



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 13, 2024

OIG-CA-25-008

MEMORANDUM FOR JESSICA MILANO
CHIEF PROGRAM OFFICER, OFFICE OF CAPITAL ACCESS

From: Marla Freedman /s/
Executive Advisor, Office of Audit
and
Robert Taylor /s/
Executive Advisor, Office of Audit

Subject: Emergency Rental Assistance Program (ERA2) – Questioned
Cost Finding, State of Washington

During the coronavirus pandemic, Congress authorized and funded two Emergency Rental Assistance (ERA) programs administered by the Department of the Treasury (Treasury) to provide rental assistance to eligible households: (1) ERA1 - Division N, Title V, Subtitle A, § 501 of the Consolidated Appropriations Act, 2021 (Pub. L. No. 116-260), December 27, 2020, and codified at 15 USC § 9058a; and (2) ERA2 - Title III, Subtitle B, § 3201 of the American Rescue Plan Act (Pub. L. No. 117-2), March 11, 2021, and codified as 15 USC § 9058c.

In August 2023, a Thurston County WA internal auditor informed the Treasury Office of Inspector General (OIG) of three cases of suspected and confirmed fraudulent¹ ERA2 financial assistance payments made by Thurston County Public Health and Social Services, a subrecipient of ERA2 Federal financial assistance awards for the State of Washington. After assessing the results of the Thurston County WA internal auditor's review, we determined that the State of Washington, through its subrecipient, paid a total of \$74,160 in ERA2 funds to three ineligible

¹ Pursuant to 2 CFR § 200.113, Mandatory disclosures, under the Uniform Administrative Requirements, Cost Principles, and Audit Requirements, grantees must disclose, in a timely manner, in writing to the Federal awarding agency all violations of Federal criminal law involving fraud potentially affecting the Federal award.

households in violation of the Use of Funds statute. Accordingly, we question those costs. In response to a draft of this questioned cost finding, the State of Washington did not dispute our determinations and had no additional documentation to provide regarding the three subject cases that resulted in ineligible payments. See Appendix 1. We are recommending that Treasury's Office of Capital Access disallow these costs and direct the State of Washington to reimburse its ERA2 program \$74,160 from non-Federal funds.² We also provided Treasury with an opportunity to review a draft of this memorandum. In its written response, Treasury agreed with our recommendation. See Appendix 2.

Background/Legal Authority

Under ERA2 section 3201(d), Use of Funds, an eligible grantee shall only use ERA2 funds to provide financial assistance and housing stability services to eligible households. The financial assistance includes: the payment of rent; rent arrears; utilities and home energy costs; utilities and home energy costs arrears; and other expenses related to housing, as defined by Treasury. Such assistance shall be provided for a period not to exceed 18 months.

ERA2 section 3201(f)(2) defines eligible household as a household of one or more individuals who are obligated to pay rent on a residential dwelling and that (1) one or more individuals within the household has qualified for unemployment benefits or experienced a reduction in household income, incurred significant costs, or experienced other financial hardship due, directly or indirectly, to the coronavirus pandemic; (2) one or more individuals within the household can demonstrate a risk of experiencing homelessness or housing instability; and (3) the household has a household income that is not more than 80 percent of the area median income for the household.

Facts and Analysis

On August 18, 2023, we received a bulk report³ from a Thurston County internal auditor of three cases of suspected and confirmed fraudulent ERA2 financial assistance payments made by Thurston County Public Health and Social Services, a subrecipient of the State of Washington. We agreed with the Thurston County internal auditor's conclusions on the three cases as follows:

² See Appendix 2, Schedule of Monetary Benefits, for more details regarding "questioned cost."

³ Treasury OIG defines a "bulk report" as a report of multiple suspected or confirmed fraudulent ERA financial assistance payments made by a grantee or subrecipient; the bulk report may come directly from the grantee, subrecipient, or from the Treasury OIG Office of Investigations (OI). There could also be instances where, upon review of individually reported complaints, Treasury OIG determines there to be a "common source" of reporting (e.g., from a grantee or subrecipient) and decides, for purposes of efficiency, to work all the "common source" suspected or confirmed fraudulent ERA financial assistance payments as a bulk report.

1. For application # [REDACTED], the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The Thurston County internal auditor spoke with the property owner on August 16, 2022, who stated that she did not know the tenant or landlord identified on the application. Furthermore, she did not authorize any third-party to collect rent on her behalf. The rental arrears financial assistance paid out by Thurston County Public Health and Social Services' ERA2 program for this application totaled \$38,700.
2. For application # [REDACTED], the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The Thurston County internal auditor spoke with the property owner's representative on September 9, 2022, who stated that the property owner sold the home in April 2022, and that the home had been vacant for 6 years at the time of the sale. The rental arrears financial assistance paid out by Thurston County Public Health and Social Services' ERA2 program for this application totaled \$19,800, and was for the period March 2021 through February 2022, during which the property owner's representative stated the home was vacant.
3. For application # [REDACTED], the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. On August 15, 2022, the property owner left the Thurston County internal auditor a voicemail stating that she bought the property in 2020 and never rented it out. The rental arrears financial assistance paid out by Thurston County Public Health and Social Services' ERA2 program for this application totaled \$15,660.

These three cases are summarized as follows:

Case	Thurston County Public Health and Social Services Application No.	Ineligible ERA2 Financial Assistance Payments
1	[REDACTED]	\$38,700
2	[REDACTED]	19,800
3	[REDACTED]	15,660
Total		\$74,160

Based on the information provided, we determined that the State of Washington, through its subrecipient Thurston County Public Health and Social Services' ERA2 program, paid out ERA2 funds in violation of the Use of Funds statute because the funds were disbursed to ineligible households. Accordingly, OIG questioned the cost of \$74,160 for the ERA2 financial assistance paid for these three cases.

State of Washington's Response

We provided the State of Washington an opportunity to respond to a draft of this questioned cost finding. Its written response, dated June 5, 2024, is included in Appendix 1 to this memorandum.

In that response, the State of Washington stated that (1) its subrecipients used self-attestations as a tool to assist in expedient delivery of services during the health crises as Treasury's program guidance allowed self-attestation to confirm eligibility; and (2) it had to comply with spending deadlines to ensure all federal funds available to Washington State residents were utilized. Furthermore, the State did not fully deploy its subrecipient monitoring process until after spending deadlines were met, due to the urgent need of timely assistance.

The State of Washington also stated that it did not dispute Thurston County's findings or the actions it took regarding the findings. The State's planned resolution for the ERA2 questioned cost amount of \$74,160 is to await further instructions from Treasury on the next steps.

OIG Evaluation

We considered the State of Washington's response in finalizing this memorandum.

The State of Washington did not provide any additional evidence to demonstrate that the financial assistance provided for the subject applications were eligible households. As the grantee, the State of Washington is responsible for ensuring the eligible use of ERA2 funds.

In its response, the State of Washington stated: "Commerce [the State of Washington, Department of Commerce] provided these awards during a state of emergency in which program guidance from Treasury allowed the use of self-attestation to confirm eligibility." However, in this case, that statement is not contextually accurate. Specifically, with regard to guidance on when self-attestation is encouraged to be relied upon, Treasury states:

When housing stability services represent the only ERA1 assistance a household will receive (i.e., no payments using ERA1 funds will be made either to the household, to the landlord, or to a utility provider), grantees are encouraged to rely on a household's self-attestations for purposes of confirming eligibility...

In all cases, grantees must document their policies and procedures for determining a household's eligibility to include policies and procedures for determining the prioritization of households in compliance with the statute and maintain records of their determinations. Grantees must also have controls in place to ensure compliance with their policies and procedures and prevent fraud. Grantees must specify in their policies and procedures under

what circumstances they will accept written attestations from the applicant without further documentation to determine any aspect of eligibility or the amount of assistance, and in such cases, grantees must have in place reasonable validation or fraud-prevention procedures to prevent abuse.⁴

Recommendation

We recommend that Treasury’s Office of Capital Access disallow the questioned cost amount of \$74,160 and instruct the State of Washington to refund that amount to its ERA2 program from non-Federal funds.

Treasury’s Response

We provided Treasury with an opportunity to review a draft of this memorandum on September 30, 2024. In its written response, Treasury management agreed that any improper use of ERA2 funds should be reimbursed, and that the State of Washington should refund the questioned costs in the amount of \$74,160 to its ERA2 program using non-Federal funds. Treasury’s written response is included as Appendix 2 of this memorandum. Treasury management will need to record an estimated completion date for taking action on this recommendation in the Joint Audit Management Enterprise System (JAMES). See Appendix 3, Schedule of Monetary Benefits, for more details regarding “questioned cost.”

Methodology

We conducted our review of these ERA cases from December 2023 to November 2024. We inquired of the grantee and other relevant parties, reviewed related documentation, and performed other appropriate procedures. We believe the evidence obtained is sufficient and appropriate to provide a reasonable basis for our findings and conclusions in this Questioned Cost Finding.

In conducting our review, we followed the OIG’s system of quality management for ensuring that the information in this Questioned Cost Finding is accurate. We also followed the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Quality Standards for Federal Offices of Inspector General* which require that our work adheres to its general standards for integrity to include objectivity, independence, professional judgment, and confidentiality as well as its general standard for receiving and reviewing allegations.

⁴ A full discussion of Treasury’s ERA guidance on self-attestation is found in its ERA Frequently Asked Questions (FAQs), Question 1, available at [FAQs | U.S. Department of the Treasury \(https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/emergency-rental-assistance-program/faqs\)](https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/emergency-rental-assistance-program/faqs).

Grantee Response



STATE OF WASHINGTON
 DEPARTMENT OF COMMERCE
 1011 Plum Street SE • PO Box 42525 • Olympia, Washington 98504-2525 • 360-725-4000
www.commerce.wa.gov

June 5, 2024

Marla Freedman, Executive Advisor
 Bob Taylor, Executive Advisor
 Office of Audit
 Department of the Treasury
 Office of the Inspector General
 Washington DC 20220

Subject: Response to Notice of Proposed Recoupment and Questioned Cost Findings for
 Emergency Rental Assistance Programs

Dear Ms. Freedman and Mr. Taylor,

Thank you for contacting us regarding Washington State's Emergency Rent Assistance (ERA)
 programs. We confirm receipt of the following two letters:

- Notice of Proposed Recoupment, Emergency Rental Assistance (ERA1). Federal Award ID: ERA0023. Recoupment Amount: \$151,685.49
- Draft Questioned Cost Findings, Emergency Rental Assistance (ERA2). Federal Award ID: ERAE0485. Questioned Cost Amount: \$74,160

We understand that our ERA subrecipient, Thurston County Public Health and Social Services Department (Thurston County), received separate letters of the same nature regarding their ERA1 and ERA2 direct award from the U.S. Department of Treasury (Treasury).

As the lead administrator of homeless housing and prevention funding for Washington State, the Department of Commerce (Commerce) awarded ERA funds from Treasury to local governments across the state. Commerce provided these awards during a state of emergency in which program guidance from Treasury allowed the use of self-attestation to confirm eligibility. Self-attestations were used by our subrecipients as a tool to assist in expedient delivery of services during the health crisis. We also had to comply with spending deadlines to ensure all federal funds available to Washington State residents were utilized. In addition, our subrecipient monitoring process was not fully deployed in a detailed manner until after the spending deadlines were met, due to the urgent need of timely assistance.

We understand that Thurston County conducted subrecipient monitoring activities on their subrecipients in an effort to ensure program compliance. Thurston County communicated their

Grantee Response

results with us and we do not dispute their findings or the actions they took regarding the findings.

Our resolution for the ERA1 Recoupment Amount of \$151,685.49 will be to seek recovery of these funds directly from Thurston County in order to provide them to Treasury.

Our resolution for the ERA2 Questioned Cost Amount of \$74,160 is to await further instructions from Treasury on next steps.

Sincerely,

Dodge,
Kathryn (COM)
COM)

Kathryn Dodge, Temporary Federal Programs Manager
Department of Commerce

Allen, Gena (COM)

Gena Allen, Internal Control Officer
Department of Commerce

cc:

Corina Grigoras, Assistance Director of Housing Division, Department of Commerce
Kathy Kinard, Homelessness Assistance Unit Managing Director, Department of Commerce
Pam Kelly, Acting Accounting Director, Department of Commerce
Britni Kennedy, Program Accounting Manager, Department of Commerce

Treasury Response



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

October 15, 2024

Deborah Harker
 Assistant Inspector General for Audit
 U.S. Department of the Treasury – Office of Inspector General
 1500 Pennsylvania Avenue, N.W.
 Washington, DC 20220

Dear Ms. Harker:

I write regarding the Office of Inspector General's (OIG) Draft Report entitled *Emergency Rental Assistance Program (ERA2) – Questioned Cost Finding, State of Washington*, which reviews three instances of suspected and confirmed fraudulent financial assistance payments made by a subrecipient receiving Emergency Rental Assistance (ERA) funds. Treasury takes seriously its responsibility for stewarding taxpayer funds, and we appreciate OIG's work on this engagement.

The ERA programs, which were created by the Consolidated Appropriations Act, 2021 (ERA1), and the American Rescue Plan Act of 2021 (ERA2), respectively, provided critical funding for state, local, territorial, and Tribal governments to prevent eviction and support housing stability during the COVID-19 pandemic. Congress tasked Treasury with implementing the ERA programs rapidly and under extraordinary emergency conditions. Despite these challenges, Treasury quickly implemented these programs and oversaw unprecedented rental assistance.

Collectively, the ERA programs have provided more than 12.3 million household payments totaling over \$40 billion in expenditures to families in need. To date, Treasury has disbursed all ERA1 award funding to grantees and is in the process of closing out the ERA1 awards, which expired in December 2022. In addition, Treasury has disbursed over 99 percent of the ERA2 award funds to grantees and grantees have paid out over \$18 billion in assistance (more than 83 percent) of the total \$21.55 billion appropriated for the program.

OIG's Findings and Recommendations

The Draft Report describes OIG's review of information it received from a Thurston County, Washington internal auditor regarding three suspected and confirmed cases of fraudulent ERA2 financial assistance payments made by Thurston County Public Health and Social Services, a subrecipient of the State of Washington. In its review, OIG questioned a total of \$74,160 for ERA2 financial assistance paid in the three identified cases. OIG gave the State of Washington an opportunity to respond, and Washington stated that it did not dispute the findings.

Treasury agrees with OIG that any improper use of ERA2 funds should be reimbursed, and that the State of Washington should refund the questioned costs in the amount of \$74,160 to its

Treasury Response

ERA2 program using non-Federal funds. Again, Treasury appreciates OIG's work on this engagement. We look forward to working with you to protect the integrity of the ERA programs and other recovery programs.

Sincerely,

A handwritten signature in cursive script that reads "Jessica Milano".

Jessica Milano
Chief Program Officer
U.S. Department of the Treasury

Schedule of Monetary Benefits

According to the Code of Federal Regulations, a “questioned cost” is a cost that is questioned by the auditor because of 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 will be recorded in Treasury’s Joint Audit Management Enterprise System (JAMES). The amount will also be included in the 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 § 405:

<u>Recommendation</u>	<u>Questioned Costs</u>
Recommendation No. 1	\$74,160

The questioned costs represent ERA2 amounts provided by Treasury under the American Rescue Plan Act of 2021 that were paid by the State of Washington to ineligible households in violation of ERA2 Section 3201(d), Use of Funds.

Distribution

Department of the Treasury

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State of Washington

Temporary Federal Programs Manager

Internal Control Officer