



OFFICE OF THE COUNTY AUDITOR

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To: DuPage County Board

From: Bill White, J.D. *WFW*
County Auditor

Subject: Internal Audit of American Rescue Plan Fund Disbursements
Choose DuPage – ReInvest DuPage Small Business Grant Program
#21-74

Date: September 28, 2021

The Office of the County Auditor has completed a limited scope internal audit of the transaction processing for the payments issued under the ReInvest DuPage Small Business Grant Program administered by Choose DuPage. The grants have been paid from the American Rescue Plan Fund pursuant to the American Rescue Plan Act (ARP Act).

A total of 463 transactions submitted in 4 batches have been reviewed and 460 recommended for payment by the County Auditor for a total of \$16,190,999. The results of the audit are presented below.

Results

My Office performed voucher pre-audit procedures for the payments issued to applicants under the ReInvest DuPage Small Business Grant Program (ReInvest DuPage Program) administered by Choose DuPage. A total of 463 grant payments were reviewed and 460 were recommended for payment by the County Auditor totaling \$16,190,999. The grant payments were submitted in 4 separate batches that were approved by the County Board between August 10th and September 14th.

The following results were noted:

- \$159,001, or less than 1%, of the \$16,350,000 allocated for Small Business grants remained unspent.
- 37 small exceptions related to the County's vendor records were resolved by the Finance Department prior to processing the payments.
- 4 grant submissions for \$113,000 were from applicants listed with a "not in good standing" status with the Illinois Secretary of State Business Services Division and were resolved prior to payment processing.

- 1 applicant requesting \$50,000 was unable to resolve its status and was otherwise ineligible for the ReInvest DuPage Program. This applicant was removed from the payment batch listing at the direction of Choose DuPage.
- 10 applicants were found to be ineligible for the ReInvest DuPage Program based on analysis limited to the four corners of the grant agreement. However, due to ambiguous language in the grant agreement, outside information and evidence of County Board intent was considered and 8 of those applicants were included on the payment batch listings recommended for payment and 2 applicants were removed at the direction of Choose DuPage. The 8 applicants requested and received grants totaling \$181,410 while the remaining 2 applicants requested but did not receive grants totaling \$24,410.

The control weaknesses found with the language of the grant agreement are discussed in detail below.

Objective

The County Auditor performs a series of procedures designed to evaluate the internal controls involved in the processing of transactions in the accounts payable system. The actual procedures performed depends upon the County Auditor's assessment of risks associated with the transactions. Additionally, the County Auditor reviews transactions submitted by external agencies requesting disbursements from the American Rescue Plan Fund administered by the County. This review includes testing COVID-19 related payments for compliance with the provisions of the ARP Act regarding allowable costs.

Background/Audit Scope

The DuPage County Board established a program administered by Choose DuPage to assist small businesses and independent contractors operating within the County impacted by the COVID-19 pandemic. Grants in the amount of up to \$50,000 are provided to qualified applicants to use for operation expenses including payroll, utilities, and rent. The program is funded through a \$16,350,000 allocation in the ARP Act money received from the federal government and maintained in the American Rescue Plan Fund.

Choose DuPage provided the County Auditor with supporting documentation for grants approved by members of the grant decision committee. The County Auditor did not review any of the financial documentation provided to the grant committee used to evaluate the grant application. The supporting documentation included a completed IRS Form W-9 for each approved applicant in addition to a spreadsheet listing all applicants and their pertinent business information. The transaction documentation provided by Choose DuPage is entered by the County's Finance Department into the accounts payable system.

The County Auditor performs audit procedures which include reviewing the W-9, applicant and business information, and other pertinent supporting documentation and comparing it to the information entered into the County's accounting system.

Significant discrepancies noted between the supporting documentation and the information recorded in the system are identified by the County Auditor as exceptions. In these situations, the County Auditor notifies the Finance Department of the problem and the staff of Choose DuPage if necessary. When the discrepancies are resolved, the County Auditor approves the transactions.

A Bank Account Payment History Report is generated by the Finance Department after the invoices have been approved and the County Auditor verifies that each recommended payment was properly posted to the County's General Ledger.

Audit Findings and Recommendations

Grant Agreement

While reviewing the grant applications, the Office of the County Auditor identified ambiguous language in Section 5.0 Grant Criteria of the ReInvest DuPage Small Business Grant Program Agreement.

Two areas of concern were identified:

- (1) In Section 5.0 Grant Criteria, the relationship between the term "applicant" and the term "business" is unclear. This becomes relevant in circumstances where an entity formed after January 1, 2019, acquires a business that had been in operation prior to January 1, 2019.

Section 5.6 provides that "All applicants must have begun operation . . . not later than January 1, 2019." It would be impossible for entities (LLC, corporations, partnerships) created after January 1, 2019, to meet this criterion.

Section 5.1 provides "Where the applicant is seeking a small business grant, the business applying for the grant . . . (iii) must be in business as of January 1, 2019." This suggests that an entity created after January 1, 2019, could be eligible under program criteria if the applicant owned a business in operation prior to January 1, 2019.

- (2) Sections 5.1, 5.2, and 5.3 fail to clearly distinguish "small business", "self-employed", and "independent contractor." Section 5.3 states in part: "No self-employed individual or independent contractor shall be eligible for a grant in excess of \$15,000." However, a sole proprietor operating a small business is a self-employed individual, even if that individual has many employees and perhaps multiple business locations. It is unclear from the Grant Program Agreement whether a small business operated by a self-employed sole proprietor would be eligible for a \$50,000 grant or a \$15,000 grant.

The Auditor's Office raised the first issue with Choose DuPage. Choose DuPage referred the issue to the Office of the State's Attorney. The Office of the State's Attorney provided an opinion via e-mail that looked to the intent of the drafter and the perceived intent of the County Board and offered guidance regarding the eligibility of businesses in operation as of January 1, 2019, where changes in the structure of business ownership occurred after January 1, 2019. The Office of the

Auditor relied upon this e-mail opinion from the Office of the State’s Attorney in making recommendations for payment.

A total of \$181,410 in payments issued under the ReInvest DuPage Small Business Grant Program for 8 applications were recommended for payment in reliance on guidance from the Office of the State’s Attorney.

Regarding the second issue, the Grant Program web portal established by Choose DuPage does not refer to “self-employed individuals” but rather distinguishes between “small businesses” and “independent contractors.” In the opinion of the County Auditor, the language used by Choose DuPage on the web portal accurately expresses the intent of the County Board. Therefore, grant applications made by self-employed sole proprietors operating substantial small businesses were deemed eligible for a \$50,000 grant rather than the \$15,000 grant.

There were 34 applicants requesting a total of \$478,057 who provided social security numbers on their W-9, which indicates self-employment. For applicants requesting \$15,000 or less, it was not necessary to distinguish between small businesses and independent contractors. However, 7 of these applicants applied for and received more than \$15,000. In each of these 7 instances, the applicant was determined to be a small business rather than an independent contractor and therefore eligible for grants in excess of \$15,000.

Due to the lack of clarity and ambiguities in the Grant Program agreement, the County Auditor relied upon external information provided by the State’s Attorney and the ReInvest DuPage web portal to recommend these grant requests for payment. However, the need to look to sources of information outside of the written document is a control weakness. While the current program has concluded, in the event a similar program is adopted in the future, it is the recommendation of the County Auditor that the agreement, and specifically Section 5.0 Grant Criteria, be redrafted to include clear definitions of the various business categories and program criteria that can be applied without reference to external sources of information.

Grant Applicants

My Office performed voucher pre-audit procedures for the payments issued to applicants under the ReInvest DuPage Small Business Grant Program (ReInvest DuPage Program) administered by Choose DuPage. A total of 463 grant payments were reviewed and 460 were recommended for payment by the County Auditor totalling \$16,190,999. The grant payments were submitted in 4 separate batches that were approved by the County Board between August 10th and September 14th.

ReInvest DuPage Grant Applications					
Number Submitted	Number Approved	Number Disapproved	Amount Requested	Amount Disapproved	Amount Approved
463	460	3	\$16,265,139	\$74,140	\$16,190,999

As of September 20th, only \$159,001, or less than 1%, of the \$16,350,000 allocated for ReInvest DuPage Small Business grants remained unspent.

The County Auditor identified 37 small exceptions related to the County's vendor records which were resolved by the Finance Department prior to processing the payments.

Four grant submissions totaling \$113,000 were listed with a "not in good standing" status with the Illinois Secretary of State Business Services Division and were able to resolve their issues with the Secretary of State prior to payment processing.

One applicant requesting \$50,000 was unable to resolve its status and was otherwise ineligible for the ReInvest DuPage Program. This applicant was removed from the payment batch listing at the direction of Choose DuPage.

Ten applicants were found to be ineligible for the ReInvest DuPage Program based on analysis limited to the four corners of the grant agreement. However, due to ambiguous language in the grant agreement, outside information and evidence of County Board intent was considered and 8 of those applicants were included on the payment batch listings recommended for payment and 2 applicants were removed at the direction of Choose DuPage. The 8 applicants requested and received grants totaling \$181,410 while the remaining 2 applicants requested but did not receive grants totaling \$24,410. The language of the grant agreement is discussed in detail above.

With respect to similar future programs:

It is recommended that the Finance Department verify that the County's vendor records match the W-9, DBA business, and address information provided by Choose DuPage prior to forwarding to the Auditor's Office for review.

It is recommended that Choose DuPage verify the applicants' status and creation date with the Secretary of State's Business Services website prior to approving for a small business grant.

It is recommended that Choose DuPage provide the business category for applicants when submitting batch payment documentation to the County.

The cooperation of the Finance Department Accounts Payable Division and the Choose DuPage staff is greatly appreciated.

If you have any questions or concerns, please contact me.

cc: Greg Bedalov, President & CEO, Choose DuPage
Nick Kottmeyer, Chief Administrative Officer
Sheryl Markay, Chief Policy and Program Officer
Joan Olson, Chief Communications Officer
Jeff Martynowicz, Chief Financial Officer