# Common FEMA PA Audit Compliance Findings and How to Respond

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Municipalities across the state are facing an uptick in program compliance audits tied to FEMA's Public Assistance (PA) program. These reviews are an important part of ensuring federal funds are used appropriately, but they can also create uncertainty for local governments already managing complex recovery efforts. Municipalities that are not rated as "low risk" are more likely to be audited.

To support communities navigating this process, VLCT has compiled practical, ready‑to‑use response language and strategies to address the most common compliance questions raised during state audits. This resource is designed to help municipalities respond confidently, clearly, and consistently while maintaining alignment with FEMA PA requirements.

## Audit Questioned Compliance

### Written procedures for determining allowability of costs

The following text can be added to one of the municipality's written policies or procedures, such as its Procurement Policy, Internal Controls, Financial Management/Accounting Manual, or Grant Management Policy or Procedure.

To determine cost allowability when expending Federal award funding, the municipality will consider Federal Cost Principles, the notice of funding opportunity or award announcement, the award application, the applicable funding agreement, and its own policies.

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**Federal Requirement:** 2 CFR § 200.302(b)(7)

## Written standards of conduct covering conflicts of interest

You can use VLCT's Model Procurement Policy or add the following text to the municipality's Procurement or Conflict of Interest Policy:

**Definition of Conflict of Interest.** A conflict of interest occurs when the employee, officer, agent, or board member of the Municipality, any member of their immediate family, their partner, or an organization that employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from an entity considered for a contract.

**Policy Text for Conflict of Interest.** See Definitions section. Any employee, officer, or agent of the Municipality who participates in the procurement process must make reasonable efforts to avoid real or apparent conflicts of interest, must disclose any potential conflicts of interest in writing, must refrain from participating in procurement decisions where such conflicts exist, and must comply with other requirements of 2 CFR § 200.318(c). If the municipality has an affiliate or subsidiary organization that is not a State, local government, or Indian Tribe, the Municipality also must maintain written standards of conduct covering organizational conflicts of interest. Any actual or potential conflict of interest must be disclosed to the funder. If a conflict exists between the Federal requirements and the Municipality's requirements, the most restrictive requirement must be used. Disciplinary actions shall be

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the enforcement actions in the Municipality's adopted investigation and enforcement ordinance, personnel policy, or rule Code of Ethics Investigation and Enforcement Ordinance. Disciplinary actions of Appointed Officers shall apply to non-employee agents.

This text blends Federal Conflict of Interest requirements with requirements of Vermont's Municipal Code of Conduct.

**Federal Requirement:** 2 CFR § 200.318(c)

## Documentation of internal controls

If the municipality has not developed detailed, written internal controls, the municipality can provide the State's audit staff with the **most recently completed** internal financial controls document provided by the Treasurer to the Selectboard. A template of this document is available on the Vermont State Auditor's website at Internal Financial Controls Checklist for Municipalities.

Municipalities can use VLCT's Internal Financial Controls Checklist for Municipalities to assess their internal financial controls.

**Federal Requirement:** 2 CFR § 200.1 and § 200.303

## DPS Risk Assessment Survey completion accuracy

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The DPS Risk Assessment Survey asks questions about your municipality's financial systems and policies. It should be filled out by people who understand these areas well. Wrong or guessed answers can cause the municipality to have "Questioned Compliance" findings or be treated as a "high risk auditee", which can affect future grants.

To address this Questioned Compliance, send a corrective action response saying the municipality will review all survey answers for accuracy before it is signed and submitted. Explain how this will be done. For example: "Two knowledgeable staff members (such as the Town Clerk/Treasurer and the Selectboard Chair or Town Manager) will complete and check the Risk Assessment Survey." Whatever process you choose, it should become part of the municipality's internal controls. Keep a copy of each completed survey for your records.

DPS only requires one signature on the Risk Assessment. The VT Department of Environmental Conservation (DEC) requires two. DEC asks that the person authorized to sign the agreement sign as the "Chief Officer," and that the Treasurer or Finance Director sign as the "Chief Fiscal Officer."

**Federal Requirement:** 2 CFR § 200.332

## Naming revenue and expenses accounts in compliance with the federal regulations

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Federal regulations (2 CFR § 200.302) require municipalities to track Federal award activity in their financial management systems, including:

- Assistance Listing title and number,
- Federal award identification number,
- year the award was issued, and
- name of the Federal agency or pass-through entity.

These requirements apply once a Federal award exists. They ensure that Federal revenues and expenditures can be clearly identified, reported, and supported for monitoring and audit purposes.

Before a federal declaration or award is issued, some of this information may not be available. During that period, municipalities may track emergency or event-related costs using their normal accounting practices (e.g., event-based or date-based accounts).

Once a Federal award is issued or an event becomes eligible for Federal assistance, municipalities must ensure that required award information is clearly associated with related revenues and expenditures. This can be done through the accounting system structure, tracking fields, or other controlled records linked to the underlying accounts.

If the financial system cannot capture all required award information through account attributes, the VT Department of Public Safety recommends incorporating it into the account naming convention in the following order (example shown):

- Federal agency (FEMA)

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- ALN title/award title (DR4810)
- ALN (97.036)
- Pass-through entity (DPS)
- State grant agreement number (02140-84810-XXX)
- Federal Award Identification Number / FAIN (FEMA-DR-4810-VT)
- Award year (2024)

GFOA guidance generally favors maintaining a stable chart of accounts and tracking grant-specific details through system attributes, project codes, or supplemental records rather than lengthy account titles. As an alternative to a long account name, municipalities may maintain the required Federal award information in a controlled supplemental record (e.g., spreadsheet BW1.1) that is clearly linked to the relevant accounts. In this case, the fund or account may be named based on the event or incident date, with the supplemental record used to document the required Federal identifiers once known. VLCT's Model Account Naming Spreadsheet (XLSX, 18.34 KB) can get you started.

Whichever method is used, it must allow the municipality to accurately identify, report, and substantiate Federal award activity while maintaining consistency and integrity within the chart of accounts.

**Federal Requirement:** 2 CFR § 200.302(a) and (b)(1)

### Expenditures could not be traced to FEMA payments

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Federal awardees must maintain records that sufficiently identify the amount, source, and expenditure of Federal funds for Federal awards. These records must contain information necessary to identify Federal awards, authorizations, financial obligations, unobligated balances, as well as assets, expenditures, income, and interest. All records must be supported by source documentation.

To address this Questioned Compliance, municipalities should track each disaster event and all other grants separately. You can do this by creating a dedicated fund or, for smaller one-year grants, by using a spreadsheet that lists all required information. The goal is to make sure every expense can be clearly linked to the grant money that paid for it.

**Federal Requirement:** 2 CFR § 200.302(b)(3)

## Identifying match in the accounting system

This questioned compliance may be described as "Accounting reports detailing federal and non-federal share of expenditures for Public Assistance award"

Make sure your accounting system can show the federal share and the local match share for every FEMA PA expense. Record each transaction so the two parts are clear.

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If your system cannot do this, keep a separate spreadsheet that shows the match breakdown. You can use VLCT's Model Grant Match Tracking Spreadsheet (XLSX, 19.88 KB). Add each reimbursement request to the same spreadsheet, and total the columns for Total Expenditures, Federal Share, and Match Share. At closeout, the total Federal Share must match the amount FEMA paid the municipality.

FEMA funds Small Projects based on the approved Project Worksheet estimate, not the actual cost. Municipalities must provide a 25% match on the FEMA-funded amount, even if the real cost is lower. This may require using extra match. The total match you document must meet or be higher than the required non-federal share shown in your financial reports.

**Federal Requirement:** 2 CFR § 200.306 and 2 CFR § 200.302(a)

## Technical requirements for all solicitations (purchases)

You can use VLCT's Model Procurement Policy or add the following text to the municipality's Procurement Policy:

Requests for proposals or bids will incorporate a clear and accurate description of the technical requirements for the property, equipment, or service being purchased. The description may include a statement of the qualitative nature (ex. size, appearance, value, etc.) of the property, equipment, or service to be procured. When necessary, the description must provide minimum essential characteristics and standards to which the

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property, equipment, or service must conform. Detailed product specifications will be avoided if at all possible. When it is impractical or uneconomical to clearly and accurately describe the technical requirements, a "brand name or equivalent" description of features may be used to provide procurement requirements. The specific features of the named brand must be clearly stated. Requests for proposals or bids also will incorporate any additional requirements which the offerors must fulfill, such as insurance requirements and bonds, and all other factors that will be used in evaluating bids or proposals.

When writing requests for proposals or bids, include enough technical detail for bidders to understand the scope of work. For larger projects, describe the general services required (e.g., design, permitting, construction) and expand as needed. For smaller projects, list the specific tasks and any required standards or specifications, such as dimensions, materials, or applicable municipal or permit requirements. Clear, accurate technical requirements help ensure compliant procurement and consistent bids.

**Federal Requirement:** 2 CFR § 200.319(d)(1) and (2)

### Adequate number of quotations or bids received

You can use VLCT's Model Procurement Policy, which is federally compliant, or ensure the municipality's current policy includes the following language:

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When expending Federal funds, purchases must follow the municipality's purchasing policy and Federal Procurement Standards per 2 CFR §§ 200.318 – 200.327.

**Federal Requirement:** 2 CFR § 200.318 and § 200.320

### A suspension and debarment check at Sam.gov is required for contracts that equal or exceed $25,000.

You can use VLCT's Model Contract Award Summary, which lists all required contract information and helps you show the municipality completed all required checks and verifications. Keep the documents that prove these checks and verifications were done in the procurement file.

**Federal Requirement:** 2 CFR §200.214

### Contracts must include the State of Vermont and applicable Federal contract provisions

You can use VLCT's FEMA Public Assistance Program Compliant Contracts You also must add the text from item #19 ("Sub-Agreements) in the State of Vermont Attachment C: Standard State Provisions For Contracts And Grants . You can find Attachment C your grant agreement with the state.

Both the State and Federal provisions must be included in the contract, whether the purchase follows your normal procurement process or is an

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emergency one.

**Federal Requirement:** 2 CFR § 200.327

**State Requirement:** State of Vermont Agreement, Attachment C, #19 Sub-Agreements

## Moving Forward with Confidence

Preparing for and responding to compliance audits doesn't have to be overwhelming. By understanding the issues most frequently flagged and having well-structured responses at hand, municipalities can streamline the audit process and reduce the risk of delays or misunderstandings. We hope this resource empowers local officials to approach audits with greater clarity and assurance as they continue the essential work of disaster recovery. Our team will continue updating this guidance as policies evolve and new audit trends emerge.

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**Disclaimer**: This resource was created by Municipal Operations Support (MOS) staff of non-legal professionals with expertise of the subject matter. It is only intended to provide information and does **NOT** constitute legal advice. Readers with legal questions are encouraged to contact an attorney. The use or downloading of this resource does **NOT** create an attorney-client relationship and will not be treated in a confidential manner. Non-legal questions about this resource can be directed to MOS staff at mos@vlct.org.

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