

AUDIT MEMO

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| SUBJECT: State Fiscal Recovery Funds – Internal Audit Expectations | NUMBER: 22-03 |
| REFERENCES: Budget Letter 21-28 U.S. Department of the Treasury's Interim Final Rule | DATE ISSUED: November 12, 2021 |

TO: Agency Secretaries
State Entity Directors
State Entity Audit Chiefs
State Entity Budget and Accounting Officers

FROM: CALIFORNIA DEPARTMENT OF FINANCE

DISTRIBUTE TO APPROPRIATE STAFF WITHIN YOUR STATE ENTITY

I. PURPOSE

This Audit Memo informs internal audit units, of state entities receiving State Fiscal Recovery Funds (SFRF) under the American Rescue Plan Act (ARPA) of 2021, of the requirements and expectations for their role in the oversight of the funds. Refer to Budget Letter 21-28 for the overview of SFRF.

II. INTERNAL AUDIT

Internal audit units should include the following in their oversight activities of the state entity and subrecipients:

- Incorporate SFRF into audit plans for fiscal year 2021-22 and subsequent years until funds have been spent or the funding deadline has been reached. Areas of compliance subject to audit may include:
 - Activities allowed or unallowed
 - Allowable costs/cost principles
 - Period of performance
 - Procurement, including prior review of subrecipient and contractor suspension and debarment
 - Subrecipient monitoring
 - Reporting of the quarterly Project and Expenditure reports and annual Recovery Plan Performance report
- Stay informed of all applicable Federal guidance and requirements, and timely communicate information to respective staff and management.

- Evaluate and advise management regarding the Monitoring Plan developed in accordance with Budget Letter 21-28, to ensure SFRF are spent in compliance with the U.S. Department of the Treasury's (Treasury) [Interim Final Rule](#) and other [Federal guidelines](#) and performance goals/metrics/outcomes are achieved. Activities may include:
 - Review policies and procedures and ensure staff and management understand all the Federal rules related to SFRF, including revisions.
 - Assess and provide recommendations to strengthen controls to ensure accurate reporting of SFRF expenditures to Finance by reviewing expenditures for eligibility, proper tracking, and categorization in accounting records.
 - Review documentation supporting progress toward specified performance goals/metrics/outcomes to ensure documentation is sufficient and appropriate.
 - Ensure all supporting documents are maintained in accordance with Federal document retention policies.
- Monitor the mitigation of identified risks and the resolution of findings pursuant to internal and external audits or other related monitoring activities.

III. AUDIT RESOURCES

Federal criteria to reference when testing SFRF, as well as when reporting findings, include the following:

- [42 U.S.C. § 802](#)
- [42 U.S.C. § 803](#)
- [Treasury's Interim Final Rule](#)
- [Treasury's guidance](#)
- [FAQs](#)

California criteria to reference for questions or guidance include the following:

- [COVID-19 Information \(ca.gov\)](#)
- [Single Audit webpage](#)

If you have additional questions or need additional guidance, please contact us by email at OSAE_ARPA@dof.ca.gov.

/s/ Cheryl L. McCormick

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