

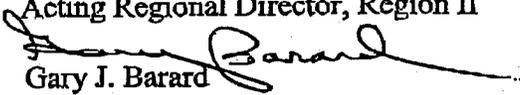


**Homeland
Security**

September 29, 2004

MEMORANDUM

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

FROM: 
Gary J. Barard
Field Office Director

SUBJECT: Municipality of San Juan, Puerto Rico
FEMA Disaster No. 1247-DR-PR
Audit Report No. DA-34-04

The Office of Inspector General (OIG) audited public assistance funds awarded to the Municipality of San Juan, 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 \$8.9 million 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 32 large projects and 33 small projects.¹ (see Exhibit A).

The audit covered the period September 1998 to July 2000. During this period, the Municipality claimed \$8,980,103 and received \$6,923,035 of FEMA funds. The Municipality reported that all work had been completed under these projects but 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.

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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 claim contained equipment and labor costs of \$565,950 that the OIG determined were excessive or unsupported. The Municipality also claimed \$16,786 for work that was not completed. The OIG questions these charges totaling \$582,736 (FEMA share \$524,462).

A. Excessive and Unsupported Equipment and Labor Charges. The majority of the Municipality's \$8.9 million claim consisted of \$5.4 million of payments to contractors for debris removal activities. To accomplish these activities, the Municipality retained 18 contractors and agreed to reimburse them for labor and equipment cost, plus pay them for overhead and profit. The contractors were required to use established rates for billing equipment and submit supporting documentation for both labor and equipment charges. However, as detailed below, the OIG determined that \$565,950 of the \$5.4 million paid to the contractors was in excess of established rates or unsupported.

- The Municipality's claim under 11 projects contained \$368,440 of equipment charges that exceeded established equipment rates. The Municipality adopted equipment rates in the "Associated Equipment Distributor's Book" (commonly referred to as Green Book), as the applicable rates for heavy equipment under all of its service contracts.

Depending on the number of days used, one of several rates contained in the Green Book may apply for a specific piece of heavy equipment. If an equipment item is used less than 3 consecutive days, a daily rate applies; if used more than three days, but less than three weeks, a weekly rate applies; and if used more than three weeks, a monthly rate applies. The amounts that can be billed got regressively lower with extended use.

The OIG found that the contractors consistently billed using the higher daily rate although lower rates for extended usage applied. For example, the Green Book established a daily rate of \$223 and a weekly rate of \$710 for a tractor loader of 69 horsepower. However, under Project 08661, the contractor claimed \$1,561 for 7 consecutive days at \$223 per day, rather than the appropriate weekly rate of \$710.

Based on the contractors' improper application of the Green Book's billing rates and the Municipality's acceptance of rates billed, the 11 FEMA projects were overcharged \$368,440, as follows:

<u>Project Number</u>	<u>Equipment Charges</u>	<u>Correct Equipment Charges</u>	<u>Excessive Charges</u>
08657	\$92,091	\$53,949	\$38,142
08660	208,271	169,653	38,618
08661	110,396	91,358	19,038
08662	39,072	25,202	13,870
08663	99,334	80,739	18,595
08666	171,001	125,297	45,704
08667	96,209	75,886	20,323
08669	97,588	81,948	15,640
08670	205,432	138,307	67,125
08671	297,590	213,540	84,050
08672	<u>31,791</u>	<u>24,456</u>	<u>7,335</u>
Total	<u>\$1,448,775</u>	<u>\$1,080,335</u>	<u>\$368,440</u>

- The Municipality's claim under five projects contained \$70,802 of equipment charges that were not supported by contractors' records. In these cases, the projects were charged with more days of equipment usage than were supported by the contractors' equipment usage records (see Exhibit B).
- Based on a contractor invoice dated October 23, 1998, the Municipality claimed \$24,135 for labor and \$35,509 for equipment usage under Project 08672. However, the contractor submitted daily reports with the invoice that supported only \$21,029 for labor and \$31,791 for equipment usage. The OIG questions the unsupported difference of \$6,824.
- The contractor that performed debris removal work under Project 08668 overcharged the Municipality \$1,676 for overhead. The contractor submitted an invoice charging \$111,711 for labor and equipment and \$12,847 for the 10 percent overhead fee. However, the correct amount for overhead should have been \$11,711 (10% of \$111,711), or \$1,676 less than the amount charged and subsequently claimed under the FEMA project.
- The Municipality paid each debris removal contractor overhead and profit at a rate of 10 and 15 percent, respectively, of the total contract costs. These costs were claimed under the FEMA projects. As a result of the excessive and unsupported equipment and labor charges above, the OIG questions the related overhead and profit of \$118,208, as follows:

<u>Project Number</u>	<u>Total Amount Questioned</u>	<u>10 Percent Overhead Questioned</u>	<u>Amount Questioned And Overhead</u>	<u>15 Percent Profit Questioned</u>	<u>Total Overhead And Profit Questioned</u>
08657	\$ 38,142	\$ 3,814	\$ 41,956	\$ 6,293	\$ 10,107
08860	38,618	3,862	42,480	6,372	10,234
08661	49,729	4,972	54,701	8,205	13,177
08662	25,041	2,504	27,545	4,132	6,636
08663	18,595	1,860	20,455	3,068	4,928
08665	1,055	105	1,160	174	279
08666	69,676	6,968	76,644	11,497	18,465
08667	24,236	2,424	26,660	3,999	6,423
08669	15,640	1,564	17,204	2,581	4,145
08670	672,125	6,713	73,838	11,076	17,789
08671	84,050	8,405	92,455	13,868	22,273
08672	<u>14,159</u>	<u>1,416</u>	<u>15,575</u>	<u>2,336</u>	<u>3,752</u>
Total	<u>\$446,066</u>	<u>\$44,607</u>	<u>\$490,673</u>	<u>\$73,601</u>	<u>\$118,208</u>

B. Incomplete Implementation of Small Projects. In accordance with federal regulations (44CFR 206.205), the grantee provided the Municipality 100 percent FEMA funding for small projects at the time small projects were awarded. This regulation does not require the Municipality to specify the amount spent under small projects, but does require the Municipality to certify the 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 found, as a result of field inspections, that work valued at \$16,786 under 8 small projects was not performed, as follows:

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Amount Questioned</u>	<u>Activities Not Implemented</u>
01546	\$ 3,500	\$ 3,500	Replace an electrical sign.
01583	7,262	4,953	Replace a sign and repair slope.
01590	854	854	Replace a sign.
01606	820	820	Replace a sign.
11202	25,223	4,694	Replace sidewalk, curbs and gutters.
11204	8,308	386	Replace sidewalk, curbs and gutters.
11205	9,930	535	Replace sidewalks.
11206	<u>29,716</u>	<u>1,044</u>	Replace sidewalks.
Total	<u>\$85,613</u>	<u>\$16,786</u>	

RECOMMENDATION

The OIG recommends that the Regional Director, in coordination with the grantee, disallow the \$582,736 of questioned costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the results of the audit with Municipality officials on May 27, 2004, and with grantee and FEMA officials on June 1, 2004. Municipality officials concurred with the findings, but indicated that they would look for records to support some of the unsupported charges.

Please advise the Atlanta Field Office-Division by December 29, 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-Avila at (787) 296-3527.

Municipality of San Juan
FEMA Disaster Number 1247 DR-PR
Schedule of Claimed and Questioned Costs

Large Projects

<u>Project Number</u>	<u>Amount Approved</u>	<u>Amount Claimed</u>	<u>Excessive and Unsupported</u>	<u>Overhead and Profit</u>	<u>Incomplete Implementation of Small Project</u>	<u>Questioned Costs</u>
08657	\$ 161,048	\$ 161,047	\$ 38,142	\$ 10,107		\$ 48,249
08658	712,496	712,496				
08659	700,265	700,265				
08660	442,555	442,555	38,618	10,234		48,852
08661	619,525	619,525	49,729	13,177		62,906
08662	161,421	161,421	25,041	6,636		31,677
08663	157,829	157,829	18,595	4,928		23,523
08664	221,519	221,519				
08665	181,070	181,070	1,055	279		1,334
08666	369,270	371,938	66,676	18,465		88,141
08667	153,172	153,173	24,236	6,423		30,659
08668	141,314	141,314	1,676			1,676
08669	169,424	169,424	15,640	4,145		19,785
08670	351,224	351,224	67,125	17,789		84,914
08671	625,042	625,042	84,050	22,273		106,323
08672	78,668	78,668	14,159	3,752		17,911
08673	101,824	101,824				
08674	100,924	100,924				
08675	50,000	50,000				
08676	150,000	150,000				
08677	54,815	54,815				
10865	227,365	227,365				
10866	175,506	175,506				
10867	626,375	626,375				
10868	233,263	233,263				
11098	210,708	210,708				
11213	272,959	272,959				
11400	624,288	624,288				
11702	99,862	99,862				
11704	47,281	52,651				
12381	105,412	105,412				
10585	164,997	164,997				
	<u>\$8,491,421</u>	<u>\$8,499,459</u>	<u>\$447,742</u>	<u>\$118,208</u>	<u>-0-</u>	<u>\$565,950</u>

Municipality of San Juan
FEMA Disaster Number 1247 DR-PR
Schedule of Claimed and Questioned Costs

<u>Project Number</u>	<u>Amount Approved</u>	<u>Amount Claimed</u>	<u>Small Projects</u>		<u>Incomplete Implementation of Small Project</u>	<u>Questioned Costs</u>
			<u>Excessive and Unsupported</u>	<u>Overhead and Profit</u>		
01546	\$ 3,500	\$ 3,500			\$ 3,500	\$ 3,500
01583	7,262	7,262			4,953	4,953
01590	854	854			854	854
01606	820	820			820	820
11202	25,223	25,223			4,694	4,694
11204	8,308	8,308			386	386
11205	9,930	9,930			535	535
11206	29,716	29,716			1,044	1,044
Others 25 Small Projects	<u>\$ 395,031</u>	<u>\$ 395,031</u>				
	<u>\$ 480,944</u>	<u>\$ 480,944</u>	<u>-0-</u>	<u>-0-</u>	<u>\$16,786</u>	<u>\$ 16,786</u>
Total	<u>\$8,972,065</u>	<u>\$8,980,103</u>	<u>\$447,742</u>	<u>\$118,208</u>	<u>\$16,786</u>	<u>\$582,736</u>

Municipality of San Juan
FEMA Disaster Number 1247 DR-PR
Schedule of Excess Days on Equipment

<u>Project Number</u>	<u>Equipment Description</u>	<u>Total Days Charged</u>	<u>Total Days Used</u>	<u>Total Excess Days</u>	<u>Daily Rate</u>	<u>Excess Charges</u>
<u>08661</u>	Tractor Loader ²	3	2	1	\$301	\$ 301
	B-2000 Pick Up	16	12	4	108	432
	Bob Cat 743	16	11	5	236	1,180
	Bob Cat 763	7	5	2	236	472
	Tractor Loader	28	21	7	301	2,107
	Tractor Loader	28	22	6	301	1,806
	Tractor Loader	7	4	3	301	903
	Tractor Loader	24	17	7	301	2,107
	Tractor Loader	15	11	4	301	1,204
	Tractor Loader	7	5	2	301	602
	F-150 Pick Up	19	13	6	134	804
	F-150 Pick Up	22	17	5	134	670
	F-350 Dump Truck	2	1	1	174	174
	F-700 Dump Truck	13	9	4	324	1,296
	F-800 Dump Truck	17	11	6	324	1,944
	L-8000 Dump Truck	17	10	7	324	2,268
	GMC Dump Truck	3	2	1	324	324
	Dump Truck	8	6	2	324	648
	Dump Truck	4	3	1	324	324
	Tractor Loader	28	21	7	621	4,347
	Miscellaneous Tools	38	24	14	135	1,890
	Ranger Pick Up	6	5	1	108	108
	Ranger Pick Up	34	23	11	108	1,188
	Chain Saw 24"	29	19	10	78	780
	Chain Saw 24"	32	21	11	78	858
	Chain Saw 36"	32	21	11	78	858
	Chain Saw 36"	20	13	7	78	546
	Demolition Tool	1	0	1	300	300
	Air Compressor	1	0	1	109	109
	Pavcment Breaker	1	0	1	36	36
	Pavement Breaker	1	0	1	36	36
	Air Hose ¾" x 50'	1	0	1	8	8
	Air Hose ¾" x 50'	1	0	1	8	8
	Chain Saw	1	0	1	53	53
	Sub-total					<u>\$30,691</u>

² The equipment charges on this exhibit were contained on contractors' Invoice No. 1.