



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

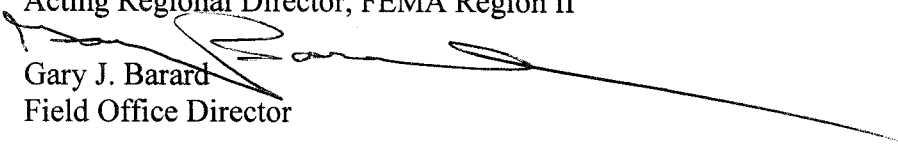
Atlanta Field Office-Audit Division

3003 Chamblee Tucker Rd
Atlanta, GA 30341

January 12, 2004

MEMORANDUM

TO: Joseph F. Picciano
Acting Regional Director, FEMA Region II

FROM: 
Gary J. Barard
Field Office Director

SUBJECT: Municipality of Naguabo, Puerto Rico
FEMA Disaster No. 1247-DR-PR
Audit Report No. DA-09-04

The Office of Inspector General (OIG) audited public assistance funds awarded to the Municipality of Naguabo, Puerto Rico. The objective of the audit was to determine whether the Municipality accounted for and expended FEMA funds according to federal regulations and FEMA guidelines.

The Municipality received an award of \$2,901,774 from the Puerto Rico Office of Management and Budget, a FEMA grantee, to remove debris, provide emergency protective measures, and repair roads and other public facilities damaged as a result of Hurricane Georges in September 1998. The award provided 90 percent FEMA funding for nine large projects and forty-one small projects.¹ The audit covered the period September 1998 to September 2002. During this period, the Municipality claimed \$3,968,910 (see Exhibit) and received \$1,929,375 of FEMA funds. At the time of the audit, the Municipality had not submitted a final claim.

The OIG 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 test of the Municipality's accounting records, a judgmental sample of expenditures, and other auditing procedures considered necessary under the circumstances.

Notice: This report remains the property of the DHS Office of Inspector General (DHS-OIG) at all times and, as such, is not to be publicly disclosed without the express permission of the DHS-OIG. Requests for copies of this report should be immediately forwarded to the DHS Office of Counsel to the Inspector General to ensure strict compliance with all applicable disclosure laws.

¹ According to FEMA regulations, a large project costs \$47,100 or more and a small project costs less than \$47,100.

RESULTS OF AUDIT

The Municipality's grant accounting system did not provide adequate details to support expenditures allocable to FEMA projects. Additionally, the Municipality's claim included questioned charges of \$1,916,097 resulting from cost that was previously disallowed by FEMA, small projects that were only partially completed or that had errors in funding, and duplication of benefits. The Municipality also did not perform any work under several small and large projects valued at \$226,323. Funds awarded under those projects should be deobligated and used for other FEMA disasters.

- A. Poor Grant Accounting. Contrary to federal regulations (44 CFR, Section 13.20), the Municipality did not maintain accounting records to fully account for project expenditures. The Municipality established a special account to record FEMA project expenditures. However, all expenditures were not reflected in the project account. Some expenditures were reported in the Municipality's General Fund Account with no reference to the FEMA projects. As a result, the accuracy of the Municipality's claim could not be readily verified.

The Municipality did maintain separate file folders that contained contracts, invoices and payment vouchers for expenditures related to each FEMA project. The OIG used these records to perform the audit.

- B. Previously Disallowed Costs. The Municipality's total claim of \$3,529,000 under debris removal Projects 09256 (\$2,899,000) and 09257 (\$630,000) exceeded the \$1,863,711 award amount for these two projects by \$1,665,289. This excess cost was previously disallowed by FEMA because the amount of debris reportedly removed exceeded the amount verified by FEMA. According to FEMA's verification, the Municipality picked-up and disposed of 75,124 cubic yards of debris. However, the Municipality claimed 179,544 cubic yards, or 104,420 excess cubic yards valued at \$1,665,289.

To consider these charges, FEMA requested but did not receive from the Municipality support for the additional debris.

- C. Small Projects with Incomplete Work and Errors in Funding. In accordance with federal regulation (44 CFR 206.205), the grantee provided the Municipality 100 percent FEMA funding for small projects at the time small projects were awarded. This regulation do not require the Municipality to specify the amount spent under small projects, but do require the Municipality to certify that small projects have been completed in accordance with the approved scope of work. Federal payments are to be refunded if all work is not completed. The OIG auditors found, as a result of field inspections, that work valued at \$98,929 under 17 small projects was not performed, as follows:

1. The period to implement three road repair projects lapsed on September 21, 2002. However, as of April 2003, the Municipality had not completed work valued at \$16,236 under these projects, as illustrated below:

| <u>Project Number</u> | <u>Amount Received</u> | <u>Sector / Wards</u> | <u>Activities Not Implemented</u> | <u>Amount Questioned</u> |
|-----------------------|------------------------|-------------------------|-----------------------------------|--------------------------|
| 05518 | \$11,679 | Parcelas Nuevas, Daguao | Curb and Gutter | \$ 2,160 |
| 05527 | 17,859 | La Sierra, El Duque | Curb and Gutter | 2,916 |
| 05536 | <u>15,720</u> | Jose Lima, Mariana | Curb and Gutter | <u>11,160</u> |
| Total | <u>\$45,258</u> | | | <u>\$16,236</u> |

2. The scope of work for several small projects required the Municipality to repair roads with 889 tons of asphalt. However, the Municipality repaired the roads with 437 tons of asphalt. Accordingly, the OIG questions \$26,292, the cost of 452 tons of asphalt that was not used.

| <u>Project Number</u> | <u>Amount Approved</u> | <u>Asphalt Tons Approved</u> | <u>Asphalt Tons Used</u> | <u>Asphalt Tons Unused</u> | <u>Cost Per Units</u> | <u>Amount Questioned</u> |
|-----------------------|------------------------|------------------------------|--------------------------|----------------------------|-----------------------|--------------------------|
| 05519 | \$15,162 | 200 | 100 | 100 | \$57.00 | \$ 5,700 |
| 05522 | 37,893 | 429 | 155 | 274 | 57.00 | 15,618 |
| 05531 | 4,680 | 57 | 37 | 20 | 65.00 | 1,300 |
| 05534 | 6,384 | 112 | 100 | 12 | 57.00 | 684 |
| 05538 | <u>5,915</u> | <u>91</u> | <u>45</u> | <u>46</u> | 65.00 | <u>2,990</u> |
| Total | <u>\$70,034</u> | <u>889</u> | <u>437</u> | <u>452</u> | | <u>\$26,292</u> |

3. Under small Project 05517, the Municipality received \$8,271 including \$2,400 to repair 200 lineal feet of curbs and gutters at 13th Street, Parcelas Nuevas. However, the OIG determined that only 20 lineal feet of curbs and gutters were repaired. Therefore, the OIG questions charges for 180 lineal feet, valued at \$2,160.
4. The Municipality received \$30,350 under small Project 09946 to repair the Municipality's broad walk. The project scope of work included the replacement of 728 lineal feet of concrete top, the replacement of 12 aluminum lights poles, painting 3,600 square feet of the deck, and reinstalling 18 concrete benches. However, the OIG determined that only the paint and the installation of 17 benches valued at \$5,460 were completed. Therefore, the OIG questions \$24,890, the value of work not performed.

5. Under seven small projects, the OIG determined that the Municipality erroneously measured the length of roads resulting in less work being performed, and the approval of \$29,351 of excess FEMA funding for these projects. The affected projects are:

| <u>Project Number</u> | <u>Amount Approved</u> | <u>Approved Square Meters Road Measurements</u> | <u>Actual Square Meters Road Measurements</u> | <u>Excess Square Meters</u> | <u>Asphalt Cost For Excess Square Meters</u> |
|-----------------------|------------------------|---|---|-----------------------------|--|
| 05518 | \$11,679 | 1,302 | 908 | 394 | \$ 2,907 |
| 05530 | 17,430 | 1,907 | 594 | 1,313 | 10,985 |
| 05531 | 4,680 | 287 | 154 | 133 | 1,105 |
| 05534 | 6,384 | 868 | 187 | 681 | 4,959 |
| 05536 | 15,720 | 620 | 434 | 186 | 1,560 |
| 05537 | 8,450 | 1,008 | 112 | 896 | 7,475 |
| 05538 | <u>5,915</u> | <u>690</u> | <u>345</u> | <u>345</u> | <u>360</u> |
| Total | <u>\$70,258</u> | <u>6,682</u> | <u>2,734</u> | <u>3,948</u> | <u>\$29,351</u> |

- D. Duplication of Benefits. The Stafford Act does not allow duplication of benefits between FEMA programs and insurance benefits, or any other disaster assistance programs. However, the Municipality received \$151,879 of FEMA funds that were duplicated by other sources.

Specifically, the Municipality received \$58,524 of FEMA funds for repair of various roads and the Adolfo Hanni Carrillo Baseball Park. However, \$44,381 of such repairs were also funded by the United States Department of Housing and Urban Development (HUD) as follows:

| <u>FEMA Project</u> | <u>Activity</u> | <u>Amount Awarded</u> | <u>HUD Funding</u> | <u>HUD Project</u> | <u>Amount Questioned</u> |
|---------------------|-----------------------|-----------------------|--------------------|--------------------|--------------------------|
| 05520 | Road Repairs | \$ 5,187 | \$ 9,300 | 99-FC-47-001 | \$ 5,187 |
| 05523 | Road Repairs | 9,360 | 10,725 | 99-FC-47-001 | 4,560 |
| 05528 | Road Repairs | 14,943 | 5,600 | 01-FD-47-005 | 5,600 |
| 05533 | Road Repairs | 10,260 | 23,075 | 99-FC-47-001 | 10,260 |
| 05539 | Road Repairs | 10,788 | 20,305 | 94-AF-47-008 | 10,788 |
| 09943 | Baseball Park Repairs | <u>7,986</u> | <u>98,000</u> | 00-FD-47-001 | <u>7,986</u> |
| Total | | <u>\$58,524</u> | <u>\$167,005</u> | | <u>\$44,381</u> |

Additionally, the Municipality claimed \$101,023 under Project 09950 and received \$6,498 under Project 05529 for road repairs at the Camino Viejo road at Cubuy Ward. However, the OIG determined that the Municipality fully implemented the projects with \$53,330 received under HUD Project 94-AF-47-007. Accordingly, the OIG questions the \$107,498 claimed and/or received under the two FEMA projects.

- E. Large and Small Projects Not Implemented. The Municipality received awards totaling \$226,323 for two large projects and four small projects. However, five years have elapsed since the disaster occurred and the Municipality had not begun or demonstrated any intention to implement the projects. Accordingly, the \$226,323 awarded under these projects should be de-obligated. The affected projects are:

| <u>Project Number</u> | <u>Amount Awarded</u> | <u>Activity and Location</u> |
|-----------------------|-----------------------|--|
| 05532 | \$ 9,975 | Road repairs-El Duque Ward |
| 05542 | 18,162 | Road repairs-Maizalez Ward |
| 06454 | 35,426 | Road repairs-Pena Pobre Ward |
| 09944 | 6,701 | Building and other repairs to Market Place |
| 09948 | 105,933 | Road repairs-Pena Pobre Ward |
| 09949 | <u>50,126</u> | Road repairs-Pena Pobre Ward |
| Total | <u>\$226,323</u> | |

RECOMMENDATIONS

The OIG recommends that the Regional Director, in coordination with the grantee:

1. Instruct the Municipality, for future declarations, to implement accounting procedures that adequately account for project expenditures.
2. Disallow \$1,916,097 of questioned costs.
3. De-obligate \$226,323 awarded under projects that were not implemented.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

The OIG discussed the results of the audit with grantee and FEMA officials on July 10, 2003, and with Municipality officials on July 11, 2003. Municipality officials concurred with findings A, B, and C, but indicated that they wanted to further research the questioned costs under finding D and E.

Please advise the Atlanta Field Office- Division by March 12, 2004, of the actions taken to implement the OIG recommendations. Should you have any questions concerning this report, please contact me at (770) 220-5242 or Salvador Maldonado at (787) 296-3527.

Municipality of Naguabo
FEMA-Disaster 1247-DR-PR
Schedule of Claimed and Questioned Costs
And Costs to be De-obligated

Large Projects

| <u>Project Number</u> | <u>Amount Awarded</u> | <u>Amount Claimed</u> | <u>Amount Questioned/ To De-obligate</u> | |
|-----------------------|-----------------------|-----------------------|--|-----------|
| 04001 | \$ 107,831 | \$ 112,000 | | |
| 07397 | 62,068 | 80,000 | | |
| 07398 | 47,910 | 40,005 | | |
| 09256 | 1,254,571 | 2,899,000 | \$1,644,429 | Finding B |
| 09257 | 609,140 | 630,000 | 20,860 | Finding B |
| 05540 | 50,886 | 62,000 | 0 | |
| 09948 | 105,933 | | 105,933 | Finding E |
| 09949 | 50,126 | | 50,126 | Finding E |
| 09950 | <u>106,553</u> | <u>101,000</u> | <u>101,000</u> | Finding D |
| Sub-totals | \$2,395,018 | \$3,924,005 | \$1,922,348 | |

Small Projects

| | | | | |
|------------------------------|--------------------|--------------------|--------------------|-----------|
| 05517 | \$ 8,271 | | \$ 2,160 | Finding C |
| 05518 | 11,679 | | 2,160 | Finding C |
| | | | 2,907 | Finding C |
| 05519 | 15,162 | | 5,700 | Finding C |
| 05520 | 5,187 | | 5,187 | Finding D |
| 05522 | 37,893 | | 15,618 | Finding C |
| 05523 | 9,360 | | 4,560 | Finding D |
| 05527 | 17,859 | | 2,916 | Finding C |
| 05528 | 14,943 | | 5,600 | Finding D |
| 05529 | 6,498 | | 6,498 | Finding D |
| 05530 | 17,430 | | 10,985 | Finding C |
| 05531 | 4,680 | | 1,300 | Finding C |
| | | | 1,105 | Finding C |
| 05532 | 9,975 | | 9,975 | Finding E |
| 05533 | 10,260 | | 10,260 | Finding D |
| 05534 | 6,384 | | 4,959 | Finding C |
| | | | 684 | Finding C |
| 05536 | 15,720 | | 11,160 | Finding C |
| | | | 1,560 | Finding C |
| 05537 | 8,450 | | 7,475 | Finding C |
| 05538 | 5,915 | | 2,990 | Finding C |
| | | | 360 | Finding C |
| 05539 | 10,788 | | 10,788 | Finding D |
| 05542 | 18,162 | | 18,162 | Finding E |
| 06454 | 35,426 | | 35,426 | Finding E |
| 06456 | 30,790 | 30,790 | | |
| 06458 | 14,115 | 14,115 | | |
| 09943 | 7,986 | | 7,986 | Finding D |
| 09944 | 6,701 | | 6,701 | Finding E |
| 09946 | 30,350 | | 24,890 | Finding C |
| All other Small project(16) | <u>146,772</u> | <u>0</u> | <u>0</u> | |
| Sub-total | \$ 506,756 | \$ 44,905 | \$ 220,072 | |
| Total | <u>\$2,901,774</u> | <u>\$3,968,910</u> | <u>\$2,142,420</u> | |