

**FEMA Should Disallow
\$1.30 Million of \$2.58 Million
in Public Assistance Grant
Funds Awarded to the
Municipality of Villalba,
Puerto Rico, for Hurricane
Irene Damages**





DHS OIG HIGHLIGHTS

FEMA Should Disallow \$1.30 Million of \$2.58 Million in Public Assistance Grant Funds Awarded to the Municipality of Villalba, Puerto Rico, for Hurricane Irene Damages

April 20, 2016

Why We Did This Audit

The Municipality of Villalba, Puerto Rico (Municipality), received a \$2.58 million grant award from the Puerto Rico Emergency Management Agency (Puerto Rico), a Federal Emergency Management Agency (FEMA) grantee, for damages resulting from Hurricane Irene in August 2011.

What We Recommend

FEMA should disallow \$1.30 million: \$1,284,600 noncompliant contract costs and \$14,204 of unsupported and ineligible costs. FEMA should also direct Puerto Rico to instruct the Municipality to comply with Federal procurement requirements.

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

What We Found

The Municipality generally accounted for FEMA funds on a project-by-project basis as Federal regulations and FEMA guidelines require. However, the Municipality did not comply with Federal procurement requirements when awarding two contracts valued at \$1.74 million for permanent work: one for \$458,525 and one for \$1,284,600. FEMA reviewed the costs for the smaller contract and allowed the costs as reasonable, but had not reviewed costs for the larger contract because work was still in progress at the time of our audit. Therefore, we question the \$1,284,600 in contract costs that FEMA has not reviewed.

We also identified \$14,204 of questionable costs resulting from unsupported and ineligible costs.

These issues occurred primarily because the Municipality was not fully aware of Federal procurement and grant administration requirements, and did not implement corrective actions recommended in its *Single Audit* reports. In addition, Puerto Rico, as FEMA's grantee, should have prevented these problems before they occurred by proactively monitoring the Municipality's grant activities for compliance with Federal procurement regulations.

FEMA Response

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



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Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

April 20, 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: *FEMA Should Disallow \$1.30 million of \$2.58 Million in Public Assistance Grant Funds Awarded to the Municipality of Villalba, Puerto Rico, for Hurricane Irene Damages*
Audit Report Number OIG-16-66-D

We audited Public Assistance grant funds awarded to the Municipality of Villalba, Puerto Rico (Municipality). The Municipality received a Public Assistance grant award of \$2.58 million from the Puerto Rico Emergency Management (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 and permanent repairs to roads and other facilities. We audited three large projects and four small projects totaling \$2.49 million (see appendix B, table 3). At the time of our audit, the Municipality had completed work under six of the seven projects we reviewed, but had not submitted a final claim to Puerto Rico for all project expenditures.

Results of Audit

The Municipality generally accounted for FEMA funds on a project-by-project basis as Federal regulations and FEMA guidelines require. However, the Municipality did not comply with Federal procurement requirements when awarding two contracts valued at \$1.74 million for permanent work: one for \$458,525 and one for \$1,284,600. FEMA reviewed the costs for the smaller contract and allowed the costs as reasonable, but had not reviewed costs for the larger contract because work was still in progress at the time of our audit. Therefore, we question the \$1,284,600 in contract costs that FEMA has not reviewed.

We defer to FEMA's decision to allow reasonable costs because Federal regulations allow agencies latitude in remedies for noncompliance. However, we



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do not agree with FEMA's decision because cost should not be the only factor in the decision. The Municipality awarded the two contracts without competition, which increases the likelihood of fraud, waste, and abuse. The lack of competition also denies opportunities for other qualified firms—including disadvantaged firms such as small, minority, and women-owned businesses—to bid on federally funded work as Congress intended.

We also identified \$14,204 of questionable costs resulting from unsupported and ineligible costs.

These issues occurred primarily because—

- (1) the Municipality was not fully aware of Federal procurement and grant administration requirements, and did not implement corrective actions recommended in its *Single Audit* reports;¹ and
- (2) Puerto Rico did not proactively monitor the Municipality's grant activities and *Single Audit* reports to verify compliance with Federal procurement regulations.

Finding A: Contracting Practices

The Municipality did not comply with Federal procurement standards when awarding contracts valued at \$1.74 million for permanent work projects for a reinforced concrete structure and road repairs (Project 0536 for \$458,525) and a drainage structure (Project 0506 for \$1,284,600). As a result, full and open competition did not occur, and FEMA has no assurance that the Municipality procured the services at the best possible price. In addition, the lack of competition increases the likelihood of fraud, waste, and abuse. It also denies opportunities for other qualified firms—including disadvantaged firms such as small, minority, and women-owned businesses—to bid on federally funded work as Congress intended.

Federal regulations at 44 Code of Federal Regulations (CFR) 13.35 and 13.36, in part, required the Municipality, among other actions, to—

- make contract awards only to parties who are not debarred or suspended or otherwise excluded from or ineligible for participation in Federal assistance programs (44 CFR 13.35);

¹ The *Single Audit Act of 1984* (with amendment in 1996) and Office of Management and Budget (OMB) Circular A-133 provide audit requirements for ensuring that recipients properly expend grant funds.



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- perform procurement transactions in a manner providing full and open competition except under certain circumstances. One allowable circumstance is when there is a public exigency or emergency for the requirement that will not permit a delay resulting from competitive solicitation (44 CFR 13.36(c)(1) and (d)(4)(i)(B));
- take all necessary affirmative steps to assure the use of minority firms, women's business enterprises, and labor surplus area firms when possible (44 CFR 13.36(e)(1));
- perform a cost or price analysis in connection with every procurement action, including contract modifications, to determine the reasonableness of the contractor's proposed price (44 CFR 13.36(f)(1)); and
- include specific provisions in its contracts, such as Equal Employment Opportunity compliance, compliance with labor laws, prohibition of "kickbacks," and access to records and record retention requirements (44 CFR 13.36(i)).

Further, Federal cost principles (*Cost Principles for State, Local, and Indian Tribal Governments*) at 2 CFR 225, appendix A, section C.1.a., state that costs must be reasonable to be allowable under a Federal award; and section C.2 defines a reasonable cost as one that, in nature and amount, does not exceed that which a prudent person would incur under the circumstances prevailing at the time. In determining reasonableness of a given cost, section C.2 states that governmental units should consider items such as sound business practices, Federal regulations and guidelines, and market price for comparable goods and services.

FEMA may grant exceptions to Federal procurement requirements to subgrantees on a case-by-case basis (44 CFR 13.6(c)). Hurricane Irene struck Puerto Rico on August 21, 2011, causing flooding, mudslides, and landslides that damaged Municipality roads, reinforced concrete structures, a drainage structure, and other facilities. Between July and December 2013, 23 to 28 months after the disaster, the Municipality hired two contractors to make permanent repairs to the damaged facilities on a noncompetitive basis using its emergency contracting procedures. The contractors had performed work for the Municipality on various non-disaster projects.

However, the Municipality should have solicited competitive bids because, when it hired the two contractors about 2 years after the disaster, a public exigency did not exist to justify using a noncompetitive award process for the



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nonemergency work. The Municipality also could not provide evidence that it conducted a cost or price analysis to determine the reasonableness of the contractors' proposed prices. A cost or price analysis decreases the likelihood of unreasonably high or low prices, contractor misinterpretations, and errors in pricing relative to the scope of work.

Further, the Municipality's *Single Audit* reports for 2011, 2012, and 2013 disclosed weaknesses in the Municipality's Federal contracting procedures. Specifically, the audits disclosed that the Municipality did not maintain adequate controls and procedures to assure that—

- (1) individuals and entities for which it grants contracts are not suspended or debarred from participation in Federal programs, and
- (2) all contracts include appropriate Federal contract provisions.

At the time of our audit, the Municipality had not implemented policies and procedures to correct these procurement violations. Puerto Rico, as the grantee, is responsible for issuing a management decision on *Single Audit* findings and ensuring that the Municipality takes appropriate and timely corrective action (OMB Circular A-133, subpart D, § 400(d)(5)). Despite these conditions, we did not identify any negative effects resulting from the Municipality's noncompliance of these two procurement requirements for the contracts we reviewed in this audit.

Under these circumstances, our usual practice would be to question all of the \$1,743,125 in contract costs because the Municipality's procurement process did not meet Federal procurement requirements. However, in March 2014, FEMA reviewed \$458,525 of contract costs proposed under Project 0536 against FEMA cost codes, concluded that the proposed contract rates were reasonable, and approved the project costs despite the contracting violations. It has been FEMA's general practice to allow costs it considers reasonable regardless of a subgrantee's noncompliance with Federal procurement requirements. We generally do not agree with this practice because FEMA should consider more than just the cost; however, we defer to FEMA's decision to allow the costs because it is within the agency's authority granted under 44 CFR 13.43(a)(2). Therefore, we are not questioning any contract costs related to Project 0536. However, at the time of our audit, the Municipality had not completed work under Project 0506; therefore, Puerto Rico's and FEMA's final review and approval of project costs was pending. Therefore, we question the \$1,284,600 of contracts costs the Municipality claimed under Project 0506 that did not meet Federal contracting requirements (see table 1).



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Table 1: Contracts for Permanent Projects

| Project Number | Description of Work | Contract Amount | Amount Questioned |
|-----------------------|--|------------------------|--------------------------|
| 0536 | Reinforced Concrete Structure and Road Repairs | \$ 458,525 | \$ 0 |
| 0506 | Drainage Structure | 1,284,600 | 1,284,600 |
| Total | | \$1,743,125 | \$1,284,600 |

Source: Municipality records and Office of Inspector General (OIG) analysis

Municipality officials said that FEMA did not approve Project 0506 until November 2012, although the disaster occurred in August 2011. They also said that emergency circumstances justified the Municipality's use of a noncompetitive contract because more than 50 families were at risk of losing lives and/or properties in the affected area. In addition, they said that the Municipality decided to award the contract to a contractor that the Municipality knew was financially capable and whose work history was satisfactory. Finally, they said that the complexity of the work and the difficulties the Municipality encountered in obtaining the right of entry forms to the private properties delayed the start of the work. However, our position remains unchanged. We believe that the 13 months that passed from the time that FEMA approved the project to the time the Municipality started project work provided the Municipality sufficient time to solicit competitive bids for the work.

Finding B: Supporting Documentation

The Municipality did not adequately document \$9,132 of project costs. As a result, FEMA has no assurance the costs are valid and eligible. Federal cost principles (*Cost Principles for State, Local, and Indian Tribal Governments*) at 2 CFR 225, appendix A, section C.1.j., require costs to be adequately documented to be allowable under a Federal award. We question the \$9,132 of unsupported costs as explained below.

- The Municipality claimed a total of \$555,025 (\$458,525 under Project 0536 and \$96,500 under Project 1572) for contract materials associated with the construction of reinforced concrete and retaining walls structures. However, the Municipality's project documentation supported only \$547,205 of costs, or \$7,820 less than the amount it claimed. The unsupported costs occurred because the contractors invoiced the Municipality for more material than they actually used to complete the project work. Therefore, we question the \$7,820 of unsupported costs (see table 2).



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Table 2: Unsupported Project Costs

| Work Description | Quantity Invoiced | Unit | Quantity Supported | Difference | Unit Price | Unsupported Costs |
|-----------------------------|-------------------|-------------|--------------------|------------|------------|-------------------|
| Project 0536: | | | | | | |
| Bituminous Concrete Overlay | 125 | Ton | 100 | 25 | \$200 | 5,000 |
| Guard Rail | 350 | Linear foot | 276 | 74 | \$30 | 2,220 |
| Sub-Total | | | | | | \$7,220 |
| Project 1572: | | | | | | |
| Concrete | 90 | Cubic yard | 89 | 1 | \$600 | 600 |
| Sub-Total | | | | | | \$ 600 |
| Total | | | | | | \$7,820 |

Source: Municipality records and OIG analysis

Municipality officials said that the contractor has not completed work under Project 0536. However, our position remains unchanged because project documentation indicates (1) the Municipality completed project work on August 24, 2015, and (2) Puerto Rico performed a field inspection of the project work on September 24, 2015.

- Under Project 1572, FEMA awarded final project costs of \$102,812 based on a final inspection that Puerto Rico conducted in February 2015. However, our review of project documentation such as contracts, purchase orders, voucher payments, and canceled checks showed that final project costs totaled \$101,500, or \$1,312 less than the amount FEMA approved and awarded to the Municipality. Therefore, we question the \$1,312 of unsupported project costs.

Municipality officials agreed with this finding.

Finding C: Ineligible Project Charges

The Municipality claimed \$5,072 of road construction costs under Project 0536 that were not the responsibility of the Municipality. Federal regulation 44 CFR 206.223(a) requires that an item of work be the legal responsibility of an eligible applicant to be eligible for financial assistance. The Municipality claimed \$5,072 for providing road access to a private property. However, we determined, with assistance from Puerto Rico field inspection staff, that the responsibility for the road access resided with the property owners, not the



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Municipality. Therefore, we question the \$5,072 of costs the Municipality claimed for ineligible road work.

Municipality officials disagreed with this finding, saying that the Municipality owns the road and, therefore, the Municipality is responsible for maintaining the property owner's access to the road. The officials provided additional documentation after the exit conference that they believed supported their assertion. However, we were unable to make a determination of ownership based on the documentation they provided. Therefore, we defer to FEMA, in coordination with Puerto Rico, to make the final decision of project work eligibility.

Finding D: Grant Management

The findings we discuss in this report occurred primarily because the Municipality (1) was not fully aware of Federal procurement and grant administration requirements and (2) did not implement corrective actions recommended in its *Single Audit* reports. However, the grantee (Puerto Rico) is responsible for monitoring subgrant activities and ensuring that its subgrantee (the Municipality) is aware of and complies with grant requirements.² Therefore, Puerto Rico should monitor the Municipality's performance and provide technical assistance to ensure compliance with Federal grant requirements.

Municipality officials agreed with this finding, saying that they will work with Puerto Rico to implement an appropriate corrective action plan.

Recommendations

We recommend the Regional Administrator, FEMA Region II:

Recommendation 1: Disallow \$1,284,600 (Federal Share \$963,450) of ineligible contracting costs under Project 0506 that the Municipality did not procure in accordance with Federal requirements, unless FEMA decides to grant an exception for all or part of the costs as 44 CFR 13.6(c) allows and determines that the costs are reasonable (finding A).

Recommendation 2: Direct Puerto Rico to instruct the Municipality to comply with Federal procurement standards when acquiring goods and services under a FEMA award (finding A).

² 44 CFR 13.37(a)(2) and 44 CFR 13.40(a).



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Recommendation 3: Direct Puerto Rico to take steps to ensure the Municipality takes appropriate and timely corrective action for *Single Audit* report findings and recommendations (finding A).

Recommendation 4: Disallow \$9,132 (Federal share \$6,849) of unsupported costs unless the Municipality provides FEMA with additional documentation to support the costs (finding B).³

Recommendation 5: Disallow \$5,072 (Federal share \$3,804) of ineligible costs unless the Municipality provides documentation to show the costs are eligible (finding C).

Recommendation 6: Direct Puerto Rico to monitor the Municipality's grant activities to ensure compliance with all Federal grant requirements (finding D).

Discussion with Management and Audit Follow-up

We discussed the results of our audit with Municipality, 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 held on February 4, 2016. The Municipality's officials generally disagreed with findings A, B, and C and provided additional documentation after the exit conference that we considered. Based on this additional documentation, we reduced \$5,920 of unsupported costs we originally questioned under finding B. We included Municipality officials' comments in the body of this report as appropriate.

FEMA officials provided a written response on March 31, 2016, agreeing with our findings and recommendations (see appendix C). FEMA expects to implement its proposed corrective actions to address our recommendations by May 30, 2016. Therefore, we consider all six recommendations contained in this report to be resolved, but open. We will evaluate for closure upon documentation that FEMA has implemented its proposed corrective actions. Please email closeout documentation and request to Carl.Kimble@oig.dhs.gov.

³We initially questioned \$15,052 (Federal share \$11,289) under finding B. However, after the exit conference, the Municipality submitted additional documentation that reduced the questioned costs to \$5,072. FEMA's response to finding B (see appendix C) references the initial amount of \$15,052, which is the amount we discussed with FEMA during the exit conference.



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The Office of Emergency Management Oversight major contributions to this report are David Kimble, Director; Felipe Pubillones, Audit Manager; 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 – South at (404) 832-6702.



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Appendix A

Objective, Scope, and Methodology

We audited Public Assistance grant funds awarded to the Municipality, FIPS Code 149-99149-00. Our audit objective was to determine whether the Municipality accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines for Disaster Number 4017-DR-PR. The Municipality received a Public Assistance award of \$2.58 million from Puerto Rico, a FEMA grantee, for damages resulting from Hurricane Irene, which occurred in August 2011. The award consisted of three large projects and 15 small projects.⁴

We audited three large projects and four small projects totaling \$2.49 million (see appendix B, table 3). However, we limited our review of Project 0506 to the Municipality's compliance with Federal contracting procedures. The audit covered the period August 21, 2011, to August 30, 2015, during which the Municipality claimed \$2.00 million for the projects in our scope.

We interviewed Municipality, Puerto Rico, and FEMA personnel; gained an understanding of the Municipality'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 Municipality'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 2015 and November 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 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.

⁴ Federal regulations in effect at the time of Hurricane Irene set the large project threshold at \$63,900.



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Appendix B

Potential Monetary Benefits

Table 3: Projects Audited and Questioned Costs

| Project Number | FEMA Category of Work⁵ | Amount Awarded | Amount Questioned | Federal Share | Finding |
|-----------------------|--|-----------------------|--------------------------|----------------------|----------------|
| 0506 | G | \$ 1,787,000 | \$ 1,284,600 | \$ 963,450 | A |
| 0536 | C | 518,494 | 12,292 | 9,219 | B & C |
| 1572 | C | 102,812 | 1,912 | 1,434 | B |
| Sub-Total | | \$ 2,408,306 | \$ 1,298,804 | \$ 974,103 | |
| 0542 | C | \$ 6,890 | 0 | 0 | |
| 0839 | C | 13,912 | 0 | 0 | |
| 1495 | C | 8,046 | 0 | 0 | |
| 1872 | C | 51,804 | 0 | 0 | |
| Sub-Total | | \$ 80,652 | \$ 0 | \$ 0 | |
| Totals | | \$2,488,958 | \$1,298,804 | \$ 974,103 | |

Source: FEMA project worksheets, Municipality records, and OIG analysis

Table 4: Summary of Potential Monetary Benefits

| Type of Potential Monetary Benefit | Amounts | Federal Share |
|---|--------------------|----------------------|
| Questioned Costs - Ineligible | \$ 1,289,672 | \$ 967,254 |
| Questioned Costs - Unsupported | 9,132 | 6,849 |
| Funds Put to Better Use | 0 | 0 |
| Totals | \$1,298,804 | \$974,103 |

Source: OIG analysis of findings in this report

⁵ FEMA classifies disaster-related work by type: debris removal (Category A), emergency protective measures (Category B), and permanent work (Categories C through G).



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Appendix C

FEMA Region II Audit Response

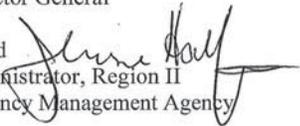
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FEMA

March 31, 2016

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

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

SUBJECT: Management's Response to OIG Draft Report: "FEMA Should Disallow \$1.3 Million of \$2.58 Million in Public Assistance Grant Funds Awarded to the Municipality of Villalba, Puerto Rico, for Hurricane Irene Damages"
(Project No. G-15-022-EMO-FEMA)

Thank you for the opportunity to review and comment on this draft report. The Federal Emergency Management Agency (FEMA) appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

FEMA is pleased to note OIG's positive recognition of the Municipality for generally accounting for FEMA funds on a project-by-project basis as Federal regulations and FEMA guidelines require. FEMA will use all the findings in the report to strengthen the effectiveness and efficiency of how we execute and measure our program. We recognize the need to continue to improve the process, including addressing the recommendations raised in this audit report. FEMA will continue to work with the Grantee and the Municipality to ensure they are fully aware of Federal procurement and grant administration requirements.

The draft report contained 6 recommendations with which FEMA concurs. Specifically:

Recommendation 1: Disallow \$1,284,600 (Federal Share \$963,450) of ineligible contracting costs under Project 0506 that the Municipality did not procure in accordance with Federal requirements, unless FEMA decides to grant an exception for all or part of the costs as 44 CFR 13.6(c) allows and determines that the costs are reasonable (Finding A).

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Appendix C (continued)

Response: Concur. The project has not been completed, and the Grantee and FEMA will review the cost of the project for reasonableness once it is complete.
Estimated Completion Date (ECD): June 30, 2016

Recommendation 2: Direct Puerto Rico to remind the Municipality to comply with Federal procurement standards when acquiring goods and services under a FEMA award (Finding A).

Response: Concur. FEMA will direct Puerto Rico to remind the Municipality to comply with Federal procurement standards.
ECD: May 30, 2016

Recommendation 3: Direct Puerto Rico to take steps to ensure the Municipality takes appropriate and timely corrective action for *Single Audit* report findings and recommendations (Finding A).

Response: Concur. FEMA will direct Puerto Rico to take steps to ensure the Municipality takes appropriate and timely corrective action for *Single Audit* report findings and recommendations.
ECD: May 30, 2016

Recommendation 4: Disallow \$15,052 (Federal share \$11,266) of unsupported costs unless the Municipality provides FEMA with additional documentation to support the costs (Finding B).

Response: Concur. The Municipality and the Grantee have requested an opportunity to examine the Municipality's account records in search of documentation that supports the sub grant award.
ECD: May 30, 2016

Recommendation 5: Disallow \$5,072 (Federal Share \$3,804) of ineligible costs unless the Municipality provides documentation to show the costs are eligible (Finding C).

Response: Concur. The Municipality and the Grantee have requested an opportunity to examine its account records in search of documentation that supports the sub grant award.
ECD: May 30, 2016

Recommendation 6: Direct Puerto Rico to monitor the Municipality's grant activities to ensure compliance with all Federal grant requirements (Finding D).

Response: FEMA concurs with this recommendation.
ECD: May 30, 2016



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Appendix C (continued)

Thank you again for the opportunity to review and comment on this draft report and for the work that you and your team have done to better inform us throughout this audit so that we may enhance the program's overall effectiveness. Please direct any questions regarding this response to Mr. Alejandro R. De La Campa, Caribbean Area Division Director at Alejandro.delacampa@fema.dhs.gov or (787) 296-3500.



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Appendix D

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