



OFFICE of
INSPECTOR GENERAL

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UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

New Jersey Could Not Support Disaster Recovery Expenses for Its Non-Federal Match Costs

Audit Report Number: 2026-FW-1005

June 30, 2026

Highlights

New Jersey Could Not Support Disaster Recovery Expenses for Its Non-Federal Match Costs | 2026-FW-1005

What We Audited and Why

As part of our mission to safeguard HUD's programs from fraud, waste, and abuse, and to identify opportunities for HUD programs to progress and succeed, we selected New Jersey for a review of potential improper payments. Our audit objective was to determine whether New Jersey made improper non-Federal match activity payments. We also assessed whether the Office of Community Planning and Development's Office of Disaster Recovery (CPD ODR) had sufficient and adequate controls to prevent improper match payments.

What We Found

New Jersey could not provide support for 17 of 64 Hurricane Sandy (27 percent) and all 8 Hurricane Irene (100 percent) items that we tested. This occurred because New Jersey did not establish adequate controls for properly classifying, allocating, and tracking non-Federal match costs. Consequently, these unsupported payments meet OMB's definition of an improper payment because it could not be determined whether the payment was proper or improper due to the lack of documentation. As of June 6, 2025, New Jersey still had more than \$5.6 million in unspent HUD Sandy non-Federal match funds which, due to the inadequate controls, were at risk of being unsupported when paid.

Further, we found that New Jersey commingled its non-Federal match costs with other disaster recovery costs to support payments made by HUD funds that totaled \$174,352. These payments were improper because the other costs are not part of the non-Federal project's total costs. This occurred because New Jersey did not establish its own financial or payment controls to separately allocate, track, and report non-Federal match costs from other eligible disaster recovery costs. Further, CPD's policies did not require its grantees to separately report non-Federal match costs from other activities funded by disaster appropriations. As a result, New Jersey was not transparently reporting the amounts of HUD disaster funding it spent on non-Federal match activities versus other eligible disaster recovery activities. Instead, it overreported the amount it paid for non-Federal match activities, which increased the risk of potential improper payments. In addition, due to the overreported amounts, HUD and its stakeholders cannot use DRGR system quarterly performance reports to ensure that New Jersey properly used its disaster recovery funds to meet the goals and objectives of the non-federal match portion of its projects.

What We Recommend

We recommend that CPD ODR require all disaster recovery grantees to adopt consistent financial and internal controls to allocate and track non-Federal match activity costs that are paid with HUD disaster recovery funds. We also recommend that New Jersey support or repay unsupported payments totaling more than \$4.8 million. Finally, we recommend that New Jersey revise its controls for non-Federal match costs and ensure that such costs are appropriately allocated, tracked and reported, thereby putting to better use more than \$5 million at risk of future improper payments.

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Background and Objective

From 2001 to 2024, Congress provided disaster recovery supplemental appropriations totaling \$109 billion to the U.S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development (CPD). Congress required CPD to allocate the funds as grants to States and communities impacted by presidentially declared disasters. Congress provides these funds for necessary expenses related to disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization in the most impacted and distressed areas. Because the disaster recovery program has not been permanently authorized,¹ CPD used its existing Community Development Block Grant Program (CDBG)² as a framework to administer the program, and it allocated the funds using Federal Register notices. These notices also contained additional waivers and alternate requirements. Grantees executed grant agreements to receive the funds, which required them to follow the Uniform Administrative Requirements and Cost Principles.³ These Federal rules state that grantees must establish and maintain internal and financial management controls to allocate and track Federal awards. Further, all costs charged to a Federal award should be necessary, reasonable, allocable, and documented. However, CPD's State CDBG rules give maximum feasible deference to a state's interpretation of the statutory requirements, and it defers to a state's definitions.⁴

In addition to the disaster recovery grants that CPD awards, the Federal Emergency Management Agency's (FEMA) Public Assistance Program also provided supplemental grants for communities⁵ to quickly respond to and recover from major disasters. To participate in its program, FEMA required grantees to pay for a portion of the project costs with non-Federal funds, also known as "match," "cost share," "non-Federal share," or "non-Federal match." Typically, the non-Federal match amounts ranged from 10 percent to 25 percent of the total project costs.⁶ Although HUD and FEMA are Federal agencies, the Housing and Community Development Act of 1974 and CPD's rules permitted grantees to use CPD's disaster recovery funds as their non-Federal match for purposes of complying with FEMA's Public

¹ HUD's Office of Block Grant Assistance Had Not Codified the Community Development Block Grant Disaster Recovery Program, HUD OIG audit report 2018-FW-0002, issued July 23, 2018.

² 24 Code of Federal Regulations (CFR) Part 570 - Community Development Block Grants. We referred to the Community Development Block Grant - Disaster Recovery (CDBG-DR) Program as the disaster recovery program. See appendix C.

³ 2 CFR 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

⁴ 24 CFR 570.480(c) and 481. See appendix C. HUD has historically granted maximum feasible deference to a state's interpretation of the statutory and programmatic requirements if the state's interpretations are not plainly inconsistent with the Housing and Community Development Act of 1974 (Act), as amended. Additionally, HUD requires that a state's definitions of requirements be explicit and reasonable. Notably, the term of maximum feasible deference is not in the Act. Instead, CPD stated in its guidance regarding State CDBG that the term was created by HUD's Office of General Counsel. The guidance states that HUD created the theory of maximum feasible deference to (1) provide for minimal regulation beyond the statute and (2) allow states to adopt more restrictive requirements if they do not contradict or are not inconsistent with the Act. In practice, however, States have used this concept to adopt less restrictive requirements.

⁵ FEMA grantees included State, Tribal, Territorial, and local governments, and certain private nonprofit organizations.

⁶ Each Federal agency that required a match established a minimum cost share that grantees must meet.

Assistance Program requirements, so long as those funds pay for eligible expenses in direct support of approved HUD match activities.⁷

Because grantees received reimbursement for non-Federal match costs of disaster recovery projects from two or more federal agencies, these projects and related activities carried an inherent high risk of improper payments. Improper payments are payments that should not have been made or that were made in an incorrect amount. The U.S. Government Accountability Office (GAO) and the U.S. Office of Management and Budget (OMB) identified several improper payment types:

- **Overpayments** are payments in excess of what is due and for which the excess amount, in theory, should or could be recovered.
- **Underpayments** are those in which recipients did not receive the funds they were due.
- **Unknown payments** are those that an agency cannot determine to be either proper or improper because of insufficient or lack of documentation.
- **Technically improper payments** are those in which recipients received the correct amount of funds they were due, but the payment failed to meet regulatory or statutory requirements or both.⁸

CPD allocated and awarded \$4.19 billion of disaster recovery funds to New Jersey for Hurricane Irene that occurred in 2011 and Hurricane Sandy that occurred in 2012.⁹ New Jersey received \$15.5 million for Hurricane Irene on October 4, 2012, and this grant closed on January 11, 2024. Because Hurricane Sandy funds had strict expenditure deadlines, which Congress subsequently waived, New Jersey received the \$4.17 billion of Sandy funds over the course of 5 years, in multiple rounds, as shown in table 1. New Jersey appointed two different entities to oversee the funds: the Department of Housing and Community Resources for Irene funds and the Division of Disaster Recovery and Mitigation for Sandy funds.¹⁰

Table 1: CPD awarded Sandy grant funds to New Jersey from 2013-2017


Grant award date	Grant round	Amount
05/13/2013	First	\$1,006,236,000
07/29/2014	Second	500,000,000
06/01/2015	Third	1,395,500,000
12/29/2016	Fourth	169,870,320
06/26/2017	Fifth	1,102,822,680
Total obligated		4,174,429,000

⁷ The Housing and Community Development Act of 1974, as amended, listed the payment of the non-Federal share required in connection with a Federal grant-in-aid program as an eligible activity. Since 2012, CPD included in its disaster recovery Federal Register notices the use of disaster recovery funds as a matching requirement, share, or contribution for eligible activities related to any other Federal program.

⁸ Cited definitions contained in Improper Payments: Key Concepts and Information on Programs with High Rates or Lacking Estimates, GAO-24-107482, issued June 27, 2024. See also OMB’s Requirements for Payment Integrity and Improvement, Circular No. A-123, appendix C, OMB-M-21-19, issued March 5, 2021.

⁹ Irene grant number was B-12-DT-34-0001 and equaled \$15.5 million. Sandy grant number was B-13-DS-34-0001 and equaled \$4.17 billion. Together the grants totaled \$4.19 billion. CPD and grantees refer to Hurricanes Irene and Sandy funding as either “Irene” or “Sandy” funding.

¹⁰ We referred to these two oversight entities collectively as “New Jersey.”



New Jersey used CPD's Disaster Recovery Grants Reporting (DRGR) system to access the disaster recovery funds and report its performance and achievements. CPD developed DRGR for the disaster recovery program. It is a mixed system that reports both financial and performance data. Grantees like New Jersey used it to access their disaster recovery grant funds and to report their accomplishments. CPD staff used it to review grantees' activities, prepare reports to Congress and others, and monitor compliance. Additionally, New Jersey used its CPD disaster recovery funds to match funds from other Federal agencies, including the Federal Highway Administration (FHA) and the Environmental Protection Agency (EPA).

Our audit objective was to determine whether New Jersey made improper non-Federal match activity payments. We also assessed whether the CPD ODR had sufficient and adequate controls to prevent improper match payments.

Results of Audit

New Jersey Could Not Support Disaster Recovery Expenses for Its Non-Federal Match Costs

As we explain in greater detail below, New Jersey could not support \$4.8 million in disaster recovery expenses related to Non-Federal match costs it incurred. Specifically, it could not provide documentation to support 17 of 64 Hurricane Sandy (27 percent) and all 8 Hurricane Irene (100 percent) payments that we tested. These improper payments occurred because New Jersey did not establish adequate controls for properly classifying, allocating, and tracking non-Federal match costs. Further, CPD's program requirements deferred to a State when it comes to establishing controls. Looking ahead, as of June 6, 2025, New Jersey still had more than \$5.6 million unspent HUD Sandy non-Federal match funds which, due to the inadequate controls, are at risk of being unsupported when paid.

New Jersey Did Not Support Some Hurricane Sandy Payments Tested

New Jersey did not support 17 of 64 (27 percent) Sandy payments tested, which totaled \$4.4 million, as its documentation did not show that its costs were necessary, reasonable, allocable, and documented.¹¹ Federal requirements¹² stated New Jersey should:

- Have internal controls to comply with all Federal regulations.
- Have financial records for cost matching that were verifiable, documenting that the costs were not paid by another Federal agency and ensuring that the costs are provided for in an approved budget of the Federal awarding agency.
- Ensure any costs are necessary, reasonable, allocable, and documented.
- Ensure allocable costs are distributed in proportions and are assignable to the Federal award.

For the 17 payments we reviewed, which included delivery and FEMA direct match cost items,¹³ New Jersey provided documentation of costs that far exceeded the submitted payment. Further, New Jersey did not show how it reduced the submitted costs to equal the requested payments or how it allocated the amounts between FEMA and HUD.

New Jersey subgrantees also overbilled FEMA and underbilled HUD based on its records for our sample items. In the documentation for 5 of the 64 Sandy samples, we identified 11 letters which stated that New Jersey's subgrantees improperly overbilled FEMA for \$626,930, and it corrected the errors by billing HUD's disaster recovery funds for the amounts it had overbilled FEMA. An excerpt from one letter is included in figure 1.

¹¹ See appendix C for the Federal Cost Principle requirements for cost allowability, including documentation (2 CFR 200.403,) and allocability (2 CFR 405.)

¹² See appendix C for requirements for internal controls (2 CFR 200.62 and 200.303), financial management (2 CFR 200.302), cost allowability (2 CFR 200.403), and allocability (2CFR 200.306 and 200.405.)

¹³ With respect to the HUD non-Federal match payments for FEMA's Public Assistance program, delivery costs are costs that grantees incurred to deliver a project but did not claim as part of a FEMA project's total cost, and direct match costs are costs that are included in a FEMA-assisted project's total cost.

Figure 1: FEMA’s June 1, 2020, Notice and Demand Letter

Re: Notice and Demand Letter (NDL) #STFD-4086M02, Invoice #IN-4086M02, DR-4086, Mission Assignments

Dear Sir or Madam:

The Federal Emergency Management Agency (FEMA) provided Direct Federal assistance as described in 44 CFR § 206.208. Under the terms of the FEMA-State Agreement, the Federal funds provided under the Stafford Act are limited to 90% of the total eligible costs. The State is responsible for 10% of the remaining costs. This letter notifies the State that it owes FEMA \$ 260,295.49. The State will be afforded the opportunity to inspect and copy agency records related to the debt. Supporting documentation related to the debt is enclosed with this letter.

New Jersey Did Not Support All Hurricane Irene Payments Tested

In addition, New Jersey did not support all 8 selected Hurricane Irene payments tested totaling \$450,085. These sample items were 100 percent of the payments made from January 1, 2017, to July 16, 2024. Since this grant closed on January 11, 2024, CPD’s rules required New Jersey to maintain supporting documentation for 3 years¹⁴ or until January 12, 2027. However, New Jersey officials said that New Jersey and its subgrantees could not locate the FEMA project worksheets,¹⁵ which would have shown that New Jersey received the correct FEMA Public Assistance non-Federal match amount and supported the payments made by HUD.

New Jersey Did Not Establish Adequate Controls for Its Non-Federal Match Costs, Which Increased Its Risk of Improper Payment

New Jersey did not establish consistent or adequate controls for its non-Federal match costs as required by Federal regulations.¹⁶ New Jersey could not clearly explain how it allocated match costs or supported all the amounts it submitted to HUD for payment. For instance, New Jersey officials questioned why its support had to equal the non-Federal match payment disbursed from HUD disaster recovery funding. Officials said the difference between what was submitted to HUD and the support was most likely FEMA reductions, but they did not provide that documentation. New Jersey officials could not explain why the match percentages it used to calculate its vouchers varied widely and differed from the FEMA non-Federal match percentage.

Also, our audit showed that New Jersey’s practices were inconsistent. In some cases, New Jersey performed progress billing and billed HUD as projects progressed. In other cases, it billed FEMA for 100 percent of costs and then billed the last portion of a project’s costs to HUD’s disaster recovery funds.

¹⁴ 24 CFR 570, Subpart I - State Community Development Block Grant Program, subsection 570.490 Recordkeeping requirements (d) Record Retention. See appendix C.

¹⁵ FEMA Form-90-91, a project worksheet, must be completed for each project using FEMA funds. The project worksheet listed the scope of work being funded by FEMA and identified the grantee’s non-Federal match amount.

¹⁶ See appendix C for requirements for internal controls (2 CFR 200.62 and 200.303), financial management (2 CFR 200.302), cost allowability (2 CFR 200.403), and allocability (2CFR 200.306 and 200.405.)

Furthermore, documents showed that on some occasions, New Jersey billed FEMA for costs that FEMA refused to reimburse or pay, and New Jersey then billed those same costs to HUD. Finally, during our audit, New Jersey did not provide all invoices, provided invoices that did not appear to relate to the amount submitted, or made unexplained reductions to the vouchers it submitted to HUD.

For the 2012 Hurricane Irene grant, New Jersey officials provided outdated policies¹⁷ that did not reference the disaster recovery program. New Jersey officials stated that they could not locate the needed documentation and noted that all staff who had dealt with the Irene grant left their employment as the grant was complete. In addition, New Jersey officials appeared to be unaware of the requirement to maintain supporting documentation for 3 years after the grant closed, and New Jersey policies did not identify this as a requirement. CPD agreed that New Jersey should have kept records to support these match costs.

In summary, New Jersey's differing payment calculations and inconsistent billing and record-keeping practices did not comply with Federal regulations¹⁸ and put New Jersey at risk of over- or under-billing HUD for its non-Federal match activities, thus putting the agency at risk of making improper payments.

CPD Has Not Established Universal Payment Controls for Non-Federal Match Costs

We found that CPD has not provided to grantees descriptive requirements or guidance on what documentation is necessary, reasonable, or sufficient to support non-Federal match payments. CPD officials stated that in CPD's oversight of grantees, it focused on ensuring that grantees spent their funds on eligible costs, and it did not require grantees to track the nonfederal match percentages or amounts in the DRGR system because match was FEMA's program requirement and not HUD's. However, HUD is providing a share or match amount towards FEMA's Public Assistance Program, therefore HUD should both know the match total amount and its grantees should tell HUD whether it has paid that amount or if the amount changed. Further, CPD stated that State CDBG Program¹⁹ requirements gave grantees maximum feasible deference to establish their own financial and internal payment controls and to follow their own procedures related to documenting non-Federal match payments and reimbursements associated with disaster recovery projects. Since CPD's requirements included language which permitted grantees to use disaster recovery funds to provide the non-Federal match for FEMA's Public Assistance program, we believe that both CPD and its grantees should have had financial controls and procedures that ensured that grantees were not over- or underpaying FEMA or HUD's non-Federal match amount.

Conclusion

New Jersey lacked adequate controls for non-Federal match payments including those that would have prevented New Jersey from simultaneously billing FEMA and HUD for the same costs and allocating the payments based on the FEMA's Public Assistance program percentages. Because New Jersey's controls

¹⁷ New Jersey provided its Irene procedures covering Fiscal Services and including policies titled "Drawdown of Federal Funds" revised in November 2010 and "Fiscal Procedures" revised in March 2010. Other fiscal procedures related to Irene disaster recovery funds were dated October 2007 to April 2013.

¹⁸ See footnote 16 for specific regulation citations.

¹⁹ 24 CFR 570.480 and 570.481. See appendix C.

were ineffective and our testing identified instances of overpayments, underpayments, and unsupported payments, we found that New Jersey was at a greater risk of making additional improper payments. As of June 2025, New Jersey had more than \$5.6 million in Sandy HUD funding that it had budgeted but not spent, and that funding was at risk of being paid improperly if New Jersey did not address the controls weaknesses described above.

Recommendations

We recommend that the Director of CPD ODR require New Jersey to

- 1A. Support or repay the \$4,399,524 in Sandy grant funds spent as non-Federal match for which it lacked documentation to support the amounts paid.
- 1B. Support or repay the \$450,085 of Hurricane Irene grant funds spent as non-Federal match for which it and its subgrantees lacked FEMA-required documentation to support the amounts and the match percentage paid.
- 1C. Revise its disaster recovery payment controls and procedures for non-Federal match activity costs to ensure consistent treatment. Doing so will ensure that \$5.6 million of its remaining unspent non-Federal match funding as of June 6, 2025, is appropriately supported when spent.
- 1D. Revise its disaster recovery grant close-out processes to include internal controls that ensure that it and its subgrantees identify and maintain disaster recovery records, including payment support, for the Federally required 3 years after grant closure.
- 1E. Train its disaster recovery staff on any new policies and processes it creates and adopts related to the safeguarding of non-Federal match costs from fraud, waste, and abuse.

We recommend that the Director of CPD ODR require

- 1F. CPD disaster recovery grantees to adopt consistent financial and internal controls to allocate, support, and track non-Federal match activity costs that are paid with disaster recovery funds.

Management Response

CPD concurred with the recommendations. CPD's longstanding requirement is that CDBG-DR grantees maintain records sufficient to demonstrate compliance with program and Federal requirements governing CDBG-DR. CPD expects grantees to track CDBG-DR expenditures that contribute to a non-Federal match activity and be able to show that the order of assistance was not violated when making non-Federal match payments.

However, New Jersey did not agree with the findings and recommendations. The State's response indicated that it maintained complete supporting documentation for the audit samples and that its match methodology, which was compliant with Federal rules, was consistently applied. The State explained its methodology for calculating and applying the non-Federal match funds and that its methodology was misunderstood. In addition, New Jersey stated that it explained its methodology to HUD OIG several times. The State gave an example of sample 45 and its project worksheet 4720, which it stated applies to all sampled project worksheets. In addition, the State did not agree with the finding and

recommendation 1B concerning the Hurricane Irene grant. It noted that certain sampled activities were not FEMA Public Assistance non-Federal match, as they were voluntary property acquisition (buyout) activities funded through either FEMA mitigation programs or under CDBG-DR.

OIG Evaluation of Management Response

We acknowledge CPD's comments and appreciate their receptiveness to our recommendations to improve how New Jersey documents its disaster recovery funded non-Federal match payments.

We appreciate that New Jersey provided its understanding of the identified findings. At the exit conference, New Jersey said that two sample items (number 45 and 38) should be classified as supported rather than unsupported. After discussion and review of the support, we agreed to make revisions to (1) classify sample 45 as supported, (2) remove a table discussing sample 45 as an overpayment, and (3) remove the associated questioned costs for sample 45 in recommendation 1A. We informed New Jersey, though, that we had already determined sample 38 was supported and no changes would be made to the finding or recommendation for it. We also disagreed that the information New Jersey provided for sample 45 would result in the remaining 17 unsupported sample items being supported. For those 17 payments, New Jersey provided documentation and costs that far exceeded the amount HUD paid. Further, New Jersey did not show how it reduced the support to equal the payment request submitted to HUD, and it declined to work with us to resolve the documentation issues. We did not make any changes to the report or recommendations for the 17 remaining unsupported payments.

Regarding the eight unsupported Hurricane Irene samples and recommendation 1B, at the exit conference and in its written response, New Jersey noted that the sampled activities were voluntary buyout activities and, thus, not FEMA Public Assistance Program activities. However, we asked New Jersey to provide its FEMA Public Assistance non-Federal match activities to identify the universe, and in response to our request, it provided the activities we reviewed. Further, during the course of the audit, New Jersey officials repetitively represented that these activities and related payments were related to the FEMA non-Federal match program. They also stated that the payments should have FEMA project work sheets to support the non-Federal match costs. During the audit, New Jersey took at least 5 months to provide supporting documentation and it took another 3 months to search for project worksheets related to these samples. Since New Jersey is now stating that these costs are not related to FEMA Public Assistance non-Federal match activities, they should work with CPD during the audit resolution process to support that assertion and address the recommendations. In addition, we will continue to work with CPD during the audit resolution process to ensure that the recommendations are appropriately addressed.

New Jersey Commingled Non-Federal Match Costs with Other Disaster Recovery Costs When Submitting Payments

New Jersey commingled its non-Federal match costs payments with other disaster recovery costs that totaled \$174,352. These payments were improper because the other costs were not part of FEMA project's total costs. This condition occurred because New Jersey did not establish its own financial or payment controls to separately allocate, track, and report non-Federal match costs from other eligible disaster recovery costs. Further, CPD's policies and its Disaster Recovery Grants Reporting (DRGR) system manual did not require New Jersey to separately report non-Federal match costs. As a result, New Jersey was not transparently reporting the amounts it spent on non-Federal match versus other eligible disaster recovery costs. Instead, it overreported the amount it paid for FEMA Public Assistance non-Federal match activities, which increased the risk of potential improper payments. In addition, due to the overreported amounts, HUD and its stakeholders cannot use the DRGR system quarterly performance reports to ensure that New Jersey properly used its disaster recovery funds to meet the non-Federal match portion of FEMA's Public Assistance projects.

New Jersey Commingled Nonfederal Match Costs with Other Costs

For 46 of the 64 (71 percent) non-Federal match items tested, New Jersey reported to HUD other activity delivery costs,²⁰ including its own salary costs and salary costs of its contractors, as voucher item expenses for non-Federal match activities. However, these other costs consisted of items that New Jersey did not bill to a FEMA match project. While these costs were eligible disaster recovery costs, reporting them as FEMA non-Federal match expenses distorted the total amount paid for a project, and made it difficult for HUD to know how much of the funding it provided to New Jersey was for the FEMA non-Federal match. Commingling the different cost types caused New Jersey to overreport in the DRGR system the amount it spent on FEMA Public Assistance non-Federal match activities by \$174,352. As a result, two Federal agencies (HUD and FEMA) were reporting two different project total costs for the same project even though both were reportedly paying a proportional share of the project's total cost.

New Jersey and CPD did not establish separate controls to track non-Federal match, which increases the risk of improper payments. New Jersey stated CPD ODR's disaster recovery guidance did not require specific controls to account for disaster recovery non-Federal match funds separately from other eligible disaster recovery costs. As a result, it did not require its subgrantees to make payment requests based on the FEMA match percentages because any excess amount over the percentage would be eligible as other disaster recovery costs. Even though CPD ODR's DRGR system manual did not require separate reporting or tracking of the allocation of costs, the Uniform Administrative Requirement for Federal Awards and Federal Cost Principles did²¹. Since, New Jersey used its disaster recovery funds to provide the "share" or non-Federal match amounts for FEMA Public Assistance projects, it needed to have financial records that showed how it allocated and verified that its disaster recovery funds met rather than over- or under-paid the FEMA non-Federal match percentage. Further, it did not have effective payment controls like

²⁰ Activity delivery costs are costs incurred by a grantee or subrecipient directly related to the delivery of a specific disaster recovery project or activity.

²¹ See appendix C for requirements for internal controls (2 CFR 200.62 and 200.303), financial management (2 CFR 200.302), and cost allowability (2 CFR 200.403), including allocability (2CFR 200.306 and 200.405.)

seeking simultaneous reimbursement from both FEMA and HUD and allocating the reimbursement between the two of them based on FEMA's match percentages.

In addition, CPD ODR indicated that it believed it was only required to ensure that non-Federal match costs met a national objective and were eligible and not that its grantees had appropriately used its disaster recovery funds to meet the stated FEMA Public Assistance non-Federal match amount. It also believed that any excess non-match payments would be eligible disaster recovery costs and could be reported with match costs. However, in doing this, CPD ODR was not ensuring that grantees like New Jersey met the non-Federal match amount. We previously recommended that CPD take action to ensure that grantees can document in their DRGR reporting that they have met the non-Federal match requirement.²² If CPD ODR implemented that recommendation, it could use automated data tools to ensure that grantees who used disaster recovery funds to meet the FEMA non-Federal match requirements do so while activities were in process rather than waiting until it selected an activity as part of its monitoring or until the grant closes.

Conclusion

New Jersey was not transparently reporting the amounts it spent on non-Federal match activities versus other eligible disaster recovery costs. Of the \$4.9 million voucher items tested, \$174,352 of the items were not FEMA Public Assistance non-Federal match costs, which means New Jersey was overreporting the amount it paid for FEMA Public Assistance non-Federal match activity costs in the DRGR system. New Jersey's overreporting of expenses increased the risk of improper payments as potential under-payments for non-Federal match activities could be masked by New Jersey's overreported activity amounts. Further, New Jersey and CPD lack data to show that New Jersey provided the required FEMA Public Assistance non-Federal match or share amount. In addition, due to the overreported amounts, HUD and its stakeholders, like Congress and the public, cannot use New Jersey's DRGR system quarterly performance reports to ensure that New Jersey properly met its stated non-Federal match percentages.²³ Although New Jersey has spent most of its Sandy funds, it should adopt strong financial controls to track non-Federal match costs as it still had additional disaster recovery funds to spend and it could receive other disaster recovery funds in the future.

Recommendations

We recommend that the Director of CPD ODR require New Jersey to

- 2A. Establish its internal and financial controls to ensure that it allocates, tracks, and reports future non-Federal match costs separately from other disaster recovery costs, which will ensure that least \$174,352 is correctly reported as other disaster recovery costs rather than as costs that New Jersey is using to meet its non-Federal match requirements.

²² We previously recommended that CPD ODR require grantees to report in the DRGR system their non-Federal match costs in a manner that documents that they have met FEMA's set match percentage requirements. See HUD OIG audit report Colorado Reported Other Disaster Recovery Reimbursements as Non-Federal Match Payments, 2026-FW-1004 issued April 23, 2026.

²³ CPD requires grantees to post their quarterly performance reports on grantee maintained public websites.

2B. Provide documentary support that it met and did not exceed the match percentage set by FEMA for its completed Public Assistance activities as the amounts New Jersey reported in DRGR are inaccurate.

Management Response

In its response, HUD CPD management agreed that New Jersey should track and document CDBG-DR expenditures in its own system of record; and that grantees must verify that CDBG-DR funds will not be used for activities reimbursed, or for which funds are made available, by FEMA.

However, New Jersey respectfully disagreed with the findings. New Jersey stated that it maintained internal controls and documentation sufficient to track activity delivery and match costs. Additionally, New Jersey stated that certain items referenced in the draft report were related to FEMA mission assignments rather than FEMA Public Assistance projects, which fall under separate statutory authority and are outside the scope of the audit. Therefore, they should not have been included in the findings related to the FEMA Public Assistance non-Federal match program.

OIG Evaluation of Management Response

We appreciate that CPD agreed with the finding and the recommendations which includes New Jersey's reporting of non-Federal match costs to CPD.

New Jersey did not provide evidence to support its statement that the payments were related to FEMA mission assignments rather than FEMA Public Assistance projects during the audit. Further, New Jersey included the FEMA mission assignment costs with FEMA Public Assistance non-Federal match costs in HUD's DRGR system and did not provide supporting documents for these payments. Further, on multiple occasions, it made statements that our Irene sample payments were for non-Federal match activities and should have FEMA project worksheets to support the costs, but it could not locate such support. We did not revise this finding or its recommendations. New Jersey should work with CPD during the audit resolution process to address the recommendations.

Scope and Methodology

We conducted the audit from May 20, 2024, to August 11, 2025, from our offices in Fort Worth and San Antonio, TX. Our audit covered New Jersey's Irene and Sandy disaster recovery grants funding.²⁴ The audit period for New Jersey's Irene funding was from January 1, 2017, to July 16, 2024. The audit period for Sandy funding was from January 1, 2018, to July 16, 2024. We expanded our scope as necessary to obtain information about the disaster recovery program and New Jersey's grants, as specifically noted in the bulleted list below.

To accomplish our audit objectives, we reviewed

- Prior audits related to disaster programs and the audit objectives.
- The Disaster Relief Appropriations Act, 2013, published January 29, 2013.²⁵
- 28 Federal Register notices²⁶ for the disaster recovery grants related to the Disaster Relief Appropriations Act, 2013, dated March 5, 2013, to June 21, 2022, to obtain an understanding of the disaster recovery program and match requirements. A total of 17 of the 28 notices had information related to match.
- Other program guidance and information, including CPD notices on the disaster recovery program and match requirements.
- The disaster recovery program rules for this grant in various sections of the Code of Federal Regulations (CFR) governing this grant²⁷ and an OMB Circular. All were dated from April 1, 2013, to March 5, 2021, and were related to the program and the audit objective.
- Information related to improper payments by reviewing laws, audits, and other reports and guidance on the topic.
- FEMA's webpages concerning its Public Assistance program.
- HUD's Line of Credit Control System data and grant agreements provided by New Jersey for requirements and other background information dated from October 4, 2012, to June 6, 2017.
- A description of New Jersey's payment controls for both grants.
- A selection of DRGR system quarterly performance reports dated December 31, 2015, to December 31, 2023, for activities paid as FEMA Public Assistance match activities.
- Information maintained on HUD's and New Jersey's webpages concerning Irene and Sandy grants.

We also interviewed HUD and grantee officials.

²⁴ Grant numbers are B-12-DT-34-0001 for Irene and B-13-DS-08-0001 for Sandy funds.

²⁵ Public law 113-2.

²⁶ A complete listing of the 28 disaster recovery Federal registers exists at <https://www.hud.gov/hud-partners/community-cdbg-dr-regulations>.

²⁷ 24 CFR 570, Subpart I; 24 CFR 85; and 2 CFR 200.

Audit Universe and Testing Methodology

We obtained and reviewed DRGR system data from December 16, 2013, to July 18, 2023, to identify match activities. We sorted DRGR system data to identify any activity that had the word “match” in the project or activity title. The DRGR data indicated that New Jersey had 33 activities or projects titled as match with more than \$40.8 million spent. Because we previously noted that CPD lacked established controls for identifying match activities in DRGR,²⁸ we asked New Jersey officials to review the 33 activities we identified and provide all FEMA Public Assistance match activities for its Irene and Sandy grants to arrive at a reconciled universe. For Sandy, New Jersey officials provided a list of 369 FEMA Public Assistance activities, and it had budgeted \$74.7 million to them. Further, we determined that as of June 6, 2025, it still had more than \$5.6 million to spend on FEMA Public Assistance match activities. New Jersey officials also noted that only 16 of the 33 activities we identified in DRGR were FEMA Public Assistance activities. An additional 353 FEMA Public Assistance activities we had not identified as match should have been categorized as such, but were not because of how New Jersey titled and described them.

We compared New Jersey’s FEMA Public Assistance match data to the DRGR system data we obtained. We analyzed and reconciled the differences between the two data sets. Although we identified issues regarding the accuracy and validity of New Jersey’s match data in the DRGR system as noted above, we determined that the reconciled data was the best and only available data source to answer our audit objective. We used these activities to identify our universe of voucher items for our testing.

Irene Funded Voucher Item Universe: The audit universe for Irene funds consisted of eight voucher line-items with a total dollar amount greater than \$0, which totaled \$450,085. New Jersey submitted these items for reimbursement in the DRGR system from January 1, 2017, through December 31, 2023. We exported the data from the DRGR system on July 16, 2024. We tested 100 percent of the universe.

Sandy Funded Voucher Item Universe: The audit universe for Sandy consisted of 241 voucher line-items from January 1, 2018, through December 31, 2023, with a total dollar amount greater than \$0 using data exported from the DRGR system on July 16, 2024. We randomly ordered all records. We used a Neyman Optimized stratified random sample of 64 for reviewing the audit universe of 241 disaster CDBG-DR payments (voucher line-item records). We designed the strata to group sampling units by the size of their valuation. Therefore, we rank-ordered the sampling units by the total amount for each voucher line-item. The strata, sample counts per strata, and sampling weights strata breakpoints are detailed in table 3.

²⁸ We previously reported that CPD did not have adequate data to identify all match activities and match funding. Opportunities Exist for CPD To Improve Collection of Disaster Recovery Grantee Data for Non-Federal Match Activities, 2025-FW-0801, issued February 28, 2025.

Table 3: Sample counts per strata and sampling weights for Sandy testing

Stratum Label	Drawn Amount	Total Count per Stratum	Sample Count per Stratum	Probability of Selection	Sampling Weight
0-50pct	> \$0	120	8	0.0332	15.00
50-70pct	≥ \$536	48	11	0.0456	4.36
70-80pct	≥ \$1,698	24	8	0.0332	3.00
80-88pct	≥ \$1,940	20	9	0.0373	2.22
88-92pct	≥ \$3,186	10	10	0.0415	1.00
92-96pct	≥ \$17,216	10	10	0.0415	1.00
96-100pct	≥ \$188,904	9	8	0.0332	1.13
Total	N/A	241	64	N/A	N/A

Based on the testing and simulated sampling distributions, we found a stratified sample of 64 to be more than sufficient, and we selected that sample size. The review team did not use any spares. Therefore, the sampling weights did not change.

Audit Testing Methodology: For each voucher item selected, we tested whether New Jersey

- Made eligible disaster recovery payments, including calculating the FEMA Public Assistance match percentage and comparing it to the amount paid.
- Paid for benefits already included in another voucher or reimbursed by FEMA, which would be a duplicate payment.
- Maintained invoices or other documentary support for the payment amount.

Paid for an activity that New Jersey identified as match activity in the activity description in the DRGR system’s quarterly performance report. We reported only on the results of our testing.

We conducted the 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendixes

Appendix A – Schedule of Unsupported Costs and Funds to Be Put to Better Use

Recommendation Number	Unsupported 1/	Funds to be put to better use 2/
1A	\$4,399,524	
1B	450,085	
1C		\$5,656,531
2A		174,352
Totals	4,849,609	5,830,883

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, it will be the avoidance of a potential future grand total of \$5.8 million of improper payments spent for non-Federal match costs as of June 6, 2025.

Appendix B – Management Response

New Jersey Department of Community Affairs Response



State of New Jersey

DEPARTMENT OF COMMUNITY AFFAIRS
DISASTER RECOVERY AND MITIGATION
101 SOUTH BROAD STREET
PO BOX 823
TRENTON, NJ 08625-0823

MIKIE SHERRILL
Governor

DR. DALE G. CALDWELL
Lieutenant Governor

JACQUELYN A. SUÁREZ
Commissioner

April 16, 2026

Danita Wade, Audit Director
Office of the Inspector General
U.S. Department of Housing and Urban Development
Sent via email to Dwade@hudoig.gov

Dear Ms. Wade,

The New Jersey Department of Community Affairs (DCA) appreciates the opportunity to review and comment on the draft audit report titled New Jersey CDBG-DR Non-Federal Match.

The Division of Disaster Recovery and Mitigation (DRM) administers only the Hurricane Sandy CDBG-DR funds. The Hurricane Irene grant is administered by the Division of Housing and Community Resources (DHCR).

Executive Summary

The Department respectfully disagrees with the draft report's conclusion that New Jersey made improper non-Federal match payments. Based on the audit objective and the full record:

- The State did not exceed FEMA non-Federal match requirements for any Public Assistance project.
- The State did not duplicate FEMA payments with CDBG-DR funds.
- The State maintained sufficient documentation to support all costs.
- The issues identified in the draft report stem from a fundamental misunderstanding of the State's methodology, not from unsupported, ineligible, or improper costs.

As demonstrated through the detailed analysis of FEMA Project Worksheet (PW) 4720, and through OIG's reconsideration of multiple sampled items including Sample 45, the State's methodology, when properly applied, yields accurate and compliant results. This confirms that the same methodology applies consistently across all sampled Project Worksheets and that the issue is one of methodology application rather than unsupported costs.

DRM has worked extensively with OIG to explain and illustrate our payment methodology by sharing a step-by-step set of actions leading to payment calculation and approval. To further clarify this approach, the DRM is providing both written and visual explanations of its methodology, including PW-level reconciliation materials and programmatic tracking summaries, to demonstrate how non-Federal match is calculated, applied, and monitored across all projects.



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Accordingly, the Department maintains that the findings reflect a misunderstanding of the State's methodology rather than evidence of improper payments.

Issue 1: Alleged Unsupported and Improper Match Payments

OIG Conclusion:

New Jersey submitted improper disaster recovery payments totaling \$4.6 million because it could not provide sufficient support for 18 of 64 Hurricane Sandy items tested.

DCA Response:

The Department respectfully disagrees with this conclusion. The draft report conflates documentation presentation and audit methodology with the existence of supporting documentation and compliance with Federal requirements.

1. The State Maintained Complete Supporting Documentation

DRM provided OIG with:

- FEMA Project Worksheets (PWs), including all applicable versions;
- Documentation supporting FEMA-eligible costs and the State match;
- DRGR vouchers and associated coversheets;
- Funds request lists and adjustment documentation; and
- Description and explanation of the methodology used to calculate non-Federal match.

Consistent with its financial management policies (Attachments B, C, D, and E), DRM tracks expenditures and cash outflows, performs regular reconciliations across NJCFS (the State's central financial system), DRGR, and internal systems of record, and maintains supporting documentation for 100% of the costs associated with the project in accordance with federal record retention requirements.

DRM's invoice and payment procedures require that all invoices include full supporting documentation tied to the specific charges, program, and activity, and are subject to multiple levels of financial and programmatic review prior to payment.

2. The State's Match Methodology Is Compliant with Federal Rules and Consistently Applied

DRM applies a methodology, whereby:

- The non-Federal share is calculated as 10 percent of total eligible project costs, not on a per-invoice basis; and
- Match payments are made proportionally to FEMA's payments, based on cumulative costs incurred.

This methodology is consistent with DRM's FEMA Non-Federal Cost Share Program Guidelines ("Guidelines," Attachment F), which recognize an approach under which CDBG-

DR funds are applied as local match to the entire FEMA-assisted project, such that all eligible project costs form the basis for calculating the non-Federal share.

As outlined in Section 5 of the Guidelines, this methodology requires:

- Analysis at the PW level, not at the individual invoice level;
- Consideration of cumulative costs and payments to date; and
- Reconciliation across FEMA payments, total eligible costs, and prior HUD reimbursements.

It is also consistent with DRM's established payment procedures, under which CDBG-DR funds are reimbursed based on actual expenditures incurred and verified through FEMA, aligning match payments with FEMA's payment structure. Section 5.4 of the Guidelines are clear that DRM only reimburses the match on actual expenditures incurred and verified through FEMA. It is also consistent with DRM's documented DRGR procedures (Policy 2.10.42, Attachment E), under which the State is reimbursed for actual expenditures on eligible costs after an internal review process. In accordance with Section 5 of the Guidelines, PA expenditures were incurred and verified through FEMA and again through DRM, aligning match payments with FEMA's payment structure.

DRM's Guidelines also contemplate ongoing monitoring of FEMA Project Worksheets, including adjustments resulting from FEMA amendments, deobligations, or eligibility determinations, and the corresponding need to offset or recapture CDBG-DR funds to ensure compliance with match requirements. DRM acted consistently and in accordance with Sections 5.3 and 5.4 of the Guidelines to adjust the match payment when FEMA reduced the amount of eligible costs.

3. Methodology for Calculating and Applying Non-Federal Match

The State of New Jersey calculates and applies non-Federal match for FEMA Public Assistance projects using a project-level, cumulative methodology based on total eligible costs incurred to date, rather than on an individual invoice or transaction basis, as described in Section 5.3 of the Guidelines.

Under FEMA's Public Assistance Program, each Project Worksheet (PW) establishes the total eligible cost of a project and the corresponding Federal and non-Federal shares. For most projects, FEMA funds 90 percent of total eligible costs, with the remaining 10 percent representing the required non-Federal match. However, FEMA does not reimburse its share in a single payment. Instead, FEMA issues payments incrementally as work progresses and costs are incurred. In addition, PWs may be revised over time to reflect updated scopes of work or cost estimates.

Because FEMA reimburses eligible project progress incrementally, the State calculates and disburses the non-Federal match on a proportional basis. Rather than providing the full non-Federal share upfront, the State applies the same percentage to its share as FEMA has reimbursed relative to total eligible projects costs. For example, if the total eligible project cost is \$100, FEMA's 90 percent share equals \$90, and the State's required match is \$10. If FEMA has reimbursed \$60 (representing 66 percent of its total share), the State correspondingly

3

provides 66 percent of its required match, or \$6.66. In this way, the State's match payment remains aligned with FEMA's reimbursement progress.

This approach ensures that the State does not overpay the non-Federal share at any point in time and maintains alignment between FEMA reimbursements and CDBG-DR-funded match.

The State's methodology requires analysis at the PW level, incorporating cumulative costs, FEMA payments, and any prior CDBG-DR match payments. As a result, individual invoices or vouchers may not correspond directly to a fixed percentage of total project costs, and interim percentages may vary depending on the timing and amount of FEMA's progress payments. These variations are inherent to the structure of FEMA's reimbursement process and do not indicate inconsistencies in the State's application of match requirements.

To support this methodology, the State maintains documentation including FEMA Project Worksheets, underlying cost documentation, DRGR vouchers, and internal tracking records. Because the non-Federal match is calculated as a percentage of total eligible costs, substantiating the match requires documentation of the full cost base, rather than only the portion reimbursed with CDBG-DR funds.

This methodology was applied consistently across all FEMA Public Assistance projects included in the audit sample. As demonstrated through detailed reconciliation of specific Project Worksheets, including PW4720, when this cumulative, project-level methodology is applied, the resulting match calculations align with FEMA requirements and do not result in overpayment or duplication of Federal funds.

a. PW4720 Demonstrates the Correct Application of Methodology

For example, DRM performed a detailed reconciliation for PW4720, as reflected in materials provided to OIG and discussed during previous meetings. The reconciliation included:

- Total cumulative project costs incurred;
- FEMA payments to date (representing the Federal share);
- Remaining non-Federal share; and
- CDBG-DR reimbursements applied to date.

OIG initially identified a potential overpayment for PW4720. However, after applying the State's methodology using cumulative project data, OIG agreed that no overpayment occurred and confirmed that this issue would be removed from the report.

This outcome demonstrates that the State's methodology is valid and produces accurate results. Any apparent discrepancies identified at the invoice or voucher level are resolved when analyzed at the appropriate PW-level framework.

Notably, OIG has already accepted the State's methodology in multiple instances, including Sample 38 and Sample 45. In each case, when the State provided a complete explanation of the relationship between cumulative costs, FEMA reimbursements, and the corresponding non-Federal match, OIG agreed that no overpayment or unsupported cost existed. These are not

isolated corrections, but confirmations that the methodology, when fully understood and applied, produces accurate results.

b. The Same Methodology Applies to All Sampled Project Worksheets

The methodology applied to PW4720 is not unique. It is the same methodology used across all FEMA Public Assistance projects included in the sample.

As reflected in Table #1 and supporting materials provided in Attachment A, DRM tracked:

- Maximum eligible project costs;
- Corresponding non-Federal match requirements; and
- Cumulative expenditures against that match.

When this methodology is applied consistently across the remaining sampled Project Worksheets, it yields the same conclusion: the State did not exceed the non-Federal match requirement and did not make improper payments.

While OIG has indicated it will not review additional documentation for the remaining sampled items, the State has completed this analysis for all sampled Project Worksheets and is providing it to ensure the record is complete and to support resolution with HUD CPD. Please note, Table #1 references only those samples that represent direct payments used as a match. For that reason, Table #1 shows the analysis for 15 samples of the total 18 samples referenced by OIG. The remaining three samples were activity delivery costs. Thus, the analysis referenced in Table #1 does not apply to the three remaining samples because activity delivery costs reflect work associated with implementation, management and oversight of the program and not any single project worksheet.

SUMMARY & MATCH ANALYSIS FOR 15 DIRECT UNSUPPORTED OIG SAMPLES

Data as of March 26, 2026

TABLE #1

Sample Items #39, 41, 48, 50, 52, 54, 62 - PW5228

#	PW No.	A	B = A * 90%	C = A * 10%	D	E = D * 90%	F = D * 10%	G = F2 - F1	Funds Request #	DRGR Voucher
		Maximum Eligible Cost	FEMA 90% Share	HUD 10% Share	Total Paid on PW	FEMA Cumul. Paid	HUD Cumul. Paid	HUD Draw		
1	PW5228 (formally known as PW4846)	\$58,730,074.98	\$52,857,067.48	\$5,873,007.50	\$4,405,656.00	\$3,965,090.40	\$440,565.60	\$440,565.60	FR000149	230680
2					\$5,095,530.50	\$4,585,977.45	\$509,553.05	\$68,967.45	FR002455	252384
3					\$6,135,990.00	\$5,522,391.00	\$613,599.00	\$104,045.95	FR002458	252385
4					\$7,441,831.80	\$6,697,648.62	\$744,183.18	\$130,584.18	FR012154	269965
5					\$10,271,088.20	\$9,243,979.38	\$1,027,108.82	\$282,925.64	FR048791	354709
6					\$12,115,263.90	\$10,903,737.51	\$1,211,526.39	\$184,417.57	FR060305	397274
7					\$13,300,108.80	\$11,970,097.92	\$1,330,010.88	\$118,484.49	FR069505	464763
8					\$19,238,620.00	\$17,314,758.00	\$1,923,862.00	\$593,851.12	FR069709	466224
9					\$21,100,153.50	\$18,990,138.15	\$2,110,015.35	\$186,153.35	FR071653	522913
10					\$26,230,096.30	\$23,607,066.67	\$2,623,029.63	\$512,994.28	FR074997	571712
11					\$27,243,646.90	\$24,519,282.21	\$2,724,364.69	\$101,355.06	FR078025	692113
12					\$27,648,795.30	\$24,883,915.77	\$2,764,879.53	\$40,514.84	FR078026	692113
13					\$31,765,187.50	\$28,588,668.75	\$3,176,518.75	\$411,639.22	FR078027	692113
14					\$32,738,363.30	\$29,464,526.97	\$3,273,836.33	\$97,317.58	FR078054	695971
15					\$43,963,028.40	\$39,584,725.56	\$4,398,302.84	\$1,124,466.51	FR095530	815974

Open Project Worksheet

Additional Transactions are in Process

* Because of scope changes and a timeline extension, PW5228 previously used to be PW4846.

Sample Item #45 - PW4720

#	PW No.	A	B = A * 90%	C = A * 10%	D	E = D * 90%	F = D * 10%	G = F2 - F1	Funds Request #	DRGR Voucher
		Maximum Eligible Cost	FEMA 90% Share	HUD 10% Share	Total Paid on PW	FEMA Cumul. Paid	HUD Cumul. Paid	HUD Draw		
1	PW4720	\$29,919,724.51	\$26,927,752.06	\$2,991,972.45	\$2,569,756.50	\$2,312,780.85	\$256,975.65	\$256,975.65	FR057627	384148
2					\$11,896,239.17	\$10,706,615.25	\$1,189,623.92	\$932,648.27	FR060304	397358
3					\$29,919,724.51	\$26,927,752.06	\$2,991,972.45	\$1,802,348.53	FR095582	816491

Sample Item #40 - PW3433, 4577

#	PW No.	A	B = A * 90%	C = A * 10%	D	E = D * 90%	F = D * 10%	G = F2 - F1	Funds Request #	DRGR Voucher
		Maximum Eligible Cost	FEMA 90% Share	HUD 10% Share	Total Paid on PW	FEMA Cumul. Paid	HUD Cumul. Paid	HUD Draw		
1	PW3433	\$1,381,885.16	\$1,243,696.64	\$138,188.52	\$762,982.88	\$686,684.59	\$76,298.29	\$76,298.29	FR067498	442717
2					\$1,381,885.16	\$1,243,696.64	\$138,188.52	\$61,890.21	FR078031	692596
1	PW4577	\$203,727.69	\$183,354.92	\$20,372.77	\$146,466.70	\$131,820.03	\$14,646.67	\$14,646.67	FR0046886	352052
2					\$203,727.69	\$183,354.92	\$20,372.77	\$5,726.10	FR0078034	692596

Sample Item #42 - PW5187

#	PW No.	A	B = A * 90%	C = A * 10%	D	E = D * 90%	F = D * 10%	G = F2 - F1	Funds Request #	DRGR Voucher
		Maximum Eligible Cost	FEMA 90% Share	HUD 10% Share	Total Paid on PW	FEMA Cumul. Paid	HUD Cumul. Paid	HUD Draw		
1	PW5187	\$1,889,039.75	\$1,700,135.78	\$188,903.98	\$1,889,039.75	\$1,700,135.78	\$188,903.98	\$188,903.98	FR079812	732860

Sample Item #43 - PW4614

#	PW No.	A	B = A * 90%	C = A * 10%	D	E = D * 90%	F = D * 10%	G = F2 - F1	Funds Request #	DRGR Voucher
		Maximum Eligible Cost	FEMA 90% Share	HUD 10% Share	Total Paid on PW	FEMA Cumul. Paid	HUD Cumul. Paid	HUD Draw		
1	PW4614	\$733,913.91	\$660,522.52	\$73,391.39	\$733,913.91	\$660,522.52	\$73,391.39	\$73,391.39	FR080341	735544

* Notes: This eligible FR amount (HUD Draw above) has been 'netted' against the PW's #4140 \$5,161.83 + PW's #4402 \$24,280.57 + PW's #5035 \$2,853.68 = Total \$41,095.31

Sample Item #44 - PW4672, 4513

#	PW No.	A	B = A * 90%	C = A * 10%	D	E = D * 90%	F = D * 10%	G = F2 - F1	Funds Request #	DRGR Voucher
		Maximum Eligible Cost	FEMA 90% Share	HUD 10% Share	Total Paid on PW	FEMA Cumul. Paid	HUD Cumul. Paid	HUD Draw		
1	PW4672	\$65,624.91	\$59,062.42	\$6,562.49	\$65,624.91	\$59,062.42	\$6,562.49	\$6,562.49	FR082286	745629
1	PW4513	\$271,561.16	\$244,405.04	\$27,156.12	\$271,561.16	\$244,405.04	\$27,156.12	\$27,156.12	FR082287	745629

Sample Items #47, 49 - NISP

#		A Maximum Eligible Cost	B = A * 90% FEMA 90% Share	C = A * 10% HUD 10% Share	D Total Paid on PW	E = D * 90% FEMA Cumul. Paid	F = D * 10% HUD Cumul. Paid	G = F2 - F1 HUD Draw	Funds Request #	DRGR Voucher
1	FEMA Mission Assignments	\$2,112,000.00	\$1,900,800.00	\$211,200.00	\$2,112,000.00	\$1,900,800.00	\$211,200.00	\$211,200.00	FR065145	423358
2	FEMA Mission Assignments	\$2,602,954.90	\$2,342,659.41	\$260,295.49	\$2,602,954.90	\$2,342,659.41	\$260,295.49	\$260,295.49	FR070590	477377

* Note: These 'mission assignments' are not part of the FEMA Public Assistance grant program. As noted in the 5/9/2024 email, the scope of OIG's audit included only non-federal matching fu

Sample Item #46 - PW42, 2273, 2469, 2470, 5159

#	PW No.	A Maximum Eligible Cost	B = A * 90% FEMA 90% Share	C = A * 10% HUD 10% Share	D Total Paid on PW	E = D * 90% FEMA Cumul. Paid	F = D * 10% HUD Cumul. Paid	G = F2 - F1 HUD Draw	Funds Request #	DRGR Voucher
1	PW42	\$1,610,696.07	\$1,449,626.46	\$161,069.61	\$449,540.50	\$403,686.45	\$44,854.05	\$44,854.05	FR000149	230680
\$1,436,665.50					\$1,292,998.95	\$143,666.55	\$98,612.50	FR004606	256860	
\$1,449,515.20					\$1,304,563.68	\$144,951.52	\$1,284.97	FR046791	354709	
\$1,610,696.07					\$1,449,626.46	\$161,069.61	\$16,118.09	FR063668	413733	

#	PW No.	Maximum Eligible Cost	FEMA 90% Share	HUD 10% Share	Total Paid on PW	FEMA Cumul. Paid	HUD Cumul. Paid	HUD Draw	Funds Request #	DRGR Voucher
1	PW2273	\$43,381.48	\$39,043.33	\$4,338.15	\$39,863.14	\$35,876.83	\$3,986.31	\$3,986.31	FR046808	354709
2					\$43,381.48	\$39,043.33	\$4,338.15	\$351.83	FR063668	413733

#	PW No.	Maximum Eligible Cost	FEMA 90% Share	HUD 10% Share	Total Paid on PW	FEMA Cumul. Paid	HUD Cumul. Paid	HUD Draw	Funds Request #	DRGR Voucher
1	PW2469	\$18,807,712.79	\$16,926,941.51	\$1,880,771.28	\$12,789,505.00	\$11,510,554.50	\$1,278,950.50	\$1,278,950.50	FR000140	230677
2					\$13,695,675.20	\$12,326,107.68	\$1,369,567.52	\$90,617.02	FR002455	252384
3					\$15,359,570.00	\$13,823,613.00	\$1,535,957.00	\$166,389.48	FR002458	252385
4					\$15,916,490.00	\$14,324,841.00	\$1,591,649.00	\$55,692.00	FR004606	256860
5					\$18,807,712.80	\$16,926,941.52	\$1,880,771.28	\$289,122.28	FR063668	413733

#	PW No.	Maximum Eligible Cost	FEMA 90% Share	HUD 10% Share	Total Paid on PW	FEMA Cumul. Paid	HUD Cumul. Paid	HUD Draw	Funds Request #	DRGR Voucher
1	PW2470	\$32,178,470.97	\$28,960,623.87	\$3,217,847.10	\$25,598,421.20	\$23,038,579.08	\$2,559,842.12	\$2,559,842.12	FR000140	230677
2					\$26,819,061.80	\$24,137,173.62	\$2,681,908.18	\$122,066.06	FR002455	252384
3					\$30,125,400.50	\$27,112,860.45	\$3,012,540.05	\$330,631.87	FR002458	252385
4					\$30,283,446.30	\$27,255,101.67	\$3,028,344.63	\$15,804.58	FR004606	256860
5					\$30,880,063.00	\$27,792,056.70	\$3,088,006.30	\$59,661.67	FR012154	209985
6					\$32,178,471.00	\$28,960,623.90	\$3,217,847.10	\$129,840.80	FR063668	413733

#	PW No.	Maximum Eligible Cost	FEMA 90% Share	HUD 10% Share	Total Paid on PW	FEMA Cumul. Paid	HUD Cumul. Paid	HUD Draw	Funds Request #	DRGR Voucher
1	PW5159	\$37,347.68	\$33,612.91	\$3,734.77	\$37,347.68	\$33,612.91	\$3,734.77	\$3,734.77	FR063668	413733

Sample Item #50 - PW3942, 3943

#	PW No.	A Maximum Eligible Cost	B = A * 90% FEMA 90% Share	C = A * 10% HUD 10% Share	D Total Paid on PW	E = D * 90% FEMA Cumul. Paid	F = D * 10% HUD Cumul. Paid	G = F2 - F1 HUD Draw	Funds Request #	DRGR Voucher
1	PW3942	\$21,530.74	\$19,377.67	\$2,153.07	\$21,530.74	\$19,377.67	\$2,153.07	\$2,153.07	FR078036	692113

#	PW No.	Maximum Eligible Cost	FEMA 90% Share	HUD 10% Share	Total Paid on PW	FEMA Cumul. Paid	HUD Cumul. Paid	HUD Draw	Funds Request #	DRGR Voucher
1	PW3943	\$5,116.00	\$4,604.40	\$511.60	\$5,116.00	\$4,604.40	\$511.60	\$511.60	FR078038	692113

4. OIG’s “Unsupported” Determination Reflects a Misunderstanding of Method, Not Lack of Documentation

The draft report’s conclusion that certain costs are “unsupported” appears to be based on:

- An expectation that match calculations be traceable at the individual invoice level; and
- A failure to apply cumulative PW-level reconciliation.

However, under Federal cost principles, costs are supported when they are:

- Documented;
- Allocable to the Federal award; and
- Properly calculated based on eligible costs.

DRM’s documentation shows that its practices satisfy these requirements. The fact that OIG misapplied the State’s methodology across all sampled items does not render those costs unsupported.

Moreover, DRM contests the statement that invoices were not provided or explained. In fact, the Division worked closely with OIG beginning in 2024 to provide requested invoices and explanations. The Division made themselves available to OIG multiple times throughout 2024 explaining processes and answering questions, particularly around the treatment of program delivery. The Division provided detailed explanations of our processes in writing and uploaded documentation supporting invoices for multiple rounds of samples. DRM continued to engage with OIG and, in the summer of 2025 at OIG’s request, DRM walked through a project worksheet (PW 3932), at which time OIG concluded that the project worksheet was supported. Again, in early 2026, when OIG indicated they were continuing to struggle with the supporting documentation, DRM held another meeting to provide a step-by-step explanation of a project worksheet (PW 4720), again resulting in a finding that the PW was supported. Thus, the Division is left to conclude that if OIG had applied the methodology as demonstrated, all invoices would be supported.

The Department further notes that the methodology and supporting documentation were demonstrated to OIG on multiple occasions throughout the audit, including detailed walkthroughs of individual Project Worksheets. The consistent outcome of those demonstrations was that the costs were supported when evaluated at the appropriate PW-level framework.

5. Scope Considerations

The audit objective, as stated in the audit notification, was to determine whether the State made improper non-Federal match payments by:

- Exceeding FEMA’s matching requirements,
- Duplicating FEMA payments, or
- Lacking sufficient documentation.

DRM's documentation and methodology demonstrate compliance with each of these criteria. As described above, to the extent that the draft report evaluates documentation outside of this framework or applies alternative methodologies not required by Federal guidance, nor State policy, those conclusions exceed the stated audit objective.

Additionally, certain items referenced in the draft report relate to FEMA mission assignments rather than FEMA Public Assistance projects. Mission assignments fall under separate statutory authority and are not a part of FEMA's Public Assistance program. According to the Audit Notification, dated January 12, 2024, OIG's audit is limited to the "nonfederal matching funds for the Federal Emergency Management Agency's (FEMA) Public Assistance Program." Therefore, while the State's Sandy CDBG-DR Action Plan allows such match costs to be reimbursed through the same State program, these items fall outside the scope of the audit and should not be included in findings related to FEMA Public Assistance non-Federal match.

The State also notes that distinctions between FEMA Public Assistance activities and other FEMA or CDBG-DR-funded activities, including Mission Assignments, were communicated during the audit process as far back as August 2024 and are further clarified here based on a detailed review of the sampled vouchers and underlying activities.

Issue 2: Alleged Commingling of Match Costs

OIG Conclusion:

New Jersey commingled match costs with eligible activity delivery costs (ADCs) when submitting payments.

DCA Response:

The Department reiterates that ADCs identified by OIG are:

- Allowable under 24 CFR § 570.206;
- Necessary to carry out eligible disaster recovery activities; and
- Properly associated with those activities in DRGR, consistent with HUD guidance.

As OIG acknowledges, CPD guidance and DRGR system design do not require separate reporting of non-Federal match costs. DRGR is not the State's system of record for internal financial controls, and the absence of a distinct reporting category does not indicate commingling or improper payments.

DRM maintained internal controls and documentation sufficient to:

- Track ADCs and match costs;
- Ensure no duplication of FEMA funding; and
- Ensure compliance with FEMA match requirements.

The State maintains established internal policies governing cost allowability, allocation, and tracking of activity delivery costs, including Policies 2.10.27, 2.10.31, and 2.10.92, which require tracking of expenditures across multiple systems, regular reconciliation of financial data, and

maintenance of records consistent with federal requirements. While OIG indicates these were not provided during audit fieldwork, the audit did not include a request for a comprehensive review of these policies.

In fact, DRM does track ADCs separately both in its internal financial management system (SIROMS) and in the State's Central Financial System (NJCFIS). During the audit, OIG never asked if ADCs were tracked separately, nor did they ask how ADCs were tracked. Had such a request been made, DRM would have provided documentation showing how ADCs are tracked. It wasn't until the finding outline meeting on January 29, 2026, the end of a two-year audit, that OIG indicated that the State did not have adequate controls to track ADCs. This information was available to OIG during the audit and continues to be available for review. Raising this issue at this late date puts the State at a distinct disadvantage, leaving no time to address OIG's incorrect assumption before it becomes a finding.

In accordance with Policy 2.10.92, DRM's financial management framework includes daily reconciliation of Federal drawdowns, monthly reconciliation across multiple financial systems, and multi-level approval workflows for all funding requests, demonstrating that internal controls were both established and actively implemented.

Hurricane Irene

OIG Conclusion:

New Jersey did not support the selected Hurricane Irene payments tested totaling \$450,085. These sample items were 100 percent of the payments made from January 1, 2017, to July 16, 2024. Since this grant closed on January 11, 2024, CPD's rules required New Jersey to maintain supporting documentation for three years or until January 12, 2027. However, New Jersey officials said that neither New Jersey nor its subgrantees could locate the FEMA project worksheets, which would have shown that New Jersey received the correct FEMA Public Assistance non-Federal match amount and supported the payments made by HUD.

DCA Response:

The Department notes that the draft report assumes that all sampled Irene voucher items represent FEMA Public Assistance (PA) non-Federal match. However, a review of the underlying DRGR activities indicates that certain sampled activities were not FEMA PA match activities, but rather voluntary property acquisition (buyout) activities funded through CDBG-DR. For example, DRGR Activity 12-CDBG-DR-006-HB-UN is described as follows:

“Instead of elevation, which FEMA originally allocated funds to do, homes in the floodplain will be acquired and demolished... Some of the properties will be acquired solely with CDBG-DR and local funds if needed.”

This activity reflects a voluntary buyout program under which properties were acquired and demolished for open space purposes. While FEMA funding may have been associated with other components, the activity description explicitly states that certain properties were acquired solely with CDBG-DR and local funds, and not as part of a FEMA Public Assistance project.

As a threshold matter, residential property acquisition (buyouts) is not an eligible activity under FEMA's Public Assistance Program, which is limited to emergency work and the repair,

restoration, or replacement of eligible public infrastructure. Voluntary acquisitions are instead eligible under separate FEMA mitigation programs (e.g., HMGP) or under HUD CDBG-DR.

Accordingly, to the extent that the sampled Irene items include buyout activities:

- They do not represent FEMA Public Assistance projects;
- They are not associated with FEMA Project Worksheets; and
- The absence of FEMA PA documentation (e.g., PWs) does not indicate that the costs are unsupported.

The audit objective, as stated in the audit notification, was limited to determining whether the State made improper FEMA Public Assistance non-Federal match payments. Activities that are not FEMA PA match, such as CDBG-DR-funded buyouts, fall outside the scope of that objective.

Therefore, the conclusion that the Irene costs are "unsupported" appears to be based on the application of FEMA Public Assistance documentation standards to activities that are not FEMA Public Assistance projects. As a result, there is no basis to conclude that these costs are unsupported or to recommend repayment.

Notably, the 24 properties in Little Falls, New Jersey that were included in the OIG sample, as well as the property in Buena, New Jersey, were all voluntary buyouts. Each participating property was fully documented, including an appraisal and an agreement between the municipality and the homeowner confirming the voluntary nature of the acquisition and the agreed-upon purchase price. The Department's subrecipients maintained this documentation in accordance with program requirements.

The Department will coordinate with OIG to provide any additional context as needed. However, based on the nature of the activities described above, the Irene finding should be reconsidered in light of the distinction between FEMA Public Assistance match activities and CDBG-DR-funded buyouts.

Conclusion

DCA appreciates OIG's review and the opportunity to provide these comments. Based on the documentation provided and the consistent application of the State's methodology:

- No improper payments were made;
- No FEMA match requirements were exceeded; and
- All costs are supported and allocable.

OIG's reconsideration of certain sampled items further demonstrates that, when the State's methodology is applied correctly, the resulting conclusions confirm compliance with FEMA and HUD requirements.

DCA looks forward to working with HUD CPD to address any remaining questions and to ensure that the final report accurately reflects the State's compliance with applicable requirements.

Sincerely,



Samuel R. Viavattine
Deputy Commissioner
New Jersey Department of Community Affairs

Attachments: A: Project Worksheet Explanation
B: Policy #2.10.92 Financial Management Organization and Responsibilities
C: Policy #2.10.31 Invoice Submission Procedures
D: Policy #2.10.27 Allowability and Allocability of Costs
E: Policy #2.10.42 Budget & Finance Department Procedures - DRGR
F: Policy #2.10.118 FEMA Non-Federal Cost Share Program Guidelines

HUD CPD's Management Response



OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

MEMORANDUM FOR: Kilah S. White, Assistant Inspector General for Audit, GA

FROM: Gerilee W. Bennett, Acting Director, Office of Disaster Recovery,
DGR GERILEE
BENNETT Digitally signed by GERILEE
BENNETT
Date: 2025.04.17 11:20:05 -0400

SUBJECT: HUD Comments for OIG Draft Audit Report – New Jersey Could
Not Support Disaster Recovery Expenses for Its Non-Federal Match
Costs

The Office of Community Planning and Development (CPD) has reviewed the draft audit report of the State of New Jersey (the State), entitled "New Jersey Could Not Support Disaster Recovery Expenses for Its Non-Federal Match Costs." CPD offers the following comments on the draft audit report for consideration.

The HUD Office of Inspector General (OIG) conducted this audit to determine whether the State made improper non-Federal match activity payments. The OIG draft report indicated that some payments were unsupported due to improper documentation and inadequate controls. The Department agrees with the HUD OIG that grantees should maintain sufficient non-Federal match records within their system of record to enable oversight entities to properly identify non-Federal match costs.

The discussion below includes CPD's comments on the specific Recommendations identified in the draft audit report:

OIG Finding 1: New Jersey Could Not Support Disaster Recovery Expenses for Its Non-Federal Match Costs

OIG Recommendation 1A: We recommend that the Director of CPD ODR require New Jersey to support or repay the \$4,656,499 of Sandy grant funds spent as non-Federal match for which it lacked documentation to support the amounts paid.

HUD's Comments: We concur with this recommendation. All non-Federal match expenditures should be supported by adequate documentation. CPD's longstanding requirement is that CDBG-DR grantees maintain records sufficient to demonstrate compliance with program requirements, including the proper use and support of all DR funds, in accordance with Federal requirements such as 2 CFR Part 200, 24 CFR 570.493, and applicable Federal Register notices governing CDBG-DR. We reiterate this requirement for all grantees. Where costs cannot be adequately supported, HUD will take appropriate action, including requiring repayment. HUD requests that OIG provide information about the specific records reviewed in order to fully understand the identified deficiency and determine the appropriate corrective actions.

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OIG Recommendation 1B: We recommend that the Director of CPD ODR require New Jersey to support or repay the \$450,085 of Hurricane Irene grant funds spent as non-Federal match for which it and its subgrantees lacked FEMA required documentation to support the amounts and the match percentage paid.

HUD's Comment: We concur with this recommendation. All non-Federal match expenditures should be supported by adequate documentation. CPD's longstanding requirement is that CDBG-DR grantees maintain records sufficient to demonstrate compliance with program requirements, including the proper use and support of all DR funds, in accordance with Federal requirements such as 2 CFR Part 200, 24 CFR 570.493 and applicable Federal Register notices governing CDBG-DR. We reiterate this requirement for all grantees. Where costs cannot be adequately supported, HUD will take appropriate action, including requiring repayment. HUD requests that OIG provide information about the specific records reviewed in order to fully understand the identified deficiency and determine the appropriate corrective actions.

OIG Recommendation 1C: We recommend that the Director of CPD ODR requires New Jersey to revise its disaster recovery payment controls and procedures for non-Federal match activity costs to ensure consistent treatment. Doing so will ensure that \$5.6 million of its remaining unspent non-Federal match funding as of June 6, 2025, is appropriately supported when spent.

HUD's Comments: We concur with this recommendation.

OIG Recommendation 1D: We recommend that the Director of CPD ODR require New Jersey to revise its disaster recovery grant close-out processes to include internal controls that ensure that it and its subgrantees identify and maintain disaster recovery records, including payment support, for the Federally required 3 years after grant closure.

HUD Comment: We concur with this recommendation.

OIG Recommendation 1E: We recommend that the Director of CPD ODR require New Jersey to train disaster recovery staff on any new policies and processes it creates and adopts related to the safeguarding of non-Federal match costs from fraud, waste, and abuse.

HUD Comment: We concur with this recommendation.

OIG Recommendation 1F: We recommend that the Director of CPD ODR require CPD disaster recovery grantees to adopt consistent financial and internal controls to allocate, support, and track non-Federal match activity costs that are paid with disaster recovery funds.

HUD Comment: We concur with this recommendation. Grantees should track and document CDBG-DR expenditures that contribute to a non-Federal match activity. Grantees should identify which activities contribute to non-Federal match requirements in their action plans and be able to show that the order of assistance was not violated when making non-Federal match payments.

Evensen, Linda (evensenl@hudoig.gov) is signed in

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OIG Finding 2: New Jersey Commingled Non-Federal Match Costs with Other Disaster Recovery Costs When Submitting Payments

OIG Recommendation 2A: We recommend that the Director of CPD ODR require New Jersey to establish its internal and financial controls to ensure that it allocates, tracks, and reports future non-Federal match costs separately from other disaster recovery costs, which will ensure that least \$174,352 is correctly reported as other disaster recovery costs rather than as costs that New Jersey is using to meet its non-Federal match requirements

HUD Comment: We concur with this recommendation. Grantees should track and document CDBG-DR expenditures that contribute to a non-Federal match activity in its system of record. These documents must be able to support all grant expenditures and show that the payments did not violate any program requirements, such as duplication of benefits and the order of assistance. As stated in the draft report, the costs questioned in this finding were found by OIG to be eligible disaster recovery costs.

OIG Recommendation 2B: We recommend that the Director of CPD ODR require New Jersey to provide documentary support that it met and did not exceed the match percentage set by FEMA for its completed Public Assistance activities as the amounts New Jersey reported in DRGR are inaccurate.

HUD Comment: We concur with this recommendation. The State should provide sufficient documentary support to demonstrate that all costs funded with CDBG-DR funds are allowable, allocable, and reasonable, and will not be used for activities reimbursable by, or for which funds are made available by, FEMA.

Should you have any questions regarding these draft audit report comments, please do not hesitate to contact me or William L. Bedford (william.l.bedford@hud.gov)

Appendix C – Criteria

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards²⁹

200.1 Definitions.³⁰ These are the definitions for terms used in this part. Different definitions may be found in Federal statutes or regulations that apply more specifically to particular programs or activities. These definitions could be supplemented by additional instructional information provided in governmentwide standard information collections.

200.61 Internal controls.

Internal controls means a process, implemented by a non-Federal entity, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) Effectiveness and efficiency of operations;
- (b) Reliability of reporting for internal and external use; and
- (c) Compliance with applicable laws and regulations.

200.62 Internal control over compliance requirements for Federal awards.

Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- (a) Transactions are properly recorded and accounted for, in order to:
 - (1) Permit the preparation of reliable financial statements and Federal reports;
 - (2) Maintain accountability over assets; and
 - (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;
- (b) Transactions are executed in compliance with:
 - (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and
 - (2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and
- (c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

200.302 Financial management.

- (a) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

²⁹ This appendix contains direct quotations from the specific cited criteria.

³⁰ Effective as of January 1, 2020, which was the start date of our audit scope.

- (b) The financial management system of each non-Federal entity must provide for the following (see also Section 200.333 Retention requirements for records, 200.334 Requests for transfer of records, 200.335 Methods for collection, transmission and storage of information, 200.336 Access to records, and 200.337 Restrictions on public access to records):
- (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.
 - (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in section 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.
 - (3) Records that identify adequately the source and application of funds for Federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
 - (4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See 200.303 internal controls.
 - (5) Comparison of expenditures with budget amounts for each Federal award.
 - (6) Written procedures to implement the requirements of section 200.305 Payment.
 - (7) Written procedures for determining the allowability of costs in accordance with Subpart E - Cost Principles of this part and the terms and conditions of the Federal award.

200.303 Internal controls.

The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- (b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.

200.306 Cost sharing or matching...

- (b) For all Federal awards, any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be accepted as part of the non-Federal entity's cost sharing or matching when such contributions meet all of the following criteria:
 - (1) Are verifiable from the non-Federal entity's records;
 - (2) Are not included as contributions for any other Federal award;
 - (3) Are necessary and reasonable for accomplishment of project or program objectives;
 - (4) Are allowable under Subpart E - Cost Principles of this part;
 - (5) Are not paid by the Federal Government under another Federal award, except where the Federal statute authorizing a program specifically provides that Federal funds made available for such program can be applied to matching or cost sharing requirements of other Federal programs;
 - (6) Are provided for in the approved budget when required by the Federal awarding agency; and
 - (7) Conform to other provisions of this part, as applicable.

Subpart E - Cost Principles

200.400 Policy Guide

The application of these cost principles is based on the fundamental premises that:

- (a) The non-Federal entity is responsible for the efficient and effective administration of the Federal award through the application of sound management practices.
- (b) The non-Federal entity assumes responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.
- (c) The non-Federal entity, in recognition of its own unique combination of staff, facilities, and experience, has the primary responsibility for employing whatever form of sound organization and management techniques may be necessary in order to assure proper and efficient administration of the Federal award.

200.403 Factors affecting allowability of costs.

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles...
- (g) Be adequately documented.

200.405 Allocable costs.

- (a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:
 - (1) Is incurred specifically for the Federal award;
 - (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
 - (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

24 CFR 570 Community Development Block Grants

Subpart I – State Community Development Block Grant Program

24 CFR 570.480 General.

- (a) This subpart describes policies and procedures applicable to states that have permanently elected to receive Community Development Block Grant (CDBG) funds for distribution to units of general local government in the state's nonentitlement areas under the Housing and Community Development Act of 1974, as amended (the Act). Other subparts of part 570 are not applicable to the State CDBG program, except as expressly provided otherwise. Regulations of part 570 outside of this subpart that apply to the State CDBG program include 570.200(j) and 570.606...

- (c) In exercising the Secretary's obligation and responsibility to review a state's performance, the Secretary will give maximum feasible deference to the state's interpretation of the statutory requirements and the requirements of this regulation, provided that these interpretations are not plainly inconsistent with the Act and the Secretary's obligation to enforce compliance with the intent of the Congress as declared in the Act. The Secretary will not determine that a state has failed to carry out its certifications in compliance with requirements of the Act (and this regulation) unless the Secretary finds that procedures and requirements adopted by the state are insufficient to afford reasonable assurance that activities undertaken by units of general local government were not plainly inappropriate to meeting the primary objectives of the Act, this regulation, and the state's community development objectives.

570.481 Definitions.

- (a) Except for terms defined in applicable statutes or this subpart, the Secretary will defer to a state's definitions, provided that these definitions are explicit, reasonable and not plainly inconsistent with the Act. As used in this subpart, the following terms shall have the meaning indicated:
 - (1) **Act** means title I of the Housing and Community Development Act of 1974 (42 U.S.C. 5301 *et seq.*).
 - (2) **CDBG funds** means Community Development Block Grant funds, in the form of grants under this subpart including any reimbursements, program income, and loans guaranteed under section 108 of the Act.
 - (3) **Origin year** means the specific Federal fiscal year during which the annual grant funds were appropriated.

570.490 Record keeping requirements.

- (d) **Record retention.** Records of the State and units of general local government, including supporting documentation, shall be retained for the greater of three years from closeout of the grant to the state, or the period required by other applicable laws and regulations as described in 570.487 and 570.488.