

**FEMA Should Disallow
\$577,959 of \$2.9 Million
Awarded to Puerto Rico
Aqueduct and Sewer
Authority for Hurricane
Irene Damages**





DHS OIG HIGHLIGHTS

FEMA Should Disallow \$577,959 of \$2.9 Million Awarded to Puerto Rico Aqueduct and Sewer Authority for Hurricane Irene Damages

January 10, 2017

Why We Did This Audit

The Puerto Rico Aqueduct and Sewer Authority (Authority) received a FEMA grant award of \$8.7 million for damages resulting from Hurricane Irene in August 2011. We audited five projects for permanent repairs with awards totaling \$2.9 million.

What We Recommend

FEMA should disallow \$577,959 of unsupported and ineligible costs. FEMA should also direct Puerto Rico to provide technical assistance to the Authority to ensure it is aware of Federal grant requirements to prevent future noncompliance.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHSOIG.OfficePublicAffairs@oig.dhs.gov

What We Found

The Authority did not account for FEMA funds on a project-by-project basis as Federal regulations and FEMA guidelines require. We also identified \$577,959 (Federal Share \$433,469) of project costs that FEMA should disallow. These costs consisted of \$572,959 of unsupported contract costs and \$5,000 of costs claimed twice (duplicate benefits).

The findings we discuss in this report occurred primarily because the Authority did not implement a recommendation we made in July 2008 to account for disaster costs on a project-by-project basis. However, the grantee (Puerto Rico) is responsible for monitoring subgrant activities and ensuring that its subgrantee (the Authority) is aware of and complies with grant requirements.

FEMA Response

FEMA Region II officials concurred with our recommendations. Appendix C includes FEMA's written response in its entirety.



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Department of Homeland Security

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

January 10, 2017

MEMORANDUM FOR: Jerome Hatfield
Regional Administrator, Region II
Federal Emergency Management Agency
Thomas M. Salmon

FROM: Thomas M. Salmon
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Should Disallow \$577,959 of \$2.9 Million
Awarded to Puerto Rico Aqueduct and Sewer Authority
for Hurricane Irene Damages*
Audit Report Number OIG-17-20-D

We audited Public Assistance grant funds awarded to the Puerto Rico Aqueduct and Sewer Authority (Authority). The Puerto Rico Emergency Management Agency (Puerto Rico), a Federal Emergency Management Agency (FEMA) grantee, awarded the Authority \$8.7 million for damages resulting from Hurricane Irene, which occurred in August 2011.¹ The award provided 75 percent FEMA funding for debris removal, emergency protective measures, and permanent repairs to damaged facilities. We audited five projects for permanent repairs totaling \$2.9 million. At the time of our audit, the Authority had completed work on all projects, but had not submitted a final claim to Puerto Rico for all project expenditures.

Results of Audit

The Authority did not account for FEMA funds on a project-by-project basis as Federal regulations and FEMA guidelines require. We also identified \$577,959 (Federal Share \$433,469) of project costs that FEMA should disallow. These costs consisted of \$572,959 of unsupported contract costs and \$5,000 of costs the Authority claimed twice (duplicate benefits).

¹ The award amount is the gross amount because total disaster-related damages were less than the Authority's insurance deductible and no other credits were applicable to the Authority's disaster costs.



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The findings we discuss in this report occurred primarily because the Authority did not implement a recommendation we made in July 2008 to account for disaster costs on a project-by-project basis (OIG Report Number DA-08-07). However, the grantee (Puerto Rico) is responsible for monitoring subgrant activities and ensuring that its subgrantee (the Authority) is aware of and complies with grant requirements.

Finding A: Project Accounting

The Authority did not separately account for project expenditures as Federal regulations require. According to 44 Code of Federal Regulations (CFR) 206.205(b), grantees must account for large project expenditures on a project-by-project basis. FEMA's *Public Assistance Guide* (FEMA 322, June 2007, p. 137) mandates the same requirement for subgrantees (applicants): "The importance of maintaining a complete and accurate set of records for each project cannot be over-emphasized. Good documentation facilitates the project formulation, validation, approval, and funding processes. All of the documentation pertaining to a project should be filed with the corresponding PW [project worksheets] and maintained by the applicant as the permanent record of the project."

The Authority set up a single account within its automated accounting system designated as "FEMA disaster" to account for disaster costs. However, the account did not identify expenditures to the corresponding projects. The Authority also commingled eligible FEMA disaster expenditures with non-eligible expenditures. As a result, we could not readily identify and trace individual project expenditures to supporting documentation without direct assistance from Authority officials.

We reported this same condition to FEMA in July 2008 in an audit we conducted on a Public Assistance grant the Authority received under Hurricane Georges.² In that audit, we recommended that FEMA, in coordination with Puerto Rico, inform the Authority that it must account for disaster costs on a project-by-project basis as Federal regulations require. However, as this audit identified, the Authority did not implement sufficient accounting procedures to fulfill Federal accounting requirements.

Authority officials agreed with this finding, saying that they will work with their accounting department to ensure the Authority accounts for disaster costs according to Federal grant accounting requirements.

² OIG Report DA-08-07, *Hurricane Georges Activities for Puerto Rico Aqueduct and Sewer Authority*, July 2, 2008



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Finding B: Supporting Documentation

The Authority did not provide adequate documentation to support \$572,959 of contract costs. As a result, FEMA has no assurance that these costs are valid and eligible. Federal cost principles (*Cost Principles for State, Local, and Indian Tribal Governments*) at 2 CFR 225, Appendix A, section C.1.j., require costs to be adequately documented to be allowable.

The Authority claimed a total of \$2,931,285 under five projects for repairs to damaged pumps, dams, and sewer lines throughout the island. However, the Authority's project documentation such as invoices, canceled checks, and electronic payments supported only \$2,358,326 of costs, or \$572,959 less than the amount it claimed. We question the \$572,959 of unsupported costs as table 1 shows.

Table 1: Unsupported Contract Costs

Project Number	Amount Claimed	Amount Supported	Amount Questioned
1383	\$ 128,737	\$ 124,988	\$ 3,749
1981	114,790	85,104	29,686
1983	969,418	582,141	387,277
2270	272,700	206,850	65,850
2273	1,445,640	1,359,243	86,397
Total	\$2,931,285	\$2,358,326	\$572,959

Source: FEMA and Authority records and Office of Inspector General (OIG) Analysis

Authority officials agreed with this finding. However, for Project 1983, they said that the Authority sent a request in February 2013 to Puerto Rico to adjust the claimed amount to the actual costs incurred of \$582,141. Puerto Rico officials acknowledged receiving the request but said that they have not taken any action pending the results of our audit.

Finding C: Duplicate Benefits

The Authority erroneously claimed \$5,000 of contract costs twice for damage surveys under Project 2273. The Authority claimed \$5,000 under the project for surveys that an engineering firm performed to determine repairs needed to repair a damaged 24-inch sewer main in the city of Humacao. However, the contractor that the Authority hired to make the necessary repairs to the sewer line also billed the Authority \$5,000 for the damage surveys that the engineering firm performed. According to Section 312 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, no entity will



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receive assistance for any loss for which it has received financial assistance from any other program, from insurance, or from any other source. Therefore, we question the \$5,000 as ineligible duplicate benefits.

Authority officials agreed with this finding.

Finding D: Grant Management

The findings we discuss in this report occurred primarily because the Authority did not implement a recommendation we made in July 2008 to account for disaster costs on a project-by-project basis (OIG Report Number DA-08-07). However, the grantee (Puerto Rico) is responsible for monitoring subgrant activities and ensuring that its subgrantee (the Authority) is aware of and complies with grant requirements. Puerto Rico should provide technical assistance to the Authority to ensure it is aware of Federal grant requirements to prevent future noncompliance. Authority officials agreed with this finding, saying that they will work with Puerto Rico to implement an appropriate corrective action plan.

Authority officials agreed with this finding.

Recommendations

We recommend that the Regional Administrator, FEMA Region II:

Recommendation 1: Direct Puerto Rico to remind the Authority of its responsibility to comply with the grant accounting requirements (finding A).

Recommendation 2: Disallow \$572,959 (Federal share \$429,719) of unsupported costs unless the Authority provides FEMA with additional documentation to support the costs (finding B).

Recommendation 3: Disallow as ineligible \$5,000 (Federal share \$3,750) of contract costs the Authority claimed twice (duplicate benefits) (finding C).

Recommendation 4: Direct Puerto Rico to provide technical assistance to the Authority to ensure it is aware of Federal grant requirements to prevent future noncompliance (finding D).



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Discussion with Management and Audit Follow-up

We discussed the results of our audit with Authority, Puerto Rico, and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at the exit conference on September 15, 2016. Authority and Puerto Rico officials agreed with the findings and recommendations. We included their comments, as appropriate, in the body of this report.

FEMA Region II provided a written response on October 13, 2016, agreeing with our recommendations (see appendix C). The response indicated that FEMA expects to implement its proposed corrective actions to address all recommendations by February 21, 2017. Therefore, we consider all four recommendations to be resolved but open. We will evaluate for closure upon documentation that FEMA has implemented its proposed corrective actions. Please email closeout documentation and request to Carl.Kimble@oig.dhs.gov.

The Office of Emergency Management Oversight major contributors to this report are David Kimble, Director; Felipe Pubillones, Audit Manager; and Oscar Andino, Auditor-in-Charge.

Please call me with any questions at (202) 254-4100, or your staff may contact David Kimble, Director, Eastern Regional Office - South, at (404) 832-6702.



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Appendix A

Objective, Scope, and Methodology

We audited Public Assistance funds awarded to the Authority, FIPS Code 000-UK500-00. Our audit objective was to determine whether the Authority accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines for Disaster Number 4017 DR-PR. Puerto Rico awarded the Authority \$8.7 million for damages resulting from Hurricane Irene in August 2011. The award consisted of 19 large projects and 231 small projects.³

We audited five large projects with awards totaling \$2.9 million (see appendix B, table 2). The audit covered the period from August 22, 2011, to June 16, 2014. At the time of our audit, the Authority had completed work on the five projects included in our scope, but had not submitted a final claim to Puerto Rico for all project expenditures.

To accomplish our objective, we interviewed Authority, Puerto Rico, and FEMA personnel; gained an understanding of the Authority's method of accounting for disaster-related costs and its procurement policies and procedures; judgmentally selected (generally based on dollar amounts) and reviewed project costs and procurement transactions for the projects in our audit scope; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objective. We did not perform a detailed assessment of the Authority's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective.

As part of our standard audit procedures, we also notified our Office of Information Technology Audits of contracts the Authority awarded under the grant that we reviewed to determine whether the contractors were debarred or whether there were any indications of other issues related to those contractors that would indicate fraud, waste, or abuse. As of the date of this report, the Office of Information Technology Audits' analysis of contracts was ongoing. When it is complete, we will review the results and determine whether additional action is necessary.

³ Federal regulations in effect at the time of disaster set the large project threshold at greater than \$63,900. [Notice of Adjustment of Disaster Grant Amounts, Vol. 75, No. 194, Fed. Reg. 62135 (October 7, 2010)].



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Appendix A (continued)

We conducted this performance audit between February and September 2016 pursuant to the *Inspector General Act of 1978*, as amended, and according to 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 upon our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. To conduct this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.



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Appendix B
Potential Monetary Benefits

Table 2: Projects Audited and Questioned Costs

Project Number	FEMA Category of Work⁴	Award Amount	Questioned Costs	Federal Share	Finding
1383	F	\$ 128,737	\$ 3,749	\$ 2,812	B
1981	F	114,790	29,686	22,264	B
1983	F	969,418	387,277	290,458	B
2270	F	272,700	65,850	49,387	B
2273	F	1,445,640	91,397	68,548	B,C
Totals		\$2,931,285	\$577,959	\$433,469	

Source: FEMA and Authority records and OIG analyses

Table 3: Summary of Potential Monetary Benefits

Type of Potential Monetary Benefit	Amount	Federal Share
Questioned Costs – Ineligible	\$ 5,000	\$ 3,750
Questioned Costs – Unsupported	572,959	429,719
Funds Put to Better Use	0	0
Totals	\$577,959	\$433,469

Source: OIG analysis of findings in this report

⁴ FEMA classifies disaster-related work by type: debris removal (Category A), emergency protective measures (Category B), and permanent work (Categories C through G).



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Appendix C
FEMA Management Response

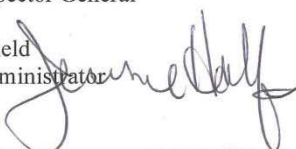


U.S. Department of Homeland Security
Region II- Caribbean Area Division
Jacob K. Javits Federal Office Building
26 Federal Plaza, 13th Floor
New York, New York 10278

FEMA

October 13, 2016

MEMORANDUM FOR: David Kimble
Director, Eastern Regional Office-South
Office of Emergency Management Oversight
Office of Inspector General

FROM: Jerome Hatfield
Regional Administrator
Region II 

SUBJECT: Management's Response to OIG Draft Report: *FEMA Should Disallow \$577, 959 of \$2.9 Million Awarded to Puerto Rico Aqueduct and Sewer Authority for Hurricane Irene Damages.*
Audit Report OIG-17-XX-D

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security's (DHS) Federal Emergency Management Agency (FEMA) appreciates the Office of Inspector General's (OIG) review and report.

FEMA concurs with the 4 recommendations contained in the draft report. Please see the attached for the detailed response to each recommendation.

Again, FEMA thanks you for the opportunity to review and comment on this draft report. Please direct any questions regarding this response to Alejandro Delacampa, Division Director, FEMA Region II- Caribbean Area Division at Alejandro.delacampa@fema.dhs.gov or (787) 296-3500.



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Appendix C (continued)

**Attachment: Management Response to Recommendations
Contained in OIG-17-XX-D**

Recommendation 1: Direct Puerto Rico to remind the Authority of its responsibility to comply with the grant accounting requirements (finding A).

Response: Concur. FEMA will direct the Grantee in writing to work with the Subgrantee in complying with all Federal grant requirements.

Estimated Completion Date (ECD): Feb 21, 2017

Recommendation 2: Disallow \$572,959 (Federal share \$429,719) of unsupported costs unless the Authority provides FEMA with additional documentation to support the costs (finding B).

Response: Concur. FEMA will review these costs and any additional supporting documentation that may be submitted by the Grantee and the Subgrantee to determine whether or not to disallow the costs.

ECD: Feb 21, 2017

Recommendation 3: Disallow as ineligible \$5,000 (Federal share \$3,750) of contract costs the Authority claimed twice (duplicate benefits) (finding C).

Response: Concur. FEMA will review these contracts and take the appropriate action as determined by the results of our review.

ECD: Feb 21, 2017

Recommendation 4: Direct Puerto Rico to provide technical assistance to the Authority to ensure it is aware of Federal grant requirements to prevent future noncompliance (finding D).

Response: Concur. FEMA will direct Puerto Rico to provide technical assistance to the Authority to ensure it is aware of Federal grant requirements to prevent future noncompliance.

ECD: Feb 21, 2017



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Appendix D
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