

GAO

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PUERTO RICO

Audit of Grant Funds Provided to Three Major Political Parties





Human Resources Division

B-246651

January 15, 1992

The Honorable J. Bennett Johnston
Chairman, Committee on Energy and
Natural Resources
United States Senate

The Honorable George Miller
Chairman, Committee on Interior and
Insular Affairs
House of Representatives

This report responds to the congressional mandate in the Dire Emergency Supplemental Appropriations and Transfers, Urgent Supplementals, and Correcting Enrollment Errors Act of 1989 (P.L. 101-45), which requires us to perform a financial audit of grant funds provided to the three major Puerto Rican political parties. The Congress provided grant funds for the participation of these parties in the legislative process involving the future political status of Puerto Rico.¹ In discussions with your staff, we agreed to identify the organizations or individuals awarded funds by the political parties, the amounts they received, and how they used the funds. We verified the use of funds as stated in award documents by reviewing work statements on invoices and examining contract products, such as reports or studies, when practical.

To obtain this information, we reviewed the accounting records and other supporting documentation for grant expenditures by the three major political parties. We briefed your staff in July 1991 on the preliminary results of our audit. The details of our methodology are presented in appendix I.

Background

Public Law 101-45 provided \$1.5 million to the three major Puerto Rican political parties for their participation in the legislative process involving the future political status of Puerto Rico. Grants were to be made in equal amounts, not to exceed \$500,000 each to (1) the Popular Democratic Party (representing the enhanced commonwealth option), (2) the New Progressive Party (representing the statehood option), and (3) the Puerto Rican Independence Party (representing the independence option).

¹Senate bill S.244 (102nd Congress) would have authorized a referendum allowing Puerto Ricans to choose among statehood, independence, or enhanced commonwealth status. However, the bill was not reported out of the Senate Committee on Energy and Natural Resources.

The Executive Office of the President, Office of Administration (EOPOA) administered these grants. This was the first time EOPOA had administered such a program, and also the first time Puerto Rican political parties had received federal grant funds. EOPOA obtained legal and technical advice on grant administration procedures from the Office of Management and Budget (OMB), the Department of the Treasury, and the Department of Commerce.

The legislation specifies that grant funds could be used for necessary expenses, including travel and transportation, intermittent services of experts and consultants, communications, utilities, printing and reproduction, supplies and materials, administrative costs, and other related services.

The legislation also states that the funds shall be made available for necessary expenses incurred after March 1, 1989, through the sine die adjournment of the 101st Congress (Oct. 27, 1990). For any expenditures incurred after March 1, 1989, but before execution of the grant agreements, the grant announcement required detailed transaction records along with evidence supporting that the expenditures were for the purposes stated in the legislation. The grant agreements further required grantees to establish separate accounts for the funds, administer funds in accordance with the provisions of OMB Circular A-110, and submit independent audits of fund expenditures to EOPOA.

The legislation and grant agreements also specify that grant funds may not be used for the following purposes:

- directly or indirectly to finance the campaigns of candidates for public office;
- entertainment expenses;
- professional dues and/or subscriptions;
- purchase of furniture; and,
- directly or indirectly, for paying attorneys' or consultants' fees in connection with securing these grants.

The grant agreement further states that no member of the Congress or Puerto Rico's Resident Commissioner shall be admitted to any share of this grant, or to any benefit that may arise.

Results in Brief

The political parties generally used grant funds for authorized purposes. Based on our analysis, the political parties used funds for allowable activities as specified in the legislation and grant agreement. We found minor exceptions as some unallowable entertainment expenses were paid. However, these amounts were not material, and EOPOA has taken actions to recover these funds.

We also identified some questionable grant administration procedures by the political parties. For instance, some expenditures paid differed from those approved for payment by the EOPOA grant officer. The expenditures paid, nonetheless, were for allowable costs. In addition, one party created a significant cash reserve for possible disallowed costs but did not deposit the funds in an interest-bearing account, as required.

Status of Grant Funds

When we visited the offices of the three political parties in June 1991, they had expended about 82 percent of obligated grant funds.² The Popular Democratic Party and the New Progressive Party received direct reimbursement for expenses incurred. The Puerto Rican Independence Party received an advance of funds based on contracts signed before the adjournment of the 101st Congress. Table 1 shows the status of grant funds for each party as of June 1991.

Table 1: Status of Grant Funds as of June 1991

Grantee	Available	Obligated	Released	Expended
Popular Democratic Party	\$ 500,000.00	\$ 500,000.00	\$ 429,891.23	\$ 371,462.95
New Progressive Party	500,000.00	500,000.00	473,675.05	475,412.13 ^a
Puerto Rican Independence Party	500,000.00	429,041.70 ^b	467,052.00	376,306.35
Total	\$1,500,000.00	\$1,492,041.70	\$1,370,618.28	\$1,223,181.43

^aThe New Progressive Party spent more than it was provided because of interest earned on these funds.

^bThe Puerto Rican Independence Party was able to obligate this amount before adjournment of the 101st Congress.

As of June 1991, only the New Progressive Party had submitted its independent audit to EOPOA. The EOPOA grant officer said that the other

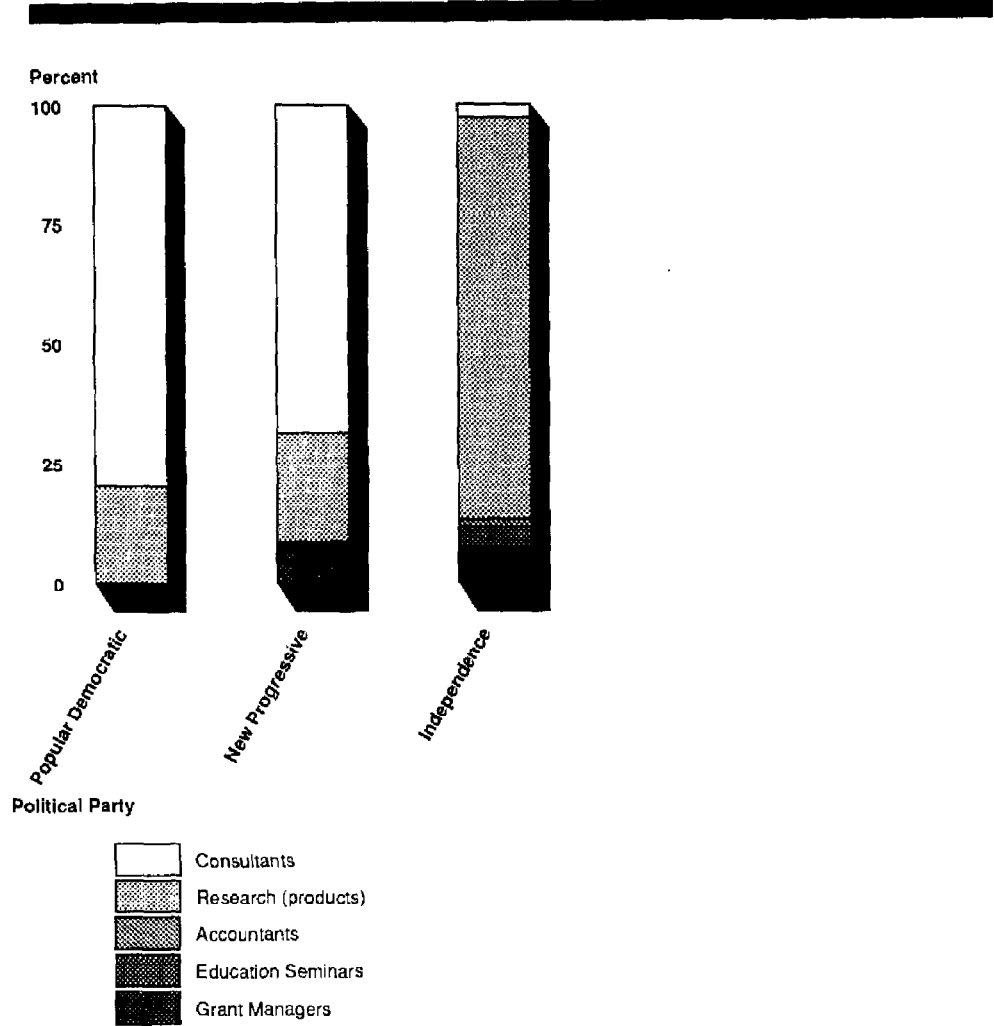
²According to the EOPOA grant officer, about \$25,000 has been withheld from each party until independent audits are submitted.

parties will complete their independent audits once all available funds have been dispersed.

Political Parties Used Funds for a Variety of Purposes

Based on our review of accounting records and supporting documentation, the three parties generally expended funds in conformance with congressional intent. The Popular Democratic Party and the New Progressive Party spent most of their funds for consulting services, while the Puerto Rican Independence Party spent most of its funds on research products. Figure 1 shows how the funds were used.

Figure 1: Types of Grant Expenditures by Party



See appendixes II, III, and IV for each party's expenditures by organization or individual receiving funds, amount received, and purpose.

Observations on Grant Administration Procedures by the Political Parties

During our visits to the offices of the political parties, we identified problems associated with grant administration procedures. Some expenditures paid differed from those approved for payment by the EOPOA grant officer, although they were for allowable costs. Parties also paid for

entertainment expenses, although the amounts involved were not significant.

The Popular Democratic Party made partial payments to vendors, although EOPOA authorized total payments. According to a party official, the party made partial payments on invoices to create a reserve for possible disallowed costs pending our audit. This action resulted in a material cash balance, which was maintained in a non-interest-bearing account. The grant agreements state that all funds should be administered in accordance with the provisions of OMB Circular A-110, Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations. This circular, in part, requires recipients of federal funds to maintain advances in interest-bearing accounts.

The New Progressive Party paid some vendors more than authorized by EOPOA. This party also made payments to other vendors on unauthorized invoices:

- The party paid one vendor about \$38,000 of a total approved invoice of \$136,000, and does not intend to pay the vendor the balance because of a dispute over contract performance. The party used the balance of funds authorized for payment under this contract to pay invoices submitted by other approved vendors above the amounts authorized for payment by EOPOA.
- The party also paid a consulting firm on a first-in, first-out basis—paying the earliest invoices first, regardless of whether EOPOA approved the invoices. The former party chairman told us that he did not know the party was to pay only those invoices approved by EOPOA.

In addition, political parties paid entertainment expenses, although the amounts in question were not significant. According to the grant agreements, meals are allowable expenses while in travel status, however, entertainment expenses are prohibited. The Puerto Rican Independence Party paid a consultant's travel expenses that included prohibited expenditures for movies and liquor, in addition to allowable expenditures for meals and lodging. The party's accountant agreed with our observation and will correct the problem. The New Progressive Party also paid entertainment expenses. One vendor was reimbursed for expenses that included meals purchased for others and miscellaneous items. EOPOA has taken actions to recover these funds.

Comments on This Report

We discussed this report with officials at EOPOA and representatives of the three political parties all of whom generally agreed with its contents. We incorporated their comments where appropriate.

We are sending copies of this report to the Executive Office of the President, Office of Administration; the Governor of Puerto Rico; the Resident Commissioner; the leaders of Puerto Rico's three major political parties, as well as appropriate congressional committees and Members of Congress. We will make copies available to others on request.

If you or your staff have any questions about this report, please call me on (202) 275-1655. Other major contributors to this report are listed in appendix V.



Linda G. Morra
Director, Human Services Policy
and Management Issues

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Abbreviations

EOPOA	Executive Office of the President, Office of Administration
OMB	Office of Management and Budget

Scope and Methodology

After consultation with staff from the Committees, we limited our review to the expenditure of the \$1.5 million in federal funds provided to the three major Puerto Rican political parties—the Popular Democratic Party, the New Progressive Party, and the Puerto Rican Independence Party. We identified the organizations or individuals awarded funds by the political parties, the amounts they received, and how they used grant funds. We verified the use of funds as stated in award documents by reviewing work statements on invoices and examining contract products, such as reports and studies, when practical.

We performed our review at the Executive Office of the President, Office of Administration, and at the offices of the three political parties in San Juan, Puerto Rico. At EOPOA, we obtained copies of correspondence and documentation concerning the grants and discussed grant administration activities with its officials. At each of the three political parties, we reviewed:

- original contracts,
- accounting records used to manage the grants,
- invoices/receipts applicable to the grants,
- bank statements and canceled checks relating to disbursement of grant funds, and
- correspondence and other supporting documentation relating to the grants.

We reconciled data obtained from EOPOA with the records and original documentation retained by the three parties. We verified cash disbursements by the parties to invoices on hand and reconciled funds received to disbursements.

Our work was conducted between May and August 1991 in accordance with generally accepted government auditing standards.

Popular Democratic Party Expenditures as of June 1991

Vendor	Purpose	Payment
Skadden, Arps, Slate, Meagher and Flom	Performed legal research and analyses regarding the future political status of Puerto Rico	\$ 138,498.50
Donald Allan	Conducted detailed reviews and analyses of existing U.S. laws and current bills regarding Puerto Rico	21,600.00
Bishop, Cook, Purcell and Reynolds	Provided representation at Senate Energy Committee hearings on political status of Puerto Rico	70,941.95
KPMG Peat Marwick	Conducted economic analyses on the impact of statehood on Puerto Rico and the U.S. Treasury	74,900.00
Jaime Areizaga	Performed research on the economic effect on employment in the food industries	1,522.50
Covington and Burling	Conducted legal research	64,000.00
Total		\$ 371,462.95

New Progressive Party Expenditures as of June 1991

Vendor	Purpose	Payment
Verner, Lipfert, Bernhard, McPherson and Hand	Performed legal analysis, lobbying, and political planning	\$ 207,339.71
Price Waterhouse	Provided technical analysis and economic tax services	37,907.75
Quick, Finan & Associates, Inc	Developed an economic prospect on statehood	70,000.00
Benny Frankie Cerezo	Served as presidential delegate and grant coordinator	40,222.58
Paul Gewirtz	Functioned as statehood advisor and lobbyist	88,528.00
David A. Gerken	Produced a newsletter and prepared testimony	13,455.86
The Alvarado Group (also David Gerken)	Produced a newsletter and prepared testimony	11,574.09
Suphan Andic	Assisted Price Waterhouse	400.00
Gerardo Carlo	Served as consultant in Washington, D.C.	3,792.54
Demare Travel	Provided tickets for David Gerken and Benny Frankie Cerezo	1,321.60
George McDougall	Wrote letters and news commentaries	870.00
Total		\$ 475,412.13

Puerto Rican Independence Party Expenditures as of June 1991

Vendor	Purpose	Payment
Angel L. Ruiz	Produced study of the balance of payment of Puerto Rico	\$ 20,000.00
Benjamin Rosario	Performed internal audit and bookkeeping services	5,500.00
Edupro, Inc.	Coordinated and supervised all research projects and edited and published compendium of research	28,000.00
Edwin Irizarry	Produced economic study of various mediums of power generation in Puerto Rico	12,000.00
Erick Negron	Produced study on tax incentives investments	36,000.00
Francisco Catala	Produced study on commercial agreements	12,000.00
Francisco Martinez	Produced study on monetary systems	5,834.00
Gerardo Molina	Provided translation services	200.00
Hector A. Lugo	Provided legal services	4,150.00
Heriberto Marin	Produced study on Puerto Rican export services	10,000.00
Hispania Research Corporation	Produced study on public opinions and attitudes	73,500.01
Ida de Jesus	Produced study on small countries and open economies	10,800.00
Irma Serrano	Served as supervisor of surveys, inquiries, inquests, and interviews	6,171.86
Jorge Benitez	Served as supervisor of surveys, inquiries, inquests, and interviews	6,000.00
Juan Lara	Produced study on public and private debt	11,000.00
Lerroy Lopez	Produced study on political salaries	7,000.00
Marcia Rivera	Produced study on restructure of a central government	6,000.00
Maria D. Pizarro	Produced study on federal agencies in Puerto Rico	7,500.00
Nexus Inc.	Produced independence film	77,800.00
Rene Marquez Velazco	Produced study on modern agriculture	10,800.00
M. Rodriguez	Provided consulting services—travel only	10,523.71

(continued)

Appendix IV
Puerto Rican Independence Party
Expenditures as of June 1991

Vendor	Purpose	Payment
Hotel Banos de Coamo	Provided conference rooms for educational seminar	5,730.35
Hotel Cielo Mar	Provided conference rooms for educational seminar	6,035.13
Hotel Radisson	Provided conference rooms for educational seminar	4,361.29
Total		\$ 376,306.35

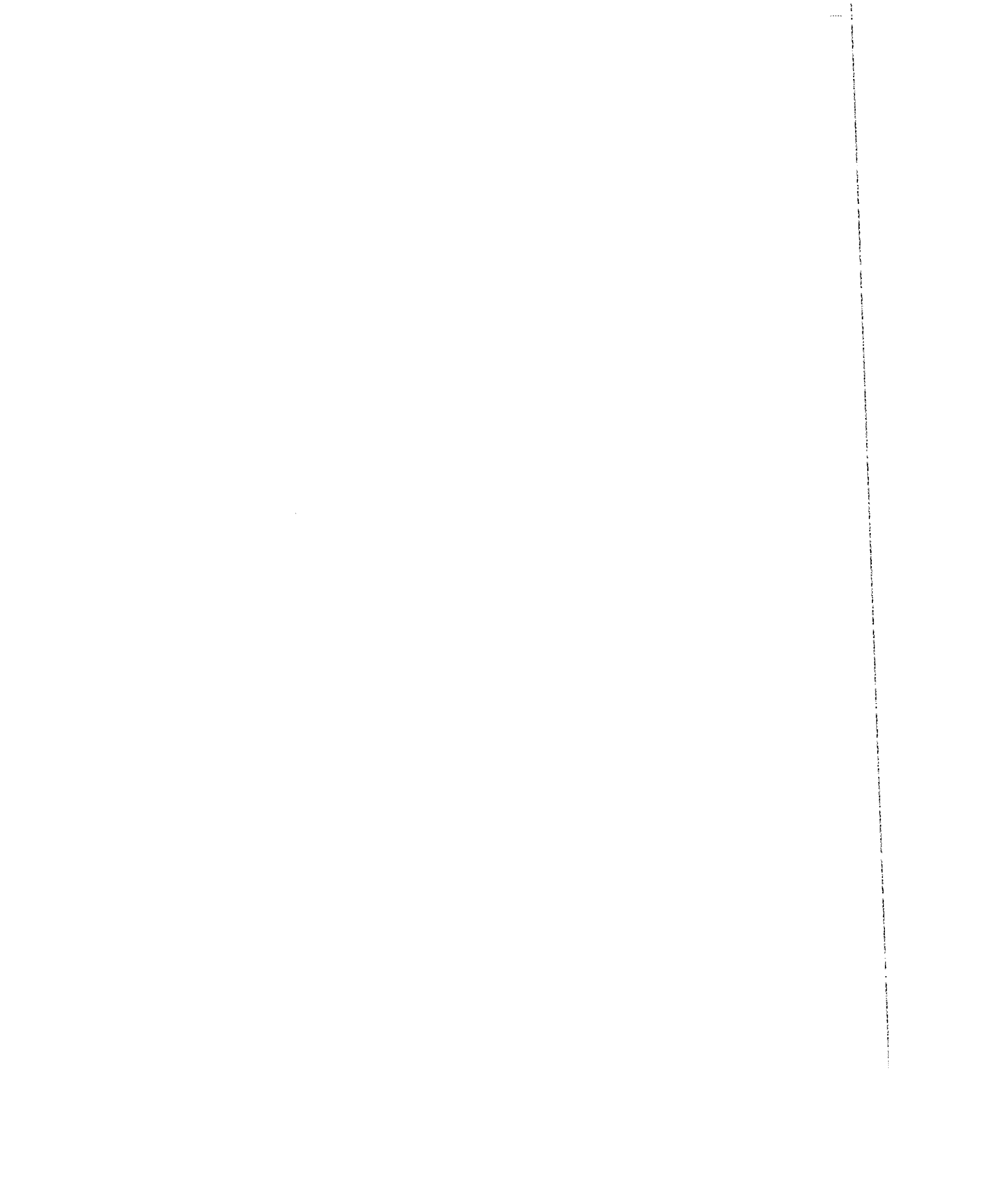
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