



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 13, 2024

OIG-CA-25-009

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

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

Subject: Emergency Rental Assistance Program (ERA2) – Questioned
Cost Finding, Thurston County, Washington

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

In August 2023, a Thurston County internal auditor informed the Treasury Office of Inspector General (OIG) of 17 cases of suspected and confirmed fraudulent¹ ERA2 financial assistance payments made by Thurston County, Washington. After assessing the results of the Thurston County internal auditor's review, we determined that Thurston County paid a total of \$341,994.05 in ERA2 funds to 17 ineligible households in violation of the Use of Funds statute. Accordingly, we question those costs.

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

In response to a draft of this questioned cost finding, Thurston County did not dispute our determinations and had no additional documentation to provide regarding the 17 subject cases that resulted in ineligible payments. See Appendix 1. We are recommending that Treasury's Office of Capital Access disallow these costs and direct Thurston County to reimburse its ERA2 program \$341,994.05 from non-Federal funds. We also provided Treasury with an opportunity to review a draft of this memorandum. In its written response, Treasury agreed with our recommendation. See Appendix 2.

Background/Legal Authority

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

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

Facts and Analysis

On August 18, 2023, we received a bulk report² from a Thurston County internal auditor of 17 cases of suspected and confirmed fraudulent ERA2 financial assistance payments made by Thurston County, Washington. We agreed with the Thurston County internal auditor's conclusions on the 17 cases as follows:

1. For application # [REDACTED] the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The Thurston

² Treasury OIG defines a "bulk report" as a report of multiple suspected or confirmed fraudulent ERA financial assistance payments made by a grantee or subrecipient; the bulk report may come directly from the grantee, subrecipient, or from the Treasury OIG Office of Investigations. There could also be instances where, upon review of individually reported complaints, Treasury OIG determines there to be a "common source" of reporting (e.g., from a grantee or subrecipient) and decides, for purposes of efficiency, to work all the "common source" suspected or confirmed fraudulent ERA financial assistance payments as a bulk report.

County internal auditor spoke with the property manager, who stated that the tenant on the application did not live at the property and the landlord identified on the application was not known to the property manager. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$36,000.

2. For application # [REDACTED], the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The Thurston County internal auditor sent a survey to the property owner of record for tenant information. The property owner returned the survey stating that they did not have any tenants and the property had been their place of residence since 1990. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$33,750.
3. For application # [REDACTED] the property address on the application was not valid. To substantiate the Thurston County internal auditor's conclusion, we performed an address search and viewed the property map on the Thurston County Office of the Assessor's website. We found no evidence that the property address on the application existed. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$28,500.
4. For application # [REDACTED] the property address on the application was not valid. To substantiate the Thurston County internal auditor's conclusion, we performed an address search and viewed the property map on the Thurston County Office of the Assessor's website. We found no evidence that the property address on the application existed. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$27,930.
5. For application # [REDACTED] the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The Thurston County internal auditor spoke with the current property owner on November 14, 2022, who stated that he agreed to purchase the property in October 2021 and had lived at the property since November 2021. The county auditor was unable to contact the previous owners; however, neither the application nor the supporting documentation referenced the previous owners as landlords to the tenant. Rental assistance was provided for this application from November 2020 through January 2022. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$27,375.

6. For application # [REDACTED] the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The Thurston County internal auditor spoke with the property owner on September 13, 2022, who stated that he did not have any renters and lived at the property. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$27,000.
7. For application # [REDACTED] the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The Thurston County internal auditor spoke with the property manager on August 17, 2022, the property manager stated that the tenant listed in the application did rent from him. The property manager also provided the lease he had on file for this tenant. The Thurston County internal auditor determined that, among other things, the lease agreement submitted with the application was fraudulent in that it had the wrong landlord information. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$22,261.55.
8. For application # [REDACTED] the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The Thurston County internal auditor spoke with the property owner on August 15, 2022, who stated that she did not rent any portion of her home. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$21,000.
9. For application # [REDACTED] the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The Thurston County internal auditor spoke with the property owner on August 15, 2022, who stated that he lived at this address and did not rent it out. He also did not know the tenant on the application. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$16,450.
10. For application # [REDACTED] the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The Thurston County internal auditor spoke with the property owner on September 9, 2022, who stated that he only rented to his stepdaughter, who was not the person listed as the tenant on the application, and she did not apply for rental assistance. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$15,894.

11. For application # [REDACTED] the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The Thurston County internal auditor spoke with the property owner on September 20, 2022, who stated that his daughter lived in the property but did not pay rent. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$15,000.
12. For application # [REDACTED] the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The Thurston County internal auditor spoke with the property owner on August 25, 2022, who stated that while he had tenants at this property, the current tenants were up to date on rent, and he was not aware of any rental assistance paid for the address. Furthermore, he did not authorize any third-party to collect rent on his behalf. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$13,900.
13. For application # [REDACTED] the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The Thurston County internal auditor spoke with the property owner on August 15, 2022, who stated that the landlord identified on the application was actually his tenant. Furthermore, he stated that she was not past due on rent and did not work as she was receiving supplemental security income. Lastly, the property owner did not authorize anyone else to receive rent on his behalf. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$12,750.
14. For application # [REDACTED] the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The Thurston County internal auditor spoke with the property owner on August 30, 2022, who stated that the landlord identified on the application was actually the tenant at the property. In support of this statement, the property owner provided the executed lease between him and the tenant (the purported landlord). In addition, the rental assistance application listed a third party, not connected to the property in any way, as the tenant, and eligibility was based on that third party's information, not the actual tenant. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$12,000.
15. For application # [REDACTED] the landlord identified on the application was different from the property owner identified in Thurston

County's assessor records at the time of the application. The Thurston County internal auditor sent a survey to the property owner of record for tenant information. The property owner returned the survey indicating that this was a single-family home, there were no tenants, and he lived in the property with his family. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$11,983.50.

16. For application # [REDACTED] the landlord identified on the application was different from the property owner identified in Thurston County's assessor records at the time of the application. The application requested rental assistance for the periods January 2021 through March 2021 and June 2021 through November 2021, and the assistance paid covered these periods. According to the assessor records, the property was purchased in June 2021 and later sold in June 2022. The Thurston County internal auditor spoke with this former property owner on September 19, 2022, who stated that when he purchased the property, there was a tenant living there, but he never had a lease agreement with her, and she did not pay rent during his ownership.³ The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$11,800.
17. For application # [REDACTED] the property address on the application was not valid. To substantiate the Thurston County internal auditor's conclusion, we performed an address search and viewed the property map on the Thurston County Office of the Assessor's website. We found no evidence that the property address on the application existed. The ERA2 rental arrears financial assistance paid out by Thurston County for this application totaled \$8,400.

³ The Thurston County auditor did not speak with the property owner at the time of the application. However, this previous owner was not shown on the application as the landlord; instead, the tenant was shown as the landlord and someone else was shown as the tenant.

These 17 cases are summarized as follows:

Case	Thurston County Application No.	Ineligible ERA2 Financial Assistance Payments
1		\$36,000.00
2		33,750.00
3		28,500.00
4		27,930.00
5		27,375.00
6		27,000.00
7		22,261.55
8		21,000.00
9		16,450.00
10		15,894.00
11		15,000.00
12		13,900.00
13		12,750.00
14		12,000.00
15		11,983.50
16		11,800.00
17		8,400.00
Total		\$341,994.05

Based on the information provided, we determined that Thurston County's ERA2 program paid out ERA2 funds in violation of the Use of Funds statute because the funds were disbursed to ineligible households. Accordingly, OIG questioned the cost of \$341,994.05 for the ERA2 financial assistance paid for these 17 cases.

Thurston County, Washington's Response

We provided Thurston County an opportunity to respond to a draft of this questioned cost finding. Its written response, dated June 4, 2024, is included in Appendix 1 to this memorandum.

In that response, Thurston County confirmed that it discovered 17 instances of suspected fraud which resulted in ineligible payments and reported these to Treasury.⁴ Thurston County's response is summarized below.

- The 17 subject cases were processed in accordance with state and federal guidance. The suspected fraud was discovered after the fact through subrecipient monitoring and expanded testing the County conducted that identified persons involved in the application process misrepresented themselves on applications for assistance.

⁴ The exhibits supporting Thurston County's written response are not included as part of this Notice due to the volume of information provided. These exhibits were considered as part of our evaluation of Thurston County's response.

- Thurston County had no additional documentation to provide regarding the 17 cases. The County's internal auditor reported these instances of suspected fraud to law enforcement; however, no funds have been returned to the County to date.
- Thurston County operated under the guidance provided by Treasury, which prioritized prompt delivery of assistance to those in need. While the County recognizes the importance of proper controls, fraud prevention was difficult with ERA1/ERA2 considering the measures put in place to expedite the disbursement of funds. The balance between expediency and thoroughness in verifying applications was made particularly difficult due to the allowance of self-attestation and the lowering of certain barriers for applicants. Thurston County also encountered challenges in implementing an emergency low-barrier program, which included verification of documentation and communication with both clients and landlords, many of whom had limited access to technology.
- Thurston County implemented the ERA program, in accordance with Treasury guidelines, through a local non-profit agency. The County terminated its contract with the non-profit agency after receiving an insufficient reply to a request that the agency strengthen its internal controls.
- Thurston County requested understanding and leniency in recovery given the extraordinary challenges faced in the administration of the program and the proactive steps the County took to identify fraud and address gaps that were identified. Thurston County also asked that OIG consider that the County contributed \$372,806 in locally generated revenue to supplement rent assistance programs in 2021 that were implemented in broad alignment with ERA1 and ERA2 policies. The County continues to use state and local resources to operate rental assistance programs.

OIG Evaluation

We considered Thurston County's written response in finalizing this memorandum.

We acknowledge that Thurston County encountered challenges in implementing its ERA program and its request for leniency in the recovery of funds based on those challenges. We also acknowledge the County's efforts in using local and state resources to operate its rental assistance programs. However, in its response, Thurston County neither disputed our determinations nor provided any additional evidence to demonstrate that the Federal financial assistance provided for the 17 cases were to eligible households as defined in ERA2.

In its response, Thurston County stated: “The balance between expediency and thoroughness in verifying applications ... was made particularly difficult due to the allowance of self-attestation.” However, in this case, that statement is not contextually accurate. Specifically, regarding guidance on when self-attestation is encouraged to be relied upon, Treasury states:

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

In all cases, grantees must document their policies and procedures for determining a household’s eligibility to include policies and procedures for determining the prioritization of households in compliance with the statute and maintain records of their determinations. Grantees must also have controls in place to ensure compliance with their policies and procedures and prevent fraud. Grantees must specify in their policies and procedures under what circumstances they will accept written attestations from the applicant without further documentation to determine any aspect of eligibility or the amount of assistance, and in such cases, grantees must have in place reasonable validation or fraud-prevention procedures to prevent abuse.

Recommendation

We recommend that Treasury’s Office of Capital Access disallow the questioned cost amount of \$341,994.05 and instruct Thurston County to refund that amount to its ERA2 program from non-Federal funds.

Treasury’s Response

We provided Treasury with an opportunity to review a draft of this memorandum on September 30, 2024. In its written response, Treasury management agreed that any improper use of ERA2 funds should be reimbursed, and that Thurston County should refund the questioned costs in the amount of \$341,994.05 to its ERA2 program using non-Federal funds. Treasury’s written response is included as Appendix 2 of this memorandum. Treasury management will need to record an estimated completion date for taking action on this recommendation in the Joint Audit Management Enterprise System (JAMES). See Appendix 3, Schedule of Monetary Benefits, for more details regarding “questioned cost.”

Methodology

We conducted our review of these ERA cases from December 2023 to November 2024. We inquired of the grantee and other relevant parties, reviewed related

documentation, and performed other appropriate procedures. We believe the evidence obtained is sufficient and appropriate to provide a reasonable basis for our findings and conclusions in this Questioned Cost Finding.

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

Grantee Response



BOARD OF COUNTY COMMISSIONERS

Carolina Mejia
District 1

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District 5

June 4, 2024

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

Subject: Response to Draft Questioned Cost Findings for Emergency Rental Assistance Program (ERA-2)

Dear Ms. Freedman and Mr. Taylor,

This letter is Thurston County's response to the draft letter, dated May 21, 2024, regarding the cases of suspected fraud discovered in our county's administration of the Emergency Rental Assistance 2 program (ERA-2). The letter is identified as follows:

- Draft Questioned Cost Findings, Emergency Rental Assistance (ERA-2). Federal Award ID: ERAE0048. Questioned Cost Amount: \$341,994.15

We want to express Thurston County's commitment to upholding the integrity of the program and our dedication to swiftly addressing any instances of suspected fraud. In the seventeen cases you cite, the County discovered these instances of suspected fraud and reported these to Treasury. These cases were processed in accordance with state and federal guidance. The suspected fraud was discovered after the fact through subrecipient monitoring and expanded testing the County conducted that identified persons involved in the application process misrepresenting themselves on applications for assistance.

The County has no additional documentation to provide regarding any of the seventeen cases you identified. The County's internal auditor reported the instances of suspected fraud to law enforcement; to date, however, the funds have not been returned to the County through the criminal restitution process nor is the County aware of any pending criminal prosecutions.

While the County recognizes the importance of proper controls to protect against bad actors, fraud prevention is particularly difficult with ERA1/ERA2 considering the measures put in place to expedite the disbursement of funds under Treasury guidance. The balance between expediency and thoroughness in verifying applications has been a challenging one, which was made particularly difficult due to the allowance of self-attestation and the lowering of certain barriers for applicants.

Thurston County operated under the guidance provided by Treasury, which prioritized the prompt delivery of assistance to those in need. We ask Treasury to recognize the challenging context that local governments faced when implementing this program. The County was faced with

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TDD/TYY 711 or 1-800-833-6388

Grantee Response

implementing an emergency low-barrier program providing relief to vulnerable households facing eviction and financial instability during a pandemic when traditional ways of engaging with clients were upended. Verification of documentation and communication with both clients and landlords, many of whom had limited access to technology, was a particular challenge.

Moreover, although the program was implemented in accordance with Treasury guidelines through a local non-profit agency, Thurston County terminated its contract with this non-profit agency after receiving an insufficient reply to a request that the agency strengthen internal controls.

In light of these circumstances, we respectfully request that Treasury consider the broader context within which these suspected fraud cases occurred. While we fully support efforts to combat fraud and ensure accountability, we request understanding and leniency in recovery given the extraordinary challenges faced in the administration of the program and the pro-active steps the County took to identify fraud and address gaps that were identified.

In considering our request for leniency, we also ask that you consider that Thurston County contributed \$372,806 in locally generated revenue to supplement rent assistance programs in 2021 that were implemented in broad alignment with ERA-1 and ERA-2 policies. Even after the completion of ERA funding, Thurston County continues to use state and local resources to operate rental assistance programs that are more restrictive than ERA guidelines. Attached to this letter are supporting contract and accounting system documentation to demonstrate this contribution.

Furthermore, we are committed to implementing additional measures to strengthen our monitoring and verification processes to prevent similar occurrences in the future. We welcome any guidance or recommendations from your office to enhance the integrity of our program operations.

Thank you for your attention to this matter, and please contact Brandon Weber brandon.webster@co.thurston.wa.us or Tom Webster Thomas.webster@co.thurston.wa.us, if you require any further information.

Sincerely,



Leonard Hernandez
County Manager

Attachment: Supporting documentation of local contribution for rent assistance activities

Treasury Response



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

October 15, 2024

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

Dear Ms. Harker:

I write regarding the Office of Inspector General's (OIG) Draft Report entitled *Emergency Rental Assistance Program (ERA2) – Questioned Cost Finding, Thurston County, Washington*, which reviews 17 instances of suspected and confirmed fraudulent Emergency Rental Assistance (ERA) payments made by Thurston County, Washington. Treasury takes seriously its responsibility for stewarding taxpayer funds, and we appreciate OIG's work on this engagement.

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

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

OIG's Findings and Recommendations

The Draft Report describes OIG's review of information it received from a Thurston County, Washington internal auditor regarding 17 suspected and confirmed cases of fraudulent ERA2 financial assistance payments made by Thurston County. In its review, OIG questioned a total of \$341,994.05 for the ERA2 financial assistance paid in the 17 identified cases. OIG gave Thurston County an opportunity to respond, and it stated that it did not dispute the findings.

Treasury agrees with OIG that any improper use of ERA2 funds should be reimbursed, and that Thurston County should refund the questioned costs in the amount of \$341,994.05 to its ERA2 program using non-Federal funds. Again, Treasury appreciates OIG's work on this engagement.

Treasury Response

We look forward to working with you to protect the integrity of the ERA programs and other recovery programs.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jessica Milano". The signature is fluid and cursive, with the first name "Jessica" written in a larger, more prominent script than the last name "Milano".

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

Schedule of Monetary Benefits

According to the Code of Federal Regulations, a “questioned cost” is a cost that is questioned by the auditor because of a finding:

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

Questioned costs will be recorded in Treasury’s Joint Audit Management Enterprise System (JAMES). The amount will also be included in the OIG Semiannual Report to Congress. It is Treasury management’s responsibility to report to Congress on the status of the agreed to recommendations with monetary benefits in accordance with 5 USC § 405:

<u>Recommendation</u>	<u>Questioned Costs</u>
Recommendation No. 1	\$341,994.05

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

Distribution

Department of the Treasury

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Thurston County

Senior Program Manager

Thurston County Board of County Commissioners

County Manager