

**Management Alert –
Reporting Suspected Fraud
of Lost Wages Assistance**





OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

February 28, 2022

MEMORANDUM FOR: The Honorable Deanne Criswell
Administrator
Federal Emergency Management Agency

FROM: Joseph V. Cuffari, Ph.D. **JOSEPH V CUFFARI** Digitally signed by
Inspector General **CUFFARI** JOSEPH V CUFFARI
Date: 2022.02.25
18:00:30 -05'00'

SUBJECT: *Management Alert – Reporting Suspected Fraud of Lost Wages Assistance*

Attached is our final management alert, *Management Alert – Reporting Suspected Fraud of Lost Wages Assistance*. This alert informs you of an urgent issue we discovered during an ongoing audit and the actions the Federal Emergency Management Agency has taken to address the issue.

We found that state workforce agencies in the Lost Wage Assistance (LWA) program are not reporting identified or suspected LWA fraud to the Department of Homeland Security Office of Inspector General as required. We conducted this work pursuant to the *Inspector General Act of 1978*, as amended, and in connection with an audit being performed according to generally accepted government auditing standards.

Your office reviewed a draft of this alert, issued February 7, 2022, and concurred with both recommendations we made to notify and reinforce to state workforce agencies that they must report suspected, alleged, and identified fraud to DHS OIG's Office of Investigations. Based on your office's response to the draft alert, we consider both recommendations resolved and closed. We have appended your office's response to the final alert.

Consistent with our responsibility under the *Inspector General Act of 1978*, as amended, we will provide copies of the alert to congressional committees with oversight and appropriation responsibility over DHS. We will also post the final alert on our website for public dissemination.

Please call me with any questions, or your staff may contact Bruce Miller, Deputy Inspector General for Audits, at (202) 981-6000.

Attachment



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Background

On August 8, 2020, the President directed the Federal Emergency Management Agency (FEMA)¹ to expend up to \$44 billion from the Disaster Relief Fund (DRF) for a Lost Wages Assistance (LWA) program. The grant program aimed to ease the economic burden of people struggling with lost wages due to the COVID-19 pandemic by funding supplemental payments for participating states and territories to distribute weekly to eligible claimants.² The Department of Labor oversees unemployment insurance, but the President mandated that LWA funds come from the DRF.

From the week ending August 1, 2020, until December 27, 2020, the LWA program was available to state workforce agencies³ (SWA) that applied for the program and received FEMA's approval to participate in it. As of November 2021, FEMA had obligated more than \$38 billion in grants to 54 SWAs. The SWAs have until September 27, 2022, to close out their LWA grants.

As part of the grant application, each SWA that participated in the LWA program submitted a state administrative plan to FEMA for approval. The SWA must manage LWA in accordance with the plan's policies and procedures, the presidential memorandum, and applicable provisions of the Code of Federal Regulations (C.F.R.). The C.F.R. requires states and territories receiving LWA funds to have procedures in place for reporting alleged fraud, waste, or abuse to the Department of Homeland Security's Office of Inspector General for investigation or referral to the appropriate authority.⁴

SWAs Are Not Reporting Fraud to DHS OIG

During our ongoing audit, *FEMA's Disaster Relief Fund Obligations for Lost Wages Assistance to States and Territories*, we found FEMA did not ensure that all SWAs' administrative plans included the requirement to report LWA fraud to DHS OIG. We reviewed the 54 SWAs' administrative plans and found that 38 of them did not include the required procedures for reporting suspected or identified LWA fraud to DHS OIG. (See Appendix A for more information about our ongoing audit.)

¹ *Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019*, 2020 DAILY COMP. PRES. DOC. 00593 (Aug. 8, 2020).

² To be eligible, claimants seeking LWA for the week must have (1) received at least \$100 from an unemployment insurance program and (2) self-certified that their unemployment or partial unemployment was due to disruptions from COVID-19.

³ *State workforce agency* is a generic term for the entities that oversaw LWA for the 49 states and 5 territories that participated in the program.

⁴ 44 C.F.R. § 206.120(d)(3)(ix), *State administration of other needs assistance*.



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In addition, officials from 10 SWAs — 5 of which had included the reporting requirement in their plans — told us their SWAs had identified, in total, more than \$1.5 billion in potentially fraudulent payments. None, however, reported the fraud to DHS OIG. The SWAs that had included the reporting requirement identified most of the potential fraud — \$1.2 billion altogether.

According to a FEMA official, FEMA approved the 38 administrative plans that did not include the reporting requirement because the requirement was not in the template FEMA originally gave the SWAs at the beginning of the disaster. Upon realizing the requirement was missing, FEMA updated the template to include it, but it did not require the 38 SWAs to change their approved plans. In addition, FEMA officials said they do not follow up with the SWAs to reinforce the requirement.

As a result, the DHS OIG Office of Investigations may not receive additional information that would enable it to investigate potential LWA fraud, making it more difficult to recover DRF funds for FEMA's use in future disaster response efforts. Additionally, without SWAs' reporting to DHS OIG, fraud is likely to persist or increase in the program and FEMA will continue to miss opportunities to combat fraud.

Recommendations

Recommendation 1: We recommend the FEMA Administrator issue an alert to direct state workforce agencies participating in its Lost Wages Assistance program to report suspected, alleged, and identified fraud to DHS OIG's Office of Investigations.

Recommendation 2: We recommend the FEMA Administrator ensure FEMA follow up with state workforce agencies in its Lost Wages Assistance program to reinforce reporting of suspected, alleged, and identified fraud to DHS OIG's Office of Investigations.

Management Comments and OIG Analysis

We gave FEMA a draft of this management alert on February 7, 2022, for its review and response. FEMA responded on February 17, 2022, concurring with both of our recommendations and providing the necessary supporting documentation to close them. A summary of FEMA's response and our analysis follow. We include the full response in this alert as Appendix B.

FEMA Comments to Recommendation 1: FEMA concurred with our recommendation. On February 9, 2022, FEMA requested the Department of



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Labor distribute an alert reminding SWAs participating in the LWA program of their obligation to report fraud to the DHS OIG. The alert also stated that SWAs must investigate allegations of fraud, waste, and abuse independently or in conjunction with DHS OIG. On February 14, 2022, the Department of Labor issued the alert to the SWAs that participated in the LWA program.

OIG Analysis of FEMA's Response: FEMA's actions are responsive to the recommendation. We consider the recommendation resolved and closed.

FEMA Comments to Recommendation 2: FEMA concurred with our recommendation. On January 25, 2022, FEMA completed updates to the final grant closeout summary letter template so that it now includes guidance to SWAs about their obligation to report allegations of fraud, waste, and abuse to the DHS OIG and to investigate as appropriate. FEMA also updated the LWA guidance on its webpage to include this obligation.

OIG Analysis of FEMA's Response: FEMA's actions are responsive to the recommendation. We consider the recommendation resolved and closed.



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Appendix A

Objective, Scope, and Methodology

DHS OIG was established by the *Homeland Security Act of 2002*, Pub. L. No. 107-296, 116 Stat. 2135, which amended the *Inspector General Act of 1978*.

We issued this management alert during an ongoing audit, *FEMA's Disaster Relief Fund Obligations for Lost Wages Assistance to States and Territories*. The objective of our audit is to determine to what extent FEMA ensured states and territories distributed supplemental LWA from the DRF to eligible recipients. As part of our audit, between June 2021 and January 2022, we:

- interviewed FEMA officials from the Office of the Chief Financial Officer, Office of Chief Counsel, Grant Programs Directorate, and Individual Assistance Division;
- interviewed officials from 20 of the 54 participating SWAs, specifically asking officials from 10 SWAs about the inclusion of the DHS OIG fraud reporting requirement in their state administrative plans;
- analyzed all 54 SWAs state administrative plans;
- reviewed documents, including FEMA policies, guidance, and frequently asked questions; and
- obtained and analyzed LWA payment data from 15 of the 54 participating SWAs (28 percent), accounting for \$25.3 billion of the \$38.9 billion in awarded funding (65 percent).

We conducted this work pursuant to the *Inspector General Act of 1978*, as amended, and in connection with an ongoing audit being performed according to generally accepted government auditing standards. Those standards require we plan and perform our audit work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

Additional information and recommendations regarding the issue in this alert may also be included in our audit report.



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Appendix B
FEMA's Comments on the Draft Management Alert

U.S. Department of Homeland Security
Washington, DC 20472



FEMA

February 17, 2022

MEMORANDUM FOR: Joseph V. Cuffari, Ph.D.
Inspector General

FROM: Cynthia Spishak
Associate Administrator
Office of Policy and Program Analysis

SUBJECT: FEMA Response to "Draft Report Management Alert -
Reporting Suspected Fraud of Lost Wages Assistance"
(Project No. 21-040-AUD-FEMA (a))

CYNTHIA SPISHAK
Digitally signed by CYNTHIA SPISHAK
Date: 2022.02.17 17:32:03 -05'00'

Thank you for the opportunity to comment on this draft report. The Federal Emergency Management Agency (FEMA) appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

On August 14, 2020, under the authority of a Presidential Memorandum titled: "Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019," dated August 8, 2020, FEMA began providing supplemental financial relief to individuals who suffered from unemployment due to the COVID-19 public health emergency. As of February 9, 2022, FEMA has obligated more than \$38 billion in Lost Wages Assistance (LWA) grants and estimates that more than 20 million impacted individuals received supplemental lost wages assistance for each of the six weeks for which they were available. FEMA remains committed to successfully fulfilling its mission of helping people before, during, and after disasters.

FEMA leadership is pleased to note OIG's positive recognition that FEMA updated its template for state administrative plans, submitted as part of grant applications, to include a requirement that state workforce agencies (SWAs) report alleged fraud, waste, and abuse to the DHS OIG (this occurred in August 2020).

In addition, on January 25, 2022, FEMA's Individual Assistance (IA) Division completed updates to the final closeout summary letter template, including guidance to SWAs that their obligation to (1) expeditiously investigate and report any evidence or allegations of fraud, waste, and abuse to the DHS OIG, and (2) investigate allegations of fraud, waste,



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and abuse independently or in conjunction with DHS OIG, if requested, do not end with grant closure.

The draft report contained two recommendations with which FEMA concurs. Attached find FEMA's detailed response to each recommendation. FEMA previously submitted technical comments under a separate cover for OIG's consideration.

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions. We look forward to working with you again in the future.

Attachment



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**Attachment: Management Response to Recommendations
Contained in 21-040-AUD-FEMA(a)**

OIG recommended that the FEMA Administrator:

Recommendation 1: Issue an alert to direct state workforce agencies participating in its Lost Wage Assistance program to report suspected, alleged, and identified fraud to DHS OIG's Office of Investigations.

Response: Concur. On February 9, 2022, FEMA's IA Division delivered an alert to the Department of Labor (DOL) for distribution reminding all state, territory, and the District of Columbia workforce agencies participating in the LWA program of their obligation to expeditiously investigate and report to the DHS OIG any evidence or allegations of fraud, waste, and abuse in their LWA programs or by claimants. The alert also stated that workforce agencies must investigate allegations of fraud, waste, and abuse independently or in conjunction with DHS OIG, if requested by DHS OIG. On February 14, 2022, the DOL issued the alert to FEMA's LWA recipients (i.e., workforce agencies) in the states, territories, and the District of Columbia.

On February 17, 2022, FEMA provided the OIG a copy of corroborating and supporting documentation related to this recommendation under a separate cover. FEMA requests this recommendation to be considered resolved and closed, as implemented.

Recommendation 2: Ensure FEMA follow-up with state workforce agencies in its Lost Wage Assistance program to reinforce reporting of suspected, alleged, and identified fraud to DHS OIG's Office of Investigations.

Response: Concur. On January 25, 2022, FEMA's IA Division completed updates to the final grants closeout summary letter template - to include guidance to SWAs that the obligation to (1) expeditiously investigate and report any evidence or allegations of fraud, waste, and abuse to the DHS OIG and (2) investigate allegations of fraud, waste, and abuse independently or in conjunction with DHS OIG, if requested, does not end with grant closure.

Since the onset of this program, the FEMA.gov webpage pertaining to the LWA program¹ has identified the requirement for states, territories, and the District of Columbia to refer allegations of fraud, waste, and abuse to the DHS OIG. Additionally, FEMA's IA Division posted updated LWA guidance to this webpage on February 10,

¹ <https://www.fema.gov/disaster/coronavirus/governments/supplemental-payments-lost-wages-guidelines#postcloseout>



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2022, to iterate the obligation to expeditiously report allegations of fraud, waste, and abuse to the DHS OIG and to investigate allegations of fraud, waste, and abuse independently or in conjunction with DHS OIG, if requested, even after the grants are closed.

FEMA requests this recommendation to be considered resolved and closed, as implemented.



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Appendix C
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