



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 9, 2023

**MEMORANDUM FOR JESSICA MILANO, ACTING CHIEF RECOVERY OFFICER,
DEPARTMENT OF THE TREASURY**

FROM: Deborah L. Harker /s/
Assistant Inspector General for Audit

SUBJECT: Desk Review of the Commonwealth of Virginia's Use of
Coronavirus Relief Fund Proceeds
(OIG-CA-23-042)

Please find the attached desk review memorandum¹ on the Commonwealth of Virginia's (Virginia) use of Coronavirus Relief Fund (CRF) proceeds. The CRF is authorized under Title VI of the Social Security Act, as amended by Title V, Division A of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Under a contract monitored by our office, Castro & Company, LLC (Castro), a certified independent public accounting firm, performed the desk review. Castro performed the desk review in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General* standards of independence, due professional care, and quality assurance.

In its desk review, Castro personnel reviewed documentation for a non-statistical selection of 50 transactions reported in the quarterly Financial Progress Reports (FPR) and questioned costs of \$870,559,763.10 (see attached schedule of monetary benefits).

Castro determined that the expenditures related to Contracts greater than or equal to \$50,000, Transfers greater than or equal to \$50,000,² and Direct Payments greater than or equal to \$50,000 did not comply with the CARES Act and Treasury Guidance. Virginia personnel were unable to provide complete populations of transactions for Aggregate Reporting less than \$50,000³ and Aggregate Payments

¹ The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) assigned the Department of the Treasury Office of Inspector General with responsibility for compliance monitoring and oversight of the receipt, disbursement, and use of Coronavirus Relief Fund (CRF) payments. The purpose of the desk review is to perform monitoring procedures of the prime recipient's receipt, disbursement, and use of CRF proceeds as reported in the grants portal on a quarterly basis.

² A transfer to another government entity is a disbursement or payment to a government entity that is legally distinct from the prime recipient.

³ Recipients are required to report CRF transactions greater than or equal to \$50,000 in detail in the grants portal. Transactions less than \$50,000 can be reported as an aggregate lump-sum amount by type (contracts, grants, loans, direct payments, and transfers to other government entities).

to Individuals,⁴ and Castro was therefore unable to test these expenditures. Additionally, Castro determined that Virginia's risk of unallowable use of funds is high.

Castro recommends that the Department of the Treasury (Treasury) Office of Inspector General (OIG) follow-up with Virginia management on necessary reporting corrections related to expenditure category descriptions. Specifically, items not listed above⁵ expenditure category description corrections are needed in the Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, and Direct Payments greater than or equal to \$50,000 payment types. In addition, Castro recommends Treasury OIG pursue obtaining documentation from Virginia management for Contracts greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals. Based on Virginia's responsiveness to Treasury OIG's requests and its ability to provide documentation, Castro recommends that Treasury OIG determine if a focused audit is feasible for Contracts, Transfers, and Direct Payments greater than or equal to \$50,000, as well as Aggregate Reporting less than \$50,000 and Aggregate Payments to Individuals.

Treasury OIG and Castro met with Virginia management to discuss the questioned costs. Virginia management stated they would provide additional documentation to Treasury OIG to support the questioned costs.

In connection with our contract with Castro, we reviewed Castro's desk review memorandum and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express an opinion on Virginia's use of CRF proceeds. Castro is responsible for the attached desk review memorandum and the conclusions expressed therein. Our review found no instances in which Castro did not comply in all material respects with *Quality Standards for Federal Offices of Inspectors General*.

We appreciate the courtesies and cooperation provided to Castro and our staff during the desk review. If you have any questions or require further information,

⁴ Obligations and expenditures for payments made to individuals, regardless of amount, are required to be reported in the aggregate in the grants portal to prevent inappropriate disclosure of personally identifiable information.

⁵ When recording expenditures in the grants portal, grantees select categories for their expenditures based on a pre-defined listing of eligible expenditure categories. The portal includes an expenditure category of Items Not Listed Above (INLAs), which includes a free text field that allows grantees to enter descriptions for eligible expenses that are not included in the pre-defined list.

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please contact me at (202) 486-1420, or a member of your staff may contact Lisa DeAngelis, Deputy Assistant Inspector General for Audit, at (202) 487-8371.

cc: Michelle. A. Dickerman, Deputy Assistant General Counsel, Department of the Treasury
Victoria Collin, Chief Compliance & Finance Officer, Office of Recovery Programs, Department of the Treasury
Christopher Sun, Director of Data and Reporting, Office of Recovery Programs, Department of the Treasury
Amanda Simpson, Director of Compliance Oversight and Federal Reporting, Commonwealth of Virginia
Wayne Ference, Partner, Castro & Company, LLC

Attachment

Schedule of Monetary Benefits

According to the Code of Federal Regulations,⁶ a questioned cost is a cost that is questioned due to a finding:

- (a) which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;
- (b) where the costs, at the time of the review, are not supported by adequate documentation; or
- (c) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Questioned costs are to be recorded in the Department of the Treasury's (Treasury) Joint Audit Management Enterprise System (JAMES).⁷ The amount will also be included in the Office of Inspector General (OIG) Semiannual Report to Congress. It is Treasury management's responsibility to report to Congress on the status of the agreed to recommendations with monetary benefits in accordance with 5 USC Section 405(b) of the Inspector General Act of 1978.

<u>Recommendation</u>	<u>Questioned Costs</u>
Recommendation No. 1	\$ 870,559,763.10

The questioned cost represents amounts provided by Treasury under the Coronavirus Relief Fund. As discussed in the attached desk review, \$870,559,763.10 is Virginia's expenditures reported in the grant-reporting portal that lacked supporting documentation.

⁶ 2 CFR § 200.84 – Questioned Cost

⁷ JAMES is Treasury's audit recommendation tracking system.

Desk Review of the Commonwealth of Virginia

August 9, 2023

OIG-CA-23-042

MEMORANDUM FOR DEBORAH L. HARKER,
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: Wayne Ference
Partner, Castro & Company, LLC

SUBJECT: Desk Review of the Commonwealth of Virginia

On June 2, 2022, we initiated a desk review of the Commonwealth of Virginia's (Virginia) use of the Coronavirus Relief Fund (CRF) authorized under Title VI of the Social Security Act, as amended by Title V, Division A of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).¹ The objective of our desk review was to evaluate Virginia's documentation supporting its uses of CRF proceeds as reported in the GrantSolutions² portal and to assess the risk of unallowable use of funds. The scope of our desk review was limited to obligation and expenditure data for the period of March 1, 2020 through June 30, 2022 as reported in Cycles 1³ through 9⁴ in the GrantSolutions portal.

As part of our desk review, we performed the following:

- 1) reviewed Virginia's quarterly Financial Progress Reports (FPRs) submitted in the GrantSolutions portal through June 30, 2022;
- 2) reviewed the *Department of the Treasury's (Treasury) Coronavirus Relief Fund Guidance* as published in the Federal Register on January 15, 2021;⁵

¹ P.L. 116-136 (March 27, 2020).

² GrantSolutions, a grant and program management Federal shared service provider under the U.S. Department of Health and Human Services, developed a customized and user-friendly reporting solution to capture the use of CRF payments from recipients.

³ Calendar quarter ending June 30, 2020.

⁴ Calendar quarter ending June 30, 2022.

⁵ Coronavirus Relief Fund Guidance as published in the Federal Register (January 15, 2021) https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register_2021-00827.pdf

Desk Review of the Commonwealth of Virginia

- 3) reviewed Treasury's Office of Inspector General (OIG) *Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping*;⁶
- 4) reviewed Treasury OIG's monitoring checklists⁷ of Virginia's quarterly FPR submissions for reporting deficiencies;
- 5) reviewed other audit reports issued, such as Single Audit reports, and those issued by the Government Accountability Office and other applicable Federal agency OIGs for internal control or other deficiencies that may pose risk or impact Virginia's uses of CRF proceeds;
- 6) reviewed Treasury OIG Office of Investigations (OI), the Council of the Inspectors General on Integrity and Efficiency Pandemic Response Accountability Committee (PRAC),⁸ and Treasury OIG Office of Counsel input on issues that may pose risk or impact Virginia's uses of CRF proceeds;
- 7) interviewed key personnel responsible for preparing and certifying Virginia's GrantSolutions portal quarterly FPR submissions, as well as officials responsible for obligating and expending CRF proceeds;
- 8) made a non-statistical selection of Contracts, Grants, Transfers,⁹ and Direct Payments data identified through GrantSolutions reporting; and
- 9) evaluated documentation and records used to support Virginia's quarterly FPRs.

Based on Virginia's documentation related to the uses of CRF proceeds as reported in the GrantSolutions portal, we determined Virginia did not comply with the CARES Act and Treasury's Guidance. There were issues reported with Contracts greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, and a scope limitation¹⁰

⁶ Department of the Treasury Office of Inspector General *Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping* OIG-20-028R; March 2, 2021.

⁷ The checklists are used by Treasury OIG personnel to monitor the progress of prime recipient reporting in the GrantSolutions portal. GrantSolutions quarterly submission reviews are designed to identify material omissions and significant errors, and where necessary, include procedures for notifying prime recipients of misreported data for timely correction. Treasury OIG follows the *CRF Prime Recipient Quarterly GrantSolutions Submissions Monitoring and Review Procedures Guide*, OIG-CA-20-029R to monitor the prime recipients quarterly.

⁸ Section 15010 of P.L. 116-136 established the Pandemic Response Accountability Committee within the Council of the Inspectors General on Integrity and Efficiency to promote transparency and conduct and support oversight of covered funds (see Footnote 20 for a definition of covered funds) and the coronavirus response to (1) prevent and detect fraud, waste, abuse, and mismanagement; and (2) mitigate major risks that cut across program and agency boundaries.

⁹ A transfer to another government entity is a disbursement or payment to a government entity that is legally distinct from the prime recipient.

¹⁰ Castro was unable to obtain a complete population or make transaction selections for Aggregate Reporting less than or equal to \$50,000 or Aggregate Payments to Individuals. Therefore, we consider this a scope limitation and do not consider this amount to be tested.

Desk Review of the Commonwealth of Virginia

for Aggregate Reporting less than \$50,000¹¹ and Aggregate Payments to Individuals.¹² We questioned costs of \$870,559,763.10. Additionally, we determined that Virginia's risk of unallowable use of funds is high.

Castro recommends Treasury OIG follow-up with Virginia management on necessary reporting corrections. Specifically, items not listed above (INLA)¹³ description corrections are needed in the Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000 and Direct Payments greater than or equal to \$50,000 payment types. In addition, Castro recommends Treasury OIG pursue obtaining documentation from Virginia management for Contracts greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals. Based on Virginia's responsiveness to Treasury OIG's requests and its ability to provide documentation, we recommend that Treasury OIG personnel determine whether a focused audit is feasible for Contracts, Transfers, and Direct Payments greater than or equal to \$50,000, as well as Aggregate Reporting less than \$50,000 and Aggregate Payments to Individuals.

Non-Statistical Transaction Selection Methodology

Treasury issued a CRF payment to Virginia of \$3,109,502,836.10. As of June 30, 2022, Virginia's cumulative obligations and expenditures were \$3,109,262,010.51 and \$3,109,262,001.51, respectively. Virginia's cumulative obligations and expenditures by payment type, as reported in GrantSolutions through Cycle 9,¹⁴ is summarized below.

¹¹ Recipients are required to report CRF transactions greater than or equal to \$50,000 in detail in the GrantSolutions portal. Transactions less than \$50,000 can be reported as an aggregate lump-sum amount by type (contracts, grants, loans, direct payments, and transfers to other government entities).

¹² Obligations and expenditures for payments made to individuals, regardless of amount, are required to be reported in the aggregate in the GrantSolutions portal to prevent inappropriate disclosure of personally identifiable information.

¹³ When recording expenditures in the GrantSolutions portal, prime recipients select categories for their expenditures based on a pre-defined listing of eligible expenditure categories. The portal includes an expenditure category of Items Not Listed Above (INLAs), which includes a free text field that allows grantees to enter descriptions for eligible expenses that are not included in the pre-defined list.

¹⁴ Calendar quarter ending June 30, 2022.

Desk Review of the Commonwealth of Virginia

Payment Type	Cumulative Obligated Amount	Cumulative Expenditure Amount
Contracts >= \$50,000	\$ 419,842,899.14	\$ 419,842,899.14
Grants >= \$50,000	\$ 146,265,290.58	\$ 146,265,290.58
Loans >= \$50,000	\$ -	\$ -
Transfers >= \$50,000	\$ 1,589,708,558.81	\$ 1,589,708,558.81
Direct Payments >= \$50,000	\$ 351,460,111.70	\$ 351,460,111.70
Aggregate Reporting < \$50,000	\$ 191,901,562.95	\$ 191,901,562.95
Aggregate Payments to Individuals (in any amount)	\$ 410,083,587.33	\$ 410,083,578.33
Totals	\$ 3,109,262,010.51	\$ 3,109,262,001.51

Castro made a non-statistical selection of Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, and Direct Payments greater than or equal to \$50,000. Selections were made using auditor judgment based on information and risks identified in reviewing audit reports, the GrantSolutions portal reporting anomalies¹⁵ identified by the Treasury OIG CRF monitoring team, and review of Virginia’s FPR submissions. Castro noted Virginia did not obligate or expend CRF proceeds to Loans greater than or equal to \$50,000; therefore, we did not make a selection of transactions from this category. Additionally, due to the scope limitation referenced in the desk review results, we were unable to perform a non-statistical selection for Aggregate Reporting less than \$50,000 and Aggregate Payments to Individuals.

The number of transactions (25) we selected to test was based on Virginia’s total CRF award amount and our overall risk assessment of Virginia. To allocate the number of transactions (25) by obligation type (Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, and Direct Payments greater than or equal to \$50,000), we compared the obligation type dollar amounts as a percentage of cumulative obligations for Cycle 9.¹⁶ We selected an additional three transactions for Grants greater than or equal to \$50,000, which increased our coverage of grants to four selections and our overall selections to 28. Additionally, our transaction selections were increased from 28 to 48 selections based on 20 additional anomalies¹⁷ identified

¹⁵ Treasury OIG has a pre-defined list of risk indicators that are triggered based on data submitted by recipients in the FPR submissions that meet certain criteria. Castro reviewed these results provided by Treasury OIG for Virginia.

¹⁶ Calendar quarter ending June 30, 2022.

¹⁷ These anomalies included potential duplicate payments and other anomalies that were identified by the Treasury OIG CRF monitoring team as outliers. These outliers were flagged because the transactions were identified as having high dollar amounts relative to transactions at similar points in time, with similar award descriptions, and that were disbursed by the same prime recipient.

Desk Review of the Commonwealth of Virginia

by Treasury OIG personnel. Further, during our transaction reassessment, we increased the transaction selections from 48 to 50 based on our analysis of the INLA expenditure categories. The transactions selected for testing were not selected statistically, and therefore results cannot be extrapolated to the total universe of transactions.

Background

The CARES Act appropriated \$150 billion to establish the CRF. Under the CRF, Treasury made payments for specified uses to States and certain local governments; the District of Columbia and U.S. Territories, including the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands; and Tribal governments. Treasury issued a CRF payment to Virginia for \$3,109,502,836.10. The CARES Act stipulates that a recipient may only use the funds to cover costs that—

- (1) are necessary expenditures incurred due to the public health emergency with respect to the coronavirus disease 2019 (COVID-19);
- (2) were not accounted for in the budget most recently approved as of March 27, 2020; and
- (3) were incurred between March 1, 2020 and December 31, 2021.¹⁸

Section 15011 of the CARES Act requires each covered recipient¹⁹ to submit to Treasury and the PRAC, no later than 10 days after the end of each calendar quarter, a report that contains (1) the total amount of large covered funds^{20,21} received from Treasury; (2) the amount of large covered funds received that were expended or obligated for each project or activity; (3) a detailed list of all projects or activities for which large covered funds were expended or obligated; and (4) detailed information on any level of sub-contracts or sub-grants awarded by the covered recipient or its sub-recipients.

¹⁸ P.L. 116-260 (December 27, 2020). The period of performance end date of the CRF was extended through December 31, 2021 by the Consolidated Appropriations Act, 2021. The period of performance end date for tribal entities was further extended to December 31, 2022 by the State, Local, Tribal, and Territorial Fiscal Recovery, Infrastructure, and Disaster Relief Flexibility Act, Division LL of the Consolidated Appropriations Act, 2023, P.L. 117-328, December 29, 2022, 136 Stat. 4459.

¹⁹ Section 15011 of P.L. 116-136 defines a covered recipient as any entity that receives large covered funds and includes any State, the District of Columbia, and any territory or possession of the United States.

²⁰ Section 15010 of P.L. 116-136 defines covered funds as any funds, including loans, that are made available in any form to any non-Federal entity, not including an individual, under Public Laws 116-123, 127, and 136, as well as any other law which primarily makes appropriations for Coronavirus response and related activities.

²¹ Section 15011 of P.L. 116-136 defines large covered funds as covered funds that amount to more than \$150,000.

Desk Review of the Commonwealth of Virginia

The CARES Act assigned Treasury OIG the responsibility for compliance monitoring and oversight of the receipt, disbursement, and use of CRF proceeds. Treasury OIG also has authority to recoup funds in the event that it is determined a recipient failed to comply with requirements of subsection 601(d) of the Social Security Act, as amended, (42 U.S.C. 801(d)).

Desk Review Results

We found Grants greater than or equal to \$50,000 were necessary expenditures due to the COVID-19 public health emergency, were not accounted for in the budget most recently approved as of March 27, 2020, and were incurred during the covered period. We also found that Contracts greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, and Direct Payments greater than or equal to \$50,000 transactions selected for detailed review, as well as the Aggregate Reporting less than \$50,000 and Aggregate Payments to Individuals categories not tested in detail due to the scope limitation, did not comply with the CARES Act and Treasury's guidance. The transactions selected for testing were not selected statistically, and therefore results cannot be extrapolated to the total universe of transactions.

Our review of Virginia's quarterly FPR submissions through June 30, 2022, found that FPR submissions were timely. We also found that Virginia's quarterly FPR submissions through June 30, 2022 identified reporting issues relative to INLA expenditure category. Specifically, for the Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, and transfers greater than or equal to \$50,000 the expenditure category of INLA selected did not contain a related description sufficient to explain the use of funds. Virginia utilized vague expenditure descriptions for the INLA amounts reported, such as "Various" and "Other" instead of reporting the expenditures under the relevant and associated expenditure categories provided in GrantSolutions. During our desk review procedures, we followed up with Virginia management to obtain clarification on these expenditures listed as INLAs to determine whether these expenditures were reported accurately. In reviewing the responses from Virginia management, we determined that expenditures with the description of "Other" and "Various" were not properly reported in GrantSolutions and corrections are required by management to report those expenditures accurately.

Within our review of prior year Single Audit reports, Castro noted an auditor-identified CRF finding within Virginia's 2021 Annual Comprehensive Financial Report. The finding detailed inadequate monitoring over outsourced grant programs and resulted in \$114,290 in auditor identified questioned costs. Virginia's efforts to resolve these issues were still ongoing upon conclusion of

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Castro’s desk review fieldwork, and therefore, we recommend that Treasury OIG personnel follow-up to determine the status of these questioned costs identified in the Single Audit.

The following table includes the total cumulative expenditure population and the expenditure amount tested. Additionally, this table includes a summary of Castro’s testing results. Within the table below, we have included a summary of scope limitations, unsupported, and ineligible expenditures identified as questioned costs. In addition, we have included a summary of the amounts of all INLA description deficiencies noted. We are not questioning the costs related to the INLA description deficiencies; however, we conclude that these deficiencies do not comply with Treasury’s Reporting Guidance. Additionally, in the far-right column, we have identified the expenditures that Castro tested without exceptions noted. See the Desk Review Results section below this table for a detailed discussion of questioned costs and other issues identified.

Summary of Expenditures Testing and Recommended Results – As of Cycle 9²²

Payment Type	Cumulative Expenditure Population Amount	Cumulative Expenditure Tested Amount	Scope Limitations Exceptions ²³	Unsupported Exceptions	Ineligible Exceptions ²⁴	Amount Reviewed Without Exception
Contracts >= \$50,000 ²⁵	\$ 419,842,899.14	\$ 98,568,606.19	\$ -	\$ 169,130,278.17	\$ -	\$ 72,789,893.65
Grants >= \$50,000	\$ 146,265,290.58	\$ 28,343,037.00	\$ -	\$ -	\$ -	\$ 28,343,037.00
Loans >= \$50,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers >= \$50,000	\$ 1,589,708,558.81	\$ 504,911,906.30	\$ -	\$ 52,632,958.55	\$ -	\$ 452,278,947.75
Direct Payments >= \$50,000	\$ 351,460,111.70	\$ 88,796,111.34	\$ -	\$ 46,811,376.10	\$ -	\$ 41,984,735.34
Aggregate Reporting < \$50,000	\$ 191,901,562.95	\$ -	\$ 191,901,562.95	\$ -	\$ -	\$ -
Aggregate Payments to Individuals (in any amount)	\$ 410,083,587.33	\$ -	\$ 410,083,587.33	\$ -	\$ -	\$ -
Totals	\$ 3,109,262,010.51	\$ 720,619,660.83	\$ 601,985,150.28	\$ 268,574,612.82	\$ -	\$ 595,396,613.74

²² Calendar quarter ending June 30, 2022.

²³ Castro was unable to obtain a complete population or make transaction selections for Aggregate Reporting less than or equal to \$50,000 or Aggregate Payments to Individuals. Therefore, we consider this a scope limitation and do not consider this amount to be tested. Accordingly, we have excluded this amount from the “Cumulative Expenditure Tested Amount” column.

²⁴ In addition to the questioned costs identified in the table above, Castro noted INLA expenditures with descriptions of “Other” or “Various” which should have been updated by Virginia management to reflect the nature of the expenditure in GrantSolutions. Although we do not consider INLA reporting exceptions to be questioned costs, we consider these INLA reporting errors to be noncompliant with Treasury’s Guidance.

²⁵ Due to the pervasive issues identified with two Virginia state agencies, we included the entire populations of contracts for those state agencies reported in GrantSolutions as questioned costs.

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Contracts Greater Than or Equal to \$50,000

We determined Virginia's Contracts greater than or equal to \$50,000 did not comply with the CARES Act and Treasury's Guidance. We identified exceptions in five of the six transactions selected for testing; resulting in unsupported questioned costs totaling \$169,130,278.17.

Virginia Department of Emergency Management (VDEM)

Of the six transactions selected for contracts testing, three were contracts executed through the Virginia Department of Emergency Management (VDEM). We identified exceptions in all three transactions selected for VDEM. Specifically, VDEM's accounting system and procurement system were not integrated to allow accurate tracking of expenditures incurred against specific contracts. Additionally, VDEM management was unable to provide sufficient supporting documentation to substantiate consulting costs incurred.

As these issues were noted for all contract transactions selected for testing for VDEM, we deemed this to be a pervasive issue for contracts awarded by VDEM. In addition, while we did not expand transaction selections to determine further impact, we question the contract expenditures we identified as attributable to VDEM totaling \$85,915,907.65 in unsupported questioned costs.²⁶

Virginia Department of Health (VDH)

Of the six transactions selected for testing, two were contracts executed through the Virginia Department of Health (VDH). We identified exceptions in both of the transactions selected for VDH. For both transactions selected for testing, VDH management was unable to provide adequate supporting documentation to substantiate the costs of COVID-19 testing and contact tracing. We noted reporting discrepancies between VDH management's records and the Virginia Department of Accounts' (DOA) records as of Cycle 9.²⁷ We could not determine if the expenditures were supported in accordance with the CARES Act and Treasury's Guidance. We determined that the reporting discrepancies occurred due to VDH management labeling invoices with incorrect agreement numbers.

Due to the nature of the cause of these exceptions, and that we noted this exception in both selections tested for VDH Contracts, we deemed this a pervasive issue for contracts awarded by VDH. In addition, while we did not expand our

²⁶ We identified the questioned cost amount of \$85,915,907.65 by filtering the GrantSolutions expenditure population to all transactions that contained the same contract numbers as the VDEM transactions selected for testing in our desk review. Virginia's GrantSolutions expenditure population may include additional VDEM incurred expenses related to other contracts not selected for testing within our desk review. We note that this \$85,915,907.65 questioned cost amount does not include any of those expense amounts.

²⁷ Calendar quarter ending June 30, 2022.

Desk Review of the Commonwealth of Virginia

transaction selections to determine further impact, we question the contract expenditures we identified as attributable to VDH resulting in unsupported questioned costs totaling \$83,214,370.52.²⁸

Transfers Greater Than or Equal to \$50,000

We determined Virginia's Transfers greater than or equal to \$50,000 did not comply with the CARES Act and Treasury's Guidance. For two of the original 16 transfer transaction selections, City of Virginia Beach (VB) management was unable to provide adequate supporting documentation for the transactions selected, totaling \$52,632,958.55 in unsupported costs.

Direct Payments Greater Than or Equal to \$50,000

We determined Virginia's Direct Payments greater than or equal to \$50,000 did not comply with the CARES Act and Treasury's Guidance. We identified exceptions in two of the four transactions selected for testing; resulting in unsupported questioned costs totaling \$46,811,376.10.

For two of the four transactions, Virginia Commonwealth University Health Systems Authority (VCU) management was unable to provide adequate supporting documentation, as it was not readily available.

VCU management stated it would be difficult to obtain supporting documentation since they were experiencing competing priorities such as the federal single audit at the time of Castro's request for documentation.

Aggregate Reporting Less Than \$50,000

We determined Virginia's Aggregate Reporting less than \$50,000 did not comply with the CARES Act and Treasury's Guidance. Based on our assessment of the supporting documentation provided by Virginia management, we determined that we could not obtain or review accurate or complete populations to select transactions to test. This scope limitation resulted from management not completing a reconciliation of the Aggregate Reporting less than \$50,000. We identified \$191,901,562.95 in unsupported questioned costs. Management confirmed the root cause of the errors was the lack of resources to complete a true reconciliation of the data submitted to Virginia by departments and agencies.

²⁸ We identified the questioned cost amount of \$83,214,370.52 by filtering the GrantSolutions expenditure population to all transactions that contained the same contract numbers as the VDH transactions selected for testing in our desk review. Virginia's GrantSolutions expenditure population may include additional VDH incurred expenses related to other contracts not selected for testing within our desk review. We note that this \$83,214,370.52 questioned cost amount does not include any of those expense amounts.

Desk Review of the Commonwealth of Virginia

Aggregate Payments to Individuals (API)

We determined API did not comply with the CARES Act and Treasury's Guidance. Based on our assessment of the supporting documentation provided by management, we determined that we could not obtain or review accurate or complete populations to select transactions. We identified \$410,083,587.33 in unsupported questioned costs.

Conclusion

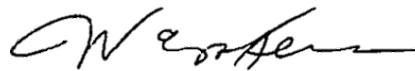
We determined that the expenditures related to Grants greater than or equal to \$50,000 complied with the CARES Act and Treasury's Guidance. We also found that uses of CRF proceeds for Contracts greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000 and Aggregate Payments to Individuals did not comply with the CARES Act and Treasury's Guidance, resulting in total questioned costs of \$870,559,763.10. We determined that Virginia's risk of unallowable use of funds is high.

Castro recommends Treasury OIG follow-up with Virginia management on necessary reporting corrections. Specifically, INLA description corrections are needed in the Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, and Direct Payments greater than or equal to \$50,000 payment types. In addition, Castro recommends Treasury OIG pursue obtaining documentation from Virginia management for Contracts greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals. Based on Virginia's responsiveness to Treasury OIG's requests and its ability to provide documentation, we recommend Treasury OIG determine if a focused audit is feasible for Contracts, Transfers, and Direct Payments greater than or equal to \$50,000, as well as Aggregate Reporting less than \$50,000 and Aggregate Payments to Individuals. In addition, Castro recommends that Treasury OIG work with Virginia management to determine whether there are any additional costs attributable to VDEM and VDH and to ensure that Virginia management makes any necessary corrections to those balances. Castro also recommends Treasury OIG follow-up to obtain the status of the 2021 Single Audit Annual Comprehensive Financial Report finding.

Desk Review of the Commonwealth of Virginia

All work completed with this letter complies with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Federal Offices of Inspectors General*, which require that the work adheres to the professional standards of independence, due professional care, and quality assurance to ensure the accuracy of the information presented.²⁹ We appreciate the courtesies and cooperation provided to our staff during the desk review.

Sincerely,



Wayne Ference
Partner, Castro & Company, LLC

²⁹ <https://www.ignet.gov/sites/default/files/files/Silver%20Book%20Revision%20-%208-20-12r.pdf>