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FEMA Increases Small Project Maximum to \$1M

What are the benefits and risks?

On August 3, FEMA implemented a regulatory change to increase the small project maximum in the Public Assistance (PA) program to \$1 million from \$139,800. The increase aims to simplify the

application process and reduce the administrative burden on nonprofits and government entities that receive a FEMA grant following a disaster.

Within the PA program, FEMA classifies projects as "small" or "large." Typically, a small project is easier to review because of less complicated documentation requirements. For example, the recipient/subrecipient can provide photo or other evidence of the damage, repairs, final results, and proof of payment for work completed. Desk, rather than field, reviews can be done, leading to faster reimbursements.

By contrast, large projects require more detailed documentation because of the extended time necessary to complete permanent repairs. A grant recipient's procurement process is key, especially for contract work that must be in compliance with federal regulations. It is critical that grant recipients have an approval process for construction and other projects over \$100,000, including requirements for competitive bidding. Partial reimbursements are disbursed as the project proceeds. Also, grant recipients must have a system for monitoring large projects and complete regular progress reports.

The new threshold seeks to streamline processes in order to facilitate quicker distribution of recovery funding for small communities and nonprofits. It applies to all projects under major disasters and emergencies declared on or after Aug. 3, 2022, and to all unobligated PA projects in major disasters and emergencies declared between March 13, 2020 and Aug. 3, 2022.

What are the benefits?

The new threshold seeks to streamline processes in order to facilitate quicker distribution of recovery funding for small communities and nonprofits. Benefits to the new change include:

- ▶ **Less administrative burden.** A greater number of PA projects will be classified as small and will fall under "simplified procedures" under the Stafford Act. This will reduce the administrative burden for FEMA, recipients, subrecipients as well as speed up the recovery process.
- ▶ **Greater participation.** These changes provide an incentive for more participation from local communities with less resources who were previously discouraged by the bureaucracy.

- ▶ **Faster payment.** Payment of the small project Federal share is made to the recipient upon approval of the project rather than after the recipient submits documentation of costs (as is required for large projects.)

Are there risks?

While this increase in the small project maximum may help small rural and other communities with fewer resources to handle the administrative burden that comes with federal grants, there is also greater potential for fraud, waste and abuse:

- ▶ The usual controls to ensure compliance for large projects may not be required or enforced for these redefined small projects .
- ▶ While FEMA will be able to focus on the “largest” projects, there will be greater pressure on states to monitor the increased number of “small” projects.
- ▶ Recipients (usually states) must become more aware of subrecipients who need greater assistance and training.
- ▶ Recipients and subrecipients who do not have knowledgeable staff or sufficient resources to administer and properly monitor grants risk disallowance of costs in later audit findings and later de-obligations or “clawbacks.”
- ▶ Less monitoring and oversight, even in agencies with sufficient resources, may experience fraud leading to losing federal funding and criminal referrals.

A note of caution

Many medium to large state and local government agencies are prepared to adapt to this change; however, hospitals, public housing authorities and other community non-profit organizations may not be. Many of these community organizations encountered the FEMA public assistance grant process with its steep learning curve for the first time during the pandemic. It is critical that they continue to gain an understanding of the nuances of PA program and stay aware of frequent shifts in “disaster specific guidance.”

There may be other impacts from other existing statutes and regulations. PA recipients should be

mindful that major changes sometimes have unintended consequences. As implementation proceeds, it will be important to watch for additional policies and updated guidance.

About the Author

Jim serves as Director in BDO's Community Resilience Advisory Services where he advises states, territories, tribes, and community-based organizations how to anticipate, prepare for, respond to, and adapt to incremental change and sudden disruptions so they can continue to provide critical services. He previously worked with the U.S. Department of Homeland Security Office of Inspector General (OIG) where he led audits of disaster assistance grants pursuant to the Stafford Act in accordance with GAGAS for Federal Emergency Management Agency (FEMA) Public Assistance (PA) and Hazard Mitigation Grant Program (HMGP) recipients and sub-recipients in Louisiana, Indiana, and New Mexico. Jim's key published audit reports include the Louisiana Superdome Sheltering and Repair Activities, and the Management of Hazard Mitigation Funds for the State of Louisiana after Hurricanes Katrina and Rita.

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