

**The Puerto Rico Electric
Power Authority Effectively
Managed FEMA Public
Assistance Grant Funds
Awarded for Hurricane Irene
in August 2011**





DHS OIG HIGHLIGHTS

The Puerto Rico Electric Power Authority Effectively Managed FEMA Public Assistance Grant Funds Awarded for Hurricane Irene in August 2011

March 2, 2016

Why We Did This Audit

The Authority received an \$8.04 million Public Assistance grant award from the Puerto Rico Emergency Management Agency (Puerto Rico), a FEMA grantee, for damages resulting from Hurricane Irene in August 2011. Our audit objective was to determine whether the Authority accounted for and expended FEMA funds according to Federal requirements.

What We Recommend

FEMA should direct Puerto Rico to advise the Authority of its responsibility to comply with the *Single Audit Act* requirements.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-IG.OfficePublicAffairs@oig.dhs.gov

What We Found

The Puerto Rico Electric Power Authority, Puerto Rico, (Authority) generally accounted for and expended Public Assistance grant funds according to Federal regulations and Federal Emergency Management Agency (FEMA) guidelines. However, the Authority did not comply with the *Single Audit Act*, which requires non-Federal entities that expend \$500,000 or more in a year in Federal awards to obtain a single or program-specific audit for that year.

Although the Authority did not take steps to ensure that it met the *Single Audit Act* requirements, Puerto Rico, as grantee, is responsible for ensuring that its subgrantee (the Authority) is aware of and complies with grant requirements. As a result of this deficiency, FEMA and Puerto Rico did not have an opportunity to review the Single Audit report that would have made them aware of any potential issues with the Authority's administration of the FEMA grant.

FEMA Response

FEMA officials agreed with our findings and recommendations. Appendix B includes FEMA's written response in its entirety.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security
Washington, DC 20528

March 2, 2016

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 Electric Power Authority Effectively
Managed FEMA Public Assistance Grant Funds
Awarded for Hurricane Irene in August 2011*
Audit Report Number OIG-16-43-D

We audited Public Assistance grant funds awarded to the Puerto Rico Electric Power Authority (Authority). The Authority received a Public Assistance grant award of \$8.04 million from the Puerto Rico Emergency Management Agency (Puerto Rico), a Federal Emergency Management Agency (FEMA) grantee, for damages resulting from Hurricane Irene, which occurred in August 2011. The award provided 75 percent FEMA funding for debris removal, emergency protective measures, and permanent repairs to the electric distribution system. We audited two projects totaling \$7.28 million, or 90.5 percent of the award (see appendix A). At the time of our audit, the Authority had completed work on the two projects we audited, but had not submitted a final claim to Puerto Rico for all project expenditures.

Results of Audit

The Authority generally accounted for and expended Public Assistance grant funds according to Federal requirements. However the Authority did not comply with the *Single Audit Act's* requirements for annual audits of Federal awards.¹ This Act and Office of Management and Budget's Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, help ensure that grant recipients spend Federal funds properly. The Circular states that non-Federal entities that expend \$500,000 or more in a year in Federal awards must obtain a single or program-specific audit for that year and submit the audit report to the Federal clearinghouse and the pass-through entity, which in this case is Puerto Rico. The audit report is due within 9 months after the subrecipient's fiscal year end. Also, according to Circular A-133, Section

¹ The *Single Audit Act of 1984*, as amended in 1996.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

400(d), the pass-through entity must (1) ensure that a subrecipient expending \$500,000 or more during the subrecipient's fiscal year meets the audit requirements, and (2) issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

The Authority met the \$500,000 threshold for fiscal year 2012. Therefore, the Authority should have obtained a Single Audit for 2012 and submitted it to the Federal clearinghouse and Puerto Rico by March 31, 2013.² In September 2012, the Authority entered into an agreement with an accounting firm to perform the Authority's annual financial reports and any required single audits for fiscal years 2012, 2013, and 2014. The accounting firm completed the annual financial reports for each of the 3 years, but did not complete the required Single Audit for 2012.

The Authority's finance director was aware of the *Single Audit Act's* requirement and was surprised when we informed him that the Authority had not completed and submitted the required audit for fiscal year 2012. Upon learning of this condition, he immediately arranged for the accounting firm to begin the single audit work. During our field work, the accounting firm initiated work on the required Single Audit for fiscal year 2012.

Although the Authority did not take steps to ensure that it met the *Single Audit Act* requirements, Puerto Rico, as grantee, is responsible for ensuring that its subgrantee (the Authority) is aware of and complies with grant requirements. As a result of this deficiency, FEMA and Puerto Rico did not have an opportunity to review the Single Audit report that would have made them aware of any potential issues with the Authority's administration of the FEMA grant.

Recommendations

We recommend that the Regional Administrator, FEMA Region II:

Recommendation 1: Direct Puerto Rico to advise the Authority of its responsibility to comply with the *Single Audit Act* requirements.

Recommendation 2: Direct Puerto Rico to take steps to ensure that its subgrantees meet the *Single Audit Act* requirements.

² The Authority's fiscal year end is June 30.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Discussion with Management and Audit Follow-up

We discussed the results of our audit with Authority, Puerto Rico, and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at the exit conference on December 15, 2015. Authority and Puerto Rico officials agreed with the findings and recommendations. We included their comments, as appropriate, in the body of this report.

FEMA officials provided a written response on January 8, 2016, agreeing with the two recommendations contained in this report. The response indicated that FEMA expects to implement both recommendations by March 30, 2016. Therefore, we consider the two report recommendations to be resolved, but open. We will evaluate for closure upon documentation that FEMA has implemented its proposed corrective action. Please email closeout documentation and request to Carl.Kimble@oig.dhs.gov.

The Office of Emergency Management Oversight major contributors to this report are David Kimble, Director; Felipe Pubillones, Audit Manager; and Oscar Andino, Auditor-in-Charge.

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



Appendix A

Objective, Scope, and Methodology

We audited Public Assistance funds awarded to the Authority, FIPS Code 000-UA2QU-00. Our audit objective was to determine whether the Authority accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines for Disaster Number 4017 DR-PR. The Authority received a Public Assistance award of \$8.04 million from Puerto Rico, a FEMA grantee, for damages resulting from Hurricane Irene in August 2011. The award consisted of 2 large projects and 136 small projects.³

We audited the two large projects totaling \$7.28 million, or 90.5 percent of the award (see table 1). The audit covered the period from August 22, 2011, to March 31, 2014, during which the Authority claimed \$7.28 million under the two projects in our audit scope.

To accomplish our objective, we interviewed Authority, Puerto Rico, and FEMA personnel; gained an understanding of the Authority's method of accounting for disaster-related costs and its procurement policies and procedures; judgmentally selected (generally based on dollar amounts) and reviewed project costs and procurement transactions for the projects in our audit scope; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objective. We did not perform a detailed assessment of the Authority's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit between April and December 2015 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 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.

³ Federal regulations in effect at the time of disaster set the large project threshold at \$63,900. [Notice of Adjustment of Disaster Grant Amounts, 194 Fed. Reg. 62,135 (Oct. 7, 2010)].



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A (continued)

Table 1: Projects Audited and Questioned Costs

FEMA Project	FEMA Category of work⁴	Amount Awarded	Amount Claimed	Amount Questioned
2405	B	\$ 1,361,256	\$ 1,361,256	\$ 0
2406	F	5,915,650	5,915,650	0
Total		\$7,276,906	\$7,276,906	\$ 0

Source: FEMA and Authority records and Office of Inspector General analyses

⁴ FEMA classifies disaster-related work by type: debris removal (Category A), emergency protective measures (Category B), and permanent work (Categories C through G).



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B

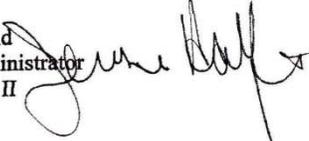
FEMA Region II Audit Response

U.S. Department of Homeland Security
Washington, DC 20472

 **FEMA**

January 8, 2016

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

FROM: Jerome Hatfield 
Regional Administrator
FEMA Region II

SUBJECT: FEMA's Response to Draft Report for OIG Project: The Puerto Rico
Electric Power Authority Effectively Managed FEMA Public Assistance
Grant Funds Awarded for Hurricane Irene in August 2011. Audit Report
OIG-16-XX-D

Thank you for the opportunity to comment on the draft report. The findings in the report will be used to strengthen the effectiveness and efficiency of how we execute and measure our programs. We recognize the need to continue to improve the process, including addressing the recommendations raised in this report. The Puerto Rico Emergency Management Agency, the Grantee, is actively working with the Applicant to solve the issue identified in the audit. Our response to the recommendations are as follows:

Recommendation #1: Direct Puerto Rico to advise the Authority of its responsibility to comply with the Single Audit Act requirements.

FEMA's Response to Recommendation #1: FEMA concurs with this recommendation and considers this recommendation **unresolved** and **open**.

Estimated Completion Date: March 30, 2016.

Recommendation #2: Direct Puerto Rico to take steps to ensure that its subgrantees meet the Single Audit Act requirements

FEMA's Response to Recommendation #2: FEMA concurs with this recommendation and considers this recommendation **unresolved** and **open**.

Estimated Completion Date: March 30, 2016

www.fema.gov



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B (Continued)

FEMA looks forward to working with you on future homeland security emergency management engagements to improve FEMA programs and initiatives. Should you have any questions, please contact Alejandro De La Campa, Caribbean Area Division Director at Alejandro.delacampa@fema.dhs.gov or (787)296-3500.

c: Dale McShine, Grants Division Director



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix C

Report Distribution

Department of Homeland Security

Secretary
Chief of Staff
Chief Financial Officer
Under Secretary for Management
Chief Privacy Officer
Director, GAO/OIG Liaison Office

Federal Emergency Management Agency

Administrator
Chief of Staff
Chief Financial Officer
Chief Counsel
Director, Risk Management and Compliance
Associate Administrator for Policy, Program Analysis, and
International Affairs
Audit Liaison, FEMA Region II
Audit Liaison, FEMA (Job Code G-15-019)

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees

External

Executive Director, Puerto Rico Emergency Management Agency
Comptroller, Commonwealth of Puerto Rico
Executive Director, Puerto Rico Electric Power Authority
Chief Financial Officer, Puerto Rico Electric Power Authority

ADDITIONAL INFORMATION AND COPIES

To view this and any of our other reports, please visit our website at: www.oig.dhs.gov.

For further information or questions, please contact Office of Inspector General Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov. Follow us on Twitter at: @dhsoig.



OIG HOTLINE

To report fraud, waste, or abuse, visit our website at www.oig.dhs.gov and click on the red "Hotline" tab. If you cannot access our website, call our hotline at (800) 323-8603, fax our hotline at (202) 254-4297, or write to us at:

Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Hotline
245 Murray Drive, SW
Washington, DC 20528-0305