

BUDGET LETTER

		NUMBER: 20-12
SUBJECT: FEDERAL STIMULUS FUNDS – ACCOUNTING AND NOTIFICATION REQUIREMENTS	DATE ISSUED: June 08, 2020	
REFERENCES: BUDGET LETTER 20-10 AND 20-07; STATE ADMINISTRATIVE MANUAL SECTION 912	SUPERSEDES:	

TO: Agency Secretaries
Department Directors
Departmental Budget and Accounting Officers
Departmental Human Resources and Labor Relations Officers
Departmental Business Services Officers
Department of Finance Budget and Accounting Staff

FROM: DEPARTMENT OF FINANCE

Budget Officers are requested to forward a copy of this budget letter (BL) to departmental Accounting/Fiscal Services, Human Resources, Labor Relations, and Business Services Officers

This BL outlines steps all agencies and departments must take to track expenditures, regardless of funding source, related to the state's response, mitigation, management, and recovery activities associated with the COVID-19 pandemic. To date, the federal government has passed four bills to provide temporary funding to support the state's response to COVID-19. The funding made available through these four bills is expected to pay for a wide range of services, including emergency response, testing and contact tracing, health care, state and local government services (including schools and higher education institutions), as well as financial relief for individuals, families, and businesses. The state must adhere to tracking and reporting requirements on the use of these funds.

Over \$70 billion in additional federal funds is expected to augment the budgets of various state agencies. Guidance and specific details regarding federal reporting and oversight of these funds has been limited, given the speed at which the funding has been allocated. However, each of the federal bills included funding to support reporting, auditing, and oversight of these funds. Notably, the Coronavirus Aid, Relief, and Economic Security (CARES) Act established the Office of the Special Inspector General for Pandemic Recovery and provided increased funding to existing federal inspectors general.

Accounting Instructions

As the pandemic has unfolded, many departments have had to quickly adapt their approach to the delivery of governmental programs and services. In addition, many departments were tasked with the responsibility of directly supporting the emergency response to the COVID-19 pandemic. As the state moves to longer-term recovery, and invests federal stimulus funds to support that recovery, it will be critical for departments to accurately and consistently track expenditures, including direct expenditures, allocated costs, and related personnel costs.

In partnership with the Financial Information System for California (FI\$Cal), Finance has outlined instructions that all departments using the state's accounting system must follow to track COVID-19 expenditures and FI\$Cal has developed the attached Job Aid **FISCal.457 - Adding COVID-19 Custom Attributes to a Project in FI\$Cal** to assist departments with this critical task. Departments that are deferred or exempt from using FI\$Cal must establish comparable processes to track and report expenditures, obligations, and receipts related to COVID-19 activities or federal stimulus awards.

There are three main categories of expenditures, obligations, receipts, and other transactions that must be tracked separately from a department's normal operations. As the pandemic continues, there may be modifications to these instructions and categories—but these categories are intended to encompass the wide range of COVID-19 related activities.

1. **COVID-19 Response** – Various activities that support the emergency response undertaken by departments in direct response to the pandemic. Activities include, but are not limited to:
 - a. Additional cleaning and sanitation protocols.
 - b. Purchases that support the ability of staff to telework, or support the implementation of social distancing protocols and public health guidance, such as the purchase of personal protective equipment or partitions and barriers.
 - c. Any activity mission tasked to a department by the Office of Emergency Services (Cal OES). These activities are also tracked per guidelines from Cal OES and reported to Finance pursuant to BL 20-10 and BL 20-07.
 - d. Redeployment or redirection of staff from regular assignments to COVID-19 response (such as redirection of staff to the State Operations Center or to help support increases in unemployment insurance claims). This would not include staff that are redirected to testing and contact tracing activities identified in #2 below.
 - e. In most cases, departments have absorbed these costs within existing resources but the state may have an opportunity to submit requests for reimbursement either through the Cal OES/FEMA process, or to allocate costs incurred to the federal Coronavirus Relief Fund. Departments should track and report these costs but may not receive direct reimbursement.
2. **Testing and Contact Tracing** – Activities that support statewide testing and contact tracing, as outlined by the California Department of Public Health and the California Health and Human Services Agency. This would include staff that are reassigned to help support this effort.
3. **COVID-19 Stimulus Programs** – Many existing programs have been used to rapidly allocate federal stimulus funds. The COVID-19 funds must be tracked separately from the base program funds, even if the Catalog of Federal Domestic Assistance (CFDA) is the same for both. In addition to tracking them separately, it is important to note that COVID-19 allocations may also have unique requirements relative to allowable uses (including flexibility), matching, reporting, or period of availability, which must be carefully tracked or monitored. The majority of the funding being allocated to or through the state, as reported pursuant to the federal tracking drill, will fall into this category.

The attached job aid provides detailed instructions for the creation of COVID-related projects in FI\$Cal. The main goal is to monitor and standardize the reporting of expenditures, obligations, and receipt of funds using the categories outlined above. If a department has not created any projects related to COVID-19, departments will need to create a new project to support tracking and reporting activities, if applicable, in each of these high-level groupings. Each unique COVID-19 stimulus program will likely need a separate federal project ID. All of these would have the "Stimulus" attribute. It is highly recommended that these projects are created expeditiously to begin tracking in FY 2019-20 and to reduce any need for retroactive reclassification. Departments should follow these instructions **in addition** to any other method used to track internally (such as service location). Departments should also develop internal procedures to identify eligible expenses when they are initiated, such as purchase order/procurement transactions, invoices, and tracking or allocating staff time substantially dedicated to, or redeployed for, response or mitigation related to COVID-19. Taking these steps early in the process will help departments and accounting staff avoid significant revision to existing accounting entries later.

Revising Accounting Records

While it is critical to go back and capture all of the expenditures to date, many departments have already implemented methods to track expenditures associated with COVID-19 activities. If COVID-19 transactions are already separately tracked in the system using a unique project ID (with no non-COVID expenditures in the transaction), departments may add the appropriate COVID-19 attribute to the project as outlined in the job aid. If COVID-19 activities have been captured in a different way, departments may also create high-level, lump-sum entries to move the expenditures to the new project code and COVID-19 attribute.

These expenditures should include direct expenditures, allocated costs, and related personnel costs. To use this streamlined approach, and before making these changes, the department must have documented their process for tracking these transactions using other methods, such as the allocation methods for personnel and other administrative costs. This is important to provide the necessary audit trail related to the lump-sum entry. Departments are not required to modify already dispatched purchase orders to accommodate the new project ID; however, these purchase orders and other source documents must be maintained to support the COVID-19 expenditures incurred. It is critical to capture all of the COVID-19 expenditures to support statewide reporting, comply with federal requirements, and maintain eligibility for federal funding.

The new project chart fields should be included on any transactions from the date of this BL and ongoing for COVID-19 expenses.

Application for Federal Grants

Although the majority of federal stimulus funds use existing programs and funding allocation formulas to distribute funds, some funding is available as part of a new federal grant. State departments are strongly encouraged to secure these grant funds as soon as possible. At the same time, departments must coordinate this activity with the Department of Finance and comply with all required notification to the Legislature prior to the use of these funds. Timely submittal of requests provides for a more thorough review of these requests. Departments must submit the Federal Grant Request (DF-24), consistent with section 912 of the State Administrative Manual, to Finance for review and approval.

If federal deadlines permit, the form should be submitted to Finance 10 working days prior to the federal application deadline. Contact your Finance Budget Analyst immediately if the federal deadline does not allow for this normal review timeframe. An electronic copy of form DF-24 is available at http://www.dof.ca.gov/Budget/Resources_for_Departments/Budget_Forms/.

Adjustments and Notification Upon Receipt of Federal Funds

Consistent with existing reporting requirements, prior to any action that would expend, obligate, or encumber any of these federal funds, state departments must notify Finance of the amount of funds that have been, or will be, received and request either an adjustment pursuant to Control Section 8.50 or an augmentation pursuant to Control Section 28.00 to build these funds in to the 2020-21 Budget. If no increase is necessary based on existing federal fund authority, departments should continue to provide updates regarding federal funds received as part of the COVID-19 Federal Tracking drill.

In addition to tracking the direct costs of COVID-19 response and mitigation, departments should separately identify secondary effects and costs associated with those effects to various governmental programs and services. Such costs could include increases in caseload programs or lost revenues due to facility closures. These costs would not necessarily need to be attributed to one of the categories above within the state accounting system (as that would be fairly onerous). However, having departments separately document the pre-COVID-19 baseline expenditures and how those expenditures have increased as a result of the COVID-19 pandemic will help support the state's request for future federal relief and/or the reallocation of the Coronavirus Relief Funds provided in the CARES Act.

If you have any questions regarding this BL, please contact your assigned Finance Budget Analyst.

/s/ Thomas Todd

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