31, 2024, obligation deadline.

[35]88 Fed. Reg. at 80586.

recipients must meet certain additional reporting requirements, including reporting to Treasury by April 30, 2024.[36]

- Treasury clarified that recipients that reobligate funds to new contractors or subrecipients after December 31, 2024, will be considered to have used their funds to cover an obligation incurred prior to December 31, 2024, under certain circumstances.[37] For example, a recipient may replace a contract with previously obligated funds if the recipient terminates the contract or subaward because the contractor or subawardee went out of business.[38]

Treasury is seeking public comment on the IFR through December 20, 2023.

Changes to reporting guidance. In early January 2022, Treasury released a user guide that contained detailed instructions to help recipients navigate the portal and adhere to reporting requirements. In most selected states and in one locality, officials told us that the information in the user guide continued to change across reporting cycles, creating additional burdens. For example, Arkansas officials said that Treasury's reporting requirements for broadband projects changed across multiple reporting cycles. Treasury's user guide for the October 2022 reporting cycle included specific reporting requirements that were not included in the April 2022 or July 2022 reporting cycles. Arkansas officials told us that when they initiated these projects, Treasury had not

[36]According to the IFR, recipients must (1) determine the amount of SLFRF funds the recipient estimates it will use to cover such expenditures, (2) document a reasonable justification for this estimate, (3) report that amount to Treasury by April 30, 2024, with an explanation of how the amount was determined, and (4) report at award closeout the final amount expended for these costs. 88 Fed. Reg. at 80586.

[37]88 Fed. Reg. at 80587.

[38]Recipients are permitted to replace a contract or subaward entered into prior to December 31, 2024, under the following circumstances: (1) the recipient terminates the contract or subaward because of the contractor or subawardee's default, because the contractor or subawardee goes out of business, or because the recipient otherwise determines that the contractor or subawardee will not be able to perform under the contract or carry out the subaward; (2) the recipient and contractor or subrecipient mutually agree to terminate the contract or subaward for convenience; or (3) the recipient terminates the contract or subaward for convenience if the contract or subaward was not properly awarded (such as if the contractor was not eligible to receive the contract), there is clear evidence that the contract or subaward was improper, the recipient documents its determination that the contract or subaward was not properly awarded, and the original contract or subaward was entered into by the recipient in good faith. 88 Fed. Reg. at 80587.

communicated the reporting requirements. Thus, the state was unable to build those requirements into vendor contracts for each project. As Treasury's reporting requirements changed, the state had to return to those vendors and attempt to collect the data retroactively. Ultimately, officials said they collected the required data, but were unable to meet Treasury's reporting deadline. The state worked with Treasury to submit the data after the deadline.

Treasury officials told us that they made periodic changes to the user guide to comport with changes they made to Treasury's SLFRF compliance and reporting guidance. For example, Treasury made periodic changes to its compliance and reporting guidance related to broadband projects between June and September 2022. Treasury subsequently updated its user guide for the quarterly reporting cycle to reflect those changes. Since then, Treasury has begun highlighting changes to its user guide to account for changes to its compliance and reporting program requirements.

Short timelines to implement reporting guidance. Officials in most selected states and some selected localities expressed concerns with the timing of Treasury's project and expenditure reporting guidance. For each quarterly reporting cycle, Treasury issues a project and expenditure reporting user guide when it opens the reporting portal, which is generally one month prior to the reporting deadline, according to Treasury officials. These user guides provide information to SLFRF recipients on submitting project and expenditure reports, including specific requirements and details for using the reporting portal. Arizona, California, Connecticut, Maryland, Michigan, Pennsylvania, Texas, and Washington officials told us that having to report all required information within a one-month period is burdensome. Texas officials, for example, said that to meet the reporting requirements, the state must collect and aggregate data from 40 different state agencies that received SLFRF awards. They added that, as a result, the timing of the user guides can create challenges.

Local officials in Denton County, Texas, told us that they also struggled to prepare the project and expenditure reports during the first quarterly reporting cycle because they did not receive the guidance until the user guide was issued, about one month prior to the submission deadline. Denton County officials said that they only became aware of certain reporting requirements upon receiving the user guide. Officials said they had to "play catch-up" during nights and weekends to collect the required information once they received Treasury's guidance.

Treasury officials said that they issue the user guide at the same time they open the reporting portal to allow recipients to review the portal and user guide concurrently. Treasury officials told us that doing so helps to facilitate states and localities reaching out to Treasury with questions before project and expenditure reports are due. The officials added that for those recipients that report quarterly, Treasury generally allows recipients to submit late reports or make necessary revisions within a designated period, such as 60 days following the reporting deadline.[39]

Reporting on performance indicators. Under Treasury guidance, all states, and counties and metropolitan cities with populations exceeding 250,000 residents are required to include performance indicators in their project and expenditure reports to support Treasury's oversight of recipient spending of SLFRF. For each project that states and localities fund under certain Treasury spending categories, these recipients are to report metrics associated with a particular performance indicator that Treasury has identified in its reporting guidance. Treasury established these indicators to understand and aggregate program outcomes across recipients.

However, officials in some states and one locality told us they encountered instances when the project that they reported within a certain expenditure category did not align with the required performance indicator. These officials told us they needed additional clarity in Treasury's guidance to understand how to report on the required performance indicators when they do not align with their uses of SLFRF awards and Treasury spending categories.

For example, officials in Minneapolis, Minnesota, identified an instance in which a project the city had undertaken did not align with Treasury's required performance indicator. The city is implementing a project to address long-term housing security, which is focused on improving conditions in the city's encampments for individuals experiencing homelessness. However, the city is required to report on a performance indicator—in this instance, the number of housing units preserved or developed. Local officials said that while Treasury's indicator is not relevant to the city's project, the city must nevertheless include information on the indicator to submit their report. Minneapolis officials expressed concerns that not reporting a value for this indicator (i.e.,

[39]Treasury, Office of Recovery Programs, *Awards Management Policy for Financial Assistance Recovery Programs, Version 1.0* (July 15, 2022).

reporting that zero housing units were preserved or developed) does not adequately represent the city's efforts because the performance indicator is not aligned with the city's efforts.

Similarly, Connecticut officials reported that the performance indicators included in Treasury's guidance do not always align with projects reported under certain spending categories. For example, Connecticut spent SLFRF funds under Treasury's spending category, "Community Violence Interventions," to fund educational and athletic programs to prevent illegal drug use by children. Connecticut officials said that, for this spending category, Treasury required that the state report on the number of people participating in summer youth employment programs. However, Connecticut officials told us that they did not expect the project to result in youth employment. These officials also said they did not report a value for the performance indicator and expressed concerns that not doing so could result in their not meeting Treasury reporting requirements.

At the time of our review, Treasury officials told us they would expect recipients to report a zero value for the required performance indicator if a recipient's project does not align with the indicator. These officials also said they use other information that recipients report—including the project narrative, completion status, and other performance indicators—as well as information provided in recipients' recovery plans, where applicable, to determine if a project is making progress toward other intended outcomes.[40] However, Treasury officials told us that Treasury guidance did not specify how recipients are to report on performance indicators that do not align with the SLFRF awards. They also said they recognized a lack of clarity in the guidance for recipients who may not have data to report for a particular performance indicator.

In a draft of our report we provided to Treasury officials on November 2, 2023, for their review and comment, we recommended that Treasury clarify its guidance on the required performance indicators, including how recipients are to report on the indicators when they do not align with their uses of SLFRF awards and Treasury spending categories.

[40]In addition to the project and expenditure report, Treasury requires a recovery plan performance report from certain recipients. The recovery plan performance report is an annual report that provides information on the projects large recipients are undertaking, including how they plan to ensure program outcomes are achieved effectively, efficiently, and equitably. Only states, the District of Columbia, U.S. territories, and metropolitan cities and counties with a population that exceeds 250,000 residents are required to submit recovery plan performance reports.

In response to our draft recommendation, Treasury updated its SLFRF Compliance and Reporting guidance on November 30, 2023, to clarify how recipients are to report on a project under a certain expenditure category that is an allowable use of SLFRF awards but does not align with the required performance indicator. Specifically, Treasury's updated guidance states that, in those instances, recipients may report a zero value for the performance indicator. The additional Treasury guidance may help provide clarity to states and localities in instances when their projects do not align with the required performance indicator. Treasury's actions may also help meet Treasury's oversight and understanding of SLFRF program outcomes across recipients.

Technical Issues with Treasury's Reporting Portal

Officials in most selected states and localities cited a range of technical challenges with Treasury's reporting portal, which in some cases contributed to delays in meeting reporting requirements. Those challenges related to:

Entering and uploading data. Officials in some selected states and localities had trouble entering SLFRF project and expenditure data onto Treasury's reporting portal due to the portal's limited functionality and system errors. Officials in Arizona, Florida, Maine, Michigan, and Nebraska told us that data entry issues prevented them from moving forward in their reporting. For example, Florida officials told us that the portal would not allow them to report basic details of an early-stage broadband project without reporting additional project information that was not relevant to the project at that time. Officials in Washington State and Minneapolis, Minnesota described to us difficulties with uploading bulk documents and receiving error messages that did not detail what caused the error. For the officials in Minneapolis, this resulted in their having to use considerable staff time to manually enter data for 50 to 60 projects.

Accessing and amending reports. Officials in some selected states cited challenges accessing or amending project and expenditure report submissions. For example, Connecticut, Pennsylvania, and Texas officials told us that they attempted to download a PDF file of their quarterly report from Treasury's reporting portal, but the portal generated a PDF file with incorrect data. Pennsylvania officials added that Treasury's reporting portal continued to create inaccurate reports for the next reporting period, though officials were ultimately able to work with Treasury to reconcile the differences. The inaccuracies delayed

Pennsylvania's ability to share project and expenditure data on the state's public website.

Local officials in Sahuarita, Arizona; East Hartford, Connecticut; and Minneapolis, Minnesota, told us that they could not amend prior reports through the portal, once submitted. This posed a challenge because expenditures for a certain quarter, such as infrastructure projects, may be recorded or processed after that quarter's reporting deadline. East Hartford, Connecticut officials told us that, according to government accounting standards, expenditures must be recorded in the fiscal year in which services were performed or goods received. As a result, expenditures reported for a prior quarter may be inaccurate and result in over- or under-reporting in the following quarter.

Treasury has taken several actions to address some of the technical issues that states and localities had experienced with the SLFRF reporting process. For example, Treasury recorded webinars on various aspects of SLFRF reporting, including on uploading bulk documents to the portal. As noted earlier, Treasury also generally allows recipients to submit late reports or make necessary revisions within a designated period, such as a 60-day window following the reporting deadline. In August 2023, Treasury officials told us that they were enhancing the portal, including streamlining a reporting form and developing new tools to help states upload bulk data.

Awards to NEUs

Officials in most selected states described challenges distributing SLFRF awards to NEUs as required by the American Rescue Plan Act of 2021 (ARPA). They cited challenges related to contacting NEUs to distribute awards and redistributing SLFRF awards from nonresponsive NEUs (i.e., those the state was unable to contact).

Contacting NEUs and distributing awards. Officials in most states told us that they struggled to contact NEUs in their state and distribute SLFRF awards within the 30-day deadline established in ARPA. Arkansas, Illinois, Maryland, Nebraska, and North Carolina officials told us that they typically do not have reason to contact all NEUs in their state—which for some states can include thousands of NEUs—and do not have an established process for doing so. In these states, the limited administrative capacity of some of the smaller NEUs, such as limited internet access and lack of full-time staff, exacerbated the distribution challenges. Officials in Nebraska described having to drive to some of the

NEUs within the state to hand-deliver required documents because the NEU did not have internet access and could not communicate electronically with state officials.

To help address these challenges, states requested and Treasury granted one or more extensions of up to 30 days for distributing the NEU awards.[41] Under ARPA, an initial extension may be granted if states certify that the distribution requirement would constitute an "excessive administrative burden."[42] In addition, some states leveraged their relationships with organizations representing state and local governments, such as the state's league of municipalities, to help identify and contact NEUs.

Redistributing awards. In June 2021, Treasury issued guidance indicating that states "may" redistribute SLFRF funds from non-responsive NEUs to other NEUs in the state or must return excess funds to Treasury.[43] Some selected states experienced challenges understanding Treasury guidance for redistributing NEU awards, including guidance for non-responsive NEUs (i.e., those the state was unable to contact). For example, Florida, Nebraska, and North Carolina officials said that the process outlined in the guidance created confusion because it did not indicate whether the redistribution process was required. Further, Treasury did not provide specific details on returning to

[41]In January 2022, we reported that some states faced challenges that affected their ability to distribute all SLFRF payments to NEUs. At that time, Treasury officials said some states have thousands of NEUs and need more time to manage efforts, such as reaching out to NEUs and processing NEU requests for funds. For example, they said some states requested an extension so they could have additional time to establish a process for distributing SLFRF payments. For additional details, see GAO, *COVID-19: Significant Improvements Are Needed for Overseeing Relief Funds and Leading Responses to Public Health Emergencies*, GAO-22-105291 (Washington, D.C.: Jan. 27, 2022).

[42]If the state was granted an extension to the distribution period but was still unable to make all the distributions before the end of the extended period, the state may request an additional extension. Treasury may only grant the additiional extension if (1) the state provides a written plan specifying when the state expects to make the distribution and the actions the state has taken and will take to make all distributions before the end of the extended period; and (2) Treasury determines that the plan is reasonably designed to distribute all funds to NEUs before the end of the extended period. 42 U.S.C. § 803(b)(2)(C).

[43]Other NEUs, referred to as residual NEUs in Treasury's guidance, include NEUs whose initial allocation was below the 75 percent budget cap and which either (1) requested funding for itself or (2) declined funding for itself and requested a transfer to the state under Section 603(c)(4). For Treasury's guidance to states on distributing SLFRF awards to NEUs, see Treasury, *Coronavirus Local Fiscal Recovery Fund: Guidance on Distribution of Funds to Non-Entitlement Units of Local Government.* June 30, 2021.

Treasury award funding for non-responsive NEUs at that time. State officials told us that without additional information specified in the guidance, they were not certain which actions were allowable.

State officials reported taking various actions with the unclaimed funds. For example, Florida officials said they did not redistribute any unclaimed funds to the NEUs in the state—which would have resulted in distributing less than $3 each to more than 300 entities. North Carolina officials said that, in the case of one NEU, they redistributed its unclaimed funds to the county in which the NEU is located. North Carolina officials added that the costs and burdens related to redistributing the funds to the more than 500 NEUs in the state outweighed the value of the award amounts (an average of $66 per NEU). Treasury officials told us that in response to issues raised in a draft of our report, Treasury notified North Carolina on November 16, 2023, that the funds the state had provided to the county would need to be returned to Treasury.

In April 2023, Treasury provided information regarding the process for states to return any unclaimed funds to Treasury, rather than redistributing those funds.[44]

Obtaining Assistance from Treasury

Officials in all 18 selected states and 16 of the 18 selected localities sought assistance from Treasury's Contact Center, either by phone or email. Treasury created the center in April 2021 to field and respond to recipients' inquiries about COVID-19 relief programs that Treasury administers, including the SLFRF.[45] The center draws on resources from a number of offices within Treasury. Specifically, the center is staffed by agents from Treasury's Bureau of the Fiscal Service, who are to respond to "basic operational questions" about the SLFRF program, according to Treasury officials. These agents are to refer IT-related questions (for example, logging onto Treasury's reporting portal) to Treasury's Office of the Chief Information Officer. They are to refer SLFRF policy-related questions (for example, questions related to allowable uses) to OCA staff who manage and administer the SLFRF program.

[44]Treasury, *Treasury Award Redirect Portal: Completing an Award Redirect Submission*.

[45]Other federal programs included the Coronavirus Capital Projects Fund, the Emergency Rental Assistance Program, the Homeowner Assistance Fund, and the Local Assistance and Tribal Consistency Fund.

State and local officials told us that they struggled to obtain timely and helpful assistance from the Contact Center to address their questions and concerns about the SLFRF program. Specifically, officials in most states and some localities told us that Treasury's assistance was not timely. Officials in California, Connecticut, Florida, Pennsylvania, and Washington told us that, in some instances, they received no response from Treasury or received a response to a time-sensitive question after a deadline had elapsed. Local officials in Esmeralda County, Nevada, told us they reached out to the Contact Center through multiple emails and phone calls for help with project and expenditure reporting. However, officials did not receive a response from Treasury until after the required report was due.

In addition, officials in most states and some localities told us that, even when they were able to reach the Contact Center, the assistance Treasury provided did not meet their needs. For example, officials in some states said that when they emailed the Contact Center for clarification on guidance for allowable uses, Treasury responded with excerpts from the same guidance on which officials were seeking clarification. Similarly, officials in Washington County, Maine, said that the assistance received from Treasury on registering for and accessing the reporting portal was not helpful. The county eventually succeeded in registering for the portal by working with town managers across Washington County who were also seeking assistance on the portal registration process.

Treasury officials told us that limited funding available to administer the SLFRF had affected their ability to assist recipients through the Contact Center. Because of this challenge, the Contact Center stopped providing phone support in June 2022. In September 2022, Treasury notified SLFRF recipients of the funding constraints affecting its ability to provide ongoing support to SLFRF and other COVID-19 relief program recipients served by the Contact Center.[46] In October 2022, Treasury curtailed its email support and reduced its Contact Center staff by more than 80 percent. Treasury subsequently reopened its phone support and increased the number of Contact Center staff after receiving authority in

[46]The September 23, 2022, letter from Treasury noted that "Congress appropriated funding to Treasury to administer recovery programs, and some programs were given more than enough funding to cover their operations. But in the case of several other programs, the available funding is insufficient to allow Treasury to maintain the current levels of administrative support." SLFRF was one of the "several other programs" the letter cited.

the Consolidated Appropriations Act, 2023, to use certain unobligated funds to cover administrative expenses necessary to respond to COVID-19.[47]

To improve its operations, Treasury assessed the number of agents needed in the Contact Center to manage recipients' phone calls and emails, especially during expected periods of increased demand. Treasury officials said they also (1) trained Contact Center staff on common SLFRF program challenges recipients faced; and (2) organized internal weekly meetings to highlight any new challenges, coordinate answers to common questions, and agree on standardized solutions.

Treasury officials told us that responding to IT- or SLFRF policy-related questions can result in longer response times because the questions are more complex and the staff responsible for responding to these questions are not dedicated Contact Center staff and assume other job responsibilities. However, Treasury's efforts to improve the Contact Center's ability to provide timely and useful information have not been comprehensive. In particular, Treasury has not assessed staffing needs within the units responsible for responding to IT- or SLFRF policy-related questions with timely and useful answers.

According to leading human capital practices, agencies need to take steps to sustain a workforce with the skills and competencies critical to achieving the agency's strategic goals.[48] Achieving such a workforce depends on having effective human capital management through developing human capital strategies. Such strategic workforce planning includes the agency assessing current and future critical skill needs by, for example, analyzing the gaps between current skills and future needs, and developing strategies for filling the gaps identified in workforce skills or competencies.

Without a comprehensive assessment to determine adequate staffing for addressing questions received through the Contact Center, assistance from Treasury may not be fully effective for states and localities seeking assistance. Therefore, states and localities may be unable to obtain the information they need to effectively manage their awards, such as

[47]Pub. L. No. 117-328, div. LL, § 102(d), 136 Stat. 4459, 6103 (2022).

[48]GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning,* GAO-04-39 (Washington, D.C.: Dec. 11, 2003).

ensuring their proposed uses will be allowable under Treasury reporting requirements.

Treasury Has Not Fully Implemented Its Plan to Monitor Recipients' Use of SLFRF Funds

Treasury has made progress in developing and implementing internal controls for monitoring recipients' use of SLFRF awards, as we previously recommended.[49] However, the agency did not implement all key control activities as documented in its policies and procedures. For example, Treasury did not update its key guidance for reviewing project and expenditure reports for potential noncompliance to reflect changes to review procedures. It also did not issue timely management decisions pertaining to SLFRF findings in recipients' single audit reports.

Treasury Assessed Program Risk in Developing SLFRF Recipient Monitoring Procedures

Treasury conducted a risk assessment of the SLFRF and designed control activities to mitigate program risks. These risk assessment procedures were designed to address federal internal control standards, which state that agencies should identify, analyze, and respond to risks related to achieving defined objectives, and OMB's guidance on effectively implementing ARPA programs.[50]

Treasury's risk assessment addressed award issuance and payments, including validation of recipients' eligibility to receive payments. Treasury

[49]GAO-22-105051.

[50]OMB Memorandum M-21-20, *Promoting Public Trust in the Federal Government through Effective Implementation of the American Rescue Plan Act and Stewardship of the Taxpayer Resources* (Mar. 19, 2021), states that federal agencies administering programs authorized by ARPA are to comply with the requirements of the Payment Integrity Information Act of 2019 and implementing OMB guidance for assessing payment integrity risks and designing controls for new programs to mitigate payment integrity risks. Further, the memorandum notes that agencies must apply the requirements of title 2 of the Code of Federal Regulations, Grants and Agreements (2 C.F.R.) to federal financial assistance funded through ARPA to the maximum extent authorized by law. Key risk evaluation provisions in section 200.206 of 2 C.F.R. include a variety of considerations that agencies may apply when evaluating the risks posed by applicants of federal awards, such as financial stability, management systems and standards, history of performance, audit reports and findings, and ability to effectively implement requirements. 2 C.F.R. § 200.206.

officials also reviewed overall program risk areas to determine (1) the strategy for testing recipient reporting data (including the sampling methodology), and (2) the resources Treasury would require to analyze risk data in detail.

Following the risk assessment process, Treasury officials told us that they designed control activities to mitigate identified risks. For example, they took actions such as:

- Checking government-wide databases so that recipients could not receive payments without having an active System for Award Management (SAM.gov) registration.[51] According to Treasury officials, this control identified instances where recipients had no existing SAM.gov account or had an expired SAM.gov account. For those recipients, Treasury officials stated that they did not make payment until the recipients had either created or renewed their SAM.gov registration.
- Developing controls such as the project and expenditure report compliance matrix, which systematically maps risks to specific program requirements, catalogs each identified risk, and identifies one or more proposed internal controls designed to address the assessed risk. Officials stated that Treasury includes risks identified through the compliance matrix in an inventory of business rules and analytics scenarios that Treasury applies to recipient data when reviewing project and expenditure reports.

Treasury focused its development of monitoring controls on higher-level risks, such as the allowable use of funds; quantitative considerations, such as which recipients received the largest amount of funds; and re-evaluation of risk levels of noncompliant recipients over time. Treasury relied on the overall results of its risk assessment process to develop internal control activities for monitoring of SLFRF recipients, including reviews of recipients' project and expenditure reporting data and single audit reports.

[51]SAM.gov is the official U.S. government system where contractors, organizations, or individuals applying for assistance awards; those receiving loans; sole proprietors; corporations; and partnerships register to do business with the U.S. government.

Treasury Did Not Update Its Key Internal Guidance for Reviewing Project and Expenditure Reports to Reflect Changes to Review Procedures

Treasury's postaward monitoring process includes reviews of SLFRF recipient data captured in the periodic project and expenditure reports that recipients are required to submit electronically through Treasury's reporting portal.

Treasury's policies and procedures for award management of SLFRF and other federal financial assistance programs administered by OCA is captured in two documents.

- *Award Management Policy for Financial Assistance Recovery Programs,* issued in July 2022 and updated in May 2023. This document provides an overview of the award management process for various Treasury programs including the SLFRF. It includes topics such as program design, awards, postaward management, remediation, award closeout, and post-closeout activities.[52]
- *Data Validation, Compliance Testing, and Noncompliance Remediation Procedures, Version 2.0,* issued in January 2023 and updated in Version 2.1 in April 2023. This document outlines the activities and requirements for compliance testing of various Treasury programs, including the SLFRF. Specifically, it documents standard procedures for compliance testing, processes for identifying and remediating instances of noncompliance, and step-by-step instructions for staff to execute compliance testing.

Treasury staff are to use the procedures in these two key documents, in combination with other policies addressing various aspects of SLFRF program administration, to complete the reviews of SLFRF recipients' project and expenditure report data.

Based on our review of documentation for the reporting cycle covering expenditures and activity from April 1, 2022, through June 30, 2022 (the second quarter of fiscal year 2022, or Q2 2022), and interviews with

[52]The federal award closeout process refers to the process by which the agency determines that a nonfederal entity has completed all applicable administrative actions and performed all the required work of the award. These recipient actions include submission of all financial, performance, and other reports as required by the terms and conditions of the award, and liquidation of all financial obligations incurred under the award following the end of the period of performance. 2 C.F.R. § 200.344.

Treasury officials, we found that Treasury did not perform all monitoring processes that the agency had developed and documented for reviewing recipients' quarterly project and expenditure reports. Specifically, we found that Treasury (1) did not investigate all potential instances of noncompliance identified during the automated first level of reviews, and (2) conducted a modified sampling approach in its manual second level of reviews. Also, Treasury's second level of reviews did not incorporate two of the four risk parameters designed for selecting second level sample items.

- In the first level of reviews, Treasury evaluated 2,090 recipients that submitted project and expenditure reports and the automated first level review identified 920 of the reviewed recipients as potentially noncompliant. However, Treasury did not further investigate through a second level review all 920 potentially noncompliant recipients. Treasury's selection process for its second level review was inconsistent with the *Award Management Policy for Financial Assistance Recovery Programs,* which states that second level testing is required for recipients with instances of noncompliance identified by first level testing. Instead, Treasury selected a smaller sample of 349 recipients for second level testing.
- Treasury did not test for Mode A "Revenue Replacement" and "Burn Rate" analytics or Mode B "Significant Projects" in its second level testing. Treasury officials stated that their compliance testing approach initially envisioned second level testing based on four modes: A, B, C, and D.[53] Instead, Treasury performed second level testing using sampling only from Modes C and D.

Treasury officials stated that multiple factors led to their decision to depart from conducting reviews as documented in their policies, including (1) the large number of recipients in the SLFRF program; (2) reporting system and process improvements implemented based on lessons learned in early reporting; (3) hiring and onboarding of personnel; (4) false positive results in certain testing procedures; (5) limited administrative funding that ARPA provided for the SLFRF program; (6) staffing levels consisting of only two compliance analysts for the review of Q2 2022 project and

[53]Per Treasury, Mode A is a test of high-risk uses of funds, targeting prohibited uses and more sensitive project types such as revenue replacement. Mode B is a test of concentration risk used to analyze recipients with a large portion of their award dedicated to a specific project category. Mode C is a test of financial risk centering on recipients by size of allocation. Mode D addresses Treasury's portfolio risk by focusing on continued testing and review of the recipient portfolio to achieve maximum coverage over time.

expenditure reports; and (7) a lack of analytic data needed to conduct some second level testing procedures.

Treasury documented its rationale for departing from the policies documented in its *Award Management Policy for Financial Assistance Recovery Programs* in internal memorandums issued in October and November 2022. Specifically, Treasury cited the need to minimize backlogs in quarterly testing and decrease the overall level of effort while also maintaining an appropriate degree of consistency with the originally proposed project and expenditure report testing approach. In addition, Treasury issued *Recipient Risk Scoring and Analysis Procedures* in May 2023. Under these procedures, recipients are given a risk score based on multiple factors, including the results of initial testing. In July 2023, Treasury officials stated they were developing a new methodology that would place a greater emphasis on systematic reviews of certain recipients and incorporate the recipients' risk score. Treasury officials stated they anticipated implementing the new methodology for the review of reports in a future quarter.

While Treasury officials have issued updated supplemental memorandums for performing project and expenditure report reviews based on lessons learned in the quarters for which reviews were completed, Treasury has not explicitly incorporated those updated procedures into key top-level documents, such as the *Awards Management Policy for Financial Assistance Recovery Programs*.

Standards for Internal Control in the Federal Government calls for entity management to document policies in the appropriate level of detail to allow management to effectively monitor the control activity, and periodically review policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives. By not updating the policies in its top-level guidance, Treasury increases the risk that its staff may not conduct future reviews of quarterly project and expenditure reports consistently over time, and in compliance with documented policies and procedures.

Treasury Has Made Progress in Implementing Single Audit Report Reviews but Deficiencies Remain

Federal awarding agencies have oversight responsibilities for the funds that they award to nonfederal entities. A single audit is an entity-wide audit of the award recipient's expenditure of federal awards and of its financial statements. For major programs, this audit can help identify deficiencies in the award recipient's compliance with the provisions of laws, regulations, contracts, or grant agreements, and in its financial management and internal control systems relating to compliance requirements.[54] Correcting such deficiencies can help provide reasonable assurance about the effective use of federal funds and reduce the likelihood of federal improper payments.

Treasury's responsibilities in administering the SLFRF include ensuring that (1) single audits are completed and submitted in a timely manner, and (2) SLFRF award recipients take appropriate and timely corrective action in response to single audit findings.[55]

Treasury has made progress in developing this component of the SLFRF recipient monitoring process by (1) issuing policies and procedures for reviews of recipients' single audit reports, and (2) developing and implementing an electronic dashboard tool to summarize key information from single audit reports that the agency is responsible for monitoring. Single audit reports issued for SLFRF recipients identified through Treasury's single audit report monitoring process have identified a range of findings of noncompliance with program requirements. For example:

- **Whittier, California.** For the fiscal year ending June 30, 2022, the city's auditor found that the city incorrectly reported approximately $2.5 million in SLFRF expenditures on its project and expenditure report to Treasury.
- **Utah.** For the fiscal year ending June 30, 2022, the state's auditor found that the state overestimated its revenue loss calculation by approximately $727 million, potentially causing material noncompliance with program requirements.

Treasury Developed Policies for Single Audit Report Reviews

Treasury has issued policies and procedures for reviews of single audit reports of recipients and issuance of management decisions as part of its

[54]Single audits are entity-wide financial and compliance audits that focus on accounting and administrative controls. The single audit serves to advise federal oversight officials and program managers on whether an entity's financial statements are fairly presented, and provide reasonable assurance that federal financial assistance programs are managed in accordance with applicable laws and regulations.

[55]2 C.F.R. § 200.513(c)(1) and (c)(3).

SLFRF award monitoring process. These policies, which are documented in procedures as (1) an appendix to the *Award Management Policy for Financial Assistance Recovery Programs,* titled "ORP Single Audit Responsibilities Policy," which provides high-level information on the various Treasury operational units that contribute to the single audit report review process, and (2) additional procedures issued in June 2023, for executing its single audit responsibilities as a federal awarding agency, including descriptions of its single audit portfolio management process and the management decision preparation, review, approval, and issuance process.[56]

Treasury Developed and Implemented a Single Audit Dashboard but Did Not Meet Requirements for Reviewing Single Audit Reports and Following up on Findings

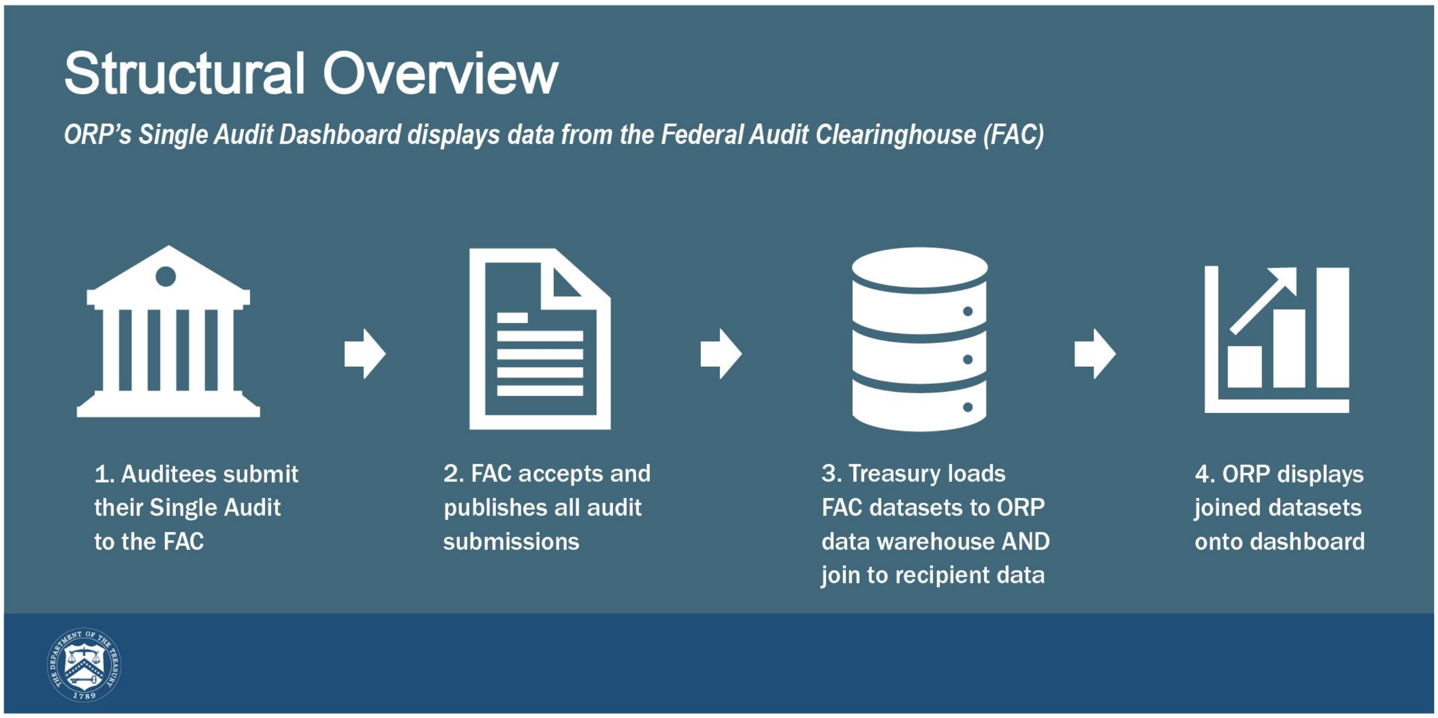
To implement its single audit report review policies, Treasury developed an electronic single audit dashboard. The dashboard is a recipient monitoring tool that summarizes important metrics of underlying program data and audit findings, including compliance findings. The dashboard collects, stores, and displays single audit and program-specific audit data for programs as reported in the Federal Audit Clearinghouse (FAC), which operates on behalf of OMB.[57] The Single Audit Act and OMB's single audit guidance requires each award recipient to submit an audit reporting package to the FAC, which must maintain a database of completed audits and provide appropriate information to federal agencies. Treasury staff are responsible for accessing the FAC monthly to update the data in the dashboard, prioritizing all single audit findings from the dashboard into three categories (high, medium, and low priority) and

[56]*Standard Operating Procedure: Single Audit Prioritization, Resolution and Management Decision Letter Issuance*, Version 1.0, and *Single Audit Procedures,* Version 1.1.

[57]The FAC states that its primary purposes are to: (1) distribute single audit reporting packages to federal agencies; (2) support OMB oversight and assessment of federal award audit requirements; (3) maintain a public database of completed audits; and (4) help auditors and auditees minimize the reporting burden of complying with single audit requirements. The reporting package includes (1) the award recipient's financial statements and schedule of expenditures of federal awards; (2) a summary schedule of prior audit findings, including the status of all single audit findings included in the prior audit's schedule of findings and questioned costs for federal awards; (3) the auditor's report (including an opinion on the award recipient's financial statements and schedule of expenditures of federal awards, reports on internal control and compliance with laws, regulations, and provisions of contracts or grant agreements for each major program, and a schedule of findings and questioned costs); and (4) a corrective action plan. 2 C.F.R. § 200.512(c).

performing single audit resolution activities. Figure 5 below provides a structural overview of Treasury's single audit dashboard.

Figure 5: Structural Overview of Treasury's Office of Recovery Program's (ORP) Single Audit Dashboard /[a]/



Source: ORP, Department of the Treasury (image). | GAO-24-106027

Accessible text for Figure 5: Structural Overview of Treasury's Office of Recovery Program's (ORP) Single Audit Dashboard /[a]/

1. Auditees submit their Single Audit to the FAC
2. FAC accepts and publishes all audit submissions
3. Treasury loads FAC datasets to ORP data warehouse AND join to recipient data
4. ORP displays joined datasets onto dashboard

Source: ORP, Department of the Treasury (image). | GAO-24-106027

[a]ORP was renamed the Office of Capital Access as of November 2, 2023. The entity was known as the Office of Recovery Programs at the time we reviewed the Single Audit Dashboard.

Note: Step 2 states that the "FAC accepts and publishes all audit submissions." However, there is a limited exception to this general practice. An auditee that is an Indian Tribe or a tribal organization may opt not to authorize the FAC to make the reporting package publicly available on a website. 2 C.F.R. § 200.512(b)(2).

As of July 2023, Treasury officials stated that they had completed the initial development of the single audit dashboard and had actively utilized it; held trainings and demonstrations of the dashboard for staff; and updated the dashboard monthly with new data from the FAC. Treasury's monthly review of dashboard data in July 2023 identified 427 reports for SLFRF recipients with single audit findings related to the program. Treasury officials told us in July 2023 that single audit review forms—which document the results of the single audit report review performed by Treasury staff for each recipient—had not been completed for all reports because the reviews were ongoing at that time. Treasury officials also told us in September 2023 that Treasury reviews single audit findings by recipient across all COVID-19 relief programs that it administers, rather than by program. Treasury resolves findings for all COVID-19 relief programs for a particular recipient as part of that review. Treasury prioritizes reviews of recipients based on various factors, including whether a recipient has a finding in a program that is undergoing closeout procedures.

During our review, Treasury continued to face technical challenges that limited its ability to monitor relevant single audit report findings comprehensively. For example, in August 2023, Treasury officials stated that the dashboard may not capture all required reports. Officials stated that they had identified 1,907 SLFRF recipients that (1) had received more than $750,000 in funds for programs that the agency administers; (2) had not submitted a single audit report since 2019; and (3) reported spending more than $750,000 in SLFRF funds. They noted that this population may be over inclusive or under inclusive due to a variety of factors, such as the recipients' fiscal year end dates and the dates when all expenditures occurred, both of which affect the requirement to submit an audit report to the FAC.[58] Until Treasury enhances its process for identifying which SLFRF recipient reports are missing from the FAC, there is a risk that the agency's monitoring process will not capture all single audit reports that Treasury is required to review as a federal awarding agency.[59]

[58]In comparison to the 1,907 recipients who may not have submitted single audit reports as of August 2023, Treasury officials noted that as of September 30, 2023, 7,399 Treasury recipients had submitted single audit reports including 483 SLFRF recipients with a total of 1,097 SLFRF findings.

[59]2 C.F.R. § 200.513(c).

As a result of such limitations, Treasury's initial reviews of SLFRF recipients' single audit reports could not provide reasonable assurance that the single audit report review process systematically addressed the full scope of the agency's oversight responsibilities, including identifying and following up with all SLFRF recipients who had relevant single audit report findings.

Treasury Missed Deadlines to Issue Management Decisions for SLFRF Findings

Following the review of a single audit report with audit findings, federal agencies issue management decisions to provide award recipients with written notification of the agency's position on single audit findings. Management decisions must disclose information including a clear statement about whether the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs (if any), make financial adjustments, or take other action. In addition, the management decision should describe any appeal process available to the auditee. OMB's single audit guidance states that the federal awarding agency must issue such management decisions within 6 months of acceptance of the audit report by the FAC.[60] Without a timely notification that contains all of the OMB requirements for written management decisions, award recipients may be unclear about the agency's position on the single audit findings and what corrective actions, if any, they need to take to address the single audit findings.

Per OMB Memorandum M-21-20, federal awarding agencies were directed to allow program recipients and subrecipients with fiscal year-end dates through June 30, 2021, to delay completing and submitting their single audit reporting packages to the FAC to 6 months beyond the normal due date. As a result of this extension, entities that received and spent SLFRF awards during a fiscal year ending on June 30, 2021, would have been required to submit their single audit reports to the FAC by September 30, 2022.[61] This extension had the effect of pushing out the deadline for awarding agencies to issue management decisions related to

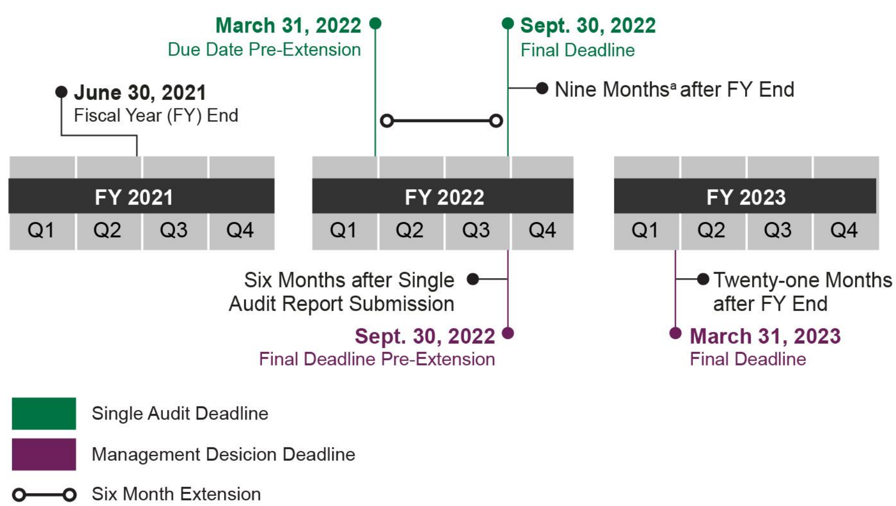
[60]2 C.F.R. § 200.521(d).

[61]Pursuant to OMB guidance, the normal due date for submitting the single audit report is within the earlier of 30 calendar days after receipt of the auditor's report, or 9 months after the end of the audit period (or the next business day if the due date falls on a federal holiday or a weekend). 2 C.F.R. § 200.512(a)(1).

single audit report findings. Specifically, for recipients that submitted single audit reports to the FAC by September 30, 2022, the awarding agency was required to issue management decisions by March 31, 2023.

In October 2022, Treasury officials stated they had identified 90 single audit reports that included a total of 194 findings related to the SLFRF program. However, in July 2023, Treasury officials stated that Treasury had not yet issued any management decisions related to single audit report findings pertaining to SLFRF, including findings identified in single audit reports submitted to the FAC as of September 30, 2022, within the required 6-month timeframe. As of September 2023, Treasury had issued management decisions for nine recipients, two of which were SLFRF recipients with findings, and planned to issue additional management decisions in the future. Treasury officials stated that as of September 30, 2023, an additional 35 management decisions for 33 recipients were in process using the agency's recently established automated management decision process and would be issued in the coming weeks. Twenty-six of the 33 recipients had SLFRF findings. Treasury officials further stated that as of November 30, 2023, Treasury had issued 45 management decisions. See figure 6 for a timeline of required single audit report deadlines and management decision deadlines.

Figure 6: Timeline for Management Decisions for Single Audit Findings Reported for Fiscal Years Ending June 30, 2021



Source: GAO analysis of Office of Management and Budget's single audit guidance. | GAO-24-106027

Accessible text for Figure 6: Timeline for Management Decisions for Single Audit Findings Reported for Fiscal Years Ending June 30, 2021

- June 30, 2021 Fiscal Year (FY) End, Single Audit Deadlines
- March 31, 2022 Due Date Pre-Extension
- Sept. 30, 2022 Final Deadline
- Sept. 30, 2022 Nine Months /a/ after FY End
- Sept. 30, 2022 Final Deadline Pre-Extension
- Mar. 31, 2023 Final Deadline
- Twenty-one Months after FY End Mar. 31, 2023 Final Deadline

Source: GAO analysis of Office of Management and Budget's single audit guidance. | GAO-24-106027

[a]According to 2 C.F.R. 200.512(a)(1), the single audit reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or 9 months after the end of the audit period (or the next business day if the due date falls on a federal holiday or a weekend). We used the 9-month time period for simplicity purposes and because it generally represents the maximum amount of time award recipients would have to submit single audit reports.

According to Treasury officials, the agency faced challenges in the implementation of a systematic review of SLFRF recipients' single audit reports and issuing management decisions occurred because Treasury did not have existing single audit processes or staff to administer these processes when the program was established. The agency built its single audit capabilities through: (1) hiring additional staff with single audit expertise, (2) developing policies and procedures for review of single audit findings and issuance of management decisions, and (3) creating the dashboard. Treasury officials also stated in September 2023 that they continue to assess the backlog of single audit report reviews and anticipated workload in developing a plan to continue to resolve single audit findings. They further noted in October 2023 that Treasury had increased staffing levels for audit and compliance resolution functions from two to four analysts to address the backlog of reviews.

Until Treasury issues timely management decisions to SLFRF recipients with relevant single audit findings, there is an increased risk that potential findings related to unallowable uses of program funds may remain unidentified and uncorrected for significant periods of time, which in turn increases the risk of losses to the government in the form of federal improper payments.

Conclusions

The SLFRF program provided an unprecedented amount of funds to states and localities to help them respond to and recover from the COVID-19 pandemic. Faced with the challenge of standing up the program for states and tens of thousands of local governments, Treasury quickly disbursed SLFRF funds and took a range of important steps to administer the program. Among other things, Treasury created additional flexibilities for using SLFRF funds, issued guidance and developed reporting requirements, and disseminated information in multiple forms. State and local officials with whom we met acknowledged the benefits of the SLFRF program and their ability to fund projects that otherwise may not have been possible, due to the scale and flexibility of the program. However, opportunities remain for Treasury to help ensure that states and localities are equipped with assistance to administer their SLFRF funds. A comprehensive assessment of its staffing needs to address recipient requests is necessary to help Treasury provide timely and useful assistance to states and localities going forward.

Further, Treasury has taken steps to provide oversight and accountability of the SLFRF by requiring recipients to provide an accounting of their spending through project and expenditure reports, and establishing and conducting monitoring procedures for reviewing these reports on an ongoing basis. Treasury modified those procedures, adapting to lessons it learned. While Treasury took steps to document the reasons for conducting alternative review procedures and has indicated plans to modify its existing policies and procedures, Treasury has yet to fully incorporate policy modifications into the key top-level documents or implement those modified policies and procedures consistently in quarterly reviews following the second quarter of 2022. In addition, Treasury has neither completed a systematic review of all SLFRF program recipients' single audit reports nor issued all related management decisions within required timeframes. Given the delays in its single audit review process and outstanding management decisions, it is important that Treasury eliminate the backlog of single audit report reviews and issue timely management decisions to address the risk that potential findings related to unallowable uses of program funds may remain unknown to Treasury officials and uncorrected.

Recommendations for Executive Action

We are making four recommendations to the Department of the Treasury:

The Secretary of the Treasury should comprehensively assess staffing needs for the Contact Center to ensure that it is able to respond timely to SLFRF recipient requests for assistance and with information that meets their needs. (Recommendation 1)

The Secretary of the Treasury should update and implement the agency's documented policies and procedures for monitoring recipients' use of SLFRF awards to reflect lessons learned from reviewing recipients' project and expenditure reports. (Recommendation 2)

The Secretary of the Treasury should conduct timely systematic reviews of SLFRF recipients' single audit reports and document the results of those reviews. (Recommendation 3)

The Secretary of the Treasury should issue timely management decisions related to SLFRF findings in accordance with OMB's single audit guidance. (Recommendation 4)

Agency Comments and Our Evaluation

We provided a draft of this report to Treasury for review and comment. Treasury provided written comments, which we summarize below and reproduce in appendix I. Treasury also provided technical comments, which we incorporated as appropriate. In addition, we provided excerpts of a draft of this report to officials in the 18 states and 18 localities we included in our review. We incorporated their technical comments as appropriate.

In its written comments, Treasury generally agreed with all four of our recommendations and described actions it had taken or planned to take to address two of those recommendations.

Regarding our first recommendation that Treasury should comprehensively assess its staffing needs for its Contact Center, Treasury agreed and stated that it has begun this assessment and will update us once it is complete.

Regarding our second recommendation that Treasury should update and implement the agency's documented policies and procedures for monitoring recipients' use of SLFRF awards to reflect lessons learned from reviewing recipients' project and expenditure reports, Treasury agreed and stated that it is taking steps through organizational changes to increase monitoring capacity. Treasury also stated that it is assessing its policies and procedures for monitoring use of SLFRF funds and will update us with revised procedures when complete.

Regarding our third and fourth recommendations that Treasury should conduct timely, systematic reviews of SLFRF recipients' single audit reports, document the results of those reviews, and issue timely management decisions related to SLFRF findings in accordance with OMB's single audit guidance, Treasury generally agreed. Treasury stated that it agrees that reviewing and resolving single audit findings is an important piece of effective federal award administration and monitoring. Treasury also stated that it made progress in implementing single audit review processes despite facing unique challenges, such as a lack of single audit infrastructure at the outset of the pandemic. We recognize the progress Treasury has made toward implementing single audit review processes and will monitor Treasury's further efforts in this area.

In a draft of this report, we had recommended that Treasury should clarify its guidance on actions SLFRF recipients may take on obligating and reobligating their awards to comply with statutory deadlines. Subsequently, on November 20, 2023, Treasury issued an interim final rule (IFR) to amend the definition of "obligation" to provide flexibility and guidance to recipients regarding the amendment and replacement of contracts and subawards. The IFR clarifies that (1) under certain circumstances, recipients are considered to have incurred an obligation by the statutory deadline of December 31, 2024, with respect to a requirement under federal law or regulation or a provision of SLFRF award terms and conditions that they become subject to as a result of receiving or expending funds; and (2) recipients reobligating funds to new contractors or subrecipients after December 31, 2024, will be considered to have used their funds to cover an obligation incurred prior to December 31, 2024, under certain circumstances, such as when a contractor or subrecipient goes out of business. Because the IFR was issued during the review and comment period and addressed the issues raised in our draft report, we removed the recommendation from this report and modified the report accordingly.

We had also recommended in a draft of this report that Treasury should clarify its guidance on required performance indicators, including how SLFRF recipients are to report on required performance indicators when those indicators do not align with recipients' uses of SLFRF awards and Treasury spending categories. Subsequently, Treasury updated its SLFRF Compliance and Reporting guidance on November 30, 2023, to clarify how recipients are to report on a project under a certain expenditure category that is an allowable use of SLFRF awards but does not align with the required performance indicator. Because the guidance was issued during the review and comment period and addressed the issues we raised in our draft report, we removed the recommendation from this report and modified the report accordingly.

We are sending a copy of this report to the appropriate congressional addressees; the Secretary of the Treasury; state and local officials in the 18 states and 18 localities we interviewed; and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact Jeff Arkin at (202) 512-6806 or arkinj@gao.gov, or M. Hannah Padilla at (202) 512-5683 or padillah@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.

Jeff Arkin
Director
Strategic Issues

M. Hannah Padilla
Director
Financial Management and Assurance

List of Addressees

The Honorable Patty Murray
Chair
The Honorable Susan Collins
Vice Chair
Committee on Appropriations
United States Senate

The Honorable Ron Wyden
Chairman
The Honorable Mike Crapo
Ranking Member
Committee on Finance
United States Senate

The Honorable Bernard Sanders
Chair
The Honorable Bill Cassidy, M.D.
Ranking Member
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable Gary C. Peters
Chairman
The Honorable Rand Paul, M.D.
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Kay Granger
Chairwoman
The Honorable Rosa L. DeLauro
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable Cathy McMorris Rodgers
Chair
The Honorable Frank Pallone, Jr.
Ranking Member
Committee on Energy and Commerce
House of Representatives

The Honorable Mark E. Green, M.D.
Chairman
The Honorable Bennie G. Thompson
Ranking Member
Committee on Homeland Security
House of Representatives

The Honorable James Comer
Chairman
The Honorable Jamie Raskin
Ranking Member
Committee on Oversight and Accountability
House of Representatives

The Honorable Jason Smith
Chairman
The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
House of Representatives

The Honorable John Barrasso, M.D.
United States Senate

The Honorable John Cornyn
United States Senate

The Honorable Steve Daines
United States Senate

The Honorable Charles E. Grassley
United States Senate

The Honorable James Lankford
United States Senate

The Honorable Tim Scott
United States Senate

The Honorable John Thune
United States Senate

The Honorable Todd Young
United States Senate

Appendix I: Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

December 1, 2023

Jeff Arkin
Director, Strategic Issues

M. Hannah Padilla
Director, Financial Management and Assurance

Government Accountability Office
441 G Street NW
Washington, D.C. 20548

Dear Mr. Arkin and Ms. Padilla:

Thank you for the opportunity to review the Government Accountability Office's (GAO) draft report for engagement, GAO-24-106027, entitled *COVID-19 Relief: Treasury Could Improve its Administration and Oversight of State and Local Fiscal Recovery Funds* (Draft Report). The U.S. Department of the Treasury (Treasury) values GAO's analysis and has provided technical comments under separate cover.

The American Rescue Plan Act of 2021 (ARPA) appropriated $350 billion for the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program. This program provided funding to over 30,000 states, localities, the District of Columbia, U.S. territories, and tribal governments to support their response to and recovery from the COVID-19 pandemic, continued economic recovery, job creation and workforce expansion, and access to healthy, safe, and affordable housing. As the Draft Report acknowledges, SLFRF provided an unprecedented amount of funds to states and localities, and Treasury quickly disbursed SLFRF funds and took a range of important steps to administer the program. Today, the SLFRF program is making a difference in nearly every community across the country. Recipient-reported data through June 30, 2023, show that recipients continue to make progress in using their SLFRF award funds: states and the largest cities and counties have budgeted 85% of their total SLFRF allocation. The data also continues to show that SLFRF funds have been instrumental in helping governments maintain services and infrastructure.

The Draft Report examines the administration of SLFRF awards by selected states and localities, as well as Treasury's monitoring of awards. As detailed in the Draft Report, Treasury has issued guidance to recipients on award administration, facilitated recipient reporting, designed and implemented monitoring and testing procedures for recipient-reported data, and designed and implemented procedures for review of single audit findings and issuance of management decision letters.

Treasury is continually working to improve its implementation and monitoring of the SLFRF program. As part of those efforts, for example, Treasury is working to more closely integrate

SLFRF program staff and compliance staff to support recipients' use of SLFRF award funds and increase monitoring capabilities. Treasury values GAO's assessment and agrees with the goals of GAO's recommendations in the Draft Report. Indeed, to date, Treasury has already fully implemented two of these recommendations.

GAO's Recommendation 1 states that the Secretary of the Treasury should clarify guidance to address actions that recipients may take on obligating and re-obligating SLFRF funds to remain in compliance with the deadlines established for the SLFRF program. Treasury fully implemented this recommendation by issuing an interim final rule (the Obligation IFR) to address recipients' questions regarding the definition of "obligation." The Obligation IFR—published in the Federal Register on November 20, 2023—revises the definition of "obligation" in Treasury's implementing regulations for the SLFRF program and provides related guidance and clarifications to give additional flexibility to recipients to support their use of SLFRF funds.[1] Treasury has conducted recipient outreach regarding the Obligation IFR through e-mail communication and webinars.

Recommendation 2 states that the Secretary of the Treasury should clarify guidance on required performance indicators, including providing clarity on how recipients are to report on required performance indicators when those indicators do not align with the recipient's uses of SLFRF awards and Treasury spending categories. On November 30, 2023, Treasury updated its SLFRF Compliance and Reporting Guidance to provide additional guidance regarding the Additional Programmatic Data fields, also referred to as performance indicators, requested for certain expenditure categories from States, U.S. territories, and metropolitan cities and counties with populations exceeding 250,000 residents.[2]

Treasury also agrees with GAO's Recommendations 3 and 4. Recommendation 3 calls for the Secretary of the Treasury to comprehensively assess its staffing needs for the Contact Center to ensure that it is able to respond timely to SLFRF recipients' requests for assistance and with information that meets their needs. Treasury has begun this assessment and will update GAO once it is complete. Recommendation 4 states that the Secretary of the Treasury should update and implement the agency's documented policies and procedures for monitoring recipients' use of SLFRF awards to reflect lessons learned from reviewing recipients' project and expenditure reports. Treasury is currently taking steps through its organizational changes to increase monitoring capacity and is assessing its policies and procedures for monitoring use of SLFRF funds and will update GAO with revised procedures when complete.

Recommendations 5 and 6 call for the Secretary of the Treasury to conduct timely, systematic reviews of SLFRF recipients' single audit reports, document the results of those reviews, and issue timely management decisions related to SLFRF findings in accordance with OMB's single audit guidance. Treasury agrees with GAO that review and resolution of single audit findings is an important piece of effective federal award administration and monitoring, and we have made progress in implementing single audit review processes despite facing unique challenges. The

[1] 31 CFR Part 35, https://home.treasury.gov/system/files/136/Obligation_Interim_Final_Rule_2023.pdf
[2] Compliance and Reporting Guidance, State and Local Fiscal Recovery Funds, https://home.treasury.gov/system/files/136/SLFRF-Compliance-and-Reporting-Guidance.pdf, pg. 39 ("Additional Required Programmatic Data . . .").

2

most significant of these challenges has been a lack of single audit infrastructure at the outset of the pandemic. Indeed, many agencies tasked with administration of COVID-19 relief funds had such an infrastructure in place that could be used to review findings and issue management decisions letters consistent with OMB guidance. In contrast, Treasury had to design and implement our single audit review processes for relevant programs while implementing a range of pandemic recovery programs with limited administrative funds. And many of these programs, like SLFRF, are sizeable—the SLFRF program alone has over 30,000 recipients, including a significant number of first-time recipients of federal funds. As GAO's report acknowledges, Treasury has made considerable progress on single audit processes.

Treasury appreciates GAO's continued work assessing implementation of federal assistance appropriated under ARPA. Thank you again for the opportunity to review the Draft Report and for your consideration of our comments.

Sincerely,

Jessica Milano

Jessica Milano
Chief Program Officer
U.S. Department of the Treasury

3

Text of Appendix I: Comments from the Department of the Treasury

December 1, 2023

Jeff Arkin

Director, Strategic Issues

M. Hannah Padilla

Director, Financial Management and Assurance

Government Accountability Office 441 G Street NW

Washington, D.C. 20548

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Treasury is continually working to improve its implementation and monitoring of the SLFRF program. As part of those efforts, for example, Treasury is working to more closely integrate SLFRF program staff and compliance staff to support recipients' use of SLFRF award funds and increase monitoring capabilities. Treasury values GAO's assessment and agrees with the goals of GAO's recommendations in the Draft Report. Indeed, to date, Treasury has already fully implemented two of these recommendations.

GAO's Recommendation 1

states that the Secretary of the Treasury should clarify guidance to address actions that recipients may take on obligating and re-obligating SLFRF funds to remain in compliance with the deadlines established for the SLFRF program. Treasury fully implemented this recommendation by issuing an interim final rule (the Obligation IFR) to address recipients' questions regarding the definition of "obligation." The Obligation IFR— published in the Federal Register on November 20, 2023—revises the definition of "obligation" in Treasury's implementing regulations for the SLFRF program and provides related guidance and clarifications to give additional flexibility to recipients to support their use of SLFRF funds.[1] Treasury has conducted recipient outreach regarding the Obligation IFR through e-mail communication and webinars.

Recommendation 2

states that the Secretary of the Treasury should clarify guidance on required performance indicators, including providing clarity on how recipients are to report on required performance indicators when those indicators do not align with the recipient's uses of SLFRF awards and Treasury spending categories. On November 30, 2023, Treasury updated its SLFRF Compliance and Reporting Guidance to provide additional guidance regarding the Additional Programmatic Data fields, also referred to as performance indicators, requested for certain expenditure categories

[1] 31 CFR Part 35, https://home.treasury.gov/system/files/136/Obligation_Interim_Final_Rule_2023.pdf

from States, U.S. territories, and metropolitan cities and counties with populations exceeding 250,000 residents.[2]

Treasury also agrees with GAO's Recommendations 3 and 4.

Recommendation 3 calls for the Secretary of the Treasury to comprehensively assess its staffing needs for the Contact Center to ensure that it is able to respond timely to SLFRF recipients' requests for assistance and with information that meets their needs. Treasury has begun this assessment and will update GAO once it is complete. Recommendation 4 states that the Secretary of the Treasury should update and implement the agency's documented policies and procedures for monitoring recipients' use of SLFRF awards to reflect lessons learned from reviewing recipients' project and expenditure reports. Treasury is currently taking steps through its organizational changes to increase monitoring capacity and is assessing its policies and procedures for monitoring use of SLFRF funds and will update GAO with revised procedures when complete.

Recommendations 5 and 6

call for the Secretary of the Treasury to conduct timely, systematic reviews of SLFRF recipients' single audit reports, document the results of those reviews, and issue timely management decisions related to SLFRF findings in accordance with OMB's single audit guidance. Treasury agrees with GAO that review and resolution of single audit findings is an important piece of effective federal award administration and monitoring, and we have made progress in implementing single audit review processes despite facing unique challenges. The most significant of these challenges has been a lack of single audit infrastructure at the outset of the pandemic. Indeed, many agencies tasked with administration of COVID-19 relief funds had such an infrastructure in place that could be used to review findings and issue management decisions letters consistent with OMB guidance. In contrast, Treasury had to design and implement our single audit review processes for relevant programs while implementing a range of pandemic recovery programs with limited administrative funds. And many of these programs, like SLFRF, are sizeable—the SLFRF program alone has over 30,000 recipients, including a significant number of first-time recipients of federal funds. As GAO's report acknowledges, Treasury has made considerable progress on single audit processes.

[2] Compliance and Reporting Guidance, State and Local Fiscal Recovery Funds, https://home.treasury.gov/system/files/136/SLFRF-Compliance-and-Reporting-Guidance.pdf, pg. 39 ("Additional Required Programmatic Data . . .").

Treasury appreciates GAO's continued work assessing implementation of federal assistance appropriated under ARPA. Thank you again for the opportunity to review the Draft Report and for your consideration of our comments.

Sincerely,

Jessica Milano

Chief Program Officer

U.S. Department of the Treasury

Appendix II: GAO Contacts and Staff Acknowledgments

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