



OFFICE of  
**INSPECTOR GENERAL**

UNITED STATES DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT

# Colorado Reported Other Disaster Recovery Reimbursements as Non-Federal Match Payments

**Audit Report Number: 2026-FW-1004**

**April 23, 2026**

## Highlights

### Colorado Reported Other Disaster Recovery Reimbursements as Non-Federal Match Payments | 2026-FW-1004

#### What We Audited and Why

As part of our mission to safeguard the U.S. Department of Housing and Urban Development's (HUD) programs from fraud, waste, and abuse, and to identify opportunities for HUD programs to progress and succeed, we selected Colorado for a review of potential improper payments. Our audit objective was to determine whether Colorado 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

We did not identify duplicate or significant amounts of unsupported non-Federal match payments for Colorado. However, Colorado received \$1.3 million of disaster recovery reimbursements from HUD that it reported as matching costs for FEMA's Public Assistance program, but the costs were other disaster recovery costs. This occurred because Colorado did not establish financial or payment controls for non-Federal match costs within HUD's Disaster Recovery Grants Reporting (DRGR) system. CPD does not require disaster recovery grantees to separately report non-Federal match costs in its data systems. As a result, Colorado over-reported the amount of HUD disaster recovery funds it spent on non-Federal match activities. Colorado's reporting could increase the risk of improper payments as HUD and its stakeholders cannot use HUD's data systems and reports to ensure that Colorado properly uses its disaster recovery funds for non-Federal match activities.

#### What We Recommend

We recommend that Colorado incorporate financial and other internal controls to ensure that it allocates, tracks, and reports non-Federal match costs separately from non-match costs. If Colorado does so, it will enhance the accuracy and transparency of its reporting of \$1.3 million of disaster recovery funds. We also recommend that CPD ODR require disaster recovery grantees to report non-Federal match activities or expenses in its data systems in a manner which will show that grantees are properly using their disaster recovery funds for the non-Federal match portion of FEMA's Public Assistance program.

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# Table of Contents

<b>Background and Objectives</b> .....	<b>1</b>
<b>Results of Audit</b> .....	<b>4</b>
Colorado Reported Other Disaster Recovery Reimbursements as Non-Federal Match Payments.....	4
<b>Scope and Methodology</b> .....	<b>8</b>
<b>Appendixes</b> .....	<b>11</b>
Appendix A – Schedule of Funds to Be Put to Better Use .....	11
Appendix B – Management Response .....	12
Appendix C – Criteria .....	17

## Background and Objectives

From 2001 to 2025, Congress appropriated \$109 billion in disaster recovery funds<sup>1</sup> to the U.S. Department of Housing and Urban Development's Office of Community Planning and Development (HUD CPD) for grants to States and communities impacted by Federally declared disasters. On January 29, 2013, Congress passed the Disaster Relief Appropriations Act, 2013. This Act required that CPD award \$15 billion<sup>2</sup> of appropriated funds to grantees 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,<sup>3</sup> CPD used its existing Community Development Block Grant Program (CDBG)<sup>4</sup> as a framework, and allocated funds using Federal Register notices, that 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.<sup>5</sup> These Federal rules state that grantees must establish and maintain internal and financial management controls to allocate and track Federal awards. 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.<sup>6</sup> CPD's Office of Disaster Recovery (ODR) oversees the disaster recovery program. However, for Colorado the CPD field office oversaw this grant as it was under \$500 million.

In addition to HUD providing disaster recovery grants, FEMA's Public Assistance Program also provides supplemental grants to grantees<sup>7</sup> so that communities can quickly respond to and recover from major disasters. To participate in the program, FEMA requires grantees to share a portion of project costs using non-Federal funds, also known as "match," "cost share," or "non-Federal share." The grantee share of costs typically ranges from 10 percent to 25 percent of the project's total costs.<sup>8</sup> Although HUD and FEMA are Federal agencies, the Housing and Community Development Act of 1974 and CPD's rules

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<sup>1</sup> This report refers to the Community Development Block Grant - Disaster Recovery (CDBG-DR) program as the disaster recovery program.

<sup>2</sup> The \$16 billion appropriated amount was reduced by sequestration, according to the Balanced Budget and Emergency Deficit Control Act of 1985, and for amounts set aside by Congress for specified costs.

<sup>3</sup> 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.

<sup>4</sup> 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.

<sup>5</sup> 2 CFR 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

<sup>6</sup> 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 as long as 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.

<sup>7</sup> FEMA grantees include state, tribal, territorial, and local governments, and certain types of private nonprofit organizations.

<sup>8</sup> Each Federal agency that requires a match establishes a minimum cost share that its grantees' must meet.

permitted grantees to use CPD’s disaster recovery funds as their non-Federal match to comply with FEMA’s Public Assistance Program requirements, so long as those funds pay for eligible expenses in direct support of approved HUD match activities.<sup>9</sup>

Because grantees can receive reimbursement for the same activity’s costs from two or more Federal agencies, these disaster recovery non-Federal match activities present an inherent high-risk for improper payments. Improper payments are payments that should not have been made or that were made in an incorrect amount. The Government Accountability Office (GAO)<sup>10</sup> and the Office of Management and Budget (OMB) identify improper payment types as:

- **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.<sup>11</sup>

CPD allocated the Act’s disaster recovery<sup>12</sup> funding to Colorado for severe storms, flooding, landslides, and mudslides that occurred in 2013 and wildfires that occurred in 2012-2013, as shown in table 1.

**Table 1: CPD’s allocation of Sandy disaster recovery funds to Colorado, 2013-2015.**

Allocation date	Allocation round	Amount
12/16/2013	First	\$ 62,800,000
6/3/2014	Second	199,300,000
1/8/2015	Third	58,246,000
<b>Total allocated</b>		<b>320,346,000</b>

Because the Disaster Relief Appropriations Act had strict expenditure deadlines that Congress subsequently waived, CPD awarded Colorado’s funds in rounds over 4 years, as shown in table 2. Colorado’s Department of Local Affairs (DOLA) is the designated State agency to manage and administer these funds. DOLA acts as the central coordinator to implement multiple disaster recovery programs with other partner agencies.

<sup>9</sup> 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.

<sup>10</sup> GAO’s report Improper Payments: Key Concepts and Information on Programs with High Rates or Lacking Estimates, issued June 27, 2024, GAO-24-107482.

<sup>11</sup> Improper Payments: Key concepts and Information on Program with High Rates or Lacking Estimates, GAO-24-107482, issued June 27, 2024, and Requirements for Payment Integrity and Improvement, Circular No. A-123, Appendix C, OMB-M-21-19, issued March 5, 2021.

<sup>12</sup> CPD ODR and grantees often refer to the Disaster Relief Appropriations Act, 2013, funding as Hurricane Sandy funding or Sandy funding.

**Table 2: CPD’s obligation of Sandy disaster recovery grant funds to Colorado, 2014-2017.**

Obligation date	Obligation round	Amount
4/29/2014	First	\$ 62,800,000
11/10/2014	Second	27,999,200
4/17/2015	Third	2,224,694
6/12/2015	Fourth	7,415,173
6/12/2015	Fifth	1,000,000
7/20/2015	Sixth	3,636,700
12/2/2015	Seventh	24,462,500
3/30/2016	Eighth	36,093,971
9/20/2016	Ninth	36,689,960
3/31/2017	Tenth	59,914,026
9/7/2017	Eleventh	58,108,967
<b>Total obligated</b>		<b>320,346,000</b>

Colorado used CPD’s Disaster Recovery Grants Reporting (DRGR) system<sup>13</sup> to access its disaster recovery funds and report its accomplishments. Additionally, Colorado used its disaster recovery funds to match funds from other Federal agencies, including the Federal Emergency Management Agency (FEMA), the Federal Highway Administration, and the Economic Development Administration. For the FEMA Public Assistance program, Colorado officials said that it had 57 disaster recovery match activities, and it had spent more than \$23 million as of February 14, 2024.<sup>14</sup> Colorado’s non-Federal match share for these grants varied between 10 and 25 percent, and Colorado also used other local funds as part of the non-Federal match amount to reduce the disaster recovery non-Federal match percentages even further for some activities.

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

<sup>13</sup> The Disaster Recovery Grant Reporting (DRGR) System was developed by HUD CPD for the disaster recovery program. The DRGR System is primarily used by grantees to access grant funds and report performance accomplishments for grant-funded activities. The DRGR System is used by HUD staff to review grant-funded activities, prepare reports to Congress and other interested parties, and monitor program compliance.

<sup>14</sup> Colorado provided 31 more match activities than the number of match activities it reported in the DRGR system. For issues concerning how grantees report match activities in DRGR system, see our report 2025-FW-0801, Opportunities Exist for CPD to Improve Collection of Disaster Recovery Grantee Data for Non-Federal Match Activities, issued February 28, 2025.

## Results of Audit

### Colorado Reported Other Disaster Recovery Reimbursements as Non-Federal Match Payments

For 10 of the 15 FEMA Public Assistance non-Federal match payments HUD OIG tested, HUD reimbursed Colorado \$1.3 million (54 percent)<sup>15</sup> for other disaster recovery costs. Colorado identified these activities as match activities but did not separate its costs between FEMA Public Assistance non-Federal match costs or other costs, including improved or alternate projects,<sup>16</sup> in HUD's DRGR system. These costs were (1) costs that FEMA did not agree to fund as part of its project or (2) costs that FEMA determined to be ineligible. This occurred because Colorado 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 within the DRGR system. Further, CPD does not require Colorado or any of its disaster recovery grantees to separately report non-Federal match costs into DRGR or another HUD system. While these payments were for eligible disaster recovery costs associated with approved activities, Colorado is not transparently reporting the amounts of HUD disaster recovery funds it spent on non-Federal match activities versus other eligible disaster recovery costs. This resulted in Colorado appearing to overreport the amount paid for FEMA Public Assistance non-Federal match activity costs in the DRGR system. This decreased transparency as potential underpayments and overpayments for non-Federal match activities could be masked by Colorado's overreporting. In addition, HUD and its stakeholders cannot use the DRGR system data and its quarterly performance reports to ensure that Colorado properly uses its disaster recovery funds to meet FEMA's Public Assistance program non-Federal match percentages or determine the extent to which Colorado used disaster recovery funds to improve its projects.

### Colorado Comingled Non-Federal Match Costs with Other Activity Costs in the DRGR System

For 10 of the 15 non-Federal match payments HUD OIG tested, Colorado reported in DRGR and its quarterly performance reports other disaster recovery activity costs as expenses for non-Federal match activities. Colorado's other activity costs included costs that (1) FEMA did not pay for one project that was built back better than was existing at the time of the disaster, which totaled \$1.2 million, (2) FEMA determined that \$8,111 was ineligible for reimbursement, or (3) FEMA was not billed for as the costs were Colorado's other delivery costs<sup>17</sup> that totaled \$104,627. While these costs were eligible disaster recovery costs, they were not considered part of the FEMA Public Assistance project, and Colorado should not have reported them as non-Federal match costs. Reporting comingled costs caused Colorado

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<sup>15</sup> The 15 vouchers totaled \$2.5 million.

<sup>16</sup> According to FEMA an improved project is when an applicant chooses to expand, change, or enhance the facility while rebuilding. In this case, FEMA only funds up to the estimated cost of replacing the facility to its original pre-disaster state. An alternate project is when a facility is not worth repairing, and the applicant chooses to use the funds for a different, new facility.

<sup>17</sup> Activity delivery costs are costs incurred by a grantee or subrecipient directly related to the delivery of a specific disaster recovery project.

to appear to have overspent on FEMA Public Assistance non-Federal match activities by \$1.3 million in its DRGR data and its quarterly performance reports.<sup>18</sup>

## **Neither Colorado nor HUD Have Controls to Ensure Accurate DRGR Reporting of Non-Federal Match Costs**

Colorado officials 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, they did not distinguish the non-Federal match portions from improved or alternate costs in the DRGR system. Colorado's controls existed in systems not readily available to HUD and its stakeholders. The Uniform Administrative Requirement for Federal Awards and Federal Cost Principles requires grantees to establish internal and financial controls and to separately report, track, and document allocated costs.<sup>19</sup>

In addition, CPD ODR officials told us that they believed they were only required to ensure that non-Federal match costs met a national objective and were related to eligible activities. They also said that they believed that any excess non-match payments would generally be eligible disaster recovery costs. However, in doing this, CPD ODR was not ensuring that grantees like Colorado have met and not exceeded the non-Federal match or share requirement set by FEMA. By establishing controls, CPD ODR could use automated data tools to ensure that grantees are meeting the FEMA non-Federal match requirements while activities are in process rather than waiting until it selects an activity as part of its monitoring or until the grant closes. With recent significant reductions in HUD's workforce, identifying opportunities that allow continuous monitoring of grantee activities using data analytics to identify potential fraud, waste, and abuse is now more important than ever.

## **Colorado's Reporting Method for Non-Federal Match Activity Costs Increases the Risk of Improper Payments**

Colorado has not been transparently reporting the amounts it spent on non-Federal match activities versus other eligible disaster recovery costs. Of the \$2.5 million voucher items HUD OIG tested, \$1.3 million (54 percent) were not FEMA Public Assistance non-Federal match costs, which means Colorado is overreporting the amount it paid for FEMA Public Assistance non-Federal match activity costs in the DRGR system. Colorado's overreporting of expenses increased the risk of improper payments as potential under- and over-payments for non-Federal match activities could be masked by Colorado's overreported activity amounts. Further, Colorado and CPD lack data to show that Colorado provided only the required FEMA Public assistance non-Federal match or share amount. In addition, due to the overreported amounts, HUD and its stakeholders cannot use HUD's DRGR system data and Colorado's quarterly performance reports to ensure that the State has properly used its disaster recovery funds to meet FEMA's Public Assistance program non-Federal match percentages. Although Colorado has spent most of

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<sup>18</sup> Grantees financial records and controls should ensure that transactions are properly recorded and accounted for in a manner that ensures that costs can be traced to ensure accountability. 2 CFR 200.62(a) and 200.302(a) and (b). Further, matching costs must be verifiable, adequately documented, and allocable relative to the benefit received. 2 CFR 200.306(b); 200.403(a) and (g); and 200.405(a)

<sup>19</sup> See appendix C for criteria.

its Sandy funds, it needs to adopt strong financial controls to track non-Federal match costs as it has additional disaster recovery funds, and it could receive future funding.

## Recommendations

We recommend that the Director of CPD ODR requires Colorado to

1A. Establish internal and financial controls to ensure that it allocates, tracks, and reports future non-Federal match costs separately from other disaster recovery costs within the DRGR system for future disasters, which will ensure that at least \$1.3 million is correctly reported as other disaster recovery costs rather than as costs that Colorado is using to meet its non-Federal match requirements.

1B. Provide documentary support in the DRGR system that it met and did not exceed the match percentage set by FEMA for its completed Public Assistance activities.

We recommend that the Director of CPD ODR require

1C. Grantees to include in their DRGR system's reports their non-Federal match costs in a manner that documents that they have met FEMA's set match percentage requirements and issue a template to grantees to ensure consistency of reporting in their systems of records.

## Management Response

Colorado broadly agreed that the DRGR system does not currently distinguish the match portion of funding, and it noted that the DRGR system has not historically required this level of reporting. It discussed the State's internal controls to manage infrastructure projects and to ensure that no duplication of benefits occurs. It also discussed FEMA's responsibilities as the primary Federal funding source. Colorado deferred to HUD regarding distinguishing match in the DRGR system and stated it would consult with HUD to ensure reporting aligns with best practices should the State receive future disaster recovery allocations or modify its current action plan.

In its response, HUD CPD management agreed that Colorado 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 by, or for which funds are made available by FEMA. CPD stressed that using the DRGR system was not suited to tracking non-Federal cost expenditures. Because DRGR tracks at the activity level rather than by cost category, requiring separate activities or reporting categories solely to distinguish non-Federal match costs within the same project would result in duplicative outcome reporting that may affect CDBG national objective reporting. Further, CPD agreed that Colorado should provide documentary support that it did not duplicate FEMA assistance and that it would allow the grantee to provide the documentation outside of DRGR. Finally, CPD said it had previously acted to require grantees to identify match activities in the DRGR system based on a prior OIG report. Instead of using the DRGR system to track non-Federal match cost information, it instead offered to develop an optional recordkeeping template for consistency among grantees in maintaining non-Federal match details in grantees' systems of record and asked that we modify the recommendation to accommodate this suggestion.

## OIG Evaluation of Management Response

We appreciate that Colorado broadly agreed with the report's finding regarding DRGR, which includes the State's non-Federal match reporting to HUD.

We appreciate CPD's response. To clarify the intention of our recommendations, we are not asking that CPD require grantees to track detailed non-Federal match costs in the DRGR system. Our recommendations seek to have Colorado and other grantees provide clarity in how they used CDBG-DR funds in meeting their match requirements and to ensure that information is accurately reported in DRGR system reports. Grantees do not always appear to be tracking delivery costs in addition to the FEMA non-Federal match portion of its costs. Having grantees clearly identify the costs spent on non-Federal match and on other direct costs would provide CPD with valuable information to assess whether grantee delivery costs are reasonable and necessary when compared to total FEMA project costs. We disagree that having grantees clearly report their use of CDBG-DR funds for match activities would impact national objective reporting if the information is reported as summary information in existing activities. While CPD is currently addressing a recommendation made in a prior report regarding the identification of match activities for disaster grantees within DRGR, we believe additional reporting is necessary to provide CPD a clearer understanding of grantees' compliance with non-Federal match percentages. In addition, CPD would have information to determine whether the total amount of direct costs billed to FEMA match activities are reasonable and necessary. This will ensure that the State has properly used its disaster recovery funds to meet FEMA's Public Assistance program non-Federal match percentages and ensure that direct costs are reasonable when compared to the total non-Federal FEMA Public Assistance costs. We made a minor modification to recommendation 1C to clarify that we are seeking reporting changes, and we added CPD's suggested change.

We will continue to work with CPD during the audit resolution process to ensure that CPD and Colorado appropriately address the recommendations.

## Scope and Methodology

We conducted the audit from February 2, 2024, to April 3, 2025, on-site in Denver, CO, and off-site from Fort Worth and San Antonio, TX. Our audit covered Colorado’s Disaster Relief Appropriations Act, 2013, disaster recovery grant<sup>20</sup> funding. The audit period was from January 1, 2020, to December 31, 2023. We expanded our scope as necessary to obtain information about the disaster recovery program and Colorado’s grants, as noted below.

To accomplish our audit objectives, we

- Reviewed prior audits and other reports related to Federal disaster programs and the audit objectives.
- Reviewed the Disaster Relief Appropriations Act, 2013, published January 29, 2013.
- Reviewed 28 Federal Register notices for the disaster recovery grants related to the 2013 Act, dated March 5, 2013, to July 13, 2023, 17 of which had information related to matching funds to obtain an understanding of the disaster recovery program and match requirements.
- Reviewed other HUD program guidance and information, including a CPD notice, on its disaster recovery program, matching requirements, and the FEMA Public Assistance program.
- Obtained an understanding of the disaster recovery program requirements by reviewing the various Code of Federal Regulations (CFRs) governing this grant<sup>21</sup> and an OMB Circular dated from April 1, 2013, to March 5, 2021, which were related to the program and the audit objectives.
- Obtained an understanding of Federal improper payments by reviewing laws, audits, other reports, and other guidance on the topic.
- Reviewed information on FEMA’s webpages concerning the Public Assistance program.
- Reviewed Colorado’s grant agreements for requirements and other information that contained information from April 29, 2014, to September 7, 2017.
- Reviewed 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.
- Reviewed relevant information maintained on HUD’s and Colorado’s webpages.
- Interviewed HUD and grantee officials.

Using a risk-based and nonstatistical approach, we selected Colorado’s Disaster Relief Appropriations Act, 2013, grant FEMA Public Assistance match activities for review. We obtained and reviewed Colorado DRGR system data from July 8, 2014, to December 31, 2023, to identify its match activities. We sorted DRGR system data to identify any activity that either had the word match in the project or activity title. The DRGR data indicated that Colorado had 37 activities or projects titled as match with more than \$10 million spent. Due to a lack of established controls for identifying match activities in DRGR,<sup>22</sup> we asked

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<sup>20</sup> Grant number B-13-DS-08-0001

<sup>21</sup> 24 CFR 570, Subpart I; 24 CFR part 85; and 2 CFR 200

<sup>22</sup> 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.

Colorado officials to review the 37 activities we identified and provide all FEMA Public Assistance match activities for its Sandy grant.

Colorado officials provided a list of 57 FEMA Public Assistance activities that totaled more than \$23 million. Its response also noted the following

- For 10 of the 37 activities on our DRGR match activity list, Colorado officials said they were not FEMA Public Assistance match activities, but they were match activities for other agencies or another FEMA assistance program, the Hazard Mitigation Grant Program.
- For one activity on our DRGR match activity list, Colorado officials said they had incorrectly labeled it in the DRGR system as a match activity when it was not.
- Colorado officials identified an additional 31 FEMA Public Assistance activities that were not on our list due to how they had been titled in the DRGR system, and that the State had spent more than \$12 million on these activities.

We compared Colorado's 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 Colorado's match data in the DRGR system as noted in the bullet list above, we determined that the reconciled data was the best and only available data source to answer our audit objective.

We used the reconciled universe of 57 FEMA Public Assistance activities as the starting point to select a nonstatistical sample for improper payment testing. We excluded 47 of the 57 activities as they did not have a voucher line-item payment<sup>23</sup> during January 1, 2020, to December 31, 2022. For the remaining 10 activities that had payments during our audit scope, we obtained the FEMA Public Assistance project worksheet number associated with these activities. When pulling and analyzing the 8 FEMA project worksheets associated with these 10 activities, our analysis showed an additional 4 non-Federal match activities were associated with these project worksheets. Thus, our testing universe consisted of 8 FEMA project worksheets with 14 activities with 91 voucher line items totaling more than \$7.5 million. We used a risk-based approach, including weighting based on total amount paid, to choose 3 FEMA project worksheets, which had 8 activities, and 18 voucher items associated with them as our nonstatistical sample as shown in table 3.

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<sup>23</sup> A DRGR system payment voucher can consist of one or more line-items. We used the reported Line of Credit Control System transaction date in the DRGR system to determine when a line item was paid.

**Table 3: Nonstatistical sample items selected**

FEMA project worksheet number	DRGR activity number	Voucher number	Item number	Amount	Sample item
333	A2-9E-INF-MAT-L36-UN-P-DR2-LAR-10	549940	2	\$1,006,096	1
	A2-9E-INF-MAT-L36-UN-P-DR2-LAR-10	567965	2	555,470	2
	A2-9E-INF-MAT-L36-UN-P-DR2-LAR-10	672591	2	551,897	3
	A2-9E-INF-MAT-L36-UN-P-DR2-LAR-10	533223	1	388,544	4
	A2-9E-INF-MAT-L36-UN-P-DR2-LAR-10	600841	1	96,201	5
	A2-9E-INF-MAT-L36-UN-P-DR2-LAR-10	442095	19	536	6
	A2-9E-INF-MAT-L36-UN-P-DR2-LAR-10	435732	8	268	7
519	A2-9E-INF-MAT-L36-LM-P-DR2-LAR-10	672591	3	356,608	8
	A3-1E-INF-MAT-L36-UN-P-DR2-LAR-01	672591	4	349,878	9
	A2-9E-INF-MAT-L36-UN-P-DR2-LAR-01	600841	2	236,008	10
	A2-08-INF-MAT-L36-LMP-DR2-LAR-10	397224	17	2,222	11
	A2-08-INF-MAT-L36-LMP-DR2-LAR-10	445172	6	179	12
684	A-2-09-INF-BCC-B07-LM-P-00038	417410	1	623,289	13
	A3-1E-INF-BCC-B07-LM-P-0051	478358	9	84,317	14
	A3-1E-INF-BCC-B07-LM-P-0051	491804	7	18,821	15
	A3-1E-INF-BCC-B07-LM-P-0051	486799	15	13,295	16
	A3-1E-INF-BCC-B07-LM-P-0051	482679	13	1,392	17
	A3-10-INF-BCC-B07-UN-P-00061	428800	15	1,152	18
<b>Total</b>				<b>4,286,173</b>	

For each item selected, we tested whether Colorado:

- Made eligible CDBG-DR 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.
- Had invoices or other documentary support for the payment amount.
- Paid for an activity that Colorado identified as match activity in the activity description in the DRGR system’s quarterly performance report.

We stopped testing after reviewing 15 of the 18 sample voucher line items because we had not found an overpayment, an underpayment, a duplicate payment, or a significant amount of unknown improper payments.

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 Funds to Be Put to Better Use

**Table 1. Schedule of Funds to Be Put to Better Use**

Recommendation Number	Funds to be put to better use 1/
1A	\$1,350,284

1/ 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, de-obligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in pre-award reviews, and any other savings that are specifically identified. In this case, the amount represents funds that Colorado is comingling in their DRGR reporting with FEMA Public Assistance Non-Federal match costs that (1) FEMA did not agree to fund as part of its project, or (2) FEMA determined the costs to be ineligible. Colorado could report these non-Federal match funds in a more transparent manner.

## Appendix B – Management Response

### Colorado Department of Local Affairs Response



March 11, 2026

Kilah S. White  
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U.S. Department of Housing and Urban Development - Office of the Inspector General  
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Washington D.C. 20410

Subject: Colorado Management Response to HUD OIG Report: Colorado Reported Other Disaster Recovery Reimbursements as Non-Federal Match Payments

Dear Ms. White:

Thank you for the opportunity to respond to your team's report on the use of CDBG-DR non-federal match payments. We greatly appreciate HUD's partnership in the effective and efficient use of these resources that are so critical to the long-term recovery of our disaster impacted communities.

We broadly agree with the underlying determination that HUD's DRGR system does not currently distinguish the match portion of funding from project improvements. However, the State does have internal financial controls to manage infrastructure projects with multiple funding sources including the ability to manage match funding of projects that include FEMA PA and to ensure that no duplication of benefits occurs. As the primary Federal Funding source, FEMA also ensures the appropriate match, regardless of source, is covered by the State or local recipient. While these other

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Strengthening Colorado Communities





systems incorporate this level of granularity, we recognize that the DRGR system has not historically required this specific level of reporting.

The flexibility allowed by HUD to improve projects beyond replacing what was lost is critical to community recovery and not only saves taxpayer dollars in the long term through investments in resilient infrastructure, but also potentially saves lives and reduces property damage in the future. We are grateful that HUD CPD not only allows this but encourages States and communities to look for opportunities to rebuild in a manner that mitigates risk and further protects lives and property in the event of a future disaster. We acknowledge and appreciate your staff's explanation that the title of Appendix A, "Schedule of Funds to Be Put to Better Use", is a limitation of GAO designations available and in this case refers to a reporting discrepancy only. As indicated above, we maintain that the use of funds for improved projects is a best practice and critical to long-term community recovery and enhanced safety.

The State defers to HUD regarding the necessity and utility of distinguishing the match portion of a project from project improvements through DRGR reporting. Our focus is on community rebuilding and the mutual success of both HUD and the State in effectively and competently utilizing these critical grant dollars. The State will abide by and fully cooperate with HUD on any policy or procedural changes to meet the transparency needs of our federal partner. Should the State receive future CDBG-DR allocations or modify our current action plan to incorporate any non-federal match projects, we look forward to consulting with HUD ODR to ensure our reporting aligns with current best practices.

We greatly appreciated working with your staff on the review of our programs and projects. My compliments on their perspective and insights; we always appreciate

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learning opportunities to improve our processes and better serve our disaster impacted communities.

Sincerely,

A handwritten signature in blue ink, appearing to read 'David J. Bowman'.

David J. Bowman  
Deputy Director, Division of Local Government  
(formerly Director, Disaster Recovery Unit)  
Department of Local Affairs

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# 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: 2023.03.20 15:47:20  
-0400'

SUBJECT: HUD Comments for OIG Draft Audit Report – Colorado Reported  
Other Disaster Recovery Reimbursements as Non-Federal Match  
Payments

The Office of Community Planning and Development (CPD) has reviewed the draft audit report of the State of Colorado (State), entitled “Colorado Improperly Reported Disaster Recovery Reimbursement as Non-Federal Match Payments.” CPD offers the following comments on the draft audit report for consideration.

The HUD Office of Inspector General (OIG) conducted this audit to evaluate whether the State of Colorado made improper non-Federal match activity payments. The OIG concluded that they did not identify duplicate payments or significant amounts of unsupported costs. However, the State reported \$1.3 million dollars as non-federal match costs that actually supported other disaster recovery costs. 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. However, HUD disagrees that grantees must use the Disaster Recovery Grant Reporting (DRGR) system to document detailed non-federal cost share information related to other federal programs because DRGR is designed to capture compliance with HUD CDBG requirements and eligible activities. The discussion below includes CPD's comments on the specific OIG Recommendations:

**OIG Recommendation: 1A.** We recommend that the Director of CPD ODR require Colorado to establish internal and financial controls to ensure that it allocates, tracks, and reports future non-Federal match costs separately from other disaster recovery costs within the DRGR system for future disasters which will ensure that at least \$1.3 million is correctly reported as other disaster recovery costs rather than as costs that Colorado is using to meet its non-Federal match requirements.

**HUD Comment:** HUD agrees the grantee should track and document its CDBG-DR expenditures that contribute to non-Federal match in its system of record. However, the Department asserts that the DRGR system is not suited to document detailed non-federal cost share information. Under the Federal Register Notices applicable to grants allocated due to 2013 disasters, grantees must enter activities into DRGR at a level of detail sufficient for HUD to determine CDBG-DR compliance, draw funds, and report expenditures and accomplishments. However, because DRGR tracks beneficiaries and accomplishments at the activity level rather than by cost category, requiring separate activities or reporting categories solely to distinguish nonfederal match costs within the same project would result in duplicative outcome reporting



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and may affect the grantee's ability to demonstrate meeting a CDBG National Objective for the activity. Grantee documentary support on disaster tie-back, activity eligibility, national objective compliance, and any additional support on activities being assisted must be maintained in the grantee's own files and is governed by 24 CFR 570.506 and 570.490.

**OIG Recommendation: 1B.** We recommend that the Director of CPD ODR requires Colorado to provide documentary support in the DRGR system that it met and did not exceed the match percentage set by FEMA for its completed Public Assistance activities.

**HUD Comment:** The Department agrees that Colorado must verify that CDBG-DR funds will not be used for activities reimbursable by, or for which funds are made available by, FEMA. HUD also agrees that Colorado should update its DRGR action plan entries to clarify which activities provided contributions towards non-federal match, especially if the action plan indicates the activity supports match and in fact it did not. HUD recommends that Colorado provide documentary support demonstrating that it did not duplicate FEMA assistance for its non-Federal match program. However, CPD would allow the grantee to provide documentation outside of DRGR since DRGR is not suited for this purpose.

**OIG Recommendation: 1C.** We recommend that the Director of 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.

**HUD Comment:** The Department agrees that grantees must verify that CDBG-DR funds will not be used for activities reimbursable by, or for which funds are made available by, FEMA, and grantees must maintain documentation in their grant files demonstrating compliance with this requirement. The Department proposes to align with a previously agreed-upon approach to improve visibility into non-Federal match activities. The Department and OIG leadership previously discussed a similar recommendation arising from OIG audit report 2025-FW-0801, "Opportunities Exist for CPD to Improve Collection of Disaster Recovery Grantee Data for Non-Federal Match Activities." The Department and OIG reached a management decision that HUD would enhance DRGR by adding a checkbox that allows grantees to identify activities that include non-Federal match components. This functionality, which is currently in development and expected to be deployed in a future system release, will allow HUD and oversight entities to generate portfolio-level reports identifying activities that include non-Federal match while avoiding additional reporting burden on grantees. The Department will also develop an optional recordkeeping template for consistency among grantees in maintaining non-Federal match details in their systems of record. The Department requests that OIG revise the recommendation to align with the alternative approach described above.

Should you have any questions regarding these draft audit report comments, please do not hesitate to contact Scott Prowse, Acting Assistant Director, at [Timothy.S.Prowse@HUD.gov](mailto:Timothy.S.Prowse@HUD.gov).

## Appendix C – Criteria

**200.1 Definitions.**<sup>24</sup> 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.
- (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):

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<sup>24</sup> Effective as of January 1, 2020, which was the start date of our audit scope.

- (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**

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.