



February 2024

PUERTO RICO DISASTERS

Progress Made,
but the Recovery
Continues to Face
Challenges

GAO Highlights

Highlights of [GAO-24-105557](#), a report to congressional requesters

Why GAO Did This Study

In September 2017, hurricanes Irma and Maria caused billions of dollars in damage to Puerto Rico's infrastructure, housing, and economy. Earthquakes in 2019 and 2020 caused additional damages. More than 6 years after hurricanes Irma and Maria, Puerto Rico's recovery is ongoing.

FEMA is the lead federal agency assisting Puerto Rico's recovery operations. It administers the Public Assistance program to provide grant funds to repair and rebuild damaged infrastructure, such as schools and the power grid, among other things.

GAO was asked to review federal recovery efforts in Puerto Rico. This report addresses: (1) the status of permanent recovery work in Puerto Rico using Public Assistance; (2) the extent to which FEMA and Puerto Rico's government have addressed challenges to starting and completing permanent recovery work; and (3) the results of FEMA efforts to monitor Puerto Rico's use of grant funds. For this report, GAO analyzed relevant FEMA and Puerto Rico government documents and data; conducted site visits; and interviewed FEMA, Puerto Rico, and grant subrecipient officials.

What GAO Recommends

In prior work, GAO made two recommendations to FEMA related to the management of risks to the remainder of Puerto Rico's recovery that still warrant action. FEMA concurred with these recommendations and has drafted a risk management plan in response, but has yet to finalize this plan and demonstrate efforts to continuously monitor risks to the recovery.

View [GAO-24-105557](#). For more information, contact Chris Currie at (404) 512-1875 or curriec@gao.gov.

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What GAO Found

The Federal Emergency Management Agency (FEMA) had awarded about \$23.4 billion in Public Assistance to Puerto Rico's permanent recovery work related to hurricanes Irma and Maria and the 2019 and 2020 earthquakes, as of June 2023. Of that, Puerto Rico has expended about \$1.8 billion and a substantial amount of permanent work remains. Further, about \$11.3 billion of the awarded funds needs FEMA's authorization before Puerto Rico can expend it. Puerto Rico subrecipients plan to submit project applications and obtain FEMA's authorization to access and expend these remaining funds through 2030 and possibly beyond.

Work on Puerto Rico Aqueduct and Sewer Authority's Central Laboratory in 2021 and 2022



Source: Puerto Rico Aqueduct and Sewer Authority. | GAO-24-105557

To help jump-start permanent work construction, FEMA and Puerto Rico have taken actions, such as providing advance disbursements of funds; however, projects face additional challenges. Specifically, grant subrecipients that received awards from FEMA through an expedited process in Puerto Rico have identified increased project costs that pose risks to the completion of work on their facilities. For example, officials from Puerto Rico's Aqueduct and Sewer Authority said that the costs for one water treatment plant project exceeded its original estimate by 42 percent. Under the expedited process, these cost increases are of concern because a subrecipient's award acts as a fixed budget to complete projects across its various facilities. Therefore, increased costs for one project could excessively reduce the established budget to complete later projects.

In May 2021, GAO identified a number of risks to Puerto Rico's recovery, including subrecipient difficulties in starting project construction, and recommended that FEMA take several actions to manage them. FEMA has partially addressed these recommendations; however, further steps are needed, including finalizing its risk management plan and taking actions to continuously monitor recovery risks. As challenges continue to complicate Puerto Rico's recovery, fully implementing GAO's prior recommendations remains important.

FEMA has monitored Puerto Rico's use of Public Assistance grant funds through two oversight activities: improper payment reviews and grants management compliance reviews. Both efforts found improvement in Puerto Rico's ability to manage FEMA grant funds since the 2017 hurricanes. For example, by fiscal year 2020, FEMA found that Puerto Rico's potential improper payments fell below the amount considered significant by statute.

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Abbreviations

COVID-19	Coronavirus Disease 2019
DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
Puerto Rico Recovery Office	Puerto Rico Central Office for Recovery, Reconstruction and Resiliency
Stafford Act	Robert T. Stafford Disaster Relief and Emergency Assistance Act

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February 13, 2024

Congressional Requesters

In September 2017, hurricanes Irma and Maria struck Puerto Rico causing billions of dollars in damage to its infrastructure, housing, and economy. To repair and reconstruct the infrastructure damaged by the hurricanes, the government of Puerto Rico later estimated it would need \$132 billion in funding from 2018 through 2028. As noted in Puerto Rico’s recovery plan, the damages caused by the hurricanes exacerbated an already difficult financial situation in Puerto Rico, which had been operating under severe fiscal constraints, suffering from outdated infrastructure and power systems, and lacked the emergency management capacity needed to respond to such catastrophic events.¹

Further complicating its recovery from the 2017 hurricanes, Puerto Rico experienced a series of earthquakes in December 2019 and January 2020 that added millions of dollars in damages. Recovery from this set of disasters was again impacted by subsequent events including the COVID-19 pandemic starting in March 2020 and Hurricane Fiona in September 2022. More than 6 years after hurricanes Irma and Maria struck the territory, Puerto Rico’s recovery remains ongoing.

The Federal Emergency Management Agency (FEMA)—a component of the Department of Homeland Security (DHS)—is the lead federal agency responsible for assisting Puerto Rico’s recovery from these natural disasters.² FEMA administers the Public Assistance program that provides grant funds to state, territorial, local, and tribal governments, as well as certain types of private nonprofit organizations, to assist them in

¹In fiscal year 2016, Puerto Rico’s total outstanding public debt stood at \$65.2 billion. Puerto Rico’s total outstanding public debt increased continuously between fiscal years 2005 and 2014, prior to a default in 2015. Puerto Rico completed its major debt restructuring in 2022, and as of January 2023, Puerto Rico’s restructured debt obligations totaled about \$28.6 billion (in addition to debt obligations of Puerto Rico’s Power and Electricity Authority, which is pending restructuring). Remaining steps to support sustained economic growth in Puerto Rico include (1) completing remaining debt restructurings, (2) implementing debt management reforms, and (3) implementing financial management and reporting reforms. See GAO, *U.S. Territories: Public Debt Outlook – 2019 Update*, [GAO-19-525](#) (Washington, D.C.: June 28, 2019) and *U.S. Territories: Public Debt Outlook – 2023 Update*, [GAO-23-106045](#) (Washington, D.C.: June 29, 2023).

²See 6 U.S.C. § 313.

responding to and recovering from major disasters or emergencies.³ In partnership with the government of Puerto Rico, FEMA provides Public Assistance grant funds for a wide range of eligible recovery activities and projects, such as the repair and reconstruction of damaged schools, hospitals, and power infrastructure.

We have previously reported on Puerto Rico's disaster recovery efforts, including its use of Public Assistance funds and difficulties it has faced implementing recovery projects. For example, in May 2021, we reported that FEMA made progress in approving Public Assistance projects, but that FEMA had not comprehensively identified or assessed the risks that could affect the success of the remainder of Puerto Rico's recovery, such as Puerto Rico's ability to start construction on recovery projects.⁴ We recommended that FEMA, in coordination with Puerto Rico and relevant federal agencies, identify and assess the risks to Puerto Rico's recovery, including Puerto Rico's capacity to carry out projects, and identify potential actions to manage the risks. FEMA is working to address these recommendations and has thus far drafted a risk management plan in response, which we discuss later in this report.

You asked us to review the federal government's continued response and recovery efforts related to the 2017 hurricanes. This report addresses (1) the status of permanent recovery work in Puerto Rico using FEMA's Public Assistance; (2) the extent to which FEMA and Puerto Rico have addressed challenges that grant subrecipients face in starting and completing permanent work construction; and (3) the results of FEMA efforts to monitor Puerto Rico's use of grant funds.

³The Public Assistance program represents the largest share of the Disaster Relief Fund, which is the primary source of federal disaster assistance for state and local governments when a disaster is declared. The Disaster Relief Fund is appropriated no-year funding, which allows FEMA to fund, direct, coordinate, and manage response and recovery efforts until the funds are expended. Recovery efforts associated with domestic disasters and emergencies may include certain efforts by other federal agencies and state and local governments, among others.

⁴GAO, *Puerto Rico Recovery: FEMA Made Progress in Approving Projects, But Should Identify and Assess Risks to the Recovery*, [GAO-21-264](#) (Washington, D.C.: May 19, 2021). Also see: GAO, *Puerto Rico Disaster Recovery: FEMA Actions Needed to Strengthen Project Cost Estimation and Awareness of Program Guidance*, [GAO-20-221](#) (Washington, D.C.: Feb. 5, 2020); *Puerto Rico Electricity: FEMA and HUD Have Not Approved Long-Term Projects and Need to Implement Recommendations to Address Uncertainties and Enhance Resilience*, [GAO-21-54](#) (Washington, D.C.: November 17, 2020); and *Puerto Rico Hurricanes: Status of FEMA Funding, Oversight, and Recovery Challenges*, [GAO-19-256](#) (Washington, D.C.: March 14, 2019).

To address these objectives, we reviewed relevant laws and FEMA Public Assistance grant program guidance, including the June 2020 Public Assistance Program and Policy Guide and the September 2019, February 2020, and January 2022 versions of the *Public Assistance Alternative Procedures Permanent Work Guide for Puerto Rico*.⁵ We also interviewed officials from FEMA headquarters, including from the Office of Response and Recovery and the Office of the Chief Financial Officer, as well as officials from FEMA Region 2, the regional office with oversight for Puerto Rico.⁶ Further, in March and July of 2022, we conducted site visits to Puerto Rico to observe hurricane and earthquake-damaged areas, the progress of permanent recovery work, and interview relevant FEMA, and Puerto Rico government officials, as well as officials from local entities that received FEMA grants. Information obtained during these site visits was not generalizable to all damaged areas across Puerto Rico, but provided important context about the status of recovery efforts.

In addition, we interviewed officials from five Puerto Rico government agencies and public corporations and one private corporation operating in the Commonwealth.⁷ Further, we also interviewed officials from seven municipalities, including four that we visited to observe recovery projects in our prior review, to obtain their perspective on changes to the Public Assistance program in Puerto Rico.⁸ In interviews with FEMA and Puerto

⁵Federal Emergency Management Agency, *Public Assistance Program and Policy Guide*. (Washington, D.C.: June 1, 2020). Federal Emergency Management Agency, *Public Assistance Alternative Procedures (Section 428): Guide for Permanent Work FEMA-4339-DR-PR*. (Washington, D.C.: Sept. 2019). Federal Emergency Management Agency, *Public Assistance Alternative Procedures (Section 428): Guide for Permanent Work FEMA-4339-DR-PR*. (Washington, D.C.: Feb. 10, 2020). Federal Emergency Management Agency, *Public Assistance Alternative Procedures (Section 428): Guide for Permanent Work FEMA-4339-DR-PR*. (Washington, D.C.: Jan. 1, 2022).

⁶FEMA Region 2 is responsible for the states of New Jersey and New York, the Commonwealth of Puerto Rico, the territory of the U.S. Virgin Islands, and eight Tribal Nations.

⁷In 2019, we selected and interviewed five of these entities because they had the greatest shares of Public Assistance funds awarded in Puerto Rico as of December 6, 2018: (1) Puerto Rico Aqueduct and Sewer Authority, (2) Puerto Rico Electric Power Authority, (3) Puerto Rico Department of Education, (4) Puerto Rico Department of Public Housing, and (5) Puerto Rico Department of Transportation and Public Works. See [GAO-20-221](#). We selected the sixth entity, LUMA Energy, because of its involvement in the Puerto Rico Electric Power Authority's recovery work.

⁸In prior work, we visited the municipalities of Ciales, Guanica, Guayanilla, and Humacao. See [GAO-21-264](#). In addition, we interviewed officials from selected municipalities affected by Hurricane Fiona to obtain their perspectives about ongoing challenges with permanent recovery work. These municipalities included: Guayama, Ponce, and Yabucoa.

Rico entities, we asked officials about their experiences implementing the Public Assistance program and the status of projects. The results from our interviews cannot be generalized to all of Puerto Rico's government agencies and public corporations; however, they provide important context about the Public Assistance program in Puerto Rico.

To address our first objective, we obtained and analyzed data from two FEMA systems—the Emergency Management Mission Integrated Environment and the Web-Integrated Financial Management Information System. These data included the amount of Public Assistance funds that FEMA has awarded to assist in the recovery from hurricanes Irma and Maria and the 2019 and 2020 earthquakes (the earthquakes) as of June 30, 2023 as well as Puerto Rico's expenditure of those funds.⁹ In addition, we obtained and analyzed data on the progress of permanent work projects related to the 2017 hurricanes and the earthquakes from the Puerto Rico Central Office for Recovery, Reconstruction, and Resiliency's data system, the Disaster Recovery Solution, as of the third quarter of fiscal year 2023—ending on June 30, 2023. To determine the reliability of these data, we reviewed information about the FEMA and Puerto Rico systems, interviewed data users and managers responsible for these data, and checked for obvious errors in accuracy and completeness. Based on these steps, we determined these data to be sufficiently reliable for describing the status of Public Assistance funds and projects in Puerto Rico. Further, we reviewed documentation on Public Assistance in Puerto Rico and interviewed FEMA officials in Puerto Rico, FEMA Region 2, and FEMA headquarters, as well as Puerto Rico government officials. These interviews focused on the status of the Public Assistance permanent work projects in Puerto Rico.

To address our second objective, we reviewed FEMA policies and guidance related to Public Assistance work. This included FEMA's standard operating procedure for Accelerated Award Strategy projects and the draft of FEMA Region 2's risk management plan for the

⁹For the purposes of this report, amounts awarded represent the amount of grant funding FEMA provided through the Public Assistance program for specific projects in Puerto Rico. An expenditure is an amount paid by federal agencies, by cash or cash equivalent, during the fiscal year to liquidate government obligations. For the purposes of this report, an expenditure represents the actual spending by the Puerto Rico government of money awarded by the federal government.

Caribbean.¹⁰ We interviewed officials from FEMA headquarters, FEMA Region 2, Puerto Rico officials from the Central Office for Recovery, Resiliency, and Reconstruction, and Puerto Rico entities participating in FEMA's Accelerated Award Strategy. In addition, we interviewed officials from various Puerto Rico municipalities. In these interviews, we asked officials about their progress developing and constructing Public Assistance permanent work projects and any challenges they experienced or faced with the recovery. We also interviewed officials from nongovernmental organizations in Puerto Rico to obtain their perspectives on recovery challenges. The results from our interviews are not generalizable to all of Puerto Rico's government agencies and public corporations; however, they provide important context about the Public Assistance program in Puerto Rico and the progress and impediments to completing permanent recovery work.

To address our third objective, we reviewed FEMA documentation on improper payment and grants management compliance reviews.¹¹ This included FEMA's Validate As You Go program guidance and training documents, as well as grants management compliance review protocols that outline oversight activities for FEMA grant recipients. In addition, we obtained and reviewed the results of FEMA's Validate As You Go reviews, which identify potential improper payments of Puerto Rico's Public Assistance grant expenditures in fiscal years 2018 to 2020 (the most recent year available at the time of our review). To assess the reliability of the results, we interviewed FEMA officials responsible for the improper payment reviews and reviewed the protocols FEMA takes to conduct its improper payment tests. Further, we reviewed and analyzed the results of FEMA's annual grants management compliance reviews of Puerto Rico from fiscal year 2019 to 2023. We also interviewed FEMA officials in Puerto Rico, FEMA Region 2, and the FEMA Office of the Chief Financial Officer. These interviews focused on FEMA's policies and procedures for conducting oversight of Puerto Rico's grants management activities, and Puerto Rico's ability and progress in managing FEMA grant funds since hurricanes Irma and Maria. In addition, we reviewed documents and interviewed officials from Puerto Rico's Central Office for

¹⁰Federal Emergency Management Agency, *FEMA-4339-DR-PR Public Assistance Post-Fixed Cost Estimate Obligation for PREPA, PRASA, and PRDE Standard Operating Procedure*. (Washington, D.C.: August 8, 2022).

¹¹The federal government defines an improper payment as any payment made using grant funds that should not have been made or was made in an incorrect amount under legally applicable requirements. See 31 U.S.C. § 3351(4).

Recovery, Reconstruction, and Resiliency to learn about their efforts to respond to FEMA's reviews.

We conducted this performance audit from November 2021 to February 2024 in accordance with 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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Disaster Declarations

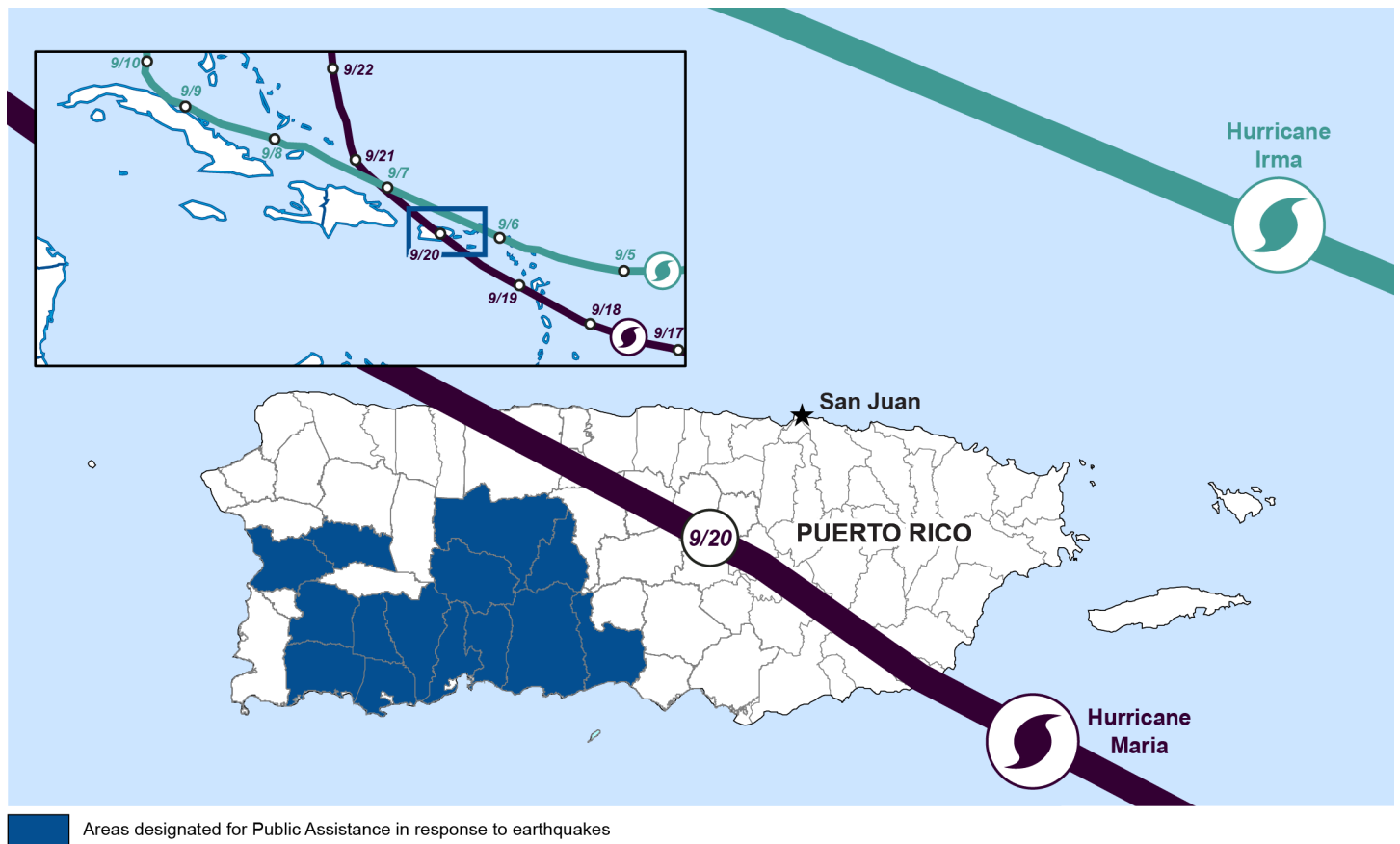
In response to the request of the Governor of Puerto Rico following the effects of hurricanes Irma and Maria in 2017 and the 2019 and 2020 earthquakes, the President issued major disaster declarations in Puerto Rico after each event.¹² The major disaster declarations for hurricanes Irma and Maria together covered the entirety of the Commonwealth of Puerto Rico.¹³ The major disaster declaration for the earthquakes covered 14 municipalities in the southwest portion of Puerto Rico.¹⁴ Figure 1 shows the paths of hurricanes Irma and Maria, as well as the areas affected by the earthquakes.

¹²In accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act), as amended, the President of the United States may declare that a major disaster or emergency exists in response to a Governor's or tribal chief executive's request if the disaster is of such severity and magnitude that effective response is beyond the capabilities of a state, tribe, or local government and federal assistance is necessary. See 42 U.S.C. § 5170.

¹³Puerto Rico; Notice of Major Disaster and Related Determinations, 82 Fed. Reg. 44,639 (Sept. 25, 2017); Puerto Rico; Notice of Major Disaster and Related Determinations, 82 Fed. Reg. 46,820 (Oct. 6, 2017).

¹⁴Puerto Rico; Notice of Major Disaster and Related Determinations, 85 Fed. Reg. 6,964 (Feb. 6, 2020).

Figure 1: The Paths of Hurricanes Irma and Maria in Puerto Rico and Areas Affected by the 2019 and 2020 Earthquakes



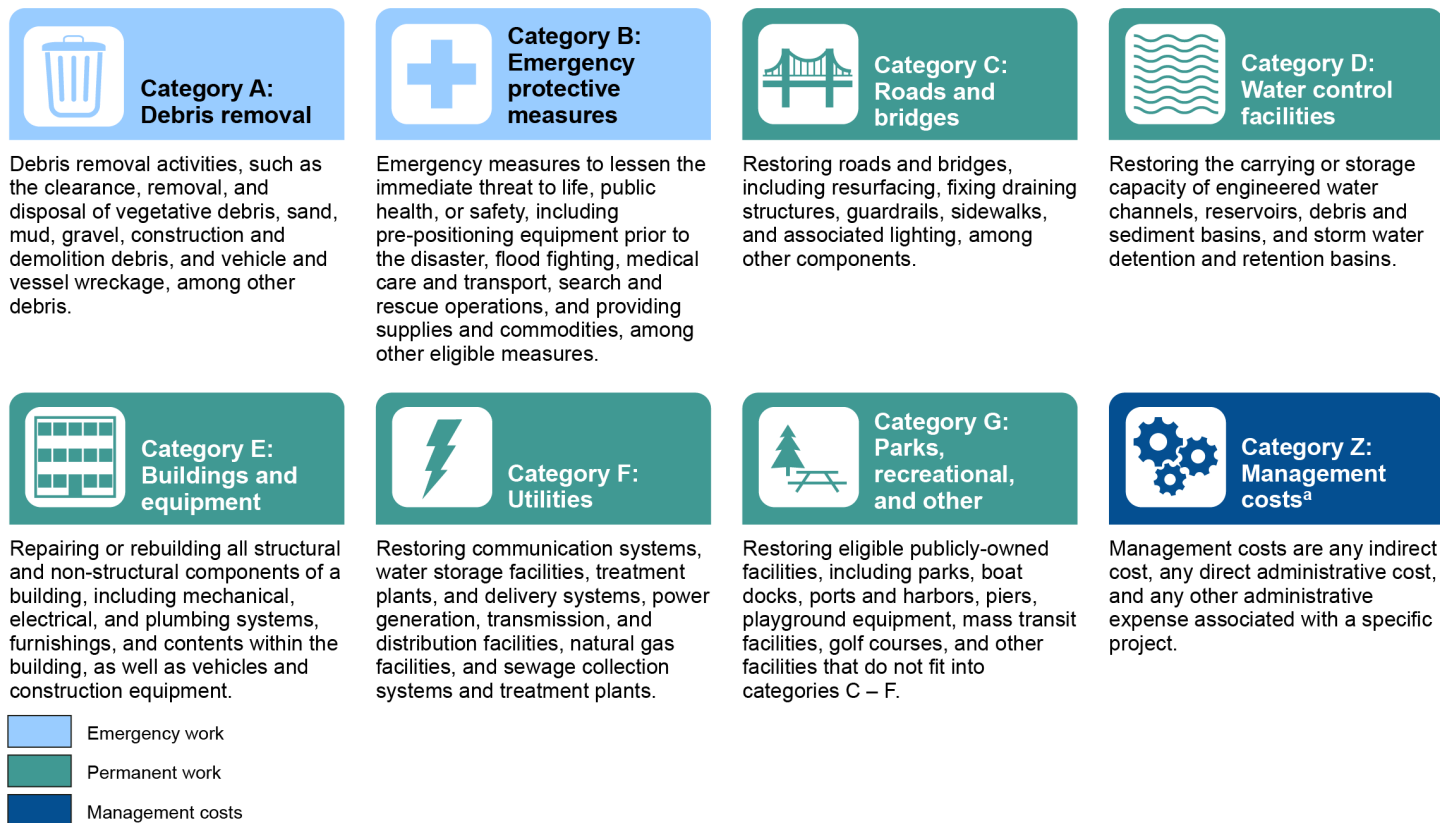
Source: GAO analysis of National Oceanic and Atmospheric Administration data and Federal Emergency Management Agency documents; Map Resources (map). | GAO-24-105557

FEMA’s Public Assistance Program

Major disaster declarations by the President trigger the availability of various federal response and recovery programs, which may include assistance in restoring public infrastructure through FEMA’s Public Assistance program. The Public Assistance program provides funds for debris removal efforts; life-saving emergency protective measures; and the repair or replacement of disaster-damaged publicly-owned or certain private non-profit facilities, roads and bridges, electrical utilities, among other activities. As shown in figure 2, Public Assistance program funds are categorized broadly as either “emergency work” or “permanent work.” Within those two broad categories are separate sub-categories. In addition to the emergency work and permanent work categories, FEMA’s Public Assistance program includes Category Z, which represents any

indirect costs, any direct administrative costs, and any other administrative expense associated with a specific project.¹⁵

Figure 2: Federal Emergency Management Agency’s Public Assistance Program Categories of Work



Source: Federal Emergency Management Agency; GAO (illustrations). | GAO-24-105557

^aThe Disaster Recovery Reform Act of 2018 amended the definition of Category Z management costs. See Pub. L. No. 115-254, § 1215, 132 Stat. 3186, 3449 (codified at 42 U.S.C. § 5165b(a)).

¹⁵The Disaster Recovery Reform Act of 2018 amended the definition of management cost, referred to as category Z. See Pub. L. No. 115-254, § 1215, 132 Stat. 3186, 3449 (codified at 42 U.S.C. § 5165b(a)).

FEMA also funds cost-effective hazard mitigation measures for permanent work projects under the Public Assistance program.¹⁶ FEMA provides these grant funds in conjunction with the repair of these facilities to enhance their resilience during future disasters.

Implementation of FEMA's Public Assistance Program in Puerto Rico

Entities Involved. In Puerto Rico, FEMA administers the Public Assistance program in partnership with the Puerto Rico Central Office for Recovery, Reconstruction and Resiliency — also known by its acronym COR3 and herein referred to as the “Puerto Rico Recovery Office”. The Puerto Rico Recovery Office acts as the recipient of federal grant funds from FEMA and in turn, provides Public Assistance funds in the form of “subawards” to local entities. The local entities are subrecipients of grant funds and carry out recovery work under the program. As a recipient of federal funds, the Puerto Rico Recovery Office must oversee subrecipients to ensure that they are aware of and comply with federal regulations for grant awards.¹⁷

Puerto Rico's agencies, such as the Department of Housing, and public corporations, such as the Puerto Rico Electric Power Authority, act as subrecipients of federal grant funds. Additional subrecipients include local entities such as Puerto Rico's 78 municipalities as well as eligible private non-profits. These subrecipients work with FEMA and the Puerto Rico Recovery Office to identify and develop Public Assistance projects to receive grant funds through subawards.

Public Assistance Alternative Procedures. The Public Assistance program has been implemented in Puerto Rico through different procedures over time. In November 2017, an amendment to the presidential disaster declaration for Hurricane Maria was issued. At that time, due to the extraordinary level of infrastructure damage caused by Hurricane Maria, as well as Puerto Rico's difficult financial position, FEMA was to award Public Assistance funds to all large permanent work

¹⁶FEMA may fund hazard mitigation measures related to the damaged facilities receiving Public Assistance funds pursuant to Section 406 of the Stafford Act, as amended. 42 U.S.C. § 5172; 44 C.F.R. § 206.226.

¹⁷Amendment 5 to the President's disaster declaration required Puerto Rico to establish an oversight authority supported by third-party experts to provide centralized oversight over recovery funds. Amendment No. 5 to Notice of a Major Disaster Declaration, 82 Fed. Reg. 53,514 (Nov. 16, 2017). Further, federal regulations adopted by DHS that govern federal grant awards require that recipients of federal grant awards, including states and territories, must monitor subrecipients to ensure they are aware of, and comply with, federal regulations. See 2 C.F.R. §§ 200.331-200.332.

projects through alternative procedures.¹⁸ Under the standard Public Assistance program, FEMA will fund the actual cost of a large project, and will increase or reduce the amount of funds provided based on the cost of completed eligible work. In contrast, the alternative procedures require that FEMA limit the funds provided to permanent work projects based on estimated costs of a project at the time it makes the subaward.¹⁹ As a result, the recipient or subrecipient is responsible for any project costs that exceed the agreed-upon estimated costs of the project. However, if actual costs are less than the fixed-cost subaward, the recipient or subrecipient may expend all or part of excess funds for other eligible purposes.

Further, the Bipartisan Budget Act of 2018 authorized FEMA, when using the alternative procedures, to help fund the replacement or restoration of disaster-damaged infrastructure that provides critical services to an industry standard without regard to pre-disaster condition.²⁰ For example, FEMA may fund the restoration of a disaster-damaged school building—which provides a critical service—to accepted industry standards for

¹⁸See 82 Fed. Reg. at 53,514. Since that time and as discussed later in this section, FEMA has issued additional guidance providing more flexibility with regard to the use of alternative procedures in Puerto Rico.

¹⁹The Sandy Recovery Improvement Act of 2013 amended the Stafford Act by adding Section 428, which authorized FEMA to approve Public Assistance program projects under the alternative procedures provided by that section for any presidentially-declared major disaster or emergency. This section further authorized FEMA to carry out the alternative procedures as a pilot program until FEMA promulgates regulations to implement this section. Pub. L. No. 113-2, div. B § 1102(2), 127 Stat. 39, amending Pub. L. No. 93-288, tit. IV, § 428 (codified at 42 U.S.C. § 5189f).

²⁰See Pub. L. No. 115-123, § 20601(1), 132 Stat. 64 (2018). For the purposes of our report, discussion of the Bipartisan Budget Act of 2018 refers specifically to section 20601. Critical services include public infrastructure in the following sectors: power, water, sewer, wastewater treatment, communications, education, and emergency medical care. See 42 U.S.C. § 5172(a)(3)(B). Section 20601 applies only to assistance provided through the Public Assistance alternative procedures program for the duration of the recovery for the major disasters declared in Puerto Rico and the U.S. Virgin Islands following hurricanes Irma and Maria. Further, the Additional Supplemental Appropriations for Disaster Relief Act of 2019, which was signed into law on June 6, 2019, provides additional direction to FEMA in the implementation of section 20601. Pub. L. No. 116-20, tit. VI, § 601, 133 Stat. 871, 882 (2019). Specifically, it directs FEMA to “include the costs associated with addressing pre-disaster condition, undamaged components, codes and standards, and industry standards in the cost of repair” when calculating whether a facility should be repaired or replaced. According to FEMA officials, FEMA evaluated this and other provisions of the Act and, in September 2019, issued an updated policy to provide clear guidance.

education facilities, even if the building was in poor condition or not up to industry standards prior to the disaster.

On January 23, 2020, FEMA made the use of Public Assistance alternative procedures optional for the repair of non-critical service facilities damaged by Hurricane Maria.²¹ Following this action, FEMA issued updated guidance on January 1, 2022 that made the use of Public Assistance alternative procedures optional for all Hurricane Maria permanent recovery work projects. This included those for critical service facilities that had not accepted a fixed-cost subaward.²² Under the updated guidance, when applicants choose the standard Public Assistance procedures for critical service facility projects they lose the potential additional assistance that is authorized by the Bipartisan Budget Act of 2018.

FEMA Accelerated Award Strategy. In 2019 and early 2020, FEMA developed a novel Public Assistance award process — the FEMA Accelerated Award Strategy (Accelerated Award Strategy) — that intended to expedite awards of grant funds to three critical service providers: (1) Puerto Rico Electric Power Authority, (2) Puerto Rico Aqueduct and Sewer Authority, and (3) Puerto Rico Department of Education. FEMA focused the Accelerated Award Strategy on these subrecipients because they (1) had geographically dispersed systems in which similar components had like damages; (2) provided critical services across Puerto Rico; and (3) sustained significant, widespread damage from hurricanes Irma and Maria, which FEMA and the Puerto Rico Recovery Office estimated would take years to assess. In 2021, FEMA included a fourth Accelerated Award Strategy subrecipient, the Puerto Rico Public Housing Administration.²³

²¹FEMA, Region 2. *Letter to the Governor's Authorized Representative on FEMA-4339-DR-PR Section 428 Applicability and Guidance*, (Guaynabo, Puerto Rico: January 23, 2020). Facility means any publicly or privately owned building, works, system, or equipment, built or manufactured, or an improved and maintained natural feature. 44 C.F.R § 206.201(c).

²²FEMA. *Public Assistance Alternative Procedures (Section 428): Guide for Permanent Work FEMA-4339-DR-PR*, (Washington, D.C.: Jan. 1, 2022).

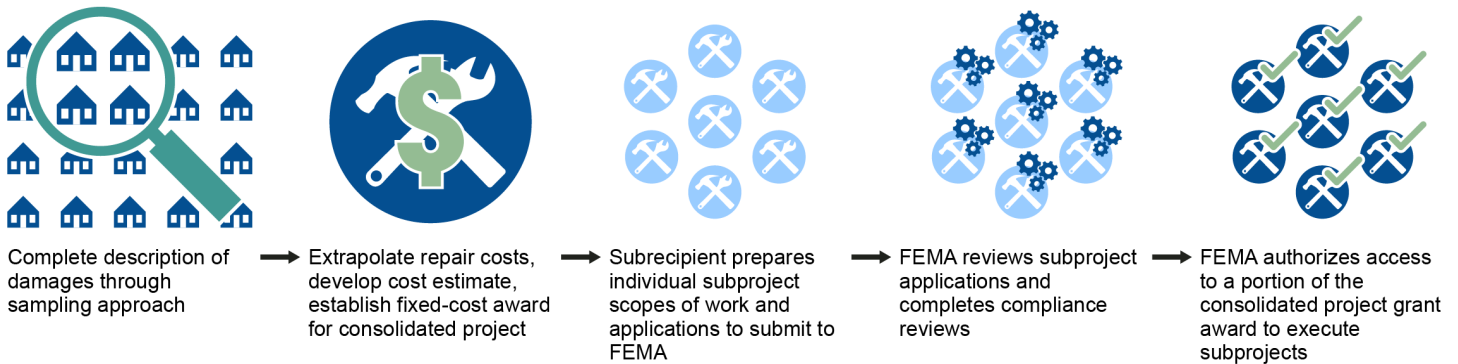
²³According to FEMA officials, the Puerto Rico Public Housing Administration has used a hybrid model to complete permanent recovery work projects with a portion of projects using the Accelerated Award Strategy process and another portion following the typical Public Assistance alternative procedures. FEMA allows the sharing of grant funds between Accelerated Award Strategy recovery projects and those using the typical Public Assistance alternative procedures.

Under the Accelerated Award Strategy, FEMA coordinated with these entities to capture and consolidate damages to their facilities across Puerto Rico through sampling and extrapolation, where appropriate. From these damage assessments, FEMA estimated the cost of the recovery work for all damaged facilities of each subrecipient into a single consolidated project (consolidated project) without detailed scopes of work. All four subrecipients opted to participate in FEMA's Public Assistance alternative procedures, and consequently were awarded a single related fixed-cost subaward. Under this approach, the fixed-cost subaward provided to each subrecipient's consolidated project works as a budget from which the subrecipients can plan the recovery of their respective facilities throughout Puerto Rico. This subaward, however, is not an authorization to access and expend funds on recovery projects.

Following the FEMA award to the consolidated project, subrecipients must submit applications for individual projects ("subprojects") to FEMA for review and approval before they can access and expend the awarded funds on recovery work (see fig. 3).²⁴ FEMA allows reduced requirements for these subproject applications with each needing a detailed scope of work for the project, information for compliance with environmental and historic preservation regulations and where applicable, information on hazard mitigation measures. This is different from the non-accelerated alternative procedures approach where (1) applicants typically submit a detailed scope of work prior to award; (2) FEMA awards funds directly to individual projects based on their related cost estimate; and (3) allows subrecipients immediate access to funds for construction related expenses.

²⁴Subprojects may consist of work on individual facilities, groups of facilities, or segments of infrastructure.

Figure 3: Federal Emergency Management Agency's (FEMA) Accelerated Award Strategy Process



Source: GAO analysis of FEMA documents; GAO (illustrations). | GAO-24-105557

FEMA Oversight of Puerto Rico's Grants Management Activities

Improper payment reviews. The Payment Integrity Information Act of 2019 requires, among other things, that each federal agency regularly review all of its programs and activities to identify those that may be susceptible to significant improper payments.²⁵ The federal government defines an improper payment as any payment made using grant funds (grant expenditures) that should not have been made or was made in an incorrect amount under legally applicable requirements. Identification of a potential improper payment is not confirmed as an actual improper payment until FEMA completely reviews the transaction and makes an official determination. Under the Payment Integrity Information Act of 2019, programs with a significant amount of improper payments are subject to additional assessment and reporting requirements.²⁶

FEMA has conducted improper payment reviews of Puerto Rico's Public Assistance grant expenditures through its Validate As You Go program. As part of this process, FEMA tests a sample of recipient and subrecipient expenditures to ensure that sufficient documentation, such as receipts or timesheets, was provided for the full amount expended and that all expenses fall within the scope of the project. FEMA analysts identify costs that do not meet documentation or eligibility requirements

²⁵Pub. L. No. 116-117, 134 Stat. 113 (codified as amended at 31 U.S.C. §§ 3351-3358).

²⁶Under the Payment Integrity and Information Act of 2019, improper payments are considered "significant" if in the preceding fiscal year they have exceeded either (1) 1.5 percent of program outlays and \$10 million or (2) \$100 million, regardless of the improper payment rate. See 31 U.S.C. § 3352(a)(3)(A); and Office of Management and Budget, *OMB Circular A-123, Appendix C, Requirements for Payment Integrity Improvement*, M-21-19 (Mar. 5, 2021).

as potential improper payments and work with Puerto Rico's Recovery Office to remediate the costs by obtaining additional supporting documentation or information to clarify them. According to FEMA, the Validate As You Go program ensures its compliance with statutory improper payment review and reporting requirements and helps to ensure that the government of Puerto Rico has the tools to manage federal funds.²⁷

FEMA initiated the Validate As You Go pilot program in March 2019, when it began testing Public Assistance grant expenditures from hurricanes Harvey, Irma, and Maria for fiscal years 2018 and 2019. In its fiscal year 2020 review, FEMA expanded the Validate as You Go program to cover all new disasters declared effective in fiscal year 2020 (including COVID-19) in any of FEMA's 10 regions within the United States.

Grants Management Compliance Reviews. FEMA annually assesses Puerto Rico's compliance with federal laws, policies, and standards for managing grant funds through its grants management compliance reviews. FEMA officials describe the reviews as a two-part process, beginning with a review of the recipient's financial reports to gauge the recipient's ability to conduct timely and accurate reporting on its use of federal funds. During the second part of the review, FEMA officials conduct selected site visits to review Puerto Rico's management of grant awards for compliance with federal requirements (such as regulations, policies, and standards for managing grant funds).²⁸ Areas of review include the recipient's financial management systems, standards for managing property and equipment purchased with federal funds, and monitoring and management of subrecipients. FEMA reports the results of its review to Puerto Rico's Recovery Office for each fiscal year. Each review includes a list of recommended corrective actions intended to enhance Puerto Rico's efforts in managing federal funding.

²⁷Additionally, as of August 2023, FEMA recipients who achieve and maintain a potential improper payment rate below 1.5 percent or less for two consecutive testing cycles are eligible for simplified grant closeout procedures for large projects, which require qualified recipients to submit less paperwork during the public assistance grant closeout process.

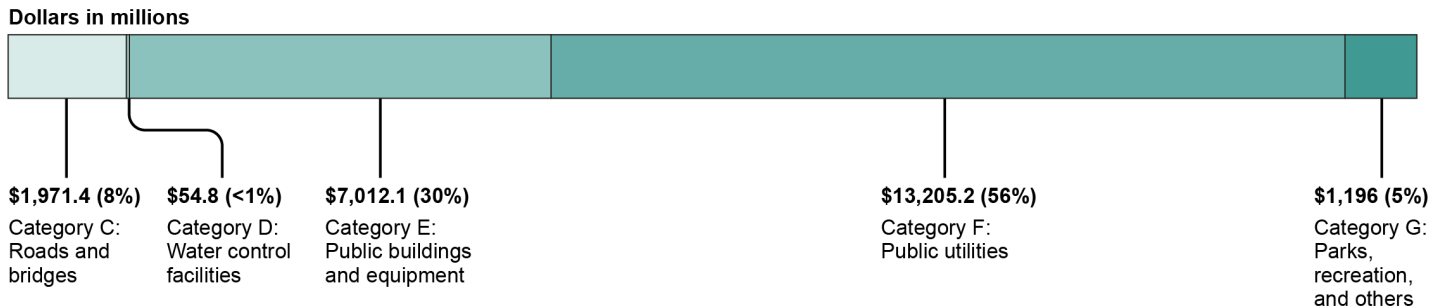
²⁸To determine which awards are subject to the site visit, FEMA conducts an annual risk analysis of all open grant awards provided to the recipient and selects those with higher risk ratings.

Puerto Rico Has a Substantial Amount of Permanent Recovery Work Remaining

FEMA Has Awarded Puerto Rico About \$23.4 Billion in Public Assistance for Permanent Recovery Work

As of June 30, 2023, FEMA had awarded about \$23.4 billion in Public Assistance to 9,304 permanent work projects related to the recoveries from hurricanes Irma and Maria and the earthquakes, according to our analysis of FEMA’s data.²⁹ This reflects progress that FEMA and Puerto Rico have made since we last reported, when FEMA had awarded about \$17.5 billion to 4,810 projects as of January 15, 2021.³⁰ According to FEMA officials, these awarded funds represent 98 percent of permanent work projects that FEMA expects to approve in Puerto Rico for both the 2017 hurricanes and the 2019 and 2020 earthquakes recoveries. See figure 4 below for the amounts awarded to each permanent work category.

Figure 4: Federal Emergency Management Agency (FEMA) Public Assistance Awarded to Permanent Work for Hurricanes Irma and Maria and 2019-2020 Earthquakes Recoveries in Puerto Rico, as of June 30, 2023



Source: GAO analysis of FEMA data. | GAO-24-105557

Note: Percentages may not sum to 100 because of rounding.

The majority of funds are for public utilities (\$13.2 billion) and for public buildings and equipment (\$7.0 billion). As of June 30, 2023, Puerto Rico had expended about \$1.8 billion—about 8 percent—of the funds awarded

²⁹Permanent work project total includes Accelerated Award Strategy consolidated projects, Accelerated Award Strategy subprojects, and non-accelerated projects.

³⁰GAO-21-264.

for permanent recovery work. Figure 5 below shows a water storage tank project in Humacao, Puerto Rico repaired with Public Assistance funds.

Figure 5: Repairs to Buena Vista Arriba Water Storage Tank in Humacao, Puerto Rico Completed with Federal Emergency Management Agency Public Assistance Funds



Damaged water tank from winds of Hurricane Maria observed in February 2020

Source: GAO. | GAO-24-105557



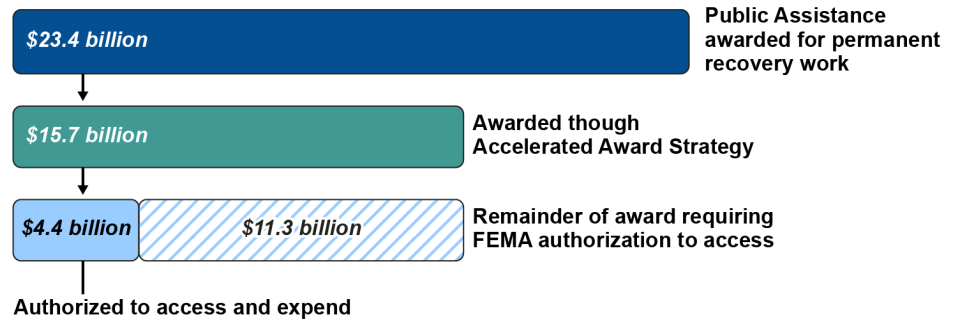
Largely repaired water tank observed in March 2022

Puerto Rico Has to Take Additional Steps to Access About \$11.3 Billion Awarded for Permanent Recovery Work

According to our analysis of FEMA data, Puerto Rico has to take additional steps to gain access to about \$11.3 billion in Public Assistance funds that FEMA has awarded for permanent recovery work through its Accelerated Award Strategy. Of the approximately \$23.4 billion awarded to Puerto Rico for permanent recovery work, FEMA awarded about \$15.7 billion (about 67 percent) through the Accelerated Award Strategy to four subrecipients. As previously described, funds awarded to projects under the Accelerated Award Strategy act as a budget for permanent recovery work across subrecipients' network of facilities and infrastructure. To access and expend these funds, subrecipients must submit scopes of work for specific subprojects for FEMA's eligibility review and authorization. As of June 30, 2023, the four Accelerated Award Strategy

subrecipients had received subproject approvals and obtained access to expend about \$4.4 billion (about 28 percent) of the funds FEMA awarded. Nearly \$11.3 billion (about 72 percent) remains to be accessed (see fig. 6).

Figure 6: Federal Emergency Management Agency (FEMA) Public Assistance Awarded to Puerto Rico through the Accelerated Award Strategy, as of June 30, 2023



Source: GAO analysis of FEMA data. | GAO-24-105557

Three of Puerto Rico’s Accelerated Award Strategy subrecipients—the Aqueduct and Sewer Authority, Department of Education, and the Electric Power Authority—have not obtained FEMA authorization to access the majority of their awarded funds (see table 1). Based on work plans from the four subrecipients, they plan to submit project applications to access the remaining \$11.3 billion through 2030 and possibly later.

Table 1: Status of Federal Emergency Management Agency (FEMA) Public Assistance Funds Awarded to Permanent Recovery Work Under the Accelerated Award Strategy as of June 30, 2023

Dollars in millions

Subrecipient	Total awarded amount	Awarded amount authorized for expenditure	Remaining awarded amount requiring authorization to expend
Puerto Rico Aqueduct and Sewer Authority	\$3,662.7	\$1,221.9 (33.4%)	\$2,440.9 (66.6%)
Puerto Rico Department of Education	\$2,065.3	\$378.5 (18.3%)	\$1,686.8 (81.7%)
Puerto Rico Electric Power Authority	\$9,458.2	\$2,370.4 (25.1%)	\$7,087.8 (74.9%)
Puerto Rico Public Housing Administration	\$475.3 ^a	\$432.8 (91.0%)	\$42.6 (9.0%)
Total	\$15,661.6	\$4,403.5 (28.1%)	\$11,258.1 (71.9%)

Source: GAO analysis of FEMA data. | GAO-24-105557

Notes: Amounts exclude supplemental funds subrecipients received from Public Assistance Hazard Mitigation grants, which FEMA awards at the time of subproject approval.

Totals may not sum because of rounding.

^aAmount may not total the full Accelerated Award Strategy award originally made to the Puerto Rico Public Housing Administration due to fund sharing to non-Accelerated Award Strategy recovery projects.

Puerto Rico Data Indicate that Subrecipients Have Completed About 9 percent of Permanent Work Project Line Items

According to Puerto Rico Recovery Office data, Puerto Rico's subrecipients had completed about 9 percent of permanent work project line items as of June 30, 2023. The Puerto Rico Recovery Office tracks the progress of projects at the line item level after FEMA awards Public Assistance funds to permanent recovery work projects. A line item could be a school playground, a basketball court, or a bathroom. One project, such as a school, could include multiple line items.

According to Puerto Rico Recovery Office data, subrecipients reported the status of 23,603 project line items as of the third quarter of fiscal year 2023 that ended on June 30, 2023.³¹ These data indicate that subrecipients had completed at least 2,064 line items of permanent recovery work and at least 21,539 line items were in the various stages of execution—planning, procurement, or in construction, among other things—leading up to project completion.

³¹The Puerto Rico Recovery Office requests that subrecipients complete surveys detailing the progress of their projects on a quarterly basis. In the third quarter of fiscal year 2023, subrecipients did not respond and report the status for 471 project line items to the Puerto Rico Recovery Office. We do not include these project line items in our calculations.

FEMA and Puerto Rico Have Taken Some Actions to Help Jump-Start Permanent Work, but Challenges Remain

FEMA and Puerto Rico Have Initiated Efforts to Reduce Challenges to Permanent Work Construction

We previously reported that subrecipients in Puerto Rico have experienced challenges starting construction on Public Assistance permanent work projects due to limited access to start-up funds.³² In addition to funding issues, officials from subrecipient entities we spoke with also stated that they have faced other impediments that have slowed their construction progress.

For example, officials from the Puerto Rico Electric Power Authority stated that disruptions in the global supply chain have increased the delivery time for some construction materials from 6 to 10 months to 24 to 36 months. Officials from the Puerto Rico Recovery Office also stated that subrecipients have faced extended construction delays due to a lack of specialized labor, such as architects to design projects, and a limited supply of construction contractors to build projects. In addition, according to FEMA and Puerto Rico Recovery Office officials, permanent work projects have experienced general delays due to subsequent natural disasters that have required attention on other work priorities.

While some of these issues, such as delays due to natural disasters, are out of FEMA's control, FEMA and Puerto Rico Recovery Office officials told us that they have worked together to take actions that address some challenges to construction. These actions include (1) piloting a program to provide the advance disbursement of Public Assistance funds to begin construction and (2) working to allow the access and expenditure of Public Assistance funds for labor and equipment acquisition in advance of project approvals.

Pilot program for advance disbursement of funds. In June 2022, FEMA and the Puerto Rico Recovery Office piloted the Working Capital Advance Program to provide start-up funds to projects that have not yet

³²[GAO-21-264](#).

begun construction. Under the Working Capital Advance Program, applicants may request an advance disbursement of Public Assistance funds for up to 50 percent of a project's cost to begin construction.³³ According to data from the Puerto Rico Recovery Office, as of April 2023, Puerto Rico disbursed funding for 847 projects. Officials from several subrecipient entities we interviewed stated that the Working Capital Advance Program has been helpful in addressing challenges they have in accessing start-up funds for construction.

Advance acquisition funds for labor and materials. According to FEMA and Puerto Rico Recovery Office officials, they have worked together to allow access and expenditure of Public Assistance funds for certain activities ahead of project approvals. Specifically, FEMA has allowed subrecipients under the Accelerated Award Strategy to access and expend a portion of their subawards to complete selected architectural and engineering work that will aid in the progress of their permanent work projects. Because of this adjustment, these subrecipients' projects can begin developing the plans needed for construction before each subproject goes through FEMA review and approval process to access funds.

In addition, FEMA has allowed Puerto Rico's Electric Power Authority to access and expend a portion of their Accelerated Awards Strategy subaward for the purchase materials and equipment with long production and delivery lead times. As a result, Puerto Rico's Electric Power Authority has received disbursements of funds totaling about \$179 million, as of June 30, 2023, for the purchase of materials ahead of project construction.

Certain Permanent Recovery Work Projects Face Challenges Due to Increased Costs

Subrecipient entities that have received Public Assistance awards under the Accelerated Award Strategy have identified increased project costs that pose challenges to the full recovery of their facilities. According to officials from the four Accelerated Award Strategy subrecipient entities, inflation and labor shortages have increased the costs of projects beyond their anticipated amounts.

³³Under the Working Capital Advance Program, large permanent work projects are eligible for a capital advance of 25 percent of the awarded amount for that project. Subrecipients can apply for an additional capital advance of 25 percent of a large permanent work project's awarded amount once they have used the initial 25 percent advance in accordance with FEMA's Public Assistance regulations and requirements.

For example, parts for Puerto Rico’s Electric Power Authority’s San Juan Power Plant project (see fig. 7) were estimated to cost approximately \$9 million; however, officials from the subrecipient stated that the actual costs for those parts are now approximately \$12 million. In addition, officials from Puerto Rico’s Public Housing Administration said that based on their own projections their agency is estimated to exceed the total estimated cost for all their projects under the Accelerated Awards Strategy projects. Further, according to officials from Puerto Rico’s Aqueduct and Sewer Authority, one of their water treatment plant projects has increased in cost over its original cost estimate by 42 percent. Finally, officials from the Puerto Rico Recovery Office stated that the costs for some critical service projects under the Accelerated Awards Strategy have doubled.

Figure 7: Puerto Rico’s Electric Power Authority Power Plant in San Juan



Source: GAO. | GAO-24-105557

Note: Puerto Rico’s Electric Power Authority has received a Public Assistance award of about \$65.4 million toward repairs for its San Juan Power Plant. As of July 2022, construction was underway.

Cost increases for individual subprojects are of particular concern because of the amount of the awards provided to the Accelerated Award Strategy subrecipients' consolidated projects and how the awards are structured. As previously discussed, under the Accelerated Awards Strategy, FEMA has provided fixed-cost subawards that act as budgets for the completion of recovery work across their network of facilities and infrastructure, such as Puerto Rico's electrical grid. Therefore, cost increases that these subrecipients incur for subprojects early in the recovery process could have cumulative impacts on the available budget to complete subsequent subprojects. Based on their estimates, officials from all four Accelerated Awards Strategy subrecipient agencies said that the fixed amount of Public Assistance funds provided under the consolidated project subawards will not support the full recovery of their agencies' facilities. For example, officials from Puerto Rico's Aqueduct and Sewer Authority said they anticipate that they will only be able to complete about half of the agency's planned projects provided under their consolidated project subaward due to increased project costs.

According to FEMA officials, they are monitoring these risks to Puerto Rico's recovery through regular communication with the Puerto Rico agencies and periodic progress reports sent to them from each subrecipient agency. FEMA officials said that these agencies are far from reaching the midpoint of construction of all their projects—a key point at which FEMA can assess recovery progress—and that they are currently focused on moving projects forward with the available Public Assistance funds. In addition, FEMA officials told us that the cost estimating process that FEMA used to award funds accounted for the external events subrecipients are experiencing, such as inflation and increased costs of local labor and construction materials in Puerto Rico. Further, as of June 2023, they said that there are indications that some of these factors have eased in severity.

In our prior work, we identified risks to Puerto Rico's recovery, including subrecipient difficulties in starting project construction. To help manage these risks, we recommended that FEMA, in coordination with Puerto Rico and relevant federal agencies, should identify and assess the risks to the remainder of Puerto Rico's recovery, including Puerto Rico's capacity to carry out projects.³⁴ Further, we recommended that FEMA identify potential actions to manage the risks they identified and continuously monitor risks to the recovery. FEMA concurred with these

³⁴[GAO-21-264](#).

recommendations and has drafted a risk management plan related to Puerto Rico's recovery in response, which it intends to formally adopt for implementation by February 2024. Through this plan, FEMA has identified actions recovery stakeholders can take to address various risks. For example, to help to reduce construction delays due to supply-chain issues, the plan proposes that Puerto Rico could eliminate storage taxes on construction materials, which may be cost prohibitive to subrecipients that order supplies in advance of project approvals. However, FEMA needs to take further steps to address these recommendations, including finalizing its risk management plan and taking actions to continuously monitor recovery risks.

While it is too early to determine the full effect of the increased project costs on the recovery of Accelerated Award Strategy subrecipients' facilities, it remains all the more important for FEMA to continue to identify, assess, and manage risks in coordination with Puerto Rico. We will continue to monitor FEMA and Puerto Rico's efforts to implement our prior recommendations and develop specific actions to address the various challenges to the recovery.

FEMA Oversight Efforts Have Shown Improvements in Puerto Rico's Grants Management

FEMA has monitored Puerto Rico's use of public assistance grant funds through two oversight activities—improper payment reviews and grants management compliance reviews. Both efforts have found improvement in Puerto Rico's ability to manage FEMA grant funds since hurricanes Irma and Maria in 2017.

FEMA Found Decreases in Potential Improper Payments of Public Assistance Funds

FEMA's improper payment reviews have found that potential improper payments of Puerto Rico's Public Assistance grant funds decreased significantly, from 15 percent of reviewed expenditures (nearly \$254 million)³⁵ in fiscal year 2018 to 0.13 percent (less than \$358 thousand) in fiscal year 2020—below the statutory definition for significant improper

³⁵FEMA's fiscal year 2018 review resulted in an initial potential improper payment amount of nearly \$254 million. In our prior work, we reported that FEMA provided Puerto Rico with a February 2021 letter for the fiscal year 2018 review notifying it of potential debt in the amount of about \$243 million after the resolution of approximately \$10 million in potential improper payments from the initial calculation. In May 2021, the Recovery Office appealed this determination and has been working with FEMA to remediate these payments. FEMA has not yet made a final determination of improper payments in fiscal years 2019 and 2020. See [GAO-21-264](#).

payments.³⁶ FEMA officials attributed the reductions in potential improper payments to Puerto Rico’s progress, through its Recovery Office, in managing grant funds expended by subrecipients and to overall improvements in the office’s management structure. As of September 2023, FEMA’s review of fiscal year 2021 expenditures is ongoing. According to officials, FEMA is experiencing delays in its Public Assistance improper payment reviews due to the enormity of the hurricane Irma and Maria recoveries followed by the COVID-19 pandemic, but it intends to conduct these reviews in bi-annual cycles around fiscal year 2024. Table 2 shows the results of FEMA’s Public Assistance improper payment reviews, as of September 2023, through the Validate As You Go program for fiscal years 2018 through 2020.

Table 2: Status of FEMA’s Validate As You Go Reviews in Puerto Rico, Reported by FEMA as of September 2023

Fiscal year	Dollar amount of expenditures sampled ^a	Initial potential improper payment amount (percent of total expenditure sampled) ^b	Remaining potential improper payment amount as of September 2023 (percent of total expenditure sampled) ^c
2018	\$1,713,263,291	\$253,783,753 (15%)	\$16,113,049 (1%)
2019	\$2,036,825,954	\$190,075,816 (9%)	\$38,092,511 (2%)
2020	\$272,986,280	\$357,214 (Less than 1%)	\$13,010 (Less than 1%)

Source: GAO analysis of DHS and FEMA documentation. | GAO-24-105557

^aFEMA initiated the Validate As You Go program as a pilot program in March 2019, when it began testing Public Assistance grant expenditures from Hurricanes Harvey, Irma, and Maria for fiscal years 2018 and 2019. In fiscal year 2020, FEMA expanded its Validate As You Go program to cover all disasters declared effective in fiscal year 2020 (including COVID-19) in any of FEMA’s 10 regions within the United States. This resulted in a smaller amount of expenditures sampled in Puerto Rico. Puerto Rico’s fiscal year 2020 sample included expenditures from hurricanes Irma and Maria, the 2019-2020 earthquakes, and the COVID-19 pandemic.

^bPercentages are rounded to the nearest percentage point. Initial potential improper payment amounts are figures that FEMA first reported to DHS. A potential improper payment is not confirmed as an actual improper payment until FEMA completely reviews the transaction and makes an official determination.

^cAccording to FEMA officials, the remaining potential improper payment amount changes regularly as the recipient continues to submit documentation in support of its expenditures.

In addition to the reductions in initial potential improper payments found in its reviews, FEMA and the Puerto Rico Recovery Office have worked together to remediate—and therefore reduce—Puerto Rico’s potential improper payments identified in each fiscal year. According to FEMA officials, this remediation process is ongoing, and the amount of potential

³⁶As mentioned earlier, improper payments are considered “significant” if in the preceding fiscal year that may have exceeded either (1) 1.5 percent of program outlays and \$10 million or (2) \$100 million, regardless of the improper payment rate. 31 U.S.C. § 3352(a)(3)(A).

improper payments continues to decline as the Recovery Office continues to submit additional documentation and other support for its expenditures.

These remediation efforts have resulted in considerable reductions in potential improper payments. For example, as detailed in table 2 above, as of September 2023, Puerto Rico has reduced its potential improper payments for fiscal year 2018 to approximately \$16 million (nearly one percent of the expenditures sampled). For fiscal year 2019, Puerto Rico has reduced the potential improper payment amount to around \$38 million (nearly two percent of the expenditures sampled). According to FEMA officials, many of the potential improper payments identified in the fiscal year 2018 and 2019 reviews related to insufficient documentation of expenditures, which they were able to obtain through coordination with Puerto Rico. In fiscal year 2020, Puerto Rico has been able to reduce the amount of potential improper payments from nearly \$358 thousand to around \$13 thousand (both amounts are less than 1 percent of the expenditures sampled).³⁷ According to FEMA officials, the potential improper payments identified in the fiscal year 2020 review were related to compliance issues.³⁸ FEMA officials said that they plan to continue working with Puerto Rico to remediate the remaining potential improper payments in each fiscal year.

FEMA Compliance Reviews Found Improvement in Puerto Rico's Grants Management Structure and Capacity

FEMA's grants management compliance reviews from fiscal years 2019 through 2023 indicate that Puerto Rico has developed a grants management structure that addresses federal requirements and has improved its capacity to manage FEMA grant funds.³⁹

From fiscal year 2019 to 2023, the recommended corrective actions identified through FEMA's reviews have shifted from a focus on identifying needed improvements to Puerto Rico's overall grants management structure to recommendations focused on implementing

³⁷As noted in table 2, Puerto Rico's fiscal year 2020 sample included expenditures from hurricanes Irma and Maria, the 2019-2020 earthquakes, and the COVID-19 pandemic.

³⁸According to FEMA's Validate As You Go procedures, supporting documentation are considered to have compliance issues when they are not within a project's approved scope of work, or do not meet federal regulations. Federal Emergency Management Agency, *Validate As You Go*, (July 21, 2023).

³⁹FEMA did not conduct a compliance review in fiscal year 2018 due to the ongoing Hurricane Maria recovery efforts. According to FEMA officials, the agency ensured fiscal oversight during this time through its manual drawdown procedures, which required the Puerto Rico Recovery Office to submit a request with supporting documentation to receive reimbursements for disaster recovery work.

specific grants management activities.⁴⁰ In fiscal year 2019, FEMA officials recommended that Puerto Rico implement a number of structural changes to improve its management of subrecipients. For example, FEMA recommended developing standard operating procedures for federal reporting requirements, monitoring subrecipient equipment purchases, and creating a policy for the return of federal funds in instances of overpayment.

In response to FEMA's compliance reviews, Puerto Rico took a number of actions to improve its management of grant funds and compliance with federal laws and regulations, policies, and standards. For example, the Puerto Rico Recovery Office developed protocols to review and track subrecipient compliance with federal reporting requirements, updated its guide for the management of federal disaster recovery funds, and developed procedures to monitor subrecipient use of federal funds, among other things.

FEMA's fiscal year 2022 and 2023 compliance reviews made no recommendations related to Puerto Rico's grants management structure. However, the reviews made recommendations related to addressing deficiencies in the implementation of specific grants management activities, such as instances of incomplete timesheets, insufficient proofs of payment for specific projects, and non-compliance or delays with federal reporting requirements.⁴¹ As Puerto Rico continues to improve its grants management structure through the efforts mentioned above,

⁴⁰In fiscal years 2020 and 2021, FEMA conducted a desk review in lieu of a site visit due to the COVID-19 pandemic. Consequently, FEMA was unable to test for every item listed in federal regulations.

⁴¹For example, FEMA's fiscal year 2023 review contained one recommendation that the Puerto Rico Recovery Office complete overdue single audit reports for fiscal years 2020 and 2021. Federal regulations require federal grant recipients that that expend at least \$750,000 of its funds in a fiscal year to submit single audit reports, which must include information about the recipient's operations and financial documents, among other things. See 2 C.F.R. § 200.501. In November 2023, the Recovery Office had completed the single audit report for fiscal year 2020 and planned to send it before the end of the year. The audit work for fiscal year 2021 has been completed and the Recovery Office expects to submit that report around January 2024. As of October 2023, the Recovery Office is undergoing single audit reviews for fiscal years 2022 and 2023, but could not estimate a report submission date until the audit work is completed. FEMA officials stated that because of the number of active disasters in Puerto Rico, they remain flexible with the Recovery Office's audit reporting requirements.

FEMA officials said they expect to see continued improvement in Puerto Rico's improper payment and grants management reviews.⁴²

Agency Comments

We provided a draft of this report to DHS, FEMA, and Puerto Rico's Central Office for Recovery, Reconstruction, and Resiliency (Puerto Rico Recovery Office) for review and comment. DHS and FEMA provided technical comments, which we incorporated, as appropriate. The Puerto Rico Recovery Office provided written comments, including technical comments, that are reprinted in appendix I. The Puerto Rico Recovery Office's technical comments describe variations between its data and our analyses of FEMA data. Our analyses relied on FEMA's data and we obtained technical comments from FEMA to ensure their accuracy. In addition, the Puerto Rico Recovery Office provided supplemental comments on issues it has experienced in executing disaster recovery operations, accomplishments and progress it has made while recovering from these disasters, and potential opportunities to improve or enhance FEMA regulations and processes.

⁴²According to FEMA officials, Puerto Rico has expanded its capacity to manage disaster recovery funds in other ways as well. Prior to Hurricane Maria, Puerto Rico had five employees dedicated to disaster recovery, according to Recovery Office officials. As of October 2023, the Puerto Rico Recovery Office has approximately 200 positions, including a compliance division and a team that is dedicated to managing the Validate As You Go process.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Homeland Security, the Administrator of FEMA, the Puerto Rico government, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you and your staff have any questions, please contact me at (404) 679-1875 or curriec@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.

A handwritten signature in black ink that reads "Chris P. Currie". The signature is written in a cursive style with a large initial "C" and a distinct "P" and "C".

Chris P. Currie
Director, Homeland Security and Justice

List of Requesters

The Honorable Chuck Grassley
Ranking Member
Committee on the Budget
United States Senate

The Honorable Gary C. Peters
Chairman
The Honorable Rand Paul, M.D.
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Ron Johnson
Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

The Honorable Bennie G. Thompson
Ranking Member
Committee on Homeland Security
House of Representatives

The Honorable James Comer
Chairman
The Honorable Jamie Raskin
Ranking Member
Committee on Oversight and Accountability
House of Representatives

The Honorable Nydia Velázquez
Ranking Member
Committee on Small Business
House of Representatives

The Honorable Sam Graves
Chairman
The Honorable Rick Larsen
Ranking Member
Committee on Transportation and Infrastructure
House of Representatives

The Honorable Emanuel Cleaver, II
Ranking Member
Subcommittee on Housing and Insurance
Committee on Financial Services
House of Representatives

The Honorable Marco Rubio
United States Senate

The Honorable Al Green
House of Representatives

The Honorable Jim Jordan
House of Representatives

The Honorable Michael McCaul
House of Representatives

The Honorable Gary Palmer
House of Representatives

The Honorable Ann Wagner
House of Representatives

Appendix I: Comments from the Commonwealth of Puerto Rico



GOVERNMENT OF PUERTO RICO
CENTRAL OFFICE FOR RECOVERY,
RECONSTRUCTION AND RESILIENCY

VIA ELECTRONIC MAIL

January 25, 2024

Mr. Christopher Currie
Director
Homeland Security and Justice
U.S. Government Accountability Office
441 G St., NW
Washington, DC 20548
curriec@gao.gov

Re: GAO Draft Report on Puerto Rico's Disaster Recovery Update (GAO-24-105557)

Dear Mr. Currie:

This document represents the official response on behalf of the Puerto Rico Central Office for Recovery, Reconstruction and Resiliency (COR3) to your communication dated December 28, 2024. We appreciate the opportunity to review and provide comments on the draft report prepared under engagement code 105557, titled "Puerto Rico Disasters: Progress Made, But the Recovery Continues to Face Challenges" (GAO-24-105557).

We commend the GAO for its comprehensive assessment of the ongoing recovery efforts in Puerto Rico following recent disasters. The information presented in the draft report is vital for ensuring transparency and accountability in disaster recovery initiatives.

Our organization has conducted a thorough review of the draft report. In our response, we aim to provide insightful and constructive feedback based on our expertise and involvement in the recovery efforts. Our comments are intended to contribute to the accuracy and completeness of the final report, ensuring that it serves as a valuable resource for policymakers, stakeholders, and the public.

Attached to this official letter is a separate document containing our feedback.

We look forward to continued collaboration with the GAO to address any concerns and provide additional context where necessary. Our goal is to support the GAO's commitment to providing objective and reliable information that enhances public understanding of the complexities associated with disaster recovery.

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[Recovery.pr.gov](https://www.Recovery.pr.gov)

**Appendix I: Comments from the
Commonwealth of Puerto Rico**

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Thank you for your consideration of our input. We are available to provide any clarification or additional information you may require.

Cordially,



Marlena Riccio Paniagua, Esq
Interim Executive Director

Enclosures

cc: Alejandro R.J. Nieto Vincenty, ESQ.
Compliance Director

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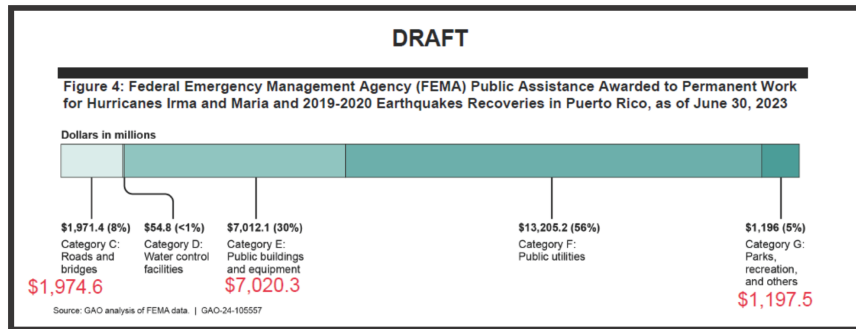
Appendix I: Comments from the Commonwealth of Puerto Rico

Attachment: Feedback and Additional Considerations for the Proposed Report

Report-Specific Comments/Feedback

On pages 16 and 18, we identified instances where the federal obligation numbers vary slightly from our data.

Page 16:



Page 18:

DRAFT

Table 1: Status of Federal Emergency Management Agency (FEMA) Public Assistance Funds Awarded to Permanent Recovery Work Under the Accelerated Award Strategy as of June 30, 2023

Dollars in millions

Subrecipient	Total Awarded Amount *	Awarded Amount Authorized for Expenditure	Remaining Awarded Amount Requiring Authorization to Expend
Puerto Rico Aqueduct and Sewer Authority	\$3,659.6	\$3,662.7 (\$1,218.8 (33.3%))	\$1,221.9 (\$2,440.9 (66.7%))
Puerto Rico Department of Education	\$2,060.6	\$2,065.2 (\$373.7 (18.1%))	\$378.4 (\$1,686.8 (81.9%))
Puerto Rico Electric Power Authority	\$9,453.6	\$9,460.6 (\$2,365.8 (25.0%))	\$2,372.8 (\$7,087.8 (75.0%))
Puerto Rico Public Housing Administration	\$445.6	\$554.3 (\$403.1 (90.5%))	\$511.7 (\$42.6 (9.5%))
Total	\$15,619.5	\$4,361.4 (27.9%)	\$11,258.1 (72.1%)

Source: GAO analysis of FEMA data. | GAO-24-105557

Additional Considerations

Small Projects \$1m Threshold

In August 2022, FEMA published a final rule to increase the small project maximum for the agency's Public Assistance (PA) program to \$1 million (Small Project). This reduces the administrative burden on State, Local, Tribal, or Territorial (SLTT) and Private Non-Profit recipients of FEMA financial grants following a disaster.¹ By raising the small project maximum, FEMA has demonstrated its commitment to streamlining processes and providing crucial support to communities affected by unforeseen events.

This change will undoubtedly empower local organizations to navigate the complexities of disaster recovery more efficiently, ensuring that resources are directed where they are needed most. We extend our gratitude to FEMA for this forward-thinking policy adjustment, recognizing the positive impact it will have on communities across our Island.

Taking into consideration the potential of these adjustments, the GPR and COR3 requested the following:

- 1- The Damage Inventory (DI) and projects below this threshold might face challenges due to their complexities and costs, which are only adequately addressed when using the Cost Estimating Format (CEF). The CEF takes into account the detailed elements and potential hidden costs typical of larger projects. In addition, for a single DI to be eligible under FEMA's Consolidated Resource Center² (CRC) to apply the CEF, it will need to be equal to or higher than \$1 million. Since there is no clear guidance as to when the CRC should apply the CEF to a small DI or a small project that falls below the \$1M threshold, cost estimates could be less accurate and inconsistent, leading to budgetary problems. Consequently, on September 18, 2023, the GPR requested FEMA to clarify the FEMA's Public Assistance Simplified Procedures (Policy FP-104-23-001) procedures on when the CRC applies the CEF and to request the application of the CEF to projects exceeding \$139,800 to enhance cost accuracy and minimize financial risks. By doing so, COR3 aims to enhance cost accuracy, allocate resources efficiently, and minimize financial risks, ensuring successful project completion and aiding Puerto Rico's recovery.
- 2- Presently, the heightened threshold applies solely to disaster Fiona (DR-4671-PR) and some projects under Disaster Covid-19 (DR-4493-PR), thus excluding other active disasters. Given the unprecedented devastation caused by Hurricane María, leading to widespread destruction and impacting numerous lives, we urge retroactive application of this adjustment to this specific disaster. Implementing the elevated threshold for this disaster will guarantee that the affected areas obtain essential resources for a thorough recovery, recognizing the extraordinary challenges posed by this event.

Adjustment in Cost Estimates to FAASt and Section 428 Projects

¹ FEMA Press Release, FEMA Releases Public Assistance Simplified Procedures Policy for Public Comment (October 17, 2022).

² FEMA's Consolidated Resource Center focuses in developing project scopes and costs while validating compliance with all Public Assistance program regulations and requirements.

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COR3 has been expressing concerns to FEMA on behalf of Subrecipients and the Puerto Rico Mayor's Federation regarding the challenges posed by rampant inflation affecting the Island's reconstruction efforts. The substantial damages from Hurricane María led FEMA to develop alternative cost-estimating methods, resulting in the Section 428 fixed-cost estimate program and FEMA's Accelerated Award Strategy (FAAST) approach, which uses Statistical Sampling Methodology. However, the unforeseen economic impact of the COVID-19 pandemic and the Russian invasion of Ukraine have significantly disrupted supply chains and escalated construction costs. Persistent inflation and supply chain issues continue, compounded by a workforce shortage threatening Puerto Rico's reconstruction timeline. With construction material and labor costs rising sharply, the fixed-cost agreements for FAASt and 428 projects risk leading to funding shortfalls, potentially jeopardizing the recovery process.

While some projects are yet to reach the bidding phase, the available data on the rising prices of construction inputs and the projected cost adjustments for 2023 and 2024 highlight the significant impact of inflation on fixed project costs. This inflationary trend renders projects more expensive to complete, necessitating an increase in project budgets beyond the initially agreed-upon fixed amounts. Furthermore, the labor shortage in the construction industry is identified as a significant factor affecting Puerto Rico's reconstruction and recovery timeline.

In response to these formidable challenges, COR3 requests FEMA's support in urging Congress to enhance the flexibility of FAASt and Section 428 projects. Considering the prevailing economic reality, this enhancement would permit a revision of cost estimates. COR3 underscores the imperative need for additional funding to avert a funding shortfall, thereby ensuring the successful completion of projects. As recipients, we intend to collaborate with subrecipients to evaluate the adequacy of fixed project cost estimates and strongly encourage FEMA to align with Puerto Rico's request to Congress for heightened flexibility in project funding.

EHP Areas of Opportunity

COR3 has expressed concerns regarding the delays in the Environmental and Historic Preservation (EHP) review process in Puerto Rico. They have emphasized the importance of efficient disaster recovery in project formulation and have brought attention to the issues with the EHP review process. COR3 suggests that a specific time frame for completing the review is essential.

Additionally, COR3 has proposed alternatives, including expediting the review for projects pending EHP, ensuring timely consultations with entities like the State Historic Preservation Office (SHPO), and addressing delays in FEMA's FAASt projects. To streamline project reviews, COR3 recommends using a Categorical Exclusion (CATEX) mechanism adopted by other federal partners and developing a collaborative approach strategy between federal agencies and FEMA to streamline the EHP review process.

Moreover, reassessing FEMA's EHP requirements to enhance alignment with our state's standards will streamline coordination, improve efficiency, and reduce administrative burdens during disaster recovery efforts.

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Many subrecipients have reported ongoing difficulties dealing with prolonged damage claim litigations with their private insurance companies. The extended resolution periods have become a pressing issue. Additionally, there have been significant reductions in insurance coverage for various projects, including FAAsT. These constraints have forced subrecipients to limit their procurement processes for both the design and eventual construction of their facilities. This limitation forces them to prioritize a select number of projects for development until insurance settlements are reached. Consequently, project development experiences delays in the meantime. As a result, we urge for increased flexibility in insurance and subrecipient requirements to mitigate delays.

Another aspect contributing to project execution setbacks is FEMA's Obtain and Maintain (O&M) requirement. Eligible subrecipients receiving FEMA PA funding must maintain insurance coverage per FEMA's O&M requirement. This applies to permanent work for buildings, contents, equipment, and vehicles to safeguard against future loss. Failure to comply can result in denial or de-obligation of assistance in the current disaster and future assistance for that facility.

COR3 seeks clarification from FEMA on O&M insurance requirements for facilities damaged by non-flood disasters. They emphasize the need for clear guidance on when O&M insurance should be active during various construction stages (projects with minimal construction, those under architecture and engineering (A&E) development, those undergoing extensive ongoing construction, and projects that have completed construction). COR3 raises questions about timing, wondering if proof of insurance should be required at grant approval, during construction, or after project completion. Urgent clarification is requested, especially for already obligated project worksheets, to aid subrecipients facing financial challenges in meeting O&M requirements.

FEMA Accelerated Award Strategy (FAAsT)

COR3, along with its subrecipients, is addressing challenges and issues related to the FEMA FAAsT Post-Award Process. While intended to simplify project formulation and reduce administrative burdens, the current implementation has led to unforeseen obstacles and delays.

COR3 has identified critical problems, including the complex procedures outlined in the Post-Fixed Cost Estimate Obligation Course of Action Guide (COA Guide), which imposes excessive meetings and administrative responsibilities on Subrecipients. Additionally, COR3 expresses concerns about FEMA's expectations regarding subprojects' scope of work (SOW), EHP reviews, and the evaluation of Hazard Mitigation proposals.

Subrecipients have outlined specific challenges related to the validation and approval process, project reviews that experience delays, mandatory site inspections, and concerns about the assessment of designs and scope. In some instances, they perceive the FAAsT process as less efficient compared to the traditional Section 428 project formulation. This is because the FAAsT obligation does not authorize construction work, and applicants must submit SOWs for each individual project to ensure compliance with the applicable regulations and industry standards and meet the requirements of O&M insurance. Upon the applicant's submission of the SOW, FEMA then reviews it for compliance with EHP requirements and the proposed

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hazard mitigation measures under Section 406 of the Stafford Act. In other words, every subproject must go through all project approval stages like any other traditional 428 project to receive individual approval.

In addition, several disasters, Fiona being the latest, have caused setbacks in developing subprojects under the FAASt initiative. As a result, many facilities that were previously impacted by earlier events were also affected by Fiona. The FAASt initiative is facing an additional challenge because several subprojects have not yet been formulated, and there is no Detailed Damage Description (DDD) available for the María disaster. This lack of information makes it impossible to objectively assess and differentiate the damages caused by these two disasters.

Therefore, COR3 proposes several solutions to enhance the current FAASt project procedures. These solutions include changes to the FAASt SOP, limiting FEMA's role in validating scope and cost, enabling subrecipients to directly submit EHP certification requests, simplifying EHP evaluations, and separating costs associated with design and planning from the primary FAASt project.

FAASt Energy Sector Most Recent Achievement

The Battery Energy Storage- Equipment Purchase project stands as the most recent achievement under the FAASt program, securing a budget of \$709 million (Federal and non-federal). Approved on December 29, 2023, its primary goal is to mitigate the impact on construction timelines by procuring and storing materials susceptible to shortages or long lead times. A detailed inventory of such items has been compiled to manage their storage and usage across all locations, ensuring compliance with FEMA-obligated FAASt funding. The meticulous phase-by-phase tracking process prevents the unauthorized use of designated items at other sites, aligning with previously approved funding guidelines.

Request For Capital Advance (RFCA) Pilot Program

In June 2022, COR3 implemented the RFCA for the PA Program. The RFCA grant serves as an advance of funds to subrecipients that lack the necessary liquidity to execute their recovery projects, thus preventing a delay in the recovery of Puerto Rico. In the months following the program's launch, COR3 expanded the RFCA to all subrecipients under the PA Program. Given the positive results of the RFCA, COR3 has also extended the program to all Subrecipients under the HMGP. Furthermore, due to this program's success, COR3 recommends explicitly allowing such advances in FEMA's laws and policies. Lastly, the GPR looks forward to FEMA's continued support in implementing this program and facilitating Puerto Rico's recovery.

Empower the GPR to Execute Recovery Projects on Behalf of Subrecipients

The GPR, through the COR3, acts as the pass-through entity (PTE) for State and Non-state entities pursuant to the Stafford Act and the Code of Federal Regulations. As a PTE, COR3's role is to ensure compliance with federal, state, and local regulations and simultaneously carry on the disbursement process to ensure reconstruction and resiliency. One of the main priorities of COR3 is providing Subrecipients with technical assistance to ensure proper understanding and execution of FEMA PA and HM Programs.

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However, given Puerto Rico's multifaceted challenges in the aftermath of disasters, supporting the government's ability to execute recovery projects on behalf of Subrecipients becomes imperative. The current economic distress has also pushed some Subrecipients to the brink of financial instability, making recovery efforts even more critical. This economic turmoil, combined with market scarcity resulting from intense competition among subrecipients for essential resources to execute their projects, underscores the need for a centralized approach for more efficient project execution. Moreover, the situation is exacerbated by Puerto Rico's educational limitations and the departure of subject matter professionals, which, combined with language barriers, further emphasize the urgency for government intervention. Managing these efforts can become intricate with a significant network of subrecipients engaged in the recovery process. As such, empowering the government to execute projects can ensure a coherent, streamlined, and effective recovery process. To summarize, the ongoing issues can be summed up as follows:

- 1- Economic hardship- The current fiscal and financial crisis has magnified effects upon both state and non-state entities. COR3 has launched various successful advance programs, including the RFCA Program. This pilot program was initiated to provide liquidity to Subrecipients to propel the beginning of construction on the island. Nonetheless, although the funds are available and have been disbursed, many Subrecipients are still finding themselves struggling with meeting financial needs.
- 2- Market scarcity – With so many reconstruction projects gearing up at once, competition between Subrecipient for contractors, manpower, equipment, materials, and other resources has become a prominent factor that delays timelines and drives up prices. As such, many Requests for Proposals (RFP) result in a lack of proponents and force Subrecipients to conduct the request process two to three times. Thus, strengthening supply chain management is essential to ensure the timely delivery of essential materials to Puerto Rico.
- 3- Disaster Recovery knowledge – FEMA's disaster recovery program is a niche that has an extensive learning curve. Due to a high turnover rate in personnel, both in state and non-state entities, private contractors who are involved in disaster recovery end up hiring new employees frequently. This leads to a lack of knowledge transfer, which forces Subrecipients to undergo constant training. Investing in local skills development programs can increase the availability of skilled labor and reduce external dependency. The engagement and assistance of COR3 is required to help Subrecipients in this regard.

FEMA and COR3 should proactively identify and address challenges that may arise during project execution to ensure successful completion and effective recovery efforts.

These obstacles faced by Subrecipients that keep recurring are hampering the reconstruction process in Puerto Rico. COR3 is putting in consistent efforts to determine strategies to aid and ensure the successful execution of projects in the area. However, the process could be made even more efficient if Federal regulations and FEMA's policies were amended to provide the GPR, through COR3 as Recipient, the capacity to execute projects in collaboration with Subrecipients. This could be achieved through Memorandums of Understanding (MOUs) that designate specific tasks between COR3 as the Recipient and state and non-state

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entities as Subrecipients. Such an approach would help consolidate resources, facilitate logistics, and ensure that FEMA programmatic and regulatory standards are met.

Hazard Mitigation Grant Program (HMGP) Project Evaluation Process

Presently, the assessment and approval timeline for HMGP projects is experiencing unexpected delays. Therefore, we recommend a comprehensive reassessment of procedures, including the identification of areas for enhancement, such as the EHP review process and Request for Information (RFI) protocols. Additionally, we suggest increasing personnel resources dedicated to these reviews to expedite the overall evaluation and approval timeline. This proactive approach will contribute to a more efficient and timely execution of HMGP projects.

Period of Performance (POP)

FEMA establishes the POP for recovery projects based on certain criteria. However, the unique recovery conditions in Puerto Rico require special considerations for setting the POPs. The current FEMA guidelines do not adequately align with the realities in Puerto Rico, resulting in unrealistic timeframes. This situation puts subrecipients at risk by compromising their ability to meet the established terms and exposing them to the threat of de-obligation and projects that may not meet the necessary quality standards. To address this, FEMA should re-evaluate its criteria for establishing project POPs, taking into account current market conditions and historical factors. This re-evaluation should lead to more realistic timeframes, providing a fair opportunity for project execution and enhancing overall compliance.

Multi Disaster Management

Six years after the anniversary of one of the biggest disaster declarations in any United States jurisdiction, Puerto Rico is still struggling to recover from several disasters. Managing and executing projects stemming from multiple active disasters (DR-4336-PR (Hurricane Fiona); DR-4339-PR (Hurricane María); DR-4473-PR (Earthquakes); DR-4649-PR (PR Flood); DR-4493-PR (Covid-19); DR-4560-PR (Hurricane Isaias); DR-4671-PR (Hurricane Fiona) poses significant challenges for both the Recipient and Subrecipients. The complexities involved in handling diverse disaster scenarios create a formidable task that requires careful consideration.

According to current policy and procedures, FEMA's disaster management on the Island is conducted separately under different budgets, management parameters, and personnel. Yet, there can be, and currently is, significant overlap in the obligations, scopes of work, and periods of performance in all individual disaster recovery efforts. For example, a single project to reconstruct a healthcare facility in Puerto Rico that was affected by Hurricane María was also affected by the Earthquakes and Fiona. This is also true for municipalities whose bridges were temporarily fixed through emergency period efforts, entered permanent work processes, and were subsequently damaged by Hurricane Fiona. Thus, in these examples, which are repeatedly seen in Puerto Rico, the reconstruction of these facilities and bridges will require different scopes of work, obligations, and periods of performance.

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The current FEMA policy would benefit from expanding its approach to multiple-disaster management guidelines. This type of amendment, which addresses the complexities of overlap in disasters, would not reduce Subrecipient confusion and streamline Recipient processing and disbursement.

Consequently, we strongly emphasize the necessity for a comprehensive re-evaluation of policies to better accommodate the management of multiple disasters. This adjustment is crucial for ensuring an effective and streamlined process that addresses the unique challenges presented by concurrent disasters.

FEMA's Continued Support

In the pursuit of effective disaster recovery and reconstruction efforts, COR3 acknowledges the crucial role that FEMA plays in providing technical assistance and fostering a collaborative environment to address challenges and find solutions. FEMA's continuous support, marked by the ongoing strengthening of communications between FEMA and COR3, has been instrumental in implementing various recommendations that aim to enhance the efficiency and effectiveness of recovery processes. This collaborative effort has been consistently advancing since 2021.

Site Visits

COR3, as a Federal pass-through entity, is responsible for performing on-site reviews of grant program operations to ensure proper accountability and compliance with grant requirements and achievement of performance goals. This on-site review or Site Visit monitoring can prepare the Subrecipient for and respond to future audits or reviews from other regulatory agencies by reviewing their grant programs, related processes and procedures, and the quality of documentation maintained to support program activities.

COR3's Compliance Division is responsible for conducting these Site Visits, which have had a positive impact on Subrecipients by providing them with tools to improve their internal controls in the administration of FEMA grants and coordinating work sessions to ensure compliance with Federal regulations. In 2022, a total of 23 Site Visits were conducted. In 2023, this number nearly tripled, reaching a total of 65 Site Visits. This significant increase can be attributed to the implementation of a more streamlined process and the successful recruitment and training of additional Compliance staff.

Fraud, Waste & Abuse (FWA)

COR3, as a Federal PTE for funding awarded under FEMA PA and HM grant programs, is responsible for ensuring that such funds are used in accordance with Federal and state laws and regulations.

To protect the integrity of Federal grant programs, COR3 implemented a new electronic reporting method in March 2023 for reporting instances of fraud, waste, and abuse of recovery funds. This new tool allows any Subrecipient, contractor, entity or citizen who has information about or suspects any possible instance

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of fraud, waste, abuse, or noncompliance to report that information online through the Transparency Portal. Our web-based form provides the option of submitting complaints anonymously.

In addition to this tool, COR3 also has an e-mail address (transparency@cor3.pr.gov) where entities or individuals can submit their complaints. The Compliance Division is responsible for monitoring, processing and reviewing the complaints received to determine whether appropriate action can be taken, including further investigation or referral to the appropriate entity.

In 2022, prior to the implementation of COR3's new reporting tools, the Compliance Division had received a total of four (4) complaints. In 2023, and after the implementation of the new reporting tools and an educational campaign consisting of the distribution of fact sheets and a frequently-asked-questions web page, COR3 received a total of thirty-four (34) complaints. It is important to note that of those 34 complaints, 15 were closed for lack of jurisdiction and 6 resulted in referrals to the appropriate law enforcement agencies.

Internal Controls

To strengthen internal controls and improve the services offered to Subrecipients, COR3 has undertaken a thorough review of its policies and procedures and further development of educational resources, including Standard Operating Procedures (SOPs), guidelines, and fact sheets.

During 2023, nine (9) SOPs were carefully reviewed, developed, and implemented across all divisions. These SOPs address key areas such as Working Capital Advance, Improved and Alternate Projects, Closeout Validation, and Recoupment of Improper Payments. Furthermore, two (2) Subrecipient Guidelines were developed to provide step-by-step guidance on the requirements Subrecipients must comply with to ensure proper use FEMA Funds. Additionally, fourteen (14) fact sheets were developed and circulated to provide Subrecipients with updated and pertinent information on topics like Site Visits and Equipment.

Extensive revisions to the policies set forth in COR3's Disaster Recovery Federal Funds Management Guide (DRFFMG) are currently underway.

Capacity Building Initiatives

To fulfill its responsibility to provide technical support and specialized assistance to its Subrecipients, COR3 hosted the Compliance Summit 2023. This event integrated Federal and State Entities in an effort to guide officials leading reconstruction projects on complying with regulations governing the use of FEMA funds. It consisted of various presentations on topics such as Compliance Subrecipient Management and Monitoring; VAYGo Compliance; Fraud, Waste, and Abuse; Integrity in Contracting; Compliance with the Puerto Rico Comptroller Office; the Puerto Rico Office of the Inspector General ("PROIG"); Compliance with Quarterly Progress Reports (QPRs); Requests for Reimbursement (RFRs) and Requests for Advance (RFAs), Procurement and Closeout; and Environmental Justice Compliance.

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Subsequently, COR3 hosted the Build Puerto Rico Reconstruction Summit at the Puerto Rico Convention Center to highlight the Island's reconstruction progress and provide an overview of the construction sector's plan to execute major permanent work projects to modernize Puerto Rico's critical infrastructure. The event addressed issues related to housing reconstruction, infrastructure, funding opportunities available for permanent work projects, the impact of inflation on the reconstruction process, and initiatives to strengthen the workforce, among other key areas.

In September 2023, COR3 launched Build Puerto Rico Llega a Ti, an initiative consisting of a series of capacity-building workshops held across the Island. These workshops provided insights into the engagements and expertise of COR3 divisions, including Legal Affairs, Compliance, Grant Management, Project Development, Closeout, and the Project Management Office (PMO).

Lastly, in December 2023, COR3 provided the final workshop of the year, featuring working sessions designed to clarify issues related to the development of Improved Projects and the specific objectives, benefits, and guidelines of the Request for Working Capital Advance program to ensure that Subrecipients are fully prepared to meet the program's essential criteria.

Validate As You Go (VAYGo) Program

COR3 has made significant progress in managing the FEMA VAYGo Program since its inception in 2019. Through extensive staff training, development of valuable Subrecipient resources, and collaborative efforts with FEMA, monitoring processes have been substantially improved. The positive results observed during Puerto Rico's VAYGo testing were acknowledged by FEMA during the Compliance Summit in June 2023.

In addition to the remediation efforts highlighted in the report, notable accomplishments include the creation of a VAYGo fact sheet in English and Spanish, which was shared with Subrecipients in March 2023. Additionally, the Compliance Division's VAYGo team drafted a VAYGo SOP, which is currently awaiting feedback from FEMA prior to publication. Furthermore, as part of the aforementioned policy revisions, the VAYGo program will be incorporated into chapters 11 and 12 of the DRFFMG.

Our commitment to strengthening VAYGo initiatives within COR3 remains steadfast, ensuring a continued path toward positive results.

Collaborative Agreements

COR3 is entering into cooperative agreements with the appropriate Government Entities to ensure the effective and efficient use of public funds, ensure compliance with applicable standards and regulations, and combat fraud, waste, abuse, corruption, and inefficiency in administering disaster recovery funds.

These agreements outline several objectives, including coordinating professional development activities for officials and employees of both entities, providing guidance on the development of internal controls, and facilitating the exchange of relevant information between COR3 and corresponding Government Entities.

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For instance, a collaborative agreement has been established between COR3's Compliance Division and the Puerto Rico Office of Inspector General (PR-OIG), enabling both parties to exercise their authority to ensure the proper administration of public resources and promote the confidential exchange of information for effective intervention and collaboration.

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Appendix II: GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

In addition to the contact named above, Joel Aldape (Assistant Director), Jeffrey Love (Analyst-in-Charge), Steven Rocker (Analyst-in-Charge), Lorraine Ettaro, Emilio Fonseca, Eric Hauswirth, Heidi Nielson, Danielle Pakdaman, Kevin Reeves, and Yinghua Shi made key contributions to this report.

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