

Department of Homeland Security **Office of Inspector General**

FEMA Public Assistance Grant
Funds Awarded to Puerto Rico
Highway and Transportation
Authority – Tropical Storm Jeanne

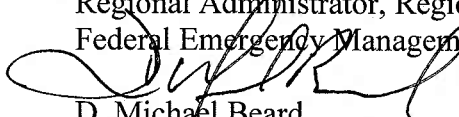




Homeland Security

FEB - 3 2012

MEMORANDUM FOR: Lynn G. Canton
Regional Administrator, Region II
Federal Emergency Management Agency

FROM: 
D. Michael Beard
Acting Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Public Assistance Grant Funds Awarded to Puerto Rico
Highway and Transportation Authority – Tropical Storm Jeanne*
FEMA Disaster Number 1552-DR-PR
Audit Report Number DA-12-06

We audited public assistance funds awarded to the Puerto Rico Highway and Transportation Authority (Authority) (FIPS Code 000-UA8CE-00). Our audit objective was to determine whether the Authority accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to federal regulations and FEMA guidelines.

As of March 21, 2011, the Authority had received a public assistance award of \$2.5 million from the Puerto Rico Office of Management and Budget (Commonwealth), a FEMA grantee, for damages resulting from Tropical Storm Jeanne in September 2004. The award provided 75% FEMA funding for the repair of roads and bridges. The award included two large projects.¹

Our audit focused on the \$2.5 million awarded to the Authority (see Exhibit, Schedule of Projects Audited). The audit covered the period from September 14, 2004, to March 21, 2011, during which the Authority received \$1.9 million of FEMA funds. At the time of our audit, the Authority had completed all work under the projects.

We conducted this performance audit 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. We

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$54,100.

conducted this audit applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We judgmentally selected project costs (generally based on dollar value); interviewed Authority, Commonwealth, and FEMA personnel; reviewed the Authority's procurement policies and procedures; reviewed applicable federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objective. We did not assess the adequacy of the Authority's internal controls applicable to its grant activities because it was not necessary to accomplish our objective. However, we did gain an understanding of the Authority's methods of accounting for disaster-related costs and its policies and procedures for administering the activities provided for under the FEMA award.

RESULTS OF AUDIT

The Authority generally accounted for and expended FEMA funds according to federal regulations and FEMA guidelines. However, we identified \$59,847 of questionable costs consisting of \$53,137 of non-disaster charges and \$6,710 of excessive contract charges that FEMA should disallow.

Finding A: Non-Disaster Charges

The Authority's claim included \$53,137 of charges for damages unrelated to the disaster. Federal regulation 44 CFR 206.223(a)(1) states that an item of work must be required as a result of a major declared disaster event to be eligible for FEMA financial assistance.

The Authority claimed \$109,988 under Project 276 to construct a channel to control river flow while performing permanent repairs to an embankment on state road PR 6685. We reviewed daily activity reports and monthly progress reports prepared by the engineer in charge of administering and supervising project activities. We identified \$53,137 of charges for damages to the channel caused by flooding events in March and April 2006, which were not related to Tropical Storm Jeanne. Therefore, we question the \$53,137 of non-disaster charges.

Finding B: Excessive Contract Charges

The Authority claimed excessive contract costs of \$6,710 under Project 274. Using emergency procurement procedures, the Authority awarded a contract for \$127,294 to make road repairs at kilometer 6.0 in the Municipality of Yabucoa on state road PR-902. The contractor billed \$12,510 for the replacement of 75.82 tons of bituminous pavement mix S-1(75) at \$165 per ton. Upon reviewing other road repair contracts awarded by the Authority under the disaster using competitive procedures, we determined that the unit price for such material averaged \$76.50 per ton, or \$88.50 less than the amount charged by the contractor.

According to 2 CFR 225, *Cost Principles for State, Local and Indian Tribal Governments*, Appendix A, Section C.1.a, costs under federal awards must be both reasonable and necessary. The cost principles require grant recipients to consider sound business practices, federal regulations and guidelines, and market price for comparable good and services in determining reasonable costs. We question \$6,710 of

the charges (\$88.50 × 75.82 tons) because the unit price of \$165 per ton charged by the contractor was unreasonable compared with the average market price of the material.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region II:

Recommendation #1: Disallow \$53,137 (\$39,853 federal share) of ineligible project charges not related to the disaster (finding A).

Recommendation #2: Disallow \$6,710 (\$5,033 federal share) of excessive contract charges that are ineligible for FEMA funding (finding B).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the audit results with Authority, Commonwealth, and FEMA officials during our audit. We also provided a written summary of our findings and recommendations in advance to these officials and discussed them at the exit conference held on September 30, 2011. Authority officials agreed with our findings.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. To promote transparency, this report will be posted to our website, with the exception of sensitive information identified by your office. Significant contributors to this report were David Kimble, Adrienne Bryant, and Vilmarie Serrano-Rosario.

Should you have questions concerning this report, please contact me at (202) 254-4100 or David Kimble at (404) 832-6702.

cc: Administrator, FEMA
Audit Liaison, FEMA Region II
Audit Liaison, FEMA Caribbean Recovery Office
Audit Liaison, FEMA HQ (Job Code: GA-11-034)
Audit Liaison, DHS

Schedule of Projects Audited
September 14, 2004, to March 21, 2011
Puerto Rico Highway and Transportation Authority
FEMA Disaster No. 1552 DR-PR

Project Number	Amount Awarded	Amount Claimed	Amount Questioned	Finding
274	\$ 119,120	\$ 127,294	\$ 6,710	B
276	2,352,013	2,352,013	53,137	A
Total	\$2,471,133	\$2,479,307	\$59,847	

ADDITIONAL INFORMATION AND COPIES

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