



# DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General  
Atlanta Field Office – Audit Division  
3003 Chamblee Tucker Rd  
Atlanta, GA 30341

February 06, 2004

## MEMORANDUM

To: Joseph F. Picciano  
Acting Regional Director, FEMA Region II

FROM:   
Gary J. Barard  
Field Office Director

SUBJECT: Virgin Islands Department of Public Works  
FEMA Disaster No. 1126-DR-VI  
Audit Report No. DA-13-04

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The Office of Inspector General (OIG) audited public assistance funds awarded to the Virgin Islands (V.I.) Department of Public Works (DPW). The objective of the audit was to determine whether DPW and other V.I. Government entities accounted for and expended FEMA funds according to federal regulations and FEMA guidelines.

The DPW received an award of \$2.4 million from the V.I. Office of Management and Budget (OMB), a FEMA grantee, for debris removal, emergency protective measures and repairs to buildings damaged as a result of Hurricane Bertha in July 1996. The award provided 90 percent FEMA funding for 4 large projects and 14 small projects.<sup>1</sup> We limited our audit to the \$2.4 million awarded and the \$3 million claimed under the 4 large projects. (See Exhibit). The audit covered the period July 1996 to September 2003.

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 tests of the V.I. Government's accounting records, a judgmental sample of expenditures, and other auditing procedures considered necessary under the circumstances.

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<sup>1</sup> According to FEMA regulations, a large project cost \$44,800 or more and a small project cost less than \$44,800.

## RESULTS OF AUDIT

The V.I. Government did not maintain accurate records on the receipt of program funds. Also, DPW claimed questioned costs of \$814,462 (FEMA share - \$733,016) resulting from poor contracting and cost control practices, and unsupported and duplicate charges.

- A. Grant Accounting. Federal regulation (44 CFR 13.20) requires subgrantees to maintain accurate, current, and complete accounting records on federal grant programs. However, the V.I. Government's records on the receipt of funds for DPW were understated by \$1,641,710 due to accounting errors and a lack of reconciliation.

The V.I. Department of Finance was responsible for maintaining the official accounting records of the V.I. Government and accounting for the receipt and expenditure of all federal grant funds. To account for FEMA funds under Disaster 1126, the Department of Finance established a separate DPW account for receipts and expenditures.

The OMB, on the other hand, was responsible for withdrawing FEMA program funds from the U.S. Treasury and reporting such withdrawals to the Department of Finance. Additionally, both OMB and the Department of Finance were responsible for coordinating their efforts and reconciling their accounts. The OIG determined that this was not done. OMB failed to report withdrawals accurately and the Department of Finance failed to maintain accurate records on the receipt of funds for the DPW.

OMB records showed that the V.I. Government requested and received \$1,931,818 under Disaster 1126 for DPW. However, OMB submitted reports to the Department of Finance reporting only \$590,686. OMB erroneously reported the difference of \$1,341,132 under the DPW account established for Disaster 1067.

The OIG also found that the Department of Finance posted receipts of only \$290,108 under the DPW account for Disaster 1126. The difference of \$1,641,710 was incorrectly posted to the Police Department and DPW account established for Disaster 1067.

- B. Poor Contracting and Cost Control Practices. Federal regulation (44 CFR 13.36) requires subgrantees to maintain records sufficient to detail the significant history of procurements, including the rationale for the method of such procurements and the basis for contractor selection and contract price.

The DPW did not comply with these requirements. DPW entered into 34 verbal contracts for debris removal work on St. Thomas and St. John and paid the contractors \$1,327,740. This amounted to \$684,751 in excess of the FEMA approved award amount of \$642,989. However, all such contracts were verbal, without documentation of the contract terms and conditions, the scope of work, or the basis for compensation. The DPW accepted and paid whatever the contractors billed for

equipment usage without an established compensation plan or details on the amount of debris removed.

Pursuant to Federal regulation (44 CFR 206.204), OMB submitted, on behalf of the DPW, a request for FEMA to fund the \$684,751 cost overrun. However, FEMA responded that sufficient justification was not provided to make a final determination. In view of the DPW poor contracting and cost control practice, and because there was no documentation to demonstrate that the \$684,751 in excess of the approved cost estimate was necessary and reasonable as required by regulation, the OIG questions that amount, as follows:

<u>Project</u>	<u>Amount Awarded</u>	<u>Amount Claimed</u>	<u>Excess Charges</u>
77228	\$ 96,620	\$ 98,680	\$ 2,060
54830	108,080	323,728	215,648
55529	<u>438,289</u>	<u>905,332</u>	<u>467,043</u>
	<u>\$642,989</u>	<u>\$1,327,740</u>	<u>\$684,751</u>

- C. Unsupported Charges. Federal regulation (44 CFR 13.20) requires subgrantees to maintain supporting documentation for all charges under FEMA projects. However, DPW's claim included \$77,209 of contract charges that were not supported by adequate documentation.

DPW hired several contractors under Project 77492 to install roof tarps on damaged homes located on all three islands. The contracts required the contractors to provide daily logs of tarp material used and right-of entry forms signed by homeowners and certified by inspectors that work had been completed. The contracts also stated that payment would not be made unless the completed right-of-entry forms were submitted. However, the OIG determined that forms were not available for \$77,209 of payments. Therefore, the OIG questions these charges.

- D. Duplicate Charges. DPW claim included \$52,502 of duplicate charges for roof tarp installation.

The Department paid \$1,714,876 to several contractors hired to install tarps. The written contracts specified that compensation would be based on the satisfactory performance of the services by the contractors. However, contrary to contract terms, the OIG found that several contractors were paid, in full, \$34,097 for work on several homes that were not satisfactorily completed. As a result, the DPW had to pay other contractors \$38,444 to reinstall the tarps on the same homes. Therefore, the OIG questions duplicate charges of \$34,097.

The OIG also found that several contractors billed twice for work performed on several homes, and the DPW paid and claimed these duplicate charges of \$18,405. Therefore, this amount is also questioned.

### RECOMMENDATIONS

The OIG recommends that the Regional Director, in coordination with the OMB:

1. Instruct the Department of Finance to make the necessary adjustments to accurately reflect the receipt of federal funds under FEMA projects;
2. Instruct the Department of Finance to coordinate their accounting efforts with the OMB and ensure that records on the receipts of federal funds are timely and appropriately reconciled;
3. Instruct the Department of Public Works to comply with applicable procurement requirements when implementing FEMA projects in the future; and
4. Disallow the \$814,462 of questioned costs.

### DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the results of the audit with OMB and the DPW officials on December 10, 2003. DPW officials generally concurred with the findings but indicated that an attempt would be made to support questioned costs.

Please advise the Atlanta Field Office-Audit Division by May 06, 2004, of the actions taken to implement the OIG recommendations. Should you have questions concerning this report, please contact me at (770) 220-5242.

V.I. Department of Public Works  
FEMA Disaster No. 1126-DR-VI  
Schedule of Claimed and Questioned Costs  
Large Projects

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Amount Claimed</u>	<u>Amount Questioned</u>
77228	\$ 96,620	\$ 98,680	\$ 2,060
54830	108,080	323,728	215,648
55529	438,289	905,332	467,043
77492	<u>1,714,876</u>	<u>1,714,876</u>	<u>129,711</u>
Total	<u>\$2,357,865</u>	<u>\$3,042,616</u>	<u>\$814,462</u>