



Homeland Security

July 8, 2010

MEMORANDUM FOR: Lynn Gilmore Canton, Regional Administrator
 FEMA Region II

FROM: C. David Kimble, Director *C. David Kimble*
 Eastern Regional Office

SUBJECT: *Virgin Islands Water and Power Authority*
 Public Assistance Identification Number: 000-UR814-01
 FEMA Disaster No. 1807-DR-USVI
 Report Number DA-10-13

As the request of the Caribbean Area Division, we audited public assistance funds awarded to the Virgin Islands Water and Power Authority (Authority). The audit objective was to determine whether the Authority accounted for and expended Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The Authority received public assistance awards totaling \$2.1 million from the Virgin Islands Territorial Emergency Management Agency (VITEMA), a FEMA grantee, for damages related to Hurricane Omar in October 2008. The award provided 75% FEMA funding for emergency protective measures and repairs to the electrical distribution system, and 80% FEMA funding for debris removal activities. The award consisted of 5 large projects and 7 small projects.¹ At the time of our review, the documentation for project expenditures was in various stages of completion and the Authority had not submitted a final claim to VITEMA.

Our audit scope initially included the 5 large projects awarded for \$2.0 million identified in the table below.

Project Number	Amount Awarded
00032	\$ 239,855
00035	79,181
00095	85,772
00106	166,328
00158	1,399,928
Total	\$1,971,064

¹ Federal regulations in effect at the time of Hurricane Omar set the large project threshold at \$64,200.

However, during fieldwork, we reduced our scope to the \$1.4 million awarded under Project 158 because expenditure data for the other four large projects had not been reconciled and accounted for on a project-by-project basis. This condition is further explained in the Audit Results section of this report.

The audit covered the period October 14, 2008, to February 17, 2010. During this period, the Authority had not received any FEMA funds under the projects.

We conducted this performance audit under the authority of 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 and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We judgmentally selected project cost documentation (generally based on dollar value); interviewed Authority, VITEMA, and FEMA personnel; reviewed the Authority's grant accounting and procurement policies and procedures; reviewed applicable federal regulations and FEMA guidelines; and performed other procedures considered necessary under the circumstances. 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. We did, however, gain an understanding of the Authority's grant accounting system and its policies and procedures for administering the activities provided for under the FEMA award.

RESULTS OF AUDIT

The Authority's accounting system did not account for project expenditures on a project-by-project basis as required by 44 CFR 13.20(b)(2). The Authority maintained work orders that accumulated expenditures for disaster-related work. However, such work orders and related costs were not referenced to specific projects. Notwithstanding this condition, Authority/FEMA personnel reconciled expenditures associated with Project 158 during our fieldwork. We reviewed such expenditures and concluded that they were allowable under the FEMA award. However, because the Authority had not reconciled expenditures for all projects there is a risk that expenditures claimed under Project 158 could be duplicated among the other projects. Therefore, VITEMA and FEMA should closely review all expenditures during the close-out process to ensure that no duplication exists among projects.

RECOMMENDATION

We recommend that the Regional Administrator, FEMA Region II, in conjunction with VITEMA, instruct the Authority to establish and maintain separate accountability for project expenditures, as required by 44 CFR 13.20(b)(2).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The audit results were discussed with FEMA, VITEMA, and Authority officials on February 17, 2010. Authority officials concurred with our findings.

Please advise me by September 6, 2010, of the actions taken or planned to implement the recommendation contained in this report, including target completion dates for any planned actions. Should you have any questions concerning this report, please contact me at (404) 832-6702, or Felipe Pubillones, Audit Manager, at (404) 832-6705. Key contributors to this assignment were Felipe Pubillones and Oscar Andino.

cc: Michael Moriarty, Deputy Regional Administrator
Alejandro R. De La Campa, FEMA Caribbean Division
Audit Liaison, FEMA Region II
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