Department of Homeland Security

Office of Inspector General

The Puerto Rico Department of Housing Generally Complied with FEMA Hazard Mitigation Grant Program Eligibility Requirements for Participants of the New Secure Housing Program – Hurricane Georges

OIG-14-121-D

July 2014

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MEMORANDUM FOR: Jerome Hatfield
Regional Administrator, Region II
Federal Emergency Management Agency

FROM: John V. Kelly
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT *The Puerto Rico Department of Housing Generally Complied with FEMA Hazard Mitigation Grant Program Eligibility Requirements for Participants of the New Secure Housing Program – Hurricane Georges*
FEMA Disaster Number 1247-DR-PR
Audit Report Number OIG-14-121-D

We audited Hazard Mitigation Grant Program funds awarded to the Puerto Rico Department of Housing (FIPS Code 000-92151) following Hurricane Georges in September 1998. We conducted the audit at the request of FEMA Region II to facilitate FEMA's closeout of the grant.

The Puerto Rico Department of Housing (Department) received a Hazard Mitigation Grant Program award of $165.3 million from the Puerto Rico Office of Management and Budget (Puerto Rico), a Federal Emergency Management Agency (FEMA) grantee, to implement the New Secure Housing Program. The award provided 75 percent FEMA funding under the New Secure Housing Program and 100 percent under the Emergency Home Repairs Program. The Governor of Puerto Rico created the New Secure Housing Program to provide replacement disaster-resistant housing throughout Puerto Rico to eligible applicants whose homes received significant damage from the disaster. The background section of this report provides additional information on the Hazard Mitigation Grant Program and the New Secure Housing Program.

Due to the complexity of the project and the dollar amount of the grant award, we divided the audit into two phases. During this first phase, our audit objective was to determine whether the Department complied with Hazard Mitigation Grant Program and New Secure Housing Program eligibility requirements for participants who received assistance under the program. We are planning a second phase to determine whether the Department accounted for and expended the Hazard Mitigation Grant Program funds according to Federal regulations and FEMA guidelines, focusing on contracts the Department awarded to construct replacement housing.

The audit covered the period June 25, 1999, to August 31, 2012. The Department completed work under the hazard mitigation project in December 2009 and submitted a final project expenditure claim totaling $184.3 million to Puerto Rico in August 2012. At the time of our audit, FEMA had reimbursed the Department $98.0 million under the award.

We conducted this performance audit between September 2013 and April 2014 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, 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. To conduct this audit we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We reviewed project documentation and case management files; interviewed Department, Puerto Rico, and FEMA officials; reviewed applicable Federal regulations and FEMA guidelines governing the Hazard Mitigation Grant Program; reviewed New Secure Housing Program requirements; and performed other procedures considered necessary to accomplish our audit objectives. We did not assess the adequacy of the Department’s internal controls applicable to its grant activities because it was not necessary to accomplish our audit objectives. However, we gained an understanding of the Department’s policies and procedures for administering activities provided for under the FEMA award.

BACKGROUND

On September 21, 1998, Hurricane Georges swept across Puerto Rico, causing major damage to the island's infrastructure, including public and private buildings and personal property. The disaster forced over 28,000 families to take shelter in 420 government-sponsored facilities located throughout the island. Approximately 100,000 homes experienced severe or moderate damages and the disaster left 31,000 families homeless (figure 1). On September 24, 1998, President Clinton issued a major disaster declaration for all 78 municipalities of Puerto Rico.

Figure 1: Home in Toa Baja, Puerto Rico, that Wind and Flooding from Hurricane Georges Damaged.

Source**:** FEMA Photo Library

Hazard Mitigation Grant Program — Section 404 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, (*Stafford Act*) authorizes the Hazard Mitigation Grant Program. The purpose of the Hazard Mitigation Grant Program is to reduce the loss of life and property from future disasters. FEMA awards grants to States, which in turn may award subgrants to other State agencies, local governments, Indian tribal organizations, and other eligible entities. Each State administers the Hazard Mitigation Grant Program according to a FEMA-State agreement, comprehensive Standard or Enhanced State Mitigation Plan, and State Hazard Mitigation Grant Program Administrative Plan. FEMA must approve these plans before it awards funds to the State. FEMA is responsible for assisting the State, approving or denying project applications, and reviewing the State's quarterly and final reports.

New Secure Housing Program — Following Hurricane Georges, the Governor of Puerto Rico signed an executive order on October 15, 1998. The executive order established a multi-agency task force to plan, coordinate, and develop a mitigation project to rebuild and/or replace homes the disaster damaged. The executive order resulted in the creation of the New Secure Housing Program. The purpose of the program was to replace or rebuild low-income housing stock the disaster damaged while undertaking permanent measures to mitigate against damages from similar future events of a destructive nature. On June 23, 1999, the Puerto Rico Office of Management and Budget submitted an application for the New Secure Housing Program to FEMA Region II for approval as a hazard mitigation project. FEMA Region II approved the project on June 25, 1999, contingent upon certain conditions defined in the approval letter.

The New Secure Housing Program contained two components. The first component, known as the "on-site component," was for replacing highly vulnerable structures with disaster-resistant homes at existing sites. The second component, known as the "off-site component," was for acquiring and removing damaged or destroyed homes from severe flood zones and areas subject to seismic activity and landslides and replacing them with homes at new sites not subject to such hazards. A critical aspect of the off-site component was the subsequent demolition of the damaged or destroyed structures, open space restriction of the acquired land, and the construction of disaster-resistant replacement homes at new hazards-free sites. The Puerto Rico Housing Finance Corporation managed the off-site component in coordination with the Department.

Project work to replace homes under the on-site component began in June 2003, and the Department completed project work for both components in December 2009. In total, the New Secure Housing Program provided 1,647 new disaster-resistant housing units in 16 municipalities throughout Puerto Rico (66 in the on-site component and 1,581 in the off-site component). As of April 2014, program participants occupied 1,430 of the 1,647 units built.

RESULTS OF AUDIT

The Department generally complied with Hazard Mitigation Grant Program and New Secure Housing Program eligibility requirements for participants who received assistance under the hazard mitigation project. However, FEMA should disallow $785,706 (Federal share $625,854) of costs the Department claimed under the grant, which included:

- $146,298 for duplicate benefits that program participants received, and
- $639,408 for case management costs the Department claimed for (1) housing units the Department built but left unoccupied because it could not find eligible program participants to occupy the homes, and (2) program participants whose files did not contain evidence that the Department met all FEMA's property acquisition requirements.

Finding A. Duplication of Benefits

The Department's claim included $146,298 of duplicate benefits the New Secure Housing Program participants received. According to Section 312(a) of the *Stafford Act*, FEMA cannot provide assistance to any person, business concern, or other entity to cover any loss for which that entity has already received financial assistance from any other program, from insurance, or from any other source.

The Implementation Annex set forth the FEMA-approved processes and procedures that the Commonwealth, Department, and the Puerto Rico Housing Finance Corporation were to follow in implementing the New Secure Housing Program. According to the Implementation Annex, any FEMA assistance provided to program participants for making emergency home repairs to their damaged homes that they could not document with receipts would be a duplication of benefits. The Implementation Annex required the Department to notify FEMA of any duplicate benefits that the participant received, but had not repaid. According to the Implementation Annex, FEMA would recoup such funds by reducing the Department's reimbursement requests.

The Department performed the duplication of benefits procedures the Implementation Annex established. However, FEMA officials informed us during our audit fieldwork that, for multiple cases, FEMA and the Department had not reached a final resolution on the recoupment of all duplicate benefits they identified. This occurred because FEMA suspended its recoupment of the duplicate benefits in April 2007 pending the final closeout of the grant.

Of the 1,430 participants of the New Secure Housing Program, we identified 100 participants who received over $100 in duplicate benefits totaling $146,298 for which FEMA had not recouped from the Department.[1] The duplicate benefits represented 81 participants in the off-site component totaling $118,544 and 19 participants in the on-site component totaling $27,754. We question the $146,298 of duplicate benefits as shown in table 1.

[1] We considered duplicate benefits under $100 to be immaterial as discussed with and agreed upon by FEMA.

Table 1. Duplication of Benefits

Municipality	Number of New Secure Housing Participants	Number of Participants with Duplication of Benefit Issues	Questioned Costs for Duplicate Benefits
Off-Site Component:			
Arroyo	54	13	$ 12,515
Caguas	12	0	0
Canóvanas	138	6	7,839
Coamo	16	0	0
Dorado	133	0	0
Guayama	99	30	44,066
Jayuya	35	6	13,490
Juana Diaz	49	0	0
Juncos	61	1	855
Morovis	9	0	0
Ponce I	218	0	0
Ponce II	113	5	9,815
Santa Isabel	50	16	26,490
Toa Baja	223	1	500
Vega Alta	103	1	722
Villalba	51	2	2,252
Subtotal	1,364	81	$118,544
On-Site Component:			
Various Locations	66	19	27,754
Grand Total	1,430	100	$146,298

Source: Puerto Rico Department of Housing Records and OIG Analysis

Finding B. Ineligible Case Management Costs

The Department's claim of $4,263,058 for case management costs related to the off-site component of the program included $639,408 of ineligible costs. The ineligible costs resulted from the Department claiming case management costs for—

- 217 unoccupied housing units for which the Department identified no eligible program participants to occupy; and
- 311 program participants whose case files did not contain evidence that they met all Hazard Mitigation Grant Program and New Secure Housing Program requirements.

The Department created a case management system to implement and manage the New Secure Housing Program. The Department grouped case management activities into two types of services, family and technical. Case management workers were responsible for performing the initial screening and interviews of eligible participants, as well as for providing ongoing counseling and technical assistance. Examples of case management activities included the following:

- completing pre-qualification process and home acquisition counseling,
- identifying and inspecting land parcel and existing structure,
- classifying the on-site or off-site component,
- expediting construction permits,
- determining when duplication of benefits occurred, and
- ensuring compliance with FEMA requirements and requirements of other regulatory agencies.

Unoccupied Housing Units — The Department claimed $262,787 of case management costs related to 217 housing units that were unoccupied because the Department could not find eligible program participants to occupy the homes. The Department constructed 1,647 housing units; however, from the applications it received and processed, it was only able to identify eligible program participants to occupy 1,430 of the housing units (1,364 off-site and 66 on-site). On April 26, 2011, the Department requested that FEMA transfer ownership of the 217 unoccupied housing units to the Department. On June 3, 2011, FEMA granted the request with the condition that FEMA would not reimburse any expenditures related to the 217 surplus housing units or other housing units for which the Department had not identified eligible program participants. Despite this condition, the Department claimed $262,787 of case management costs related to the 217 unoccupied housing units. Therefore, we question the $262,787.

Ineligible Participants — The Department claimed $376,621 of case management costs for 311 off-site program participants whose files did not contain evidence that the Department met all property acquisition requirements of the project. The off-site component required that program participants meet certain legal and socioeconomic eligibility requirements for program participation. In addition, the Department was to comply with, among other things, the property acquisition requirements of 44 Code of Federal Regulations (CFR) 206.434(d). Specifically, for all property acquisitions, the Department was to—

- place a deed restriction on the property if the property was located on a floodplain or high landslide risk area to dedicate and maintain the acquired property in perpetuity for uses compatible with open space, recreational, or wetlands management practices, including parks, nature reserves, grazing, camping, unimproved parking areas, and buffer zones; and

- build no new structure(s) on the property, other than a public facility open on all sides or a restroom or a structure functionally related to open space, which FEMA was to pre-approve.

Further, the Implementation Annex required the Department to demolish acquired properties within 90 days from the time of closing on each acquired property.

We reviewed case management files for the 1,364 program participants who received replacement homes under the off-site component, focusing on three major compliance areas:

- legal and socioeconomic eligibility requirements for program participants;
- demolition requirements of acquired properties; and
- deed restriction requirements to maintain and dedicate the acquired property in perpetuity for uses compatible with open space.

The 1,364 participants generally met the legal and socioeconomic eligibility requirements for the off-site program. However, case management files for 311 of the 1,364 program participants did not contain evidence that the Department met the demolition and/or deed restriction requirements on properties acquired. Accordingly, we question $376,621 of case management costs the Department claimed for these 311 program participants. Table 2 identifies the questioned costs by municipality.

Table 2. Non-Compliance Cases of Off-Site Component

Municipality Location	No Evidence of Deed Restriction	No Evidence of Structure Demolished	Total Non-Compliance Cases*	Case Management Costs Per Housing Unit	Questioned Costs
Arroyo	4	0	4	$ 1,211	$ 4,844
Caguas	4	1	5	1,211	6,055
Canovanas	92	5	97	1,211	117,467
Coamo	1	0	1	1,211	1,211
Dorado	0	0	0	1,211	0
Guayama	9	2	11	1,211	13,321
Jayuya	4	1	5	1,211	6,055
Juana Diaz	20	8	28	1,211	33,908
Juncos	3	19	22	1,211	26,642
Morovis	1	1	2	1,211	2,422
Ponce I	12	1	13	1,211	15,743
Ponce II	25	3	28	1,211	33,908
Santa Isabel	0	9	9	1,211	10,899
Toa Baja	50	0	50	1,211	60,550
Vega Alta	4	1	5	1,211	6,055
Villalba	29	2	31	1,211	37,541
Grand Total	258	53	311		$376,621
*There are instances for non-compliance under both areas; however, to account for the total cases we used the most restricted condition applicable under each case.					

Source: Puerto Rico Department of Housing Records and OIG Analysis

Department Response. Department officials said that FEMA should compensate the Department for the case management costs for the properties in question although, to date, they have not been able to obtain the required deed restrictions or demolish the structures. They said the Department established procedures to comply with the deed restriction and the structure demolition requirements, but it experienced difficulties with local and state agencies in completing the required activities for the applicants in question. The officials said they plan to work with the Puerto Rico Properties Registrant Office to obtain the required deed restrictions for the questioned applicants. They also said that the Department will contact the Mayors of the affected municipalities to facilitate demolition of the affected structures.

<u>Office of Inspector General Response</u>. The deed restrictions and demolition of acquired structures were an integral part of the requirements that FEMA established for eligible participants of the New Secure Housing Program. Therefore, we disagree that FEMA should compensate the Department case management costs for cases where the Department did not fulfill FEMA's program requirements.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region II:

<u>Recommendation #1</u>: Disallow $146,298 (Federal share $146,298) of duplicate benefits the program participants received that FEMA has not recouped (finding A).

<u>Recommendation #2</u>: Disallow $639,408 (Federal share $479,556) of ineligible case management costs unless the Department provides additional evidence to show that it fulfilled the program requirements for the cases in question (finding B).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the audit results with Department, Puerto Rico, 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 exit conferences with FEMA officials on April 28, 2014, and with Department and Puerto Rico officials on May 7, 2014. We included Department officials' comments, where appropriate, in the body of this report.

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 the contact information for responsible parties and any other supporting documentation necessary to inform us about the status of the recommendations. Until we receive and evaluate your response, we will consider the recommendations open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Major contributors to this report are David Kimble, Director; Felipe Pubillones, Audit Manager; Salvador Maldonado-Avila, Auditor-in-Charge; and Vilmarie Serrano-Rosario, Senior Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact David Kimble, Director, Eastern Regional Office, at (404) 832-6702.

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