



**STATE OF VERMONT
OFFICE OF THE STATE AUDITOR**

To: Representatives Marcotte and Hooper
Senators Sirotkin and Kitchel
Date: 22 February 2021
Re: Proposed Gap Recovery Grants

Having reviewed the proposed legislation for the Gap Recovery Grants (Gap) program, I offer the following observations.

Measurement of economic loss

Similar to the Economic Recovery Grant (ERG) programs, the Gap program requires that businesses demonstrate economic loss due to COVID-19 but does not define economic loss.

If ACCD uses revenue loss to measure economic loss for businesses that were in operation prior to the pandemic, the Gap program will be exposed to the same risk the Joint Fiscal Office pointed out in its November 2020 [memo](#) to the Joint Fiscal Committee (JFC) regarding the ERG program. Namely, that the focus on revenue loss makes it difficult to target dollars where they are needed most and does not indicate whether or how many of these businesses would fail without state financial assistance.

Further, the Gap program does not limit eligibility to businesses that were in operation prior to the pandemic and it's not clear, what, if any, baseline is available to measure economic loss for businesses that commenced operation or were acquired during the pandemic.

To address these issues, the Legislature could specify the methods to be used to demonstrate economic loss or could require the JFC's approval of ACCD's methodology for determining economic loss.

Businesses that commenced operations or were acquired during the pandemic

In my June 8, 2020 [memo](#) regarding S.350, I noted that providing grants to businesses that have only operated for a brief period prior to shutdowns related to COVID-19 entails considerable risk because a high percentage of new businesses struggle and fail. This same risk exists for the Gap program. Therefore, it might be advisable to request that ACCD provide the Committees with information on the current operating status of those ERG awardees that only operated for a brief period prior to the pandemic. In addition, startups or newly acquired businesses could be required to provide evidence of meeting payroll for at least a quarter during the pandemic.

Clawback

In addition, there is no mention in the bill of the State's authority and ability to recover or claw back funds later found to be utilized for ineligible purposes. Arguably, this should be made clear up front so that applicants are aware of the risks.

Audit provisions

Administrative bulletins 3.5 and 5.0 include language regarding audit provisions.¹ It is essential that state agencies and sub-recipients authorized to disburse COVID-19 funds be required to include standard audit provisions in all contracts, loans and grants. Therefore, I request that you add such an explicit requirement in the legislation for the proposed Gap program. The State Auditor's Office must have access to records that relate to eligibility for and use of economic recovery grant funds.

¹ For example, see Bulletin 3.5 [Attachment C #13](#).