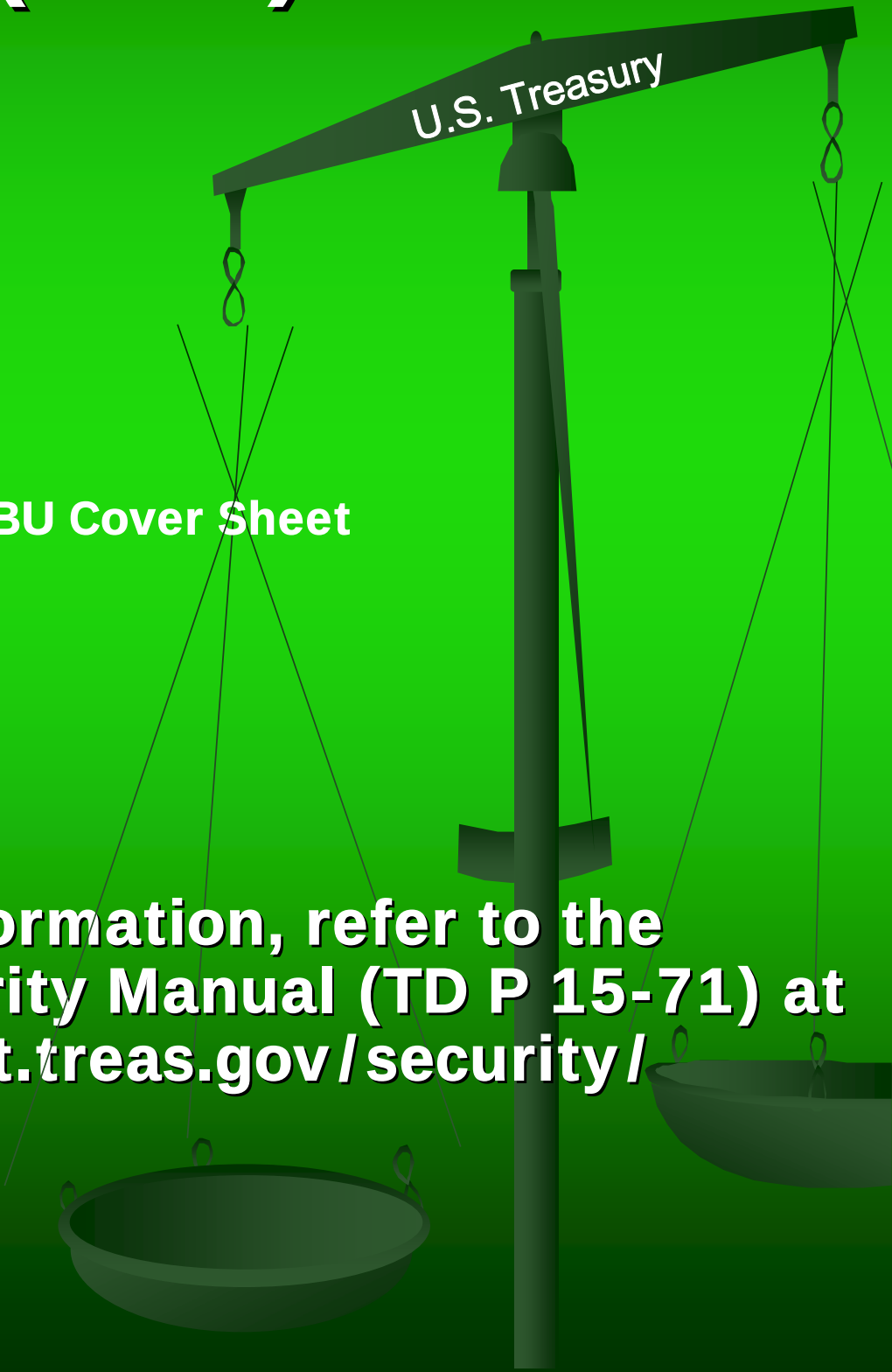


SENSITIVE BUT UNCLASSIFIED (SBU)

SBU Cover Sheet

**For further information, refer to the
Treasury Security Manual (TD P 15-71) at
<http://intranet.treas.gov/security/>**

TD F 15-05.11 (3/07)





Audit Report



OIG-27-001

CORONAVIRUS DISEASE 2019 PANDEMIC RELIEF PROGRAMS

Audit of Air Carrier Worker Support Certifications – Hyannis Air Service, Inc.

October 1, 2026

Office of Inspector General
Department of the Treasury

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Abbreviations

CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CEO	Chief Executive Officer
CFO	Chief Financial Officer
DOT	Department of Transportation
Guidelines	Guidelines and Application Procedures for Payroll Support to Air Carriers and Contractors under Division A, Title IV, Subtitle B of the Coronavirus Aid, Relief, and Economic Security Act
HR	Human Resources
Hyannis	Hyannis Air Service, Inc.
IRS	Internal Revenue Service
JAMES	Joint Audit Management Enterprise System
OIG	Treasury Office of Inspector General
PSP1	Payroll Support Program, CARES Act

PSP2	Payroll Support Program Extension, Consolidated Appropriations Act, 2021
PSP3	Payroll Support Program 3, American Rescue Plan Act of 2021
SVP	Senior Vice President
Treasury	Department of the Treasury
VP	Vice President

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Audit Report

October 1, 2026

Jeffrey Stout
Acting Chief Program Officer
Department of the Treasury

This report presents the results of our audit of Hyannis Air Service, Inc.'s (Hyannis) certification made to the Department of the Treasury (Treasury) as part of its participation in the Air Carrier Payroll Support Program (PSP1). This audit was mandated by Title IV, Subtitle B, *Air Carrier Worker Support*, of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act).¹ Under the CARES Act, Treasury was to provide \$32 billion in financial assistance to passenger air carriers, cargo air carriers, and certain contractors to be exclusively used for the continuation of payment of employee wages, salaries, and benefits, in response to the economic impact of the Coronavirus Disease 2019.² Furthermore, the Treasury Office of Inspector General (OIG) is required to audit certifications made by passenger and cargo air carriers that do not report salaries and benefits to the Department of Transportation (DOT) (hereinafter referred to as non-241 air carriers)³ and contractors.

Our audit objective was to assess the accuracy, completeness, and sufficiency of Hyannis' sworn financial statement or other data used to certify the wages, salaries, benefits, and other compensation amounts submitted and approved by Treasury for PSP1. The scope of our audit covered the period from April 1, 2019, through September 30, 2019, and included the certified PSP1 Application, sworn financial statement, tax returns, and other documentation submitted to Treasury on April 2, 2020.

¹ P.L. 116-136 (March 27, 2020)

² The financial assistance provided under the CARES Act was split between passenger air carriers (\$25 billion), cargo air carriers (\$4 billion), and contractors (\$3 billion).

³ Passenger and cargo air carriers that are not required to report salaries and wages to DOT under 14 CFR Part 241, "Uniform System of Accounts and Reports for Large Certificated Air Carriers."

To accomplish the objective, we reviewed applicable laws, regulations, and Treasury’s policies and procedures, including but not limited to, Title IV, Subtitle B, *Air Carrier Worker Support* of the CARES Act, *Guidelines and Application Procedures for Payroll Support to Air Carriers and Contractors under Division A, Title IV, Subtitle B of the Coronavirus Aid, Relief, and Economic Security Act* (Guidelines); PSP1 Agreement; and *Frequently Asked Questions: Application Procedures for Payroll Support to Air Carriers and Contractors*. We interviewed key personnel from Hyannis, Treasury, and contracted consultants engaged by Treasury to evaluate certified company applications. We conducted our fieldwork from September 2020, through April 2022. Appendix 1 contains a more detailed description of our audit objective, scope, and methodology.

Results in Brief

We found that Hyannis, a passenger air carrier, reported correct information for five of the seven sections reviewed on its PSP1 Application.⁴ These sections are: (1) Applicant Information, (2) Applicant Type, (3) Financial Institution Information, (4) Additional Information, and (5) Certification. We also found that Hyannis reported incorrect information in the Awardable Amounts and Employment Levels sections of the PSP1 Application.

Hyannis overstated its awardable amount by \$738,249. Specifically, we found the (1) inclusion of unallowable corporate officers’ compensation, totaling \$[REDACTED]; (2) inclusion of unallowable foreign employees’ benefits, totaling \$[REDACTED] and (3) data compilation errors, totaling \$227. Treasury’s awards to passenger air carriers under PSP1 included a 78.2-percent pro-rata distribution of application amounts. Applying this formula, Hyannis received a \$577,311 overpayment from Treasury. As a result, we questioned the costs totaling \$577,311. We confirmed that Treasury took corrective action by reducing \$577,311 from the company’s Payroll Support Program Extension (PSP2)⁵ payment on

⁴ The PSP1 Application is comprised of eight sections. One section - Taxpayer Protection, was not subject to audit procedures because it generally does not apply to non-241 air carriers.

⁵ P.L. 116–260, The Consolidated Appropriations Act, 2021, enacted on December 27, 2020, created the *Airline Worker Support Extension* for passenger air carriers and certain contractors. Treasury referred to this as Payroll Support Program Extension (PSP2).

July 31, 2021. Due to instances of non-compliance with PSP1, we recommend that Treasury review Hyannis' requested amount for unallowable expenses, under the PSP2 authorized by the Consolidated Appropriations Act, 2021 and the Payroll Support Program 3 (PSP3)⁶ authorized by the American Rescue Plan Act of 2021, and seek reimbursement for overpayment, if applicable.

Furthermore, in the Employment Levels section, Hyannis incorrectly reported the number of involuntary reductions after March 1, 2020, and the average number of employees for 2019. The company reported 24 as the number of involuntary reductions but should have reported 31. The variance of seven employees was due to (1) the use of a Human Resources (HR) report ran on March 31, 2020 that did not capture six employees involuntarily furloughed from March 31, 2020, through April 2, 2020 (Hyannis' application submission date); and (2) an unknown system error that did not capture one employee that was furloughed on March 27, 2020. Additionally, Hyannis reported 761 employees as the average number of employees in 2019 but should have reported 749 employees. The variance of 12 employees was due to the inclusion of corporate officers. Treasury management stated that they had no plans to use the information in the involuntary reductions after March 1, 2020 field. Treasury management also stated that the information reported in the average number of employees for 2019 field was used as a validation check and had no impact on determining the awardable amount. As such, we are not reporting these discrepancies as findings.

As a part of our reporting process, we provided Hyannis management with an opportunity to comment on a draft of this report. In a written response, management acknowledged the OIG's treatment of corporate officers in the awardable amount finding and recognized the differences in Employment Levels noted in the report. Hyannis management also stated that the PSP2 and PSP3 agreements outline an audit and records retention period of three years following the expiration or full use of funds. If Treasury interprets the agreements to allow for a different audit timeframe or broader review scope, Hyannis is requesting the opportunity to

⁶ P.L. 117-2, The American Rescue Plan of 2021, enacted on March 11, 2021, created the *Air Transportation Payroll Support Program Extension* authorizing Treasury to provide additional assistance to passenger air carriers and contractors that received financial assistance under PSP2. Treasury referred to this as Payroll Support Program 3 (PSP3).

review relevant contractual provisions to ensure mutual understanding. Hyannis management's response, in its entirety, is included as appendix 2 of this report.

In a written response, Treasury management agreed that any overpayment of PSP funds should be reimbursed. Management also stated it will review awardable amounts requested under PSP2 and PSP3 and seek recoupment where appropriate. Treasury management will need to record an estimated completion date for these actions in the Joint Audit Management Enterprise System (JAMES). Management's planned corrective actions meet the intent of our recommendation. Treasury management's response, in its entirety, is included as appendix 3 of this report.

Background

Title IV, Subtitle B, of the CARES Act, *Air Carrier Worker Support*, requires Treasury to provide financial assistance to air carriers and contractors that must exclusively be used for the continuation of payments of employees' wages, salaries, and benefits. Financial assistance is to be provided to:

- (1) passenger air carriers, in an aggregate amount up to \$25 billion;
- (2) cargo air carriers, in an aggregate amount up to \$4 billion; and
- (3) contractors, in an aggregate amount up to \$3 billion.

According to the CARES Act, Treasury is required to provide financial assistance to air carriers that report salaries and benefits to DOT (referred to as 241 air carriers),⁷ in an amount equal to the salaries and benefits reported to DOT for the period April 1, 2019, through September 30, 2019. For air carriers that do not report such data to DOT (referred to as non-241 air carriers), and contractors, financial assistance is required to be in an amount that

⁷ 14 CFR Part 241 "Uniform System of Accounts and Reports for Large Certificated Air Carriers" defines "*Air carrier, large certificated*" as an air carrier holding a certificate issued under 49 U.S.C. 41102, as amended, that: (1) operates aircraft designed to have a maximum passenger capacity of more than 18,000 pounds; or (2) conducts operations where one or both terminals of a flight stage are outside the 50 states of the United States, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands. These air carriers are required to report financial information to DOT. Hyannis is not a Large Certificated Air Carrier.

the air carrier or contractor certifies using sworn financial statements or other appropriate data as the amount of wages, salaries, benefits, and other compensation paid to employees during the period of April 1, 2019, through September 30, 2019. The amounts submitted on the application to Treasury were considered sworn financial statements. To be eligible for payments, air carriers and contractors must enter into agreements with Treasury certifying that they meet certain required assurances, terms, and conditions.

On March 30, 2020, Treasury posted on its website the Guidelines, which included the PSP1 Application. The PSP1 Application is comprised of eight sections:

1. Applicant Information — (1) applicant name; (2) taxpayer identification number and address; and (3) contact person's name, title, phone number, and email address.
2. Applicant Type — selection of applicant type whether it is passenger air carrier, cargo air carrier, or contractor. Additionally, if the applicant is a contractor, this section would identify the contractor's service functions and the name of the air carrier or airport to which services are provided. Finally, this section includes affiliate and parent company information.
3. Financial Institution Information — (1) the applicant's account number and routing number; and (2) the financial institution's name, address, and telephone number.
4. Employment Levels — applicant's average number of employees for 2019 and number of involuntary reductions after March 1, 2020.
5. Awardable Amounts — applicant's sworn financial statement consisting of salaries, wages, benefits, and other compensation for the period April 1, 2019, through September 30, 2019.
6. Taxpayer Protection — a table that outlines in detail the proposed financial instrument to be issued to the Treasury.
7. Additional Information — applicant's verification of submitting its Internal Revenue Service (IRS) Form 941,

Employer's Quarterly Federal Tax Return,⁸ covering the period April 1, 2019, through September 30, 2019, along with the PSP1 Application submitted to Treasury.

8. Certification — names, titles, and signatures of two certifying officials⁹ and the applicant's name and application submission date.

On April 18, 2020, Treasury published a sample PSP1 Agreement on its website, which provided definitions, terms, and conditions for participation in PSP1, and required applicants to submit completed applications by April 27, 2020. After Treasury reviewed and approved an application, both parties were required to sign the PSP1 Agreement.

Treasury Disbursement Processes

To disburse PSP1 payments to passenger air carrier applicants as quickly as possible and prior to the application deadline of April 27, 2020, Treasury applied an initial estimated pro-rata rate of 76-percent to the awardable amount because not all applications had been submitted at the time. After the application deadline, Treasury determined the total amount requested by all passenger air carrier applicants was approximately \$31.8 billion, which exceeded the \$25 billion available financial assistance. Because its initial estimated pro-rata rate was low, Treasury calculated an additional 2.2-percent, the top-off amount, for passenger air carriers making the final pro-rata rate 78.2-percent.

Treasury disbursed an initial lump sum payment of one-third of the awardable amount, followed by four equal subsequent payments to ensure it provided sufficient and timely financial assistance corresponding to the applicants' payroll schedule. In instances where Treasury needed to perform additional follow-up with passenger air carriers or needed additional time to approve applications, Treasury compressed the payment schedule on a case-by-case basis. Generally, Treasury disbursed the top-off amounts for passenger air carriers in September 2020.

⁸ IRS Form 941 is a tax form that businesses file quarterly to report income taxes, Social Security taxes, and Medicare taxes they withheld from employees' paychecks.

⁹ The certifying officials attested under penalty of perjury that the information and certifications provided in the application and its attachments are true and correct.

PSP1 Interim Audit Report

In a prior audit report,¹⁰ OIG identified two systemic issues affecting the payment amounts administered to all PSP1 recipients for non-241 air carriers and contractors. Specifically, some of the recipients audited included unallowable employer-side payroll taxes and/or corporate officer compensation in their calculation of the awardable amounts on their PSP1 applications. Treasury management acknowledged these issues and agreed to: (1) review payments issued under PSP1 to ensure awarded amounts are allowable per the CARES Act and Treasury guidance; and (2) remedy the incorrect amounts awarded under PSP1. Based on our recommendations, in March 2022 Treasury implemented a PSP1 recertification process whereby recipients had to certify whether they excluded employer-side payroll taxes and corporate officer compensation in their calculation of the awardable amounts on their PSP1 applications. Treasury's goal was to determine if overpayments were made to recipients based on inaccurate information included in PSP1 applications.

Treasury officials told us that if recoupment was necessary for an applicant's inclusion of unallowable expenses, such as corporate officer compensation and employer-side payroll taxes in the application, the recoupment method was dependent on timing. Any overpayment was first offset against the approved top-off payment. If an overpayment remained, or the overpayment was identified after all PSP1 disbursements were made, and the recipient was entitled to PSP2 or PSP3 funding, the overpayment was offset against the PSP2 and/or PSP3 awards prior to issuance. All remaining PSP1 overpayments not previously collected where the recipient did not qualify for, or apply for, PSP2 and PSP3 funding, were required to be repaid to Treasury.

Hyannis Air Service, Inc.

Headquartered in Hyannis, Massachusetts, Hyannis is a passenger air carrier that provides services in the following regions: (1) Northeast, 2) Montana, and (3) Caribbean.

¹⁰ Treasury OIG, *Interim Audit Update: Air Carrier and Contractor Certifications for Payroll Support Program (Interim Audit)*, OIG-21-025 (March 31, 2021)

Hyannis submitted its PSP1 Application totaling \$ [REDACTED] on April 2, 2020. The company received the passenger air carrier top-off for a total award of \$15,146,061, or 78.2-percent of the company's requested amount. Treasury's disbursements to Hyannis were as follows:

- April 23, 2020: \$4,906,652.47
- June 4, 2020: \$2,453,326.23
- July 7, 2020: \$2,453,326.23
- August 6, 2020: \$2,453,326.23
- September 4, 2020: \$2,453,326.24
- October 6, 2020: \$426,104.03

In addition to PSP1, Treasury awarded Hyannis \$14,025,959 under PSP2 and \$13,082,012 under PSP3. PSP2 and PSP3 were not the subject of this audit.

Audit Results

Hyannis reported correct information for five of seven sections reviewed on its PSP1 Application. These sections are: (1) Applicant Information, (2) Applicant Type, (3) Financial Institution Information, (4) Additional Information, and (5) Certification. We compared information provided in each section of the PSP1 Application to supporting documentation, including bank statements, IRS Form 941, payroll registers, organizational chart, third-party benefit invoices, and Employee Status Change Form, among other items.

In the Awardable Amounts section, Hyannis included (1) unallowable corporate officers, (2) unallowable foreign employees compensation, and (3) had data compilation errors, resulting in an overstatement of \$738,249. Treasury's awards to passenger air carriers under PSP1 included a 78.2-percent distribution of application amounts. Applying this formula, Hyannis received \$577,311 overpayment from Treasury. We confirmed that Treasury took corrective action by reducing \$577,311 from the company's PSP2 payment on July 31, 2021.

Furthermore, in the Employment Levels section, Hyannis incorrectly reported the number of involuntary reductions after March 1, 2020, and the average number of employees for 2019. Treasury management stated that the information reported in the average number of employees for 2019 field was used as a validation check and had no impact on determining the awardable amount. Treasury management also stated that they had no plans to use the information in the involuntary reductions after March 1, 2020 field. As such, we are not reporting these discrepancies as findings.

Finding

Inaccurate Compilation of the PSP1 Application Awardable Amount

Both the CARES Act and Treasury's Guidelines define "employee" as "an individual, other than a corporate officer, who is employed by an air carrier or contractor in the United States (including its territories and possessions)."

The signed PSP1 Agreement, effective April 20, 2020, defines:

corporate officer as with respect to the recipient, its president; any vice president in charge of a principal business unit, division, or function (such as sales, administration or finance); any other officer who performs a policy-making function; or any other person who performs similar policy-making functions for the recipient. Executive officers of subsidiaries or parents of the recipient may be deemed corporate officers of the recipient if they perform such policy-making functions for the recipient.

Treasury's Guidelines define:

wages, salaries, benefits, and other compensation as remuneration paid by the applicant to its employees for personal services and includes salaries, wages, overtime pay, cost-of-living differentials, and other similar compensation, as distinguished from per diem allowances or reimbursement for expenses incurred by personnel for the benefit of the applicant; and

awardable amount as amount that such carrier certifies, using sworn financial statements or other appropriate data, as the

amount of wages, salaries, benefits, and other compensation paid by such carrier during the time period.

Hyannis incorrectly certified the PSP1 awardable amount resulting in an overstatement of \$738,249. Specifically, Hyannis included:

- Compensation for nine Senior Vice Presidents (SVP) and Vice Presidents (VP), totaling \$[REDACTED]. The company properly excluded the salaries and wages for the Chief Executive Officer (CEO), President, and Chief Financial Officer (CFO). Also, the company included benefits for all 12 corporate officers, totaling \$[REDACTED]. The overall unallowable corporate officer compensation totaled \$[REDACTED].

Based on discussions with Hyannis management and a review of the company's 2019 organizational chart, we determined that Hyannis had 12 executives that met the definition of corporate officer per the PSP1 Agreement. The corporate officers were the (1) CEO; (2) President; (3) CFO; (4) SVP of Planning; (5) SVP of Fleet and Technical Operations; (6) SVP of Business Development and Distribution; (7) VP of Airport Services; (8) VP of HR; (9) VP of Marketing; (10) VP of Operations; (11) VP of Corporate and Airport Affairs; and (12) VP of Finance.

- Employee benefits for three foreign employees, totaling \$[REDACTED]. The company included the August and September 2019 benefits for a pilot; and the April through September 2019 benefits for a cross-trained agent and a captain.

We also found errors between the PSP1 Application amounts and the actual compensation amounts paid to Hyannis employees, totaling \$227.

Hyannis management explained that they only considered the CEO, President, and CFO as corporate officers based on their interpretation of Treasury's guidance at the time of PSP1 Application submission. Management also stated that while the company has several VPs that manage departments, the company did not consider them to be "in charge of a principal business unit or division [or] perform specific policy making functions." Furthermore, management stated that each VP reports directly to

either the CEO, President, or CFO and would need approval for any change in corporate policy. Additionally, management explained that it was an oversight and unintentionally included the three known corporate officers and three foreign employees in the benefits calculation. Hyannis management explained that the data discrepancies were due to mistakes.

Overall, the overstatement for (1) corporate officer compensation of \$[REDACTED], (2) foreign employee benefits of \$[REDACTED] and (3) data compilation errors of \$227, resulted in an aggregate overstatement of \$738,249. Since Treasury disbursed PSP1 funds pro-rata for passenger air carriers at 78.2-percent of the requested awardable amount, Hyannis received an overpayment of \$577,311. Table 1 illustrates the aggregate overpayment.

Table 1. Aggregate Overstatement and Pro-Rated Overpayment

Description	Amount
PSP1 Application Requested Amount	\$[REDACTED]
Less Corporate Officer Compensation	\$[REDACTED]
Less Unallowable Benefits for Foreign Employees	\$[REDACTED]
Less Data Compilation Errors	\$(227)
OIG PSP1 Calculated Amount	\$[REDACTED]
Overstatement	\$738,249
PSP1 Passenger Pro-rata	78.2%
Pro-Rated Overpayment	\$577,311

Source: OIG Calculation of Awardable Amount

To remedy the findings noted in the prior OIG audit report (see footnote 11), Treasury required PSP2 applicants to recertify their PSP1 awardable amounts. On January 12, 2021, Hyannis certified to Treasury under PSP2, that its PSP1 Application did not include corporate officer compensation. Treasury stated it relies on applicants' certifications that they did not include unallowable expenses (i.e. corporate officer compensation and employer-side payroll taxes) and no further validation checks were performed. On June 3, 2021, we notified Treasury of our preliminary audit finding that Hyannis included unallowable expenses, resulting in an overpayment of \$577,311. On July 31, 2021, Treasury took corrective action by reducing the overpayment from the company's

PSP2 payment. Due to instances of non-compliance in the PSP1 awardable amount, the company may have potentially included unallowable expenses in its PSP2 and PSP3 financial assistance requests.

Recommendation

We recommend that Treasury's Acting Chief Program Officer:

1. Review Hyannis' requested amount for unallowable expenses under PSP2 and PSP3, and seek reimbursement for the overpayment, if applicable.

Management Response

Treasury will review awardable amounts requested under PSP2 and PSP3 and seek recoupment where appropriate.

OIG Comment

Management's planned corrective actions meet the intent of our recommendation. Treasury management will need to record an estimated completion date for these actions in JAMES.

* * * * *

We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss the report, you may contact me at (202) 439-6354 or Christopher Culbreath, Acting Audit Manager, at (202) 486-1983. Major contributors to this report are listed in appendix 4. A distribution list for this report is provided as appendix 5.

/s/

Julie Wong
Acting Deputy Assistant Inspector General for Audit

Appendix 1: Objective, Scope, and Methodology

Our objective was to assess the accuracy, completeness, and sufficiency of Hyannis Air Service, Inc.'s (Hyannis) sworn financial statement or other data used to certify the wages, salaries, benefits, and other compensation amounts submitted and approved by the Department of the Treasury (Treasury) for the Payroll Support Program (PSP1).

The scope of our audit covered the period from April 1, 2019, through September 30, 2019, and included the certified PSP1 Application, sworn financial statement, tax returns, and other documentation submitted to Treasury on April 2, 2020.

To accomplish this objective, we performed the following activities during audit fieldwork conducted remotely from September 2020 through April 2022:

- Reviewed applicable laws and regulations, including:
 - Title IV, Subtitle B, *Air Carrier Worker Support*, of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act); and
 - 14 CFR Part 241, *Uniform System of Accounts and Reports for Large Certificated Air Carriers*, amended May 31, 2024
- Reviewed Treasury's policies, procedures, and guidelines related to PSP1:
 - *Guidelines and Application Procedures for Payroll Support to Air Carriers and Contractors under Division A, Title IV, Subtitle B of the Coronavirus Aid, Relief, and Economic Security Act*, which included the PSP1 Application, March 30, 2020;
 - PSP1 Agreement;
 - *Question and Answer: Payroll Support to Air Carriers and Contractors* (April 2, 2020, April 3, 2020, and April 20, 2020, versions); and
 - *Frequently Asked Questions: Application Procedures for Payroll Support to Air Carriers and Contractors*, April 3, 2020.

Appendix 1: Objective, Scope, and Methodology

- Performed 100-percent testing for seven of the eight sections of the PSP1 Application—specifically, the Applicant Information, Applicant Type, Financial Institution Information, Employment Levels, Awardable Amounts, Additional Information, and Certification sections. The Taxpayer Protection section was not reviewed because it generally does not apply to non-241 air carriers. According to Treasury, the Employment Levels section had no impact on Treasury’s determination of recipients’ award amounts. As such, we are not reporting the discrepancy as a finding.
- Interviewed key Treasury personnel and contracted consultants engaged by Treasury to aid in its evaluation of the air carriers’ and the contractors’ certified applications and other data.
- Interviewed Hyannis representatives responsible for the completion and submission of the sworn financial statement. The amounts submitted in the Awardable Amounts section of the PSP1 Application were considered the sworn financial statement.
- Reviewed sworn financial statement and documents to support the requested payroll support amount. The documentation included, but was not limited to, (1) Internal Revenue Service (IRS) Form 941, *Employer’s Quarterly Federal Tax Return* filings; (2) 2019 organizational chart; (3) April 2020 bank statement; (4) April 1, 2019, through September 30, 2019, payroll system reports; (5) involuntary furlough notices; (6) employee status change forms; (7) voluntary resignation emails; (8) third-party invoices; (9) PSP1 Application; and (10) PSP1 Agreement.
- Reviewed Government Accountability Office’s *Standards for Internal Control in the Federal Government* to identify the components of internal control that are significant to the audit objective. Understanding internal control within the context of an entity’s internal control framework can help auditors determine whether internal control deficiencies exist. We concluded that one of the five internal control components, Control Activities, as related to Hyannis’ payroll system, was significant to the audit objective.¹¹ This component states that control activities are the actions management establishes

¹¹ The five components of internal control are Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Appendix 1: Objective, Scope, and Methodology

through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system. To assess the controls over Hyannis' payroll system, we examined Hyannis' response to Data Supplier Questionnaire¹² and interviewed Hyannis management responsible for generating and using the data. Additional details regarding our assessment of the reliability of the data are reported in the section below.

- Reviewed Government Accountability Office's *Assessing Data Reliability* guidance, which states that data reliability determination does not involve attesting to the overall reliability of the data or database. For this audit, the audit team has only determined the reliability of the specific data needed to support the findings, conclusions, or recommendations in the context of the audit objective. Hyannis used information generated from its payroll system to complete the PSP1 Application. As such, we compared the payroll information generated from the payroll system and third-party invoices to the information in the Employment Levels and Awardable Amounts sections of the PSP1 Application.

To assess the reliability of Hyannis' payroll system, we (1) reviewed Hyannis' completed Data Supplier Questionnaire; (2) ensured system generated reports were within the expected date range;¹³ (3) interviewed Hyannis representatives knowledgeable about the data; and (4) compared system generated salary and benefits summary report to the detailed payroll registers. Based on our assessment, we determined that the data were sufficiently reliable to support the findings and conclusions to answer the objective of this audit.

We conducted this performance audit in accordance with 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 objective. We believe that the

¹² A Data Reliability Assessment is completed to assess the reliability of data originating from a system to determine if it is reliable for the purposes of the audit. The Data Supplier Questionnaire would be one of the tools used during the Data Reliability Assessment.

¹³ The payroll registers, *2019 Benefits Data*, and *401K Match Detailed Review* had date range filters from April 2019 through September 2019.

Appendix 1: Objective, Scope, and Methodology

evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix 2: Hyannis Management Response



660 Barnstable Road
Hyannis, Massachusetts 02601

March 19th, 2026

To: Office of the Inspector General

From: Casey Stone

Subject: Audit of Air Carrier Worker Support Certifications – Hyannis Air Service, Inc. – Appendix 2

Hyannis maintains the positions previously communicated in response to the PSP1 Interim Audit Report issued in March 2021.

With respect to the Awardable Amount calculation under PSP1, Hyannis acknowledges Treasury's interpretation regarding the treatment of certain corporate officers' compensation and foreign employees' benefits. At the time of application, Hyannis made its determinations in good faith based on its understanding of the definitions and guidance provided in the PSP1 application materials. Specifically, the inclusion of Senior Vice Presidents and Vice Presidents was based on our interpretation of the term "Corporate Officer" as presented in the application. Our intent was to ensure complete and accurate reporting consistent with the program requirements as understood at that time.

Upon notification of Treasury's position, Hyannis fully cooperated with the review process. Treasury reduced \$577,311 from our PSP2 payment on July 31, 2021 to address the identified overpayment. Given that the adjustment was made in 2021 and that there have been no subsequent audit communications or additional findings since the second quarter of 2022, Hyannis considered the matter resolved and closed from an administrative standpoint.

With respect to the Employment Levels section variances identified in the report, Hyannis acknowledges the differences noted. As Treasury management indicated, these data points did not impact the awardable amount determination. The discrepancies were unintentional and procedural in nature.

Hyannis remains committed to compliance with all federal program requirements and appreciates the opportunity to respond to the audit observations. We will continue to cooperate with Treasury should any further clarification be required.

Respectfully,

A black rectangular box redacting the signature of Casey Stone.

Casey Stone

Chief Financial Officer

Hyannis Air Service, Ind. dba Cape Air

Appendix 2: Hyannis Management Response



660 Barnstable Road
Hyannis, Massachusetts 02601

March 19th, 2026

To: Office of the Inspector General

From: Casey Stone

Subject: Audit of Air Carrier Worker Support Certifications – Hyannis Air Service, Inc. –
Recommendation – Management Response

Hyannis appreciates Treasury's continued oversight of the Payroll Support Programs and remains fully committed to transparency and compliance with all applicable statutory and contractual requirements. With respect to the recommendation that Treasury review Hyannis' requested amounts under PSP2 and PSP3 and seek reimbursement for any overpayment, if applicable, Hyannis will fully cooperate with any such review and provide supporting documentation as requested.

At the same time, Hyannis respectfully notes that Sections 20 and 21 of the PSP2 and PSP3 agreements outline an audit and records retention period of three years following the expiration or full use of funds under each respective agreement. As PSP2 and PSP3 funds were fully utilized in the third quarter of 2021, Hyannis understands the applicable audit period for each agreement to extend through the third quarter of 2024. Hyannis also understands each PSP agreement to constitute a separate contractual arrangement, with its own defined terms and conditions. Our PSP2 and PSP3 submissions were prepared in accordance with the specific guidance and definitions applicable to those programs at the time of application.

If Treasury interprets the agreements to allow for a different audit timeframe or broader review scope, Hyannis respectfully requests the opportunity to review the relevant contractual provisions and discuss Treasury's interpretation to ensure mutual understanding.

Hyannis remains committed to maintaining compliance with all federal requirements and to engaging with Treasury in a transparent and collaborative manner, and we appreciate the opportunity to respond to this recommendation.

Respectfully,

A black rectangular redaction box covering the signature of Casey Stone.

Casey Stone

Chief Financial Officer

Hyannis Air Service, Inc. dba Cape Air

Appendix 3: Treasury Management Response



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

May 26, 2026

Julie Wong
Acting Deputy Assistant Inspector General for Audit
U.S. Department of the Treasury – Office of Inspector General
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Ms. Wong:

I write regarding the Office of Inspector General's (OIG) draft *Audit of Air Carrier Worker Support Certifications* (Draft Report), regarding Hyannis Air Service, Inc. (the Recipient), a recipient of funds under Treasury's Payroll Support Program (PSP). The U.S. Department of the Treasury (Treasury) appreciates OIG's efforts.

Background on the Payroll Support Program

PSP was part of an effort to provide emergency assistance in response to the unprecedented challenges presented by the COVID-19 public health emergency and had three iterations:

- The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted on March 27, 2020, and established the Payroll Support Program (PSP1) to provide financial assistance to America's passenger air carriers, cargo air carriers, and certain aviation contractors. Treasury disbursed more than \$28 billion to over 600 businesses in PSP1, directly supporting more than 600,000 American jobs.
- In December 2020, the Consolidated Appropriations Act, 2021, created the Payroll Support Program Extension (PSP2) for eligible passenger air carriers and certain aviation contractors. Treasury disbursed over \$15 billion to over 480 passenger air carriers and contractors under PSP2.
- In March 2021, the American Rescue Plan Act of 2021 provided an additional \$15 billion for Treasury to make further payroll support payments to entities that participated in PSP2 (PSP3). Treasury disbursed over \$14.5 billion to over 480 passenger air carriers and contractors under PSP3.

The CARES Act set forth two different methodologies for calculating awardable amounts for the largest carriers and for smaller air carriers and aviation contractors. For the largest air carriers, which received approximately 89% of the total PSP assistance, PSP1 amounts were based on reports the carriers had filed with the U.S. Department of Transportation under 14 C.F.R. part 241. In contrast, the statute required Treasury to provide financial assistance to smaller air carriers and aviation contractors in an amount that the applicants certified, using sworn financial statements or other appropriate data, as the amount of wages, salaries, and benefits that they paid to their employees during the time period from April 1, 2019, through September 30, 2019.

Appendix 3: Treasury Management Response

For awards to the smaller companies, the PSP1 application and Treasury's guidelines made clear that the awardable amounts should not include, inter alia, (1) any employer-side payroll taxes, which are not paid to employees, and (2) compensation paid to corporate officers and non-employee contractors. Before accepting PSP2 applications, Treasury published additional guidance further emphasizing that such amounts should not be included in the companies' awardable amount calculations.¹ In both PSP1 and PSP2, Treasury required two officials of each applicant, including at least one corporate officer, to certify that the information provided in the application was correct and did not contain any materially false or fraudulent statements.

In April 2020, OIG began a series of audits of PSP1 recipients to determine whether they had properly calculated their requested awardable amounts. In March 2021, OIG issued an Interim Audit Update, notifying Treasury that a number of recipients being audited had impermissibly included, in their PSP1 applications, employer-side payroll taxes or corporate officer compensation in the calculation of the awardable amount, which may have resulted in an overstatement of the amount of PSP1 funds requested. In response, Treasury promptly took a series of remedial actions, including requiring that all PSP1 applicants receiving awards on the basis of self-certification re-certify whether their awardable amounts included employer-side payroll taxes or corporate officer compensation. Where a company informed Treasury that it had improperly included those amounts in its application, Treasury either withheld future PSP1 disbursements or began pursuing debt recoupment. Through this process, Treasury has successfully recouped more than \$147 million of PSP overpayments.

OIG's Finding

The Draft Report describes the work performed by OIG to determine whether the Recipient's requested awardable amount complied with the guidelines provided by Treasury. The Draft Report notes the extensive fieldwork conducted for this review between September 2020 and April 2022 to determine the accuracy of the information in the Recipient's PSP1 application submitted to Treasury, including interviewing the Recipient's management and collecting and reviewing a wide range of the company's financial records and corporate documents.

OIG found that the Recipient overstated its requested awardable amount for PSP1 due to the improper inclusion of unallowable corporate officers' compensation, unallowable foreign employees' benefits, and data compilation errors. However, OIG also found that, as a result of Treasury's requirement that PSP1 recipients recertify their awardable amounts, Treasury reduced the Recipient's PSP2 award. Therefore, no additional amounts are owed back to Treasury. OIG recommends that Treasury review the requested amounts from the Recipient for PSP2 and PSP3 assistance.

Treasury agrees with OIG that any overpayments of PSP funds should be reimbursed. Treasury will review awardable amounts requested under PSP2 and PSP3 and seek recoupment where appropriate.

¹ Because awardable amounts in PSP3 were calculated as a percentage of each company's PSP2 award, companies were not required to calculate awardable amounts for PSP3.

Appendix 3: Treasury Management Response

Again, Treasury appreciates OIG's work on these engagements. We look forward to working with you to protect the integrity of the PSP and other recovery programs.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Stout', with a long horizontal stroke extending to the right.

Jeffrey Stout
Deputy Chief Program Officer for Small Business
and Community Investment Programs

Appendix 4: Major Contributors to This Report

Olivia Scott, Acting Director
Christopher Culbreath, Acting Audit Manager
Ernest Galloway III, Auditor
Eduardo Coney, Referencer

Appendix 5: Report Distribution

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