

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

**Virgin Islands Water and Power
Authority**



DA-07-03

November 2006



Homeland Security

November 16, 2006

TO: Stephen Kempf, Jr.
Regional Director, FEMA Region II

FROM: *Belinda J. Finn*
Belinda J. Finn
Deputy Assistant Inspector General for Audits

SUBJECT: Virgin Islands Water and Power Authority
FEMA Disaster No. 1067-DR-VI
Audit Report No. DA-07-03

We audited hazard mitigation funds awarded to the Virgin Islands Water and Power Authority (WAPA) under Projects VI-0009 and VI-0010. The objective of the audit was to determine whether WAPA accounted for and expended FEMA funds according to federal regulations and FEMA guidelines.

WAPA received grant awards totaling \$9,850,000 from the Virgin Islands Office of Management and Budget, a FEMA grantee, under Projects VI-0009 and VI-0010 for the design and installation of underground electrical feeder distribution systems on St. Croix, namely Feeders 8 and 4, respectively. The grants were awarded as a result of Hurricane Marilyn (Disaster 1067) and made pursuant to Section 404 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act. In accordance with Section 404, the Virgin Islands government was allowed to use 15 percent of Public Assistance funds awarded under Disaster 1067 to mitigate against future damages. Past hurricanes had severely damaged the electrical poles resulting in loss of electricity for long periods of time throughout the territory. The award was made to shield the electrical distribution system from future storms and allow for the speedy restoration of electricity after a disaster. The award provided 90 percent FEMA funding.

The audit covered the period January 1998 to October 2002. During this period, WAPA claimed \$9,216,388 and received \$8,294,031 as illustrated below:

Project Number	Amount Awarded	Amount Claimed	Amount Received
VI-0009	\$6,800,000	\$6,390,854	\$5,751,767
VI-0010	3,050,000	2,825,534	2,542,264
	<u>\$9,850,000</u>	<u>\$9,216,388</u>	<u>\$8,294,031</u>

We performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit

included tests of the grantee's accounting records, a judgmental sample of expenditures, and other auditing procedures considered necessary under the circumstances.

RESULTS OF AUDIT

WAPA generally accounted for and used grant funds in accordance with federal regulations and FEMA guidelines. However, our review of WAPA's claim disclosed questioned cost of \$9,621 (FEMA share \$8,659) resulting from unrelated and duplicated charges.

- A. Unrelated Project Charges. WAPA's claim under the two grants included \$9,030 of unrelated project charges. FEMA awarded Projects VI-0009 and VI-0010 to install an underground electrical distribution system at two feeders on St. Croix. However, WAPA's claim included \$4,515 of gross receipt taxes under each grant that were allocable to an unrelated project for the installation of water lines at the Castle Burke Homes on St. Croix. These charges were neither authorized under, nor beneficial to the projects.

For costs to be allowable under a Federal grant, they must be necessary and reasonable for proper and efficient administration of the grant program as required by Office of Management and Budget, Circular A-87, Attachment A, C.1.a. Accordingly, we question the \$9,030 of unrelated project charges.

- B. Duplicate Charges. WAPA's claim under Project VI-0009 also included \$591 of duplicate charges. Under Invoice 14928, a contractor billed WAPA \$14,775 for work related to the electrical distribution systems on St. Croix. In accordance with Virgin Islands Code Title 33, Section 44, WAPA withheld gross receipt tax of 4 percent, or \$591, and paid the contractor \$14,184. However, WAPA claimed \$14,775, the full amount of the contractor invoice. WAPA subsequently transferred the \$591 in taxes to the Virgin Islands Bureau of Internal Revenue and also claimed the amount under the grant. We question duplicate charges of \$591.

RECOMMENDATION

We recommend that the Regional Director, in coordination with the grantee, disallow the \$9,621 of questioned costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The audit results were discussed with grantee officials on August 25, 2005. WAPA officials concurred with the findings.

Please advise our Atlanta Field Office, Office of Disaster Assistance Oversight, by January 16, 2007, of the actions taken to implement the recommendation. Should you have any questions concerning this report, please call me, or your staff may contact C. David Kimble, Atlanta Field Office Director, at (404) 832-6702.