



Homeland Security

July 2, 2008

MEMORANDUM FOR: Steve Kempf, Jr., Administrator
FEMA Region II

FROM: C. David Kimble, Director
Eastern Regional Office

SUBJECT: *Hurricane Georges Activities for Puerto Rico
Aqueduct and Sewer Authority*
Public Assistance Identification Number: 000-92013
FEMA Disaster Number 1247-DR-PR
Report Number DA-08-07

We performed an audit of public assistance funds awarded to the Puerto Rico Aqueduct and Sewer Authority (PRASA). The objective of the audit was to determine whether PRASA accounted for and expended Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines. Audit fieldwork was completed in September 2005 and an exit conference was held with PRASA and FEMA officials in October 2005. Issuance of the audit report was delayed until this time due to key staff being reassigned to activities related to the unprecedented Gulf Coast hurricanes.

PRASA received an award of \$9.7 million from the Puerto Rico Office of Management and Budget, a FEMA grantee, to remove debris, provide emergency protective measures, and repair public facilities damaged as a result of Hurricane Georges in September 1998. The award provided 90% federal funding for 23 large projects and 130 small projects¹. The audit covered the period September 1998 to July 2003. During this period, PRASA claimed \$9,767,964 and received \$6,536,588 of FEMA funds under the projects (see Exhibit).

We performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. We reviewed PRASA's disaster grant accounting system and contracting policies and procedures; selected judgmental samples of project expenditures; interviewed PRASA and FEMA personnel; and performed other procedures considered necessary under the circumstances. We did not assess the adequacy of PRASA's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of PRASA's grant accounting system and its policies and procedures for administering activities provided for under the FEMA award.

¹ Federal regulations in effect at the time of Hurricane Georges set the large project threshold at \$47,100.

BACKGROUND

PRASA had insurance coverage of \$200 million for all property damages, including the pipeline system, with a deductible of \$3.5 million. FEMA reimbursed PRASA the insurance deductible of \$3.5 million for property damages, which along with the proceeds from its insurance carrier covered all property losses sustained during the disaster. For losses other than property (emergency protective measures, extra expenses, and business interruption losses) PRASA had maximum insurance coverage of \$5.0 million with no deductible. PRASA received its maximum insurance coverage of \$5 million from its insurance carrier to cover such losses. FEMA proportionally allocated the \$5 million of insurance proceeds between ineligible work (business interruption losses) and eligible work. This allocation resulted in PRASA's actual claimed amounts for emergency work to be adjusted downward by 14 percent to account for losses covered by insurance. Therefore, the figures presented in this report are net of the 14 percent adjustment made by FEMA.

RESULTS OF AUDIT

PRASA's accounting system did not separately account for project expenditures on a project-by-project basis as required by federal regulations. Additionally, we question costs of \$1,629,730 (FEMA share \$1,466,757) resulting from unsupported charges, duplicate funding and benefits, and unrelated and excessive charges.

- A. Grant Accounting. PRASA's accounting system did not separately account for expenditures on a project-by-project basis, as required by federal regulations (44 CFR § 13.20 and 206.205). PRASA established a special account within its accounting system to record disaster transactions but not on a project-by-project basis. As a result, total costs claimed under individual projects could not be readily identified.

PRASA did maintain separate file folders that contained job orders, invoices, time sheets, equipment usage records, and receipt and expenditure records related to the FEMA projects. We used those records to perform the audit.

- B. Project Charges. Federal regulations (44 CFR § 13.20(b)(2)) require a subgrantee to maintain accounting records that adequately identify the source and application of federal funds. Additionally, 44 CFR § 13.20(b)(6) provides a list of adequate source documentation including cancelled checks, paid bills, payroll registers, time and attendance records, and contract documents that are acceptable accounting records. PRASA's claim of \$3,532,317 for water distribution activities, diesel purchases and equipment use, and installation of a temporary wastewater system plant contained \$1,426,934 of charges that were not supported by adequate source documentation. Accordingly, we question the unsupported charges of \$1,426,934 as follows:

1. *Water Distribution*. FEMA authorized funding for distribution of potable water to communities where the water systems power had failed. As shown in the table below, PRASA's claim of \$1,593,781 for such activities under several projects contained \$827,891 of unsupported contractor and rental equipment charges.

Project Number	Location (Area)	Description of Activity	Amount Claimed	Amount Supported	Amount Unsupported
13585	Guayama	Contract Charges	\$1,002,031	\$ 558,250	\$443,731
12189	Jayuya and Utuado	Rental Equipment	278,885	7,455	271,430
10021	Lares	Rental Equipment	156,718	76,035	80,683
07598	Ponce, Juana Diaz, and Adjuntas	Rental Equipment	68,668	42,076	26,592
08692	Caguas	Rental Equipment	87,479	82,074	5,405
Total			\$1,593,781	\$765,890	\$827,891

2. *Diesel Purchases and Equipment Use.* PRASA did not have adequate documentation to support \$378,779 of charges claimed for diesel purchases and the rental, transportation, and installation of emergency generators throughout the island. The activities and unsupported charges are shown in the table below.

Project Number	Description / Activities	Amount Claimed	Amount Supported	Amount Unsupported
08693	Diesel for Generator Use	\$ 41,869	\$ 34,821	\$ 7,048
09974	Rented Equipment/ Generator Use	155,001	99,025	55,976
12390	Diesel for Generator Use	136,333	0	136,333
13584	Diesel for Generator Use	97,757	0	97,757
14615	Rented Equipment/ Generator Use	644,677	563,012	81,665
Total		\$1,075,637	\$696,858	\$378,779

3. *Installation of a Temporary Wastewater System.* PRASA claimed \$862,898 under Project 12457 for the installation of a temporary plant at Jayuya Waste Water Treatment Plant. However, PRASA had documentation to support costs of only \$642,634, or \$220,264 less than the amount claimed.

- C. Duplicate Funding/Benefits. The Stafford Act does not allow duplication of benefits between FEMA programs and any other assistance programs, or for damages covered by insurance. PRASA's claim under several projects, however, included charges of \$166,395 that were also funded under another FEMA project or covered by insurance.

1. Duplicate funding of \$150,802 was identified, as follows.

- Under Project 08905, FEMA funded \$27,405 (force account labor and equipment) for the installation and operation of emergency generators at water and wastewater treatment facilities in the municipalities of Guayama, Arroyo, Patillas, Maunabo and Salinas. However, PRASA also claimed \$42,834 under Project 13580 for the same activity. The difference in the claimed amounts resulted from different methodologies (mileage vs. hourly rates) being used to calculate equipment costs. We determined that the mileage rate method, used under Project 08905, was the correct method because the equipment

was used to transport personnel. Accordingly, we question the \$42,834 claimed under Project 13580.

Similarly, under Project 08906, PRASA claimed \$28,807 (force account labor and equipment) to distribute potable water in the Guayama area, but also received funding of \$38,380 under Project 13579 for the same activity. The difference in the claimed amounts resulted from different methodologies (mileage vs. hourly rates) used to calculate equipment costs. We determined that costs claimed under Project 08906 were correctly calculated. Accordingly, we question the \$38,380 of funding received under Project 13579.

- PRASA's claim of \$37,961 under Project 05381 included \$17,640 for the distribution of potable water in the municipalities of Yauco, Mayaguez, and San German. However, PRASA also received \$19,785 under Project 09973 for the same activity. Documentation presented by PRASA under Project 09973 did not include a justification to support the different amount claimed for the same activity. Therefore, we question the \$19,785 of costs funded under Project 09973.
- PRASA's claim of \$69,443 under Project 09976 included contract charges of \$47,468 for distributing potable water in the municipalities of San Sebastian, Rincon, Moca, Aguada, and Aguadilla during September and October 1998. However, PRASA's claim under Project 12456 included contract charges of \$223,212 for distributing water in the same areas during the period September to December 1998. This amount included the \$47,468 of costs claimed under Project 09976. Accordingly, we question the \$47,468 claimed under Project 09976.
- PRASA claimed \$2,335 under Project 03254 for force account labor used to haul diesel fuel to different facilities in the Corozal area. However, PRASA also received funding for the same activity under Project 03253. We question the \$2,335 of duplicate funding received under Project 03254.

2. Insurance proceeds covered \$15,593 of claimed costs as shown in the table below.

Project Number	Location/Activity	Amount Claimed	Insurance Proceeds
03272	Aguadilla / Roof repair & Debris Removal	\$ 3,197	\$ 3,197
04077	Linda Garden Pump Station / Fence Repairs & Debris Removal	1,347	1,347
04104	Canta Gallo Pump Station / Fence Repairs & Debris removal	984	984
04110	Beverly Hills Pump Station / Fence Repairs & Debris Removal	3,028	3,028
04136	Carraizo Pump Station / Magnetic Parts	947	947
04148	Sonadora Pump Station / Fence Repairs & Debris Removal	1,777	1,777
04188	Humacao Customer Building / Debris Removal	1,375	626
04308	Planta Vieja Pump Station / Fence Repairs & Debris Removal	3,687	3,687
Total		\$16,342	\$15,593

D. Unrelated Charges. PRASA claimed \$318,037 under Project 12456 for the distribution of potable water to the communities of Arecibo and Aguadilla. However, \$20,225 of the charges were for water distributed to the communities during September 15-18, 1998, which was several days prior to the disaster. The water was distributed due to problems the communities were experiencing with PRASA's water system. According to federal regulations (44 CFR § 206.223), an item of work must be required as the result of the major disaster to be eligible for federal financial assistance. Accordingly, we question the \$20,225 claimed for non-disaster related activities as shown in the following table.

Invoice Number	Date of Services	Amount Claimed
98-291	September 15, 16, 17 and 18, 1998	\$2,067
99-003	September 15, 1998	3,735
99-004	September 16, 1998	3,559
99-005	September 17, 1998	4,447
99-006	September 18, 1998	4,833
99-110	September 15, 1998	344
99-111	September 16, 1998	551
99-112	September 17, 1998	482
99-113	September 18, 1998	207
Total		\$20,225

E. Equipment Charges PRASA claimed \$51,040 for generators used to power various pump stations based on the FEMA Schedule of Equipment rates. However, the claim was overstated by \$16,176 because PRASA inadvertently applied the incorrect hourly rate to certain generators. Using the correct rates, the Authority's claim should have been \$34,864. Accordingly, we question the excessive charges of \$16,176, as follows:

Project Number	Amount Claimed	Description of Equipment	Hours Used	Rate Claimed	Correct Rate	Excess Hourly Rate	Excess Equipment Charges
13530	\$ 2,108	Generator 25 KW	408	\$ 5.17	\$ 2.58	\$ 2.59	\$ 1,057
13531	8,216	Generator 150 KW	360	22.82	18.95	3.87	1,393
13532	868	Generator 30 KW	168	5.17	2.58	2.59	435
13533	1,964	Generator 300 KW	60	32.72	22.82	9.90	594
13536	19,676	Generator 430 KW	408	48.23	32.72	15.51	6,328
13534	7,368	Generator 75 KW	552	13.35	8.83	4.52	2,496
13542	2,108	Generator 25 KW	408	5.17	2.58	2.59	1,057
13543	4,805	Generator 75 KW	360	13.35	8.83	4.52	1,628
13544	3,927	Generator 350 KW	120	32.72	22.82	9.90	1,188
Total	\$51,040						\$16,176

RECOMMENDATIONS

We recommend that the Regional Administrator, in coordination with the grantee:

1. Inform PRASA that disaster-related costs must be accounted for on a project-by-project basis, as required by federal regulations (44 CFR §§ 13.20 and 206.205).
2. Disallow the \$1,629,730 of questioned costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The results of the audit were discussed with PRASA, FEMA, and grantee officials on October 25, 2005. PRASA officials agreed with Findings A, C, D and E, but indicated they need additional time to locate documentation to support the questioned costs on Finding B.

Please advise me by September 2, 2008 of the actions taken to implement the recommendations contained in this report. Should you have any questions concerning this report, please call me at (404) 832-6702 or Salvador Maldonado-Avila at (787) 294-2532. Key contributors to this assignment were Salvador Maldonado-Avila and Vilmarie Serrano.

cc: DHS Audit Liaison
FEMA Audit Liaison
Regional Director, FEMA Region II

Puerto Rico Aqueduct and Sewer Authority
 FEMA Disaster 1247 DR-PR
 Schedule of Claimed and Questioned Cost

Project Number	Amount Awarded	Amount Claimed	Amount Questioned	Finding No.
Large Projects:				
05938	\$ 42,099	\$ 42,099	\$ 0	
06053	2,000,000	2,000,000	0	
07598	122,311	122,219	26,592	Finding B
08692	91,976	87,479	5,405	Finding B
08693	41,869	41,869	7,048	Finding B
08907	127,070	127,070	0	
09967	111,805	118,795	0	
09968	211,449	211,449	0	
09974	155,001	155,001	55,976	Finding B
09976	69,443	69,443	47,468	Finding C
10021	70,810	156,718	80,683	Finding B
12189	278,885	278,885	271,430	Finding B
12390	136,333	136,333	136,333	Finding B
13580	42,834	42,834	42,834	Finding C
13585	1,075,238	1,002,031	443,781	Finding B
12456	309,688	318,037	20,225	Finding D
12457	785,126	862,898	220,264	Finding B
12458	173,072	173,072	0	
13574	1,500,000	1,500,000	0	
13581	49,480	49,480	0	
13583	71,536	71,536	0	
13584	97,757	97,757	97,757	Finding B
14615	644,677	644,677	81,665	Finding B
Sub-Total	\$ 8,208,459	\$ 8,309,682	\$1,537,461	
Small Projects:				
03254	2,335	2,335	2,335	Finding C
03272	3,197	3,197	3,197	Finding C
04077	1,347	1,347	1,347	Finding C
04104	984	984	984	Finding C
04110	3,028	3,028	3,028	Finding C
04136	947	947	947	Finding C
04148	1,777	1,777	1,777	Finding C
04188	1,375	1,375	626	Finding C
04308	3,687	3,687	3,687	Finding C
09973	19,785	19,785	19,785	Finding C
13530	2,108	2,108	1,057	Finding E
13531	8,216	8,216	1,393	Finding E
13532	868	868	435	Finding E
13533	5,994	5,994	594	Finding E
13534	7,368	7,368	2,496	Finding E
13536	19,676	19,676	6,328	Finding E
13542	2,108	2,108	1,057	Finding E
13543	4,805	4,805	1,628	Finding E
13544	3,927	3,927	1,188	Finding E
13579	38,380	38,380	38,380	Finding C
Other Small Projects (110)	1,326,370	1,326,370	0	
Sub-Total	\$1,458,282	\$1,458,282	\$92,269	
Total	\$9,666,741	\$9,767,964	\$1,629,730	