



U.S. DEPARTMENT OF HOMELAND SECURITY **OFFICE OF INSPECTOR GENERAL**

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January 30, 2025

FINAL REPORT

FEMA's Insufficient Oversight of COVID-19 Emergency Protective Measures Grants Led to Over \$8.1 Billion in Questioned Costs and \$1.5 Billion in Over-obligated Funds





OFFICE OF INSPECTOR GENERAL

U.S. Department of Homeland Security

Washington, DC 20528 | www.oig.dhs.gov

January 30, 2025

MEMORANDUM FOR: Cameron Hamilton
Senior Official Performing the Duties of
FEMA Administrator

FROM: Joseph V. Cuffari, Ph.D.
Inspector General

SUBJECT: *FEMA's Insufficient Oversight of COVID-19 Emergency Protective Measures Grants Led to Over \$8.1 Billion in Questioned Costs and \$1.5 Billion in Over-obligated Funds*

**JOSEPH V
CUFFARI** Digitally signed by
JOSEPH V CUFFARI
Date: 2025.01.29
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Attached for your action is our final report, *FEMA's Insufficient Oversight of COVID-19 Emergency Protective Measures Grants Led to Over \$8.1 Billion in Questioned Costs and \$1.5 Billion in Over-obligated Funds*. We incorporated the formal comments provided by your office.

The report contains seven recommendations aimed at improving FEMA's oversight of COVID-19 emergency protective measures grants. Your office concurred with all seven of the recommendations. Based on the information provided in your response to the draft report, we consider recommendations 1, 4, 5, 6, and 7 open and resolved. Once your office has fully implemented the recommendations, please submit a formal closeout letter to us within 30 days so that we may close the recommendations. The memorandum should be accompanied by evidence of completion of agreed-upon corrective actions and of the disposition of any monetary amounts.

We consider recommendations 2 and 3 open and unresolved. As prescribed by Department of Homeland Security Directive 077-01, *Follow-Up and Resolutions for the Office of Inspector General Report Recommendations*, within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Please send your response or closure request to OIGAuditsFollowup@oig.dhs.gov.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the

Department of Homeland Security. We will post the report on our website for public dissemination.

Please contact me with any questions, or your staff may contact Kristen Bernard, Deputy Inspector General of Audits, at (202) 981-6000.

Attachment



DHS OIG HIGHLIGHTS

FEMA's Insufficient Oversight of COVID-19 Emergency Protective Measures Grants Led to Over \$8.1 Billion in Questioned Costs and \$1.5 Billion in Over-obligated Funds

January 30, 2025

Why We Did This Audit

Through its Public Assistance Program, FEMA provides Federal funding to reimburse communities for disaster response and recovery projects. These projects may include emergency protective measures undertaken to save lives or protect public health or safety. FEMA administers COVID-19 pandemic recovery measures as part of its disaster response mission. We conducted this audit to determine whether FEMA ensured Federal funds for COVID-19 emergency protective measures reached intended recipients and subrecipients and were used as required.

What We Recommend

We made seven recommendations to improve FEMA's oversight of reimbursements for COVID-19 emergency protective measures projects.

For Further Information:

Contact our Office of Public Affairs at (202) 981-6000, or email us at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov.

What We Found

During fiscal years 2020 through 2023, recipients and subrecipients of the Federal Emergency Management Agency's (FEMA) COVID-19 emergency protective measures grants we reviewed received Federal funds as intended. However, FEMA over-obligated at least \$1.5 billion in funds for one state's medical staffing grant and did not determine the cost allowability of the \$8.1 billion in funds drawn down by the state. Additionally, we reviewed a sample of 20 other grants and identified approximately \$32.8 million in improper payments. Finally, FEMA did not issue determination memorandums when denying or reducing reimbursement requests, as required.

These issues occurred due to the unprecedented circumstances surrounding the COVID-19 pandemic and FEMA not following established requirements when delivering Public Assistance funding. For example, for the medical staffing grant, FEMA did not validate the reasonableness of cost estimates provided by the state before obligating funds. Further, FEMA experienced delays in its improper payment reviews of the state's expended funds due to an increased workload from COVID-19 and other major disasters. FEMA also delayed taking action to recoup unsupported costs it identified in its improper payment reviews and instead worked with the state to maximize reimbursements during the review process.

Insufficient oversight of the Public Assistance grants resulted in FEMA obligating \$1.5 billion in funds that could have been put to better use for other disasters, disbursing \$8.1 billion in questioned costs that have yet to be determined allowable, and making \$32.8 million in improper payments.

FEMA Response

FEMA concurred with all seven recommendations.



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Abbreviations

C.F.R.	Code of Federal Regulations
FEMA	Federal Emergency Management Agency
U.S.C.	United States Code
VAYGo	Validate As You Go



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Background

In March 2020, the President declared a nationwide emergency because of the COVID-19 pandemic. The Federal Emergency Management Agency (FEMA), using its authority under the *Robert T. Stafford Disaster Relief and Emergency Assistance Act* (Stafford Act), as amended, approved major disaster declarations to state, local, territorial, and tribal governments.¹ In addition, Congress passed two primary laws in response to the COVID-19 pandemic. The *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act)² was a \$2.2 trillion economic stimulus plan signed into law on March 27, 2020. Additionally, The *American Rescue Plan Act of 2021*³ was a \$1.9 trillion economic stimulus plan signed into law on March 11, 2021. FEMA received about \$45 billion in CARES Act funding and more than \$50 billion from the *American Rescue Plan Act*. By the end of fiscal year 2023, FEMA had obligated about \$69 billion to fund COVID-19 recovery measures.

The Stafford Act allows state, local, territorial, and tribal governments, and some private nonprofit applicants, to apply for reimbursement of eligible essential assistance, also known as emergency protective measures, that they provided in response to the COVID-19 disaster at the direction or guidance of public health officials. Emergency protective measures save lives or protect public health or safety. These measures are generally short-term, lasting less than 6 months, but FEMA can authorize extensions.⁴ Some emergency protective measures approved in response to COVID-19 included meals for high-risk individuals, emergency medical care, and non-congregate medical sheltering.

FEMA Public Assistance Program

FEMA funds emergency protective measures projects through its Public Assistance Program. Public Assistance is a reimbursement program that provides Federal funding to help communities respond to and recover from disasters. FEMA must determine whether the applicant, facility, scope of work, and cost for all Public Assistance projects are eligible for reimbursement before approving and obligating funds. Federal regulations require FEMA to use a project worksheet to document the location, damage description and dimensions, scope of work, and cost estimate for each project. All costs must be adequately documented.⁵

During the COVID-19 pandemic, FEMA implemented a streamlined project application process that allowed recipients to receive 100 percent of the funding for emergency protective measures

¹ FEMA P-592, *Stafford Act, as Amended, and Related Authorities Homeland Security Act, as amended (Emergency Management-related Provisions)*, May 2019.

² *Coronavirus Aid, Relief, and Economic Security Act*, Public Law 116-136, 116th Congress, March 27, 2020.

³ *American Rescue Plan Act of 2021*, Public Law 117-2, 117th Congress, March 11, 2021.

⁴ 44 Code of Federal Regulations (C.F.R.) § 206.204(c)(2)(ii).

⁵ 2 C.F.R. § 200.403(g).



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projects based on cost estimates instead of actual costs. The cost estimates needed to include, at a minimum, a unit cost breakdown so FEMA could validate the estimates and determine cost reasonableness.

FEMA's four Consolidated Resource Centers review applicant-provided documentation and develop and validate the scope of work and costs for the projects. FEMA uses one of two primary project formulation processes, depending on the complexity of the project and the skillsets needed to develop it: (1) completed projects and (2) standard or specialized projects. The primary difference between the two types of projects is whether the work is complete and actual cost information is available. Awards for completed projects are based on actual costs, while awards for standard or specialized projects can be based on estimated costs.

Validate As You Go (VAYGo) is a payment review process for projects that enables FEMA to validate Public Assistance grant recipients' use of funds throughout their projects' life cycles. FEMA launched VAYGo as a pilot program in February 2019 and expanded the applicability of VAYGo to disasters declared in FY 2020, including COVID-19 declarations. VAYGo is an incremental reconciliation process that involves validating post-payment actual costs shortly after the actual expenditures occur instead of waiting until years later after the project is completed. Through VAYGo, FEMA validates grant recipients' use of funds throughout the post-award phase instead of waiting until closeout. Using the Probability Proportional to Size sampling⁶ method, FEMA samples disaster drawdowns from the previous quarter for payment integrity testing. According to FEMA, the goal of the VAYGo process is to provide reliable assurance that grant recipients and subrecipients maintain complete and compliant payment documentation that adheres to Federal regulations and FEMA policy.

We conducted this audit to determine whether FEMA ensured Federal funds for COVID-19 emergency protective measures reached intended recipients and subrecipients and were used as required.

Results of Audit

During fiscal years 2020 through 2023, recipients and subrecipients of the Federal Emergency Management Agency's (FEMA) COVID-19 emergency protective measures grants we reviewed received Federal funds as intended. However, FEMA over-obligated at least \$1.5 billion in funds for one state's medical staffing grant and did not determine the cost allowability of the \$8.1 billion in funds drawn down by the state. Additionally, we reviewed a sample of 20 other grants and identified approximately \$32.8 million in improper payments. Finally, FEMA did not issue determination memorandums when denying or reducing reimbursement requests, as required.

⁶ Probability Proportional to Size sampling means that the probability of selecting each item (disbursement) in the sample is directly proportional to its size (dollar amount) in the population.



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These issues occurred due to the unprecedented circumstances surrounding the COVID-19 pandemic and FEMA not following established requirements when delivering Public Assistance funding. For example, for the medical staffing grant, FEMA did not validate the reasonableness of cost estimates provided by the state before obligating funds. Further, FEMA experienced delays in its improper payment reviews of the state's expended funds due to an increased workload from COVID-19 and other major disasters. FEMA also delayed taking action to recoup unsupported costs it identified in its improper payment reviews and instead worked with the state to maximize reimbursements during the review process. Insufficient oversight of the Public Assistance grants resulted in FEMA obligating \$1.5 billion in funds that could have been put to better use for other disasters, disbursing \$8.1 billion in questioned costs that have yet to be determined allowable, and making \$32.8 million in improper payments.

FEMA Over-obligated at Least \$1.5 Billion to One State for a Medical Staffing Grant

As of April 2023, FEMA obligated at least \$1.5 billion more than actual expenditures to one state's COVID-19 emergency protective measures grant. We selected this grant for review, in addition to 20 others selected randomly, because it represented \$9.6 billion (approximately 14 percent) of the \$69 billion FEMA had obligated nationwide by the end of FY 2023 for COVID-19 emergency protective measures. The unliquidated obligations cumulatively remained above \$1.5 billion for 2 years. In April 2023, FEMA officials de-obligated \$500 million after our discussion about the high balance of unliquidated obligations. As of April 2024, the project's unliquidated obligations remain at approximately \$1 billion that will have to be reconciled as the project reaches maturity.

In September 2020, FEMA awarded an emergency protective measures project for the same state, totaling approximately \$853 million, to initially address medical staffing shortages at 236 healthcare facilities statewide. The state provided the funding to a subrecipient, who in turn, awarded three time-and-materials contracts for contractors to provide needed medical staff. In just over a year, FEMA increased the obligations to approximately \$9.6 billion through project modifications, known as versions, as shown in Table 1 below. This project is one of only two FEMA standard projects for which the project worksheet documents more than \$1.5 billion in obligations. In fact, funding for this project accounted for approximately 13 percent of the funds FEMA approved and obligated from the Disaster Relief Fund for COVID-19 as of September 30, 2023.



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Table 1. State Medical Staffing Project Worksheet Obligation Amounts

Version	Amount of Obligation	Date of Obligation
0	\$853,255,368	09/29/2020
1	\$0	10/21/2020
2	\$2,542,357,177	01/28/2021
3	\$1,131,870,849	03/31/2021
4	\$2,706,758,485	05/28/2021
5	\$2,319,540,481	12/27/2021
6	\$0	01/04/2022
7	\$0	03/15/2022
8	\$0	11/30/2022
Subtotal (0-8)	\$9,553,782,360	N/A
9	-\$500,000,000	04/21/2023
Total	\$9,053,782,360	N/A

Source: Developed by the Department of Homeland Security Office of Inspector General based on FEMA data

As a standard grant where work had not already been completed, the obligation was based on an estimate of future costs. Per FEMA's *Public Assistance Program and Policy Guide*,⁷ FEMA can accept estimated costs from the grantee if the estimate:

- is prepared by a licensed Professional Engineer or other estimating professional, such as a licensed architect or certified professional estimator who certifies that the estimate was prepared in accordance with industry standards;
- includes certification that the estimated cost directly corresponds to the repair of the agreed-upon damage;
- is based on the unit costs for each component of the scope of work and not on a lump sum amount;
- contains a level of detail sufficient for FEMA to validate that all components correspond with the agreed-upon scope of work; and
- is reasonable.

⁷ FP 104-009-2, *Public Assistance Program and Policy Guide*, April 2018 (page 138 of 206).



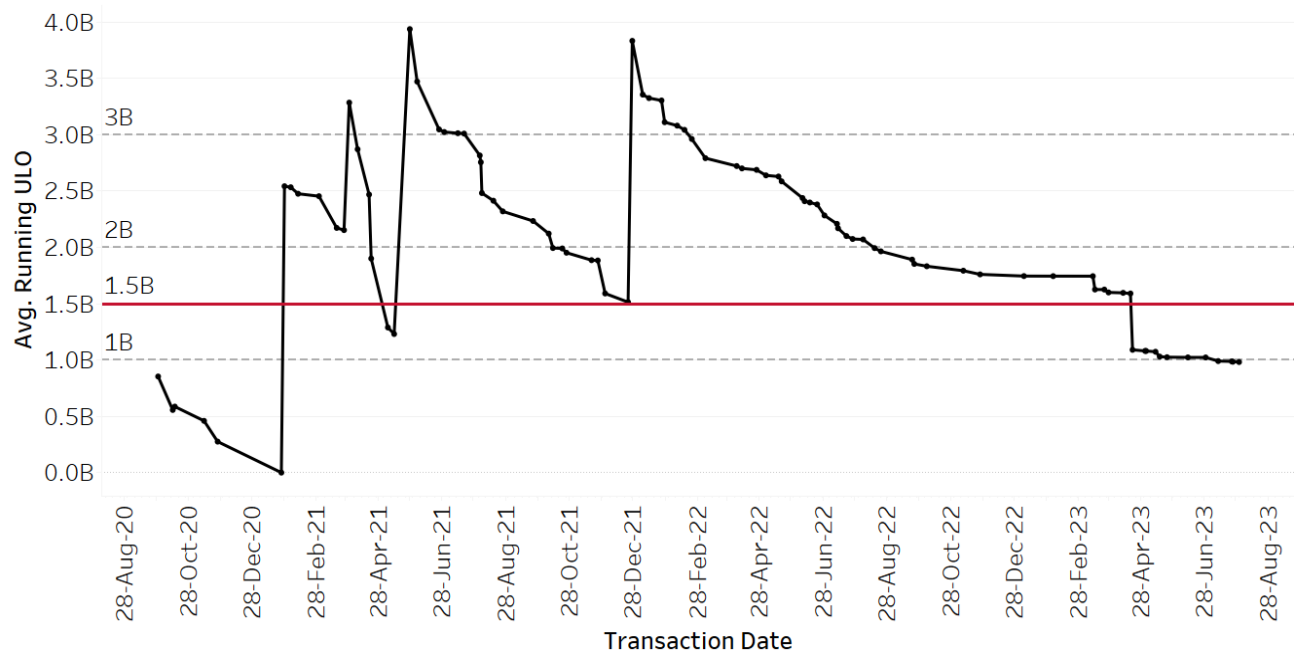
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FEMA must determine the reasonableness of the estimated costs by looking at historical documentation (for completed work), using average area costs, or relying on published cost-estimating services. Once funding is obligated, FEMA must review all open obligation balances to monitor the validity of the obligations. Specifically, FEMA must determine whether open obligation balances are accurate; are properly recorded; and contain sufficient, readily available supporting documentation.⁸

As shown in Figure 1, the unliquidated obligations for the medical staffing grant cumulatively remained above \$1.5 billion for 2 years. From May 2021 through April 2023, the project had consecutive unliquidated obligations ranging from \$1.5 billion to almost \$4 billion.

Figure 1. Unliquidated Obligation Totals from August 2020 through August 2023



Source: DHS OIG compilation from FEMA data

The over-obligation of funds occurred because FEMA did not validate cost estimates or determine cost reasonableness before obligating funds for the medical staffing grant. FEMA did not:

- require an itemized budget estimate that included unit prices broken down by the type and number of resources necessary to complete the work;

⁸ FEMA Directive #125-3, *Review and Certification of Open Obligations*, Rev. 2, December 10, 2020.



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- document in its official system of record the required review of the cost estimates for accuracy and proper supporting documentation before making obligations; and
- validate cost estimates provided by the recipient and ensure they were prepared by an estimating professional who could certify the estimates were prepared using industry standards.

For example, the first cost estimate totaling approximately \$1.1 billion for this project was supported by one sheet of paper with no itemized costs and was not prepared by a licensed Professional Engineer or cost-estimating professional. Due to the unprecedented nature of the COVID-19 pandemic, FEMA initially had limited historical data to reference. Cost estimates for subsequent obligations did not contain sufficient information to validate actual costs incurred from the previous obligations for the project. Validation of the cost estimate is a critical pre-award control because it sets the boundaries around the grant and establishes the obligation amount. FEMA officials stated that they relied on the subrecipient to develop the cost estimates. However, the cost estimates were not developed by a professional cost estimator as required by FEMA guidance. FEMA's inadequate validation of pre-award costs for the state's medical staffing project contributed to \$1.5 billion in funds that could have been put to better use (see Appendix C). Had the \$1.5 billion not been over-obligated to this project, it could have been transferred to the Disaster Relief Fund and made available to provide funding for other disasters.

Citing the low balance of the Disaster Relief Fund, in August 2023, FEMA prioritized response and immediate recovery efforts while concurrently pausing new obligations that were not essential for lifesaving or sustaining activities. According to FEMA officials, the \$500 million FEMA de-obligated in April 2023 was returned to the Disaster Relief Fund and used for general disasters or other COVID-19 projects. As of April 2024, FEMA continues to carry almost \$1 billion in unliquidated obligations on this project even though accelerated depletion of the Disaster Relief Fund remains a concern. According to the U.S. Government Accountability Office, FEMA reported a projected deficit of nearly \$6.4 billion for the Disaster Relief Fund by September 2024.⁹

Over-obligating funds that remained unliquidated for extended time periods may have contributed to an accelerated depletion of the Disaster Relief Fund in 2023.

⁹ GAO-24-107351, *FEMA – Opportunities Exist to Address Mission Challenges and Increased Workload*, March 12, 2024.



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FEMA Has Not Determined Cost Allowability of \$8.1 Billion in Funds Drawn Down by One State

As of April 2024, FEMA has not determined the cost allowability¹⁰ of approximately \$8.1 billion drawn down¹¹ by the state for the same medical staffing grant discussed above. FEMA has begun, but not completed, its review of approximately \$1.3 billion in costs. However, FEMA has taken no action to determine the allowability of the remaining \$6.8 billion.

FEMA validates the actual costs of completed projects before making awards, but it does not validate the actual costs of standard or specialized projects until the grant closeout phase, unless the drawdowns by the recipient are selected for the VAYGo process. According to FEMA's VAYGo guidance,¹² the recipient should submit the supporting documentation for validation within 80 to 124 days after notification by the regional point of contact that they have been selected for testing. If the documentation is not received by the deadline, an agreed-upon resolution memorandum or a notice of potential debt letter should be issued.

In August 2021, FEMA began the VAYGo post-payment testing process on the state project's \$1.3 billion in FY 2020 Q1 and Q2 disbursements. As of April 2024, of the approximately \$9.1 billion obligated for the medical staffing grant, FEMA had a zero percent completion rate on VAYGo reviews for completeness and compliance of drawdowns that began almost 3 years previously. From the documentation already provided by the state in March 2024, FEMA had questioned \$255 million of the \$1.3 billion. FEMA was in the process of validating the remaining \$1 billion, as shown in Figure 2.

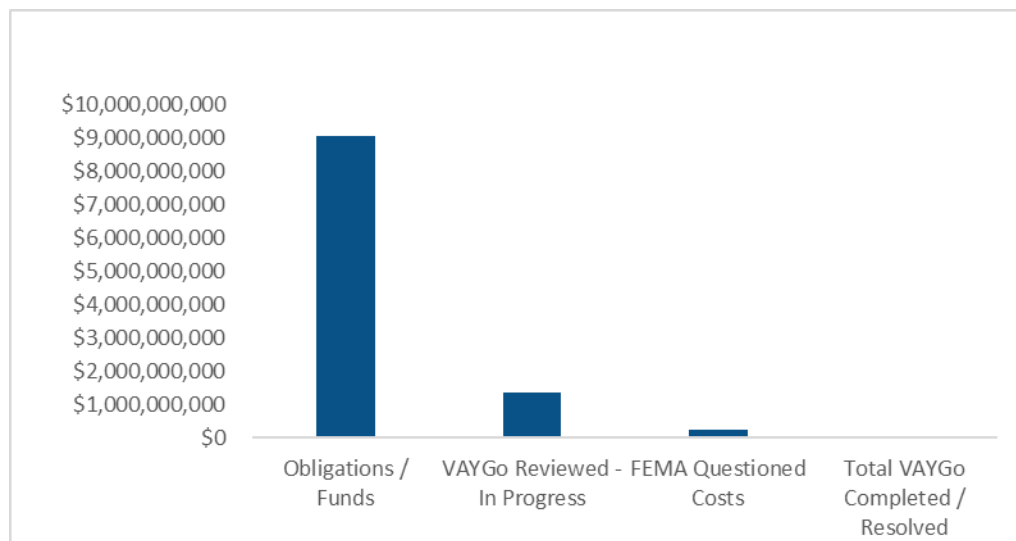
¹⁰ Costs are allowable if they meet general criteria established in 2 C.F.R. § 200.403.

¹¹ A drawdown means Federal funds requested and received by a state.

¹² *Standard Operating Procedure: Incremental Reconciliation Procedures Validate As You Go Pilot*, February 5, 2019.



Figure 2. VAYGo Status as of March 2024



Source: Developed by DHS OIG from FEMA data

Additionally, as of April 2024, the state had not adequately supported the subrecipients’ total reimbursement requests with actual cost documentation. Grants Manager, FEMA’s official system of record for Public Assistance grants, noted FEMA’s remediation with the state had lasted for 893 days. FEMA had not made final eligibility determinations and had issued neither a resolution memorandum nor a notice of potential debt letter. Consequently, the \$255 million that FEMA questioned remained unresolved.

According to FEMA officials, VAYGo post-payment testing has been behind since its implementation, primarily because of the enormity of hurricanes Harvey, Irma, and Maria followed by the COVID-19 pandemic and a pause of testing in 2022 to improve the process. FEMA officials also noted they decided to delay action against the state on questioned costs, opting to continue to work with the state to resolve the questioned costs, in the hopes of maximizing reimbursements during the review process. As a result, FEMA has not resolved the state’s initial VAYGo samples and expects the process to continue at least through FY 2025. FEMA stated it intends to begin testing VAYGo transactions closer to the time of disbursements beginning in FY 2024 to align with the requirements of the *Payment Integrity Information Act of 2019*.¹³

We are questioning the \$8.1 billion based on unknown eligibility of costs.

As a result of FEMA’s inability to establish cost allowability through validation of post-award costs of the state’s medical staffing project, we are questioning the \$8.1 billion based on unknown eligibility of costs (see Appendix C). When pre-award controls are ineffective, it becomes critical that FEMA

¹³ *Payment Integrity Act of 2019*, 31 U.S.C. 3301, Public Law 116-117, 116th Congress.



implement effective post-award controls, such as the VAYGo process, in a timely manner. Extending the review period indefinitely defeats the purpose of VAYGo incremental testing. It reduces the assurance that the recipient and subrecipient have appropriately spent project funding and indicates an increased risk that they have not maintained complete and compliant payment documentation that adheres to Federal regulations and FEMA policy.

FEMA Did Not Validate Actual Costs before Reimbursement on Completed Projects Totaling \$32.8 Million

FEMA did not validate approximately \$32.8 million in actual costs submitted for reimbursement on completed projects before obligating funds. According to the Stafford Act, Public Assistance is a reimbursement program.¹⁴ Additionally, per Federal regulations and FEMA guidance, FEMA must evaluate the eligibility of all costs claimed¹⁵ and those costs must be adequately documented.¹⁶ As outlined in FEMA guidance, project worksheets must contain the required support documentation to substantiate the actual costs of the scope of work being funded, describe the emergency response measures, document the percentage of “work completed,” and quantify the eligible costs.¹⁷

We selected a random, non-statistical sample of 20 large projects totaling \$58 million from a universe of 8,420 projects ranging from \$131,100 through \$100 million and reviewed pre-award controls. We determined that 6 of the 20 completed projects, totaling approximately \$33 million (56 percent), did not have the required supporting documentation to validate completion of the work and actual costs incurred before project award and reimbursement. Documentation included in FEMA’s system of record, Grants Manager, predominately consisted of high-level summary information and lacked details, such as documentation indicating when and if the services were performed, who performed the services, and whether the services were provided to eligible participants as required in the grants’ scope of work (see Appendix D).

FEMA’s documentation was insufficient because it focused primarily on expediting delivery of grant awards without sufficient oversight. According to FEMA officials, they had to expedite funding and assumed they could rely on post-payment controls to reconcile the actual cost submissions at closeout. Three staff members from FEMA’s Consolidated Resource Centers reported being instructed to “not do a deep dive” when reviewing cost eligibility during a “Stand Down” meeting in 2020 in anticipation of a surge of project worksheet submissions. We exhausted all avenues, including requesting audio or video recordings of the meeting, to verify the context of what was discussed. However, the material provided by FEMA did not yield documentary evidence of this direction being given.

¹⁴ Stafford Act Sec. 313, *Standards and Reviews* (42 U.S.C. § 5156).

¹⁵ 44 C.F.R. § 206.201(i)(1) (now 44 C.F.R. § 206.201(k)(1)).

¹⁶ 2 C.F.R. § 200.403(g).

¹⁷ FEMA Fact Sheet 9580.5, *Elements of a Project Worksheet*, December 17, 2005.



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FEMA's inability to establish cost allowability by validating pre-award costs for the six projects in our sample contributed to \$32.8 million in costs we questioned as improper payments (see Appendix C).

FEMA Inconsistently Issued Determination Memorandums when Denying or Reducing Reimbursement Requests

According to the Public Assistance Operations Manual,¹⁸ FEMA must issue a determination memorandum to the recipient (state) and subrecipient if it determines that a reimbursement request should be denied or reduced due to ineligible costs. The determination memorandum explains why a project worksheet's work or cost is not eligible. It is accompanied by a letter discussing the appeals process.

We reviewed the project worksheets for the 20 completed large projects in our sample and found that FEMA had adjusted the requested reimbursement for 5 projects, resulting in \$1,800,664 in reduced funding to the applicants. These reductions were based on reimbursement requests that were outside the scope of work, inadequately supported, or for work completed outside the period of performance. In all five instances, FEMA did not issue a determination memorandum.

FEMA did not follow its determination memorandum process consistently and instead relied on an informal process. During the extraordinary circumstances responding to the pandemic, FEMA accepted emails and phone calls, which were not always documented in Grants Manager, in lieu of issuing determination memorandums as required by guidance. This informal process decreases transparency and accountability and potentially exposes FEMA to future claims.

Subsequent Event

After we provided our Notice of Findings and Recommendations to FEMA in July 2024, FEMA informed us that it completed additional VAYGo work since we conducted our audit. Specifically, FEMA claimed that it has now performed VAYGo procedures on approximately \$6.9 billion in expenditures. However, we have not verified or performed analysis on any subsequent testing FEMA completed after our close of fieldwork on March 31, 2024.

Recommendations

Recommendation 1: We recommend the FEMA Administrator assess and update FEMA's review process and guidance to ensure project costs are validated and estimates are verified by qualified, subject matter expert staff, as required by the *Public Assistance Program and Policy Guide*.

¹⁸ *Public Assistance Operations Manual Stage 4*, no date.



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Recommendation 2: We recommend the FEMA Administrator review unliquidated obligations for all COVID-19 project worksheets to determine whether additional funds can be de-obligated and returned to the Disaster Relief Fund.

Recommendation 3: We recommend the FEMA Administrator conduct an incurred cost audit of all expenditures for the state medical staffing project worksheet and disallow and recover any ineligible costs identified.

Recommendation 4: We recommend the FEMA Administrator ensure the Office of the Chief Financial Officer implements FEMA's Validate As You Go policies and establish reasonable time limits for the validation and remediation processes to meet the intent of Federal regulations.

Recommendation 5: We recommend the FEMA Administrator resolve questioned costs of approximately \$32.8 million on the six project worksheets identified in our report.

Recommendation 6: We recommend the FEMA Administrator ensure that costs are sufficiently documented and reviewed before obligation and disbursement of awards for completed projects.

Recommendation 7: We recommend the FEMA Administrator ensure FEMA complies with the requirement to issue determination memorandums to subrecipients when ineligible costs are found.

Management Comments and OIG Analysis

FEMA provided management comments on a draft of this report. We included the comments in their entirety in Appendix B. FEMA concurred with all seven recommendations and is taking actions to address them. We consider recommendations 1, 4, 5, 6, and 7 open and resolved, and recommendations 2 and 3 open and unresolved. We also received technical comments on the draft report and made revisions as appropriate. A summary of FEMA's management comments and our analysis follows.

Although FEMA concurred with our seven recommendations, it raised contextual concerns about the findings, conclusions, and recommendations in the report. Specifically, FEMA commented that we did not adequately consider the unprecedented nature of the COVID-19 pandemic and the unique challenges Public Assistance applicants and FEMA personnel experienced while working to save lives and protect public health and safety.

We believe that our report represented the unprecedented circumstances of COVID-19 as we highlighted many of the unprecedented challenges and limitations FEMA faced, including:



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- that FEMA initially had limited historical data to reference concerning the medical staffing grant; and
- that distributing funding quickly to those in need strained FEMA's management and oversight capabilities, as well as its ability to ensure funds were spent appropriately.

We again emphasize that our audit findings, within the context of these circumstances, can result in the absence of effective controls and increase the risk of potential improper payments, which we outlined in the report.

FEMA also claimed that a major factor in its \$500 million reduction of the medical staffing award was due to the decrease in COVID-19 caseloads caused by the development of new treatments and vaccinations. However, FEMA has not provided us information to support that statement. Therefore, we stand by our original conclusions.

FEMA's Response to Recommendation 1: Concur. FEMA stated that it updated the *Public Assistance Program and Policy Guide* in June 2020 to provide improved guidance on cost development for new disaster declarations. FEMA also issued the *Public Assistance Program Delivery Guide - September 2022 (Operational Draft)*, which provides specific guidance on developing or validating scopes of work and costs. FEMA requested that we consider this recommendation closed and resolved, as implemented.

OIG Analysis: FEMA's corrective actions are responsive to the recommendation. The recommendation will remain open and resolved until we can confirm that qualified staff has validated project costs for COVID-19 emergency protective measures and verified estimates on subsequent disasters using the improved guidance in FEMA's 2020 *Public Assistance Program and Policy Guide* and newly issued *Public Assistance Program Delivery Guide*.

FEMA's Response to Recommendation 2: Concur. FEMA stated that its review of unliquidated obligations to determine whether additional funds can be de-obligated is already standard practice. As such, FEMA requested that we consider this recommendation closed and resolved, as implemented.

OIG Analysis: We consider FEMA's actions partially responsive to the recommendation. Although FEMA has a process in place to review unliquidated obligations, we saw no evidence that FEMA used that process until we identified the lapse in the process during our audit. Therefore, this recommendation will remain open and unresolved until FEMA can provide a complete review of the unliquidated obligations for COVID-19 declarations.

FEMA's Response to Recommendation 3: Concur. FEMA stated that it is conducting eligibility reviews and validations of actual costs incurred to date, has requested additional information to



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verify ongoing expenditures, and has determined reasonably expected expenditures, specifically for the state medical staffing project. FEMA's estimated completion date is June 30, 2025.

OIG Analysis: We consider FEMA's actions partially responsive to the recommendation. Although FEMA plans additional expenditures reviews, it does not commit to performing an incurred cost audit. FEMA's VAYGo process did not adequately take into consideration the level of risk in the medical staffing project and cannot provide assurance the testing adequately covers that risk. We therefore consider this recommendation open and unresolved until FEMA completes an incurred cost audit of all expenditures on the state's medical staffing project, and we review the documentation.

FEMA's Response to Recommendation 4: Concur. FEMA stated that it issued a new *VAYGo Guide* that details roles and responsibilities, communicated expectations, timelines, and validation and remediation processes. Additionally, FEMA's Office of the Chief Financial Officer will continue to evaluate VAYGo timelines and processes and look for ways to conduct payment reviews closer to drawdowns without imposing unreasonable burdens on FEMA recipients. FEMA's estimated completion date is September 30, 2025.

OIG Analysis: FEMA's corrective actions are responsive to the recommendation. The recommendation will remain open and resolved until FEMA provides evidence of its Office of the Chief Financial Officer conducting payment reviews closer to the time of Public Assistance drawdowns.

FEMA's Response to Recommendation 5: Concur. FEMA stated that, as of the end of August 2024, it had resolved \$32,036,012 of the questioned costs for six of the projects identified in the draft report and determined that these costs were directly tied to the performance of eligible work and adequately documented. FEMA's estimated completion date for the remaining project is June 30, 2025.

OIG Analysis: FEMA's corrective actions are responsive to the recommendation. The recommendation will remain open and resolved until FEMA provides documentation showing it has completed actions to resolve the questioned costs of approximately \$32.8 million on the six project worksheets identified in our report.¹⁹ The documentation should include the final inspection reports with sufficient details of the completed validation, beyond adding totals of submitted invoices, including the justification for FEMA's determination that the costs were eligible and a brief explanation of the methodology used to validate the costs.

¹⁹ Based on FEMA's technical comments, we were able to resolve the issues with one of the original seven projects we reviewed. Therefore, we adjusted the number of projects reviewed to six as indicated in Appendix D.



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FEMA's Response to Recommendation 6: Concur. FEMA stated that it currently uses a substantial layered approach to ensure costs are sufficiently documented and reviewed before obligating and disbursing awards. Additionally, FEMA indicated the Public Assistance sampling procedure now uses a random attribute-based sampling approach, following the U.S. Government Accountability Office's *Financial Audit Manual*, to verify supporting documentation for Public Assistance projects. In accordance with this process, FEMA does not require that records beyond those sampled be retained in FEMA's system of record. Further, FEMA uses the VAYGo program, which it implemented in March 2019, to monitor its internal controls. The VAYGo program is FEMA's internal control review process to meet the statutory improper payment review and reporting requirements of disbursements by recipients. FEMA requests that we consider this recommendation closed and resolved, as implemented.

OIG Analysis: FEMA's corrective actions are partially responsive to the recommendation. The recommendation will remain open and resolved until FEMA provides documentation showing it has used a layered approach to ensure costs are sufficiently documented and reviewed before obligating and disbursing awards. This should include five examples of documentation supporting project worksheets that were similarly processed and contain the names of the files used to support the detail in a project worksheet's summary validation along with a methodology statement used for cost validation.

FEMA's Response to Recommendation 7: Concur. FEMA explained that it does not issue a determination memorandum when an applicant withdraws a project or part of a project claim because the applicant is no longer claiming those costs. FEMA agreed that the withdrawal process is often informal and establishing a more formal process for documenting withdrawals would be beneficial in preventing confusion on whether a reduction in claimed work or costs is due to a determination by FEMA or a withdrawal by the applicant. Accordingly, FEMA Recovery Public Assistance will establish the process for documenting when an applicant withdraws a project or part of a project claim in the *Public Assistance Program Delivery Guide*. FEMA's estimated completion date is August 29, 2025.

OIG Analysis: FEMA's corrective actions are responsive to the recommendation. The recommendation will remain open and resolved until FEMA provides documentation showing it has updated the *Public Assistance Program Delivery Guide* to establish a more formal process for documenting withdrawals.



Appendix A: Objective, Scope, and Methodology

The Department of Homeland Security Office of Inspector General was established by the *Homeland Security Act of 2002* (Public Law 107–296) by amendment to the *Inspector General Act of 1978*.

The objective of this audit was to determine whether FEMA ensured Federal funds for COVID-19 emergency protective measures reached intended recipients and subrecipients and were used as required.

To answer our audit objective, we analyzed Public Assistance legislation and departmental regulations, policies, procedures, and other guidance. We also reviewed U.S. Government Accountability Office and DHS OIG reports regarding prior issues in the oversight of Public Assistance.

In addition, we interviewed FEMA officials assigned to work on Public Assistance projects, including officials from headquarters; Consolidated Resource Centers East, Central, and West; and FEMA Region 6. We also interviewed officials from Response and Recovery, the Office of the Chief Financial Officer, and the FEMA Finance Center, as well as officials from the FEMA Region 1 Pandemic Response Accountability Committee and emergency management officials from two states.

To test FEMA's pre- and post-payment controls for Federal funds for COVID-19 emergency protective measures, we selected and evaluated two samples totaling 21 large project worksheets. The first sample was a non-statistical random selection of 20 projects using a random number generator from the strata for total project costs between \$131,100 through \$100 million. For the other sample, the team judgmentally selected one project worksheet exceeding \$100 million due to the increased risks associated with high project costs for this project worksheet.

We reviewed internal controls of FEMA's Public Assistance COVID-19 grant formulation and reimbursement processes, and the sufficiency of documentation to support these obligations, amendments, and reimbursement to state, local, territorial, and tribal governments, and certain types of private nonprofit organizations. We further reviewed internal controls related to VAYGo post-payment integrity reviews. Our limited assessment disclosed control deficiencies within the pre- and post-award phases of the Public Assistance life cycle. These weaknesses are discussed in the body of this report.

We reviewed Grants Manager system data for duplicate records, null file entries, and blank fields. We compared Public Assistance COVID-19 projects and project worksheets to a merged source



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file of major disaster declarations, merged data to include project and project worksheet application type, and performed other financial and operational integrity tests of data fields to ensure consistency of the presented data. We determined that the Grants Manager data was reasonably sufficient and accurate based on our testing. Thus, we consider the data sufficiently reliable for our findings and recommendations.

We conducted this performance audit between October 2022 and April 2024 pursuant to the *Inspector General Act of 1978*, 5 U.S.C. §§ 401–424, and according to 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.

DHS OIG’s Access to DHS Information

During this project, DHS provided timely responses to our requests for information and did not delay or deny access to information we requested.



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Appendix B:
FEMA's Comments on the Draft Report

U.S. Department of Homeland Security
Washington, DC 20472



BY ELECTRONIC SUBMISSION

September 20, 2024

MEMORANDUM FOR: Joseph V. Cuffari, Ph.D.
Inspector General

FROM: Cynthia Spishak CYNTHIA SPISHAK
Associate Administrator Digitally signed by CYNTHIA
Office of Policy and Program Analysis SPISHAK
Date: 2024.09.20 17:35:02 -0400

SUBJECT: Management Response to Draft Report: "FEMA's
Insufficient Oversight of COVID-19 Emergency Protective
Measures Grants Led to Over \$8.1 Billion in Questioned
Costs and \$1.5 Billion in Over-Obligated Funds"
(Project No. 22-047-AUD-FEMA)

Thank you for the opportunity to comment on this draft report. The Federal Emergency Management Agency (FEMA) appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

FEMA leadership is pleased to note OIG's recognition that during fiscal years (FY) 2020 through 2023, recipients and subrecipients of FEMA's COVID-19 emergency protective measures grants reviewed by OIG received Federal funds as intended. FEMA remains committed to ensuring the Public Assistance (PA) Program reimburses communities for disaster response and recovery projects, including emergency protective measures to save lives and protect public health and safety, as appropriate.

However, FEMA leadership is concerned that OIG's draft report presents several issues without necessary context that, if considered, would have substantially influenced the findings, conclusions, and recommendations in the report. For instance, the draft report does not consider the wider context of the pandemic and the unique challenges experienced by PA applicants and FEMA while working to save lives and protect public health and safety. For example, the unprecedented nature of the COVID-19 pandemic resulted in extraordinary strains in the healthcare labor workforce, and substantial and persistent impacts on many marketplace conditions. As such, there was limited data on labor costs available during initial awards for COVID-19 and the agency had little



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historical precedent to conduct robust cost estimating than with traditional disaster assistance. However, over time, FEMA obtained substantial data leading to more comprehensive validation of cost reasonableness by comparing hourly, average, and unit rates across similar projects and multiple geographic areas. FEMA also engaged external experts to assist with complex medical billing issues and to develop associated processes and guidance.

The OIG's draft report also does not recognize the constantly changing landscape of the pandemic, including the impact of new treatments and vaccines. For example, the report states that unliquidated obligations on the state medical staffing project indicate an over-obligation because FEMA did not validate cost estimates or determine cost reasonableness before obligating funds for the medical staffing grant. However, the report does not recognize that the reconciliation of projects is still ongoing. While there are currently unliquidated obligations on this project, those obligations are being drawn down against as final reconciliation is completed. Under the pass-through grant model established by Title 44 Code of Federal Regulations (C.F.R.) Subpart G,¹ disbursement of funds is the responsibility of the recipient, and as any prudent custodian would do, they establish procedures to ensure the validity of those disbursements, with one of the most common procedures being holding back final reimbursements until final closeout of the project is complete. The draft report implies that all unliquidated obligations on a project could be deobligated and put to other purposes, but does not recognize that in most cases unliquidated obligations simply represent costs which have not yet finished the disbursement process.

In considering the value of unliquidated obligations over time in the state medical staffing project, it is important to note that funding was provided in five separate awards, or project versions, over a two-year period, with each occurring as obligations were quickly exhausted. Actual expenditures during the height of pandemic averaged over \$430 million per month, which was in line with the original estimates. At the time of these awards, \$1.5 billion represented only three months of critical life savings services. Further, although OIG's draft report notes that FEMA officials de-obligated \$500 million after a discussion with OIG "about the high balance of unliquidated obligations," a major factor in FEMA's \$500 million reduction of the medical staffing award was the decrease in COVID caseloads based on the development of new treatments and vaccinations. If not for the decrease and stability of COVID-19 cases in February 2022, the remaining funding would have been exhausted in the time estimated at the time of the initial award. FEMA worked closely with the recipient in determining this number to ensure that sufficient obligations remained to complete the final reconciliation and closeout of the project. The remaining funds represents costs that are working through the final reconciliation and disbursement process.

¹ 44 C.F.R. Subpart G, "Public Assistance Project Administration," <https://www.ecfr.gov/current/title-44/chapter-I/subchapter-D/part-206/subpart-G>



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Finally, the OIG's draft report also alleges that FEMA delayed taking action to recoup unsupported costs identified in its improper payment reviews, and instead worked with the state to maximize reimbursements during the review process. This is incorrect. FEMA did not delay action to recoup unsupported costs and is even actively testing the state medical staffing project under the Validate As You Go (VAYGo) process. Based on its testing of 36 disbursements for FYs 2021 and 2022, totaling \$6.854 billion, FEMA validated \$6.786 billion, or 99 percent of assessed disbursement dollar value as proper. If deemed necessary, FEMA will take action to recoup funds from the state once this testing is completed. Thus far, the state provided documentation to support costs for the medical staffing project.

The draft report contained seven recommendations, with which FEMA concurs. Attached find our detailed response to each recommendation. FEMA previously submitted technical comments addressing several accuracy, contextual and other issues under a separate cover for OIG's consideration, as appropriate.

Again, thank you for the opportunity to review and comment on this report. Please feel free to contact me if you have any questions.

Attachment



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**Attachment: Management Response to Recommendations
Contained in Project No. 22-047-AUD-FEMA**

OIG recommended that the FEMA Administrator:

Recommendation 1: Assess and update FEMA’s review process and guidance to ensure project costs are validated and estimates are verified by qualified, subject matter expert staff, as required by the *Public Assistance Program and Policy Guide* [PAPPG].

Response: Concur. COVID-19 emergency and disaster declarations were active between March 13, 2020,² and May 8, 2020,³ and relied on the existing PAPPG Version 3.1 (April 2018). Accordingly, the OIG’s draft report considered only projects processed under PAPPG Version 3.1, and did not consider changes made after the COVID declarations. FEMA updated the PAPPG⁴ in June 2020, which provides improved guidance on cost development for new disaster declarations. FEMA also issued the “Public Assistance Program Delivery Guide,” which provided specific guidance on developing or validating scopes of work and costs.

In accordance with PAPPG Version 4, for large projects where work is complete, validation specialists review information provided by applicants to validate that the work was necessary to address impacts and damage claimed, and that associated costs were reasonable and necessary to perform the work. Validation specialists follow Recovery’s guidance contained in the “Document Validation Specialist Position Assist,”⁵ to provide comprehensive guidance on validating costs. For projects where work is incomplete, costing or technical specialists either: (1) develop a scope of work and cost estimate based on the detailed damage description and applicant-provided information; or (2) validate scope of work and cost estimates provided by the applicant. Costing or technical specialists follow the “Costing/Technical Specialist Position Assist”⁶ to provide increased procedural guidance on validating and developing project costs.

Documentation corroborating these efforts was sent to the OIG on December 2, 2022. Accordingly, FEMA requests that the OIG consider this recommendation resolved and closed, as implemented.

² “Proclamation on Declaring a National Emergency Concerning the Novel Coronavirus Disease (COVID-19) Outbreak,” dated March 13, 2020; <https://trumpwhitehouse.archives.gov/presidential-actions/proclamation-declaring-national-emergency-concerning-novel-coronavirus-disease-covid-19-outbreak/>

³ “Major Disaster Declarations and Related Determinations: Expiration of COVID-19-Related Measures,” dated February 10, 2023; <https://www.federalregister.gov/documents/2023/02/10/2023-02964/major-disaster-declarations-and-related-determinations-expiration-of-covid-19-related-measures>

⁴ “Public Assistance Program and Policy Guide,” Version 4; dated June 1, 2020; https://www.fema.gov/sites/default/files/documents/fema_pappg-v4-updated-links_policy_6-1-2020.pdf

⁵ “Document Validation Specialist Position Assist,” dated September 12, 2023

⁶ “Costing/Technical Specialist Position Assist,” dated August 26, 2019



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Recommendation 2: Review unliquidated obligations for all COVID-19 project worksheets to determine whether additional funds can be deobligated and returned to the Disaster Relief Fund.

Response: Concur. Reviewing unliquidated obligations to determine whether additional funds can be deobligated is already standard practice. Specifically, state team leads, infrastructure branch directors, and regional closeout teams routinely work with the FEMA Office of Chief Financial Officer (OCFO) to review unliquidated obligations. FEMA Regions then meet with state recipients and return funding that is not needed (e.g., due to a change in conditions, underrun, Statement of Work changes, etc.) to the Disaster Relief Fund. This process is constant and ongoing, to include COVID-19 projects.

FEMA requests that the OIG consider this recommendation resolved and closed, as implemented.

Recommendation 3: Conduct an incurred cost audit of all expenditures for the state medical staffing project worksheet and disallow and recover any ineligible costs identified.

Response: Concur. FEMA Region 6 and OCFO are currently conducting eligibility reviews and validations of actual costs incurred-to-date, requested additional information to verify ongoing expenditures, and determined reasonably expected expenditures, specifically for the state medical staffing project. Currently, FEMA Region 6 continues to coordinate with the recipient and subrecipient on their progress for reimbursement prior to final reconciliation and project closeout, including reviewing invoices and other documentation related to the work performed to validate costs were consistent with the approved scope of work and in compliance with cost principles. FEMA Region 6 will reconcile all costs when the state medical staffing project goes through large project final accounting in accordance with 44 C.F.R.) § 206.205(b)⁷ and FEMA Policy 104-22-0002.⁸

FEMA Region 6 will review costs to identify: (1) individual elements that comprise the total actual costs claimed; (2) subrecipient's accounting of project expenditures and dates of expenditures (such as a report from its accounting system); and (3) all applicable documentation to support the actual costs as identified in the PAPPG. Any ineligible costs will be identified and deobligated.

⁷ 44 Code of Federal Regulations (C.F.R.) §206.205, "Payment of claims," <https://www.ecfr.gov/current/title-44/chapter-I/subchapter-D/part-206/subpart-G/section-206.205>

⁸ FEMA Policy 104-22-0002, "Coronavirus (COVID-19) Pandemic: Public Assistance Programmatic Deadlines (Interim) Version 2," dated March 30, 2023. https://www.fema.gov/sites/default/files/documents/fema_coronavirus-pandemic-public-assistance-programmatic-deadlines-interim-signed.pdf



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Estimated Completion Date (ECD): June 30, 2025.

Recommendation 4: Revise FEMA’s Validate As You Go policies and establish reasonable time limits for the validation and remediation processes to meet the intent of Federal regulations.

Response: Concur. FEMA’s OCFO issued a new VAYGo Guide⁸ that detailed roles and responsibilities, communicated expectations, timelines, validation, and remediation processes. The VAYGo Guide was provided to the OIG on August 23, 2023. FEMA OCFO will ensure that VAYGo Guide provisions, including reasonable testing and remediation timelines are followed by internal and external VAYGo stakeholders to meet the intent of Federal regulations.

Accordingly, the complexity and enormity of documentation for the sampled PA disbursements dictated the VAYGo Guide timelines and processes for documentation collection and testing. Documentation collection and testing consistent with VAYGo Guide timelines resulted in FEMA validating 99 percent of assessed disbursement dollar value totaling \$6.786 billion as proper as of September 15, 2024, for the \$9.1 billion project highlighted in the audit. In addition, FEMA completed testing of the six FY 2023 sampled transactions totaling \$241 million with 100 percent validation which will be reported to DHS in FY 2025. This brings the total assessed value of disbursements to \$7.027 billion or 88 percent of the \$8.1 billion in drawdown activity against the \$9.1 billion dollar project noted in the audit report. Further, it is important to note that FEMA OCFO works with VAYGo stakeholders to ensure the VAYGo program meets the intent of federal regulations and maintains a positive testing environment. For instance, FEMA OCFO VAYGo HQ engages with VAYGo stakeholders through various methods such as VAYGo University, which provides knowledge and training on various VAYGo aspects to FEMA regions and recipients, as appropriate. FEMA OCFO VAYGo HQ also hosts annual VAYGo workshops with FEMA Public Assistance and Grants regional VAYGo stakeholders.

FEMA OCFO is moving in the direction of conducting payment reviews closer to the time of Public Assistance drawdowns beginning with the FY 2025 testing cycle. FEMA OCFO will continue to evaluate VAYGo timelines and processes and look for ways to conduct payment reviews closer to drawdowns without imposing unreasonable burdens on FEMA recipients.

ECD: September 30, 2025.

Recommendation 5: Resolve questioned costs of approximately \$33.2 million on the seven project worksheets identified in our report.

Response: Concur. As of the end of August 2024, FEMA resolved \$32,036,012 of the



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questioned costs for six of the projects identified in OIG's draft report, and determined that these costs were directly tied to the performance of eligible work and adequately documented. Specifically, FEMA considers the questioned costs resolved for the following:

- Project Number 168712, PW 00939 (\$433,544). Although the draft report indicated that source document and validation summaries were missing, FEMA Region 1 reviewed this project and found that the source documents were uploaded to the streamlined project application on December 31, 2021, and that the validation summary is attached to the project. Further, on September 2, 2024, the OIG team acknowledged that the validation summary and source documents were in fact present.
- Project Number 185210, PW 00305 (\$433,937). Despite the draft report indicating that force account locations, labor hours daily activity logs, description of work performed, and payroll records were missing, FEMA Region 4 and the Consolidated Resource Center reviewed this project and found that the location is in the scope of work, timesheets are attached to the project in various files by pay period, and the application contains a description of the work performed. In addition, this project was closed on August 1, 2022, and on September 2, 2024, the OIG acknowledged that the documents were in fact present.
- Project Number 333321, PW 00080 (\$148,122). Despite the draft report noting that detailed invoices and occupancy logs were missing, FEMA Region 10 reviewed this project and found that the invoice attached to the project contains both a detailed invoice and an occupancy log in appendices.
- Project Number 691674, PW 00139 (\$3,142,302). Although the draft report indicated that support showing actual services rendered or details such as a roster of COVID-19 tests provided, or sector counts by location was missing, FEMA Region 7 reviewed this project and notes there are currently 31 documents uploaded in support of the project's scope of work and cost, which include invoices, the subrecipient's procurement policy, contracts, payments, and a validation summary. This project was closed on May 23, 2024.
- Project Number 188013, PW 00977 (\$25,864,378). The draft report indicated that detailed invoices to support services rendered, such as delivery schedules, were missing. However, FEMA Region 9 reviewed this project and notes that the documents attached to the project contain detailed invoices by delivery date. This project was closed on February 8, 2024.
- Project Number 671185, PW 00417 (\$2,013,729). The draft report noted that invoice details supporting medical services rendered to correctional facilities were missing, yet FEMA Region 10 reviewed this project and found there were nine documents uploaded with invoices that include the vendors' names, dates of service, list of services (with non-COVID items redacted), pricing, and total owed. This project was closed on April 3, 2024.



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FEMA Region 1 will resolve the remainder of the questioned costs when Project Number 333949, PW 00139 goes through large project final accounting in accordance with 44 C.F.R. § 206.205(b) and FEMA Policy 104-22-0002.

ECD: June 30, 2025.

Recommendation 6: Ensure that costs are sufficiently documented and reviewed before obligation and disbursement of awards for completed projects.

Response: Concur. FEMA currently uses a substantial layered approach for ensuring costs are sufficiently documented and reviewed before obligation and disbursement of awards. In ensuring that costs are sufficiently documented, FEMA must comply with the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act), 2 C.F.R. Part 200,⁹ and the Paperwork Reduction Act of 1980. To ensure that FEMA serves as a good steward of the public's time, and not overwhelm the public with unnecessary or duplicative requests for information, FEMA updated its information collection package under the Paperwork Reduction Act in May 2021, releasing new summary sheets outlining the information required for each type of cost incurred under a PA grant.

To verify the information collected pursuant to FEMA's authorization under Paperwork Reduction Act, FEMA adopted a Government Accountability Office (GAO) approach to sampling to limit the burden of transferring documentation to FEMA in March 2022. Specifically, the PA sampling procedure now utilizes a random attribute-based sampling approach, following the GAO Financial Audit Manual,¹⁰ for verifying supporting documentation for PA projects to ensure that the recipient or subrecipient has maintained adequate supporting documentation for their sample.

This approach ensures FEMA meets the requirements of documentation under the Stafford Act and 2 C.F.R. Part 200, does not create a serious impediment to the disaster recovery, and complies with the requirement to limit information collection burden under Paperwork Reduction Act. Beyond this validation, 2 C.F.R. § 200.333 also requires that financial records, supporting documents, statistical records, and all other non-federal entity records pertinent to a federal award must be retained for a period of three years from the date of submission of the final expenditure report, and in the case of an audit

⁹ 2 C.F.R. Part 200, "UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS," <https://www.ecfr.gov/current/title-2/part-200>

¹⁰ The Financial Audit Manual (FAM) is a joint effort between GAO and the Council of the Inspectors General on Integrity and Efficiency (CIGIE). The FAM presents a methodology for performing financial statement audits of federal entities in accordance with professional standards. The FAM is a three-volume publication. Volume 1 is the audit methodology (June 2024), Volume 2 is detailed implementation guidance (June 2024), and Volume 3 is the Federal Financial Reporting Checklist (June 2024); https://www.gao.gov/financial_audit_manual



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that was started before the expiration of the three-year period, the records must be retained until all audit findings involving the records have been resolved and final action taken. In accordance with this process, FEMA does not require that records beyond those sampled are retained in FEMA's system of record. When expanding beyond FEMA's selected samples for the project, a full audit cannot be completed without reviewing the records with the recipient or subrecipient.

Subpart G of 44 C.F.R. Part 206 established the Public Assistance program as a pass-through grant, in which the responsibilities for obligation are with FEMA, and disbursement of funds are with the recipient. To ensure the recipient is complying with disbursement requirements, on March 2019, FEMA implemented a monitoring program for their internal controls. The VAYGo program is FEMA's internal control review process to meet the statutory improper payment review and reporting requirements of disbursements by recipients.

FEMA requests that the OIG consider this recommendation resolved and closed, as implemented.

Recommendation 7: Ensure FEMA complies with the requirement to issue determination memorandums to subrecipients when ineligible costs are found.

Response: Concur. Current FEMA policy, as described in the PAPPG, states that when determining that an applicant, facility, work, or cost is ineligible, FEMA provides written notice through a determination memorandum or a letter that explains what assistance was denied, provides the basis for denial, includes a list of documents reviewed, and provides information regarding the applicant's rights to appeal.¹¹ FEMA does not issue a determination memo when an applicant withdraws a project or part of a project claim, as the applicant is no longer claiming those costs.¹² When an applicant withdraws a project or part of a project claim, the project is annotated in the system of record clearly identifying the withdrawal and the reason specified by the applicant if provided. FEMA's "Public Assistance Program Delivery Guide" provides additional guidance to staff on making eligibility determinations and the use of determination memoranda, as well as guidance on withdrawals in particular cases.

The projects identified in the draft report included reductions for costs withdrawn by the applicant, not for costs that were denied. FEMA agrees that the withdrawal process is often informal, and establishing a more formal process for documenting withdrawals is

¹¹ FEMA had limited guidance on determination memos in place at the time of the COVID-19 declarations. Version 4 of the PAPPG, which defines FEMA's PA Program and its policy and procedural requirements, includes FEMA's policy on notification of eligibility determinations. Version 4 of the PAPPG applies to incidents declared on or after its publication date.

¹² In reference to the logical grouping of work and damage, Version 4 of the PAPPG indicates that in certain situations an "Applicant must either withdraw sites and facilities from its list of impacts *or* FEMA will issue a Determination Memorandum" (emphasis added).



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beneficial for the agency and will prevent confusion on whether a reduction in claimed work or costs is due to a determination by FEMA or a withdrawal by the applicant. Accordingly, FEMA Recovery PA will establish the process for documenting when an applicant withdraws a project or part of a project claim in the “Public Assistance Program Delivery Guide.”

ECD: August 29, 2025.



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Appendix C: Potential Monetary Benefits

Emergency Protective Measures	Unsupported Costs Questioned	Ineligible Costs Questioned	Total Questioned Costs	Funds to Be Put to Better Use	Rec. No.
1 Statewide Grant	\$0	\$0	\$0	\$1.5 Billion	1 and 2
1 Statewide Grant	\$8.1 Billion	\$0	\$8.1 Billion	\$0	3 and 4
6 Sampled Grants	\$32.8 Million	\$0	\$32.8 Million	\$0	5 and 6

Source: DHS OIG analysis of Grants Manager/FEMA-supplied data



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Appendix D: Project Worksheets with Missing Support Documentation

Project Number	Project Worksheet	Amount Drawn Down	Missing Support Documentation
185210	00305	\$433,937	Force account locations: labor hours logs, description of force account equipment function performed, payroll records
333321	00080	\$148,122	Detailed invoices; complete occupancy logs and roster
333949	00139	\$1,193,663	Detailed invoices; delivery schedules to support services rendered; list of eligible recipients
691674	00139	\$3,142,302	Support showing actual services rendered or details such as a roster of COVID-19 tests provided or sector counts by location
188013	00977	\$25,864,378	Detailed invoices, such as delivery schedules to support services rendered
671185	00417	\$2,013,729	Invoice details supporting medical services and costs rendered to correctional facilities
Total		\$32,796,131	N/A

Source: Developed by DHS OIG from Grants Manager data



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Appendix E: Office of Audits Major Contributors to This Report

Ruth Blevins, Director

Steve Doran, Acting Manager

Jay Jackson, Auditor

James Townsend, Auditor

Tom Hamlin, Communications Analyst

Jennifer Eads, Independent Referencing Review



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Appendix F: Report Distribution

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